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WEB 2.0 RETAIL TECHNOLOGIES

Disruption or Innovation for the
Retail Industry?

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Vendor Research

August 29, 2007

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- User-Generated Content
- Measurement & Analysis
- Web Site Analytics
- Web Site Usability
- Web Site Performance
- Social Networking
- Retail
- Rich Internet Applications

WEB 2.0 RETAIL TECHNOLOGIES

Disruption or Innovation for the Retail Industry?

The online retail marketplace is maturing, so fewer new customers will be entering the marketplace. Web 2.0 technologies present new ways to poach and retain customers.

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Table of Contents

- 1 Executive Summary
- 2 User-Generated Content Emerges as a Means to Reach Attractive Customers
- 6 Social Networks and Community Sites Are Beginning to Extend the Reach of Online Branding and Loyalty
- 9 Retailers Using Rich Media/Rich Internet Applications Should Employ Metrics to Optimize the Online Shopping Experience

Table of Figures

- 2 Ways in Which Consumers Have Provided Feedback Regarding Their Shopping Experiences
- 3 Characteristics of Customers Who Find Reviews and Ratings Useful Compared with Those Who Do Not
- 4 Positive and Negative Impact of User-Generated Reviews and Ratings on Online Retail Sales
- 6 Three Tiers of Online Shopping Sites Based on Shoppers' Research and Purchase Habits
- 7 Projected Growth in Traffic from Social Shopping Sites to Retail Sites
- 9 Visual Features Online Shoppers Consider Most Useful When Researching and Purchasing Online
- 11 Processes Retailers Use to Apply Metrics

Executive Summary

The online retail marketplace is maturing, so fewer new customers will be entering the marketplace. Web 2.0 technologies present new ways to poach and retain customers.

Key Findings

Web 2.0 technologies are becoming increasingly pervasive in the online retail marketplace. At present, over three-quarters (77 percent) of all online shoppers employ user-generated product reviews and ratings, 25 percent of online shoppers consult social and community sites to conduct research on potential purchases, and retail sites are rolling out new rich Internet applications (RIAs) to better communicate product information and streamline shopping processes. In order to ensure that the opportunities presented by Web 2.0 are seized properly, retailers must guide themselves through the adoption of best practices and the implementation of a fully proactive and organized approach toward metrics. Examples of best practices include the following:

- Retailers must address customer reviews and ratings as more than simply another piece of product content, instead treating them as an integral component of a customer touch-point strategy that incorporates elements of acquisition, retention, and loyalty for both readers and writers.
- JupiterResearch recommends that retailers interested in social networks and community sites engage preliminarily with affiliate networks and leverage metrics that will specifically mirror their value to customers.
- Implementation of best design practices can help ensure RIAs' usability in the initial stages, but retailers should follow up with thorough measurement of customers' use of these tools to ensure they are driving the desired effect.

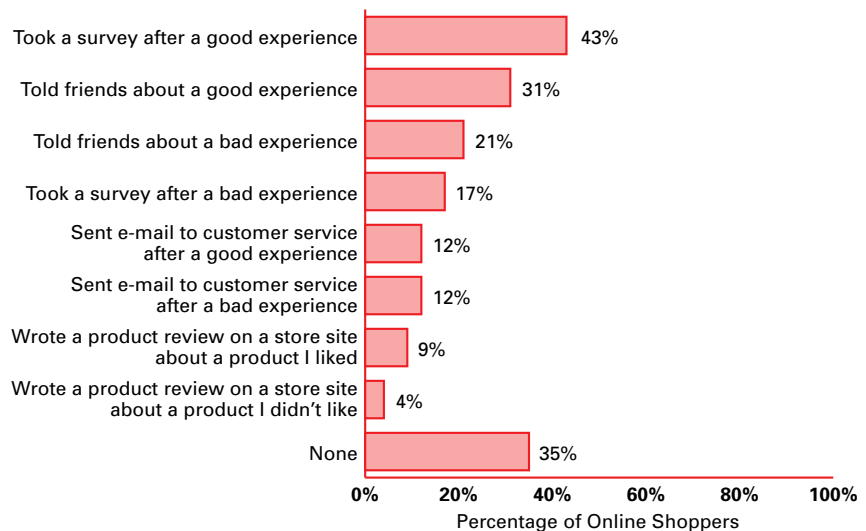
User-Generated Content Emerges as a Means to Reach Attractive Customers

User-generated content (UGC) has emerged as one of the more significant trends in online media, and one that holds particular significance for retailers, who see it as a means to engage in a dialogue with customers and gain the loyalty of a particularly engaged, influential, and high-spending audience.

Landscape: UGC Provides Opportunities for Retailers to Build Relationships with Prime Customers

Consumers Provide Feedback After Good Experiences More than They Do After Bad

Fig. 1 Ways in Which Consumers Have Provided Feedback Regarding Their Shopping Experiences



Question: In which ways have you provided feedback about your online shopping experiences in the past year? Select all that apply. (Not all responses are listed.)

Source: JupiterResearch/Ipsos Insight Retail Consumer Survey (4/06), n = 2,270 (online shoppers, US)

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Simply stated, UGC is online content that has been posted by an online user or consumer, rather than a traditional content provider. In retail, UGC often takes the form of on-site product ratings and reviews, which have given shoppers a voice and allowed retailers to harness customer feedback, gain credibility on product claims, and inspire loyalty among a desirable and discerning audience. Sites such as Amazon.com, Netflix, Newegg, and others have successfully harnessed UGC in their online environments, tapping into highly engaged site audiences and driving site goals in the process. As it stands in the overall landscape, the full value of UGC has yet to be realized, but improved measurement of the impact of UGC will play an important role in its future development.

UGC is establishing itself in the online retail landscape. Sixty-five percent of online shoppers report providing feedback of some kind on their online research and purchasing experiences, and retailers that have opened their sites to user reviews have reaped many benefits. The concern that customers will only report negative experiences appears to be misplaced, considering that users are far more likely to pass on information about good experiences than they are about bad ones.

Nearly One-half of Online Shoppers Find Reviews or Ratings Useful When Making Purchase Decisions

Fig. 2 Characteristics of Customers Who Find Reviews and Ratings Useful Compared with Those Who Do Not

Characteristics of Online Shopper Segments	Find Reviews or Ratings Useful	Do Not Find Reviews or Ratings Useful	Do Not Use Reviews or Ratings
Percentage of online shoppers	48%	29%	23%
Percentage of total online spending	55%	27%	18%
Average number of online purchases	9	8	6
Gender	Women: 49% Men: 51%	Women: 49% Men: 51%	Women: 55% Men: 45%

Source: JupiterResearch/Ipsos Insight Retail Consumer Survey (4/06), n = 2,270 (online shoppers, US)
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In addition to active participants, over three-quarters (77 percent) of all online shoppers employ others' user-generated product reviews and ratings. Of this sub-segment, 48 percent find such reviews and ratings to be useful in making online purchase decisions. This latter group represents an attractive segment for retailers because they tend to spend more heavily online than do average online shoppers. They also report buying more frequently from, are generally more loyal to, and are less likely to return products purchased from sites that feature user-generated product reviews. This trifecta of positive results is even more apparent among a rarefied population dubbed "super communicators," who comprise the sweet spot of the online shopper base. Super communicators are those who contribute an average of nine product reviews per year and make an average of 12 online purchases annually. Surprisingly, although this group constitutes only 20 percent of the online shopping population, it accounts for 32 percent of online sales.

Outlook: The Growth Potential of UGC

Retailers That Adopt User-Generated Reviews Early Will Gain Market Share

Fig. 3 Positive and Negative Impact of User-Generated Reviews and Ratings on Online Retail Sales



Source: JupiterResearch (8/07)
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The growth of user-generated reviews and ratings has come on the supply side, considering the scarce organic demand on the part of customers for such content. Indeed, 42 percent of customers provided feedback only after being prompted by a retailer to do so. Retailers that adopt UGC as a feature of their sites early on, however, can take advantage of a now-closing window of opportunity to differentiate themselves from competitors, especially those outside of the consumer electronics and PC categories, and gain market share by attracting the loyalty and desirable spending habits of UGC-receptive consumers. The opportunity to drive sales through UGC is based on the following current market conditions:

- Product content gains credibility among customers and provides insight for merchants.** Third-party information such as user-generated ratings and reviews supports merchants' claims regarding product quality and reliability, and adds credibility for retailers. In cases where product claims and customer reviews do not match, retailers are given a valuable opportunity to gain insight into merchandise issues that they can then communicate to suppliers. Finally, retailers have an opportunity to gain credibility even in this latter scenario by removing products from the site and/or revamping them based on customer input.
- Customers remain with retailers through the consideration process.** Thirty-eight percent of online buyers who have employed user-generated reviews and ratings were engaged with them during the early stages of the purchase decision process, indicating that they are likely to visit UGC-inclusive retail sites early on as well. Coupled with the overall value customers see in UGC content, this early-stage activity can help retailers retain qualified traffic as customers zero in on a product and ultimately make a purchase.
- Decreased need to return products increases customer satisfaction and reduces costs.** Online shoppers who find reviews valuable are less likely to return products they bought using customer reviews. The result is a combination of increased customer satisfaction and lower costs for retailers by avoiding product returns.

- **Customers who write and employ user-generated reviews and ratings purchase more frequently and are more loyal.** Customers who provide user reviews and ratings are much more likely to buy more frequently from and remain loyal to retail sites that include UGC as a feature. Therefore, retailers that support and include UGC will retain customers more easily due to these customers' positive perceptions.

Mandate: UGC Is a Piece of a Larger Strategy Requiring Monitoring to Achieve Results

Retailers must address customer reviews and ratings as more than simply another piece of product content, instead treating them as an integral component of a customer touch-point strategy that incorporates elements of acquisition, retention, and loyalty for both readers and writers. Retail sites employing UGC such as ratings and reviews can be faced with tremendous volumes of consumer content, and managing this content properly can be the difference between creating a rich and informational experience for customers and overwhelming them with information. Emerging tools such as on-site behavioral targeting can not only manage the extant UGC content but also present it in relation to an individual consumer's behavior on-site, thereby targeting each consumer with relevant UGC content.

At present, the value of UGC to retailers has not been fully realized, and measurement capabilities are still developing. Enabling trackable features in their review sections is a start, and allows retailers to measure direct impact on conversion. However, a full-spectrum view of UGC's potential should also include key performance indicators (KPIs) that include the following:

- Average length of visit
- Repeat customer visits (loyalty)
- Average order value (AOV)
- Repeat purchases/increased order value
- Average user ratings per product
- Referral rates of those who write reviews
- Referral rates of those who read reviews
- Product return rates
- Number of ratings submitted

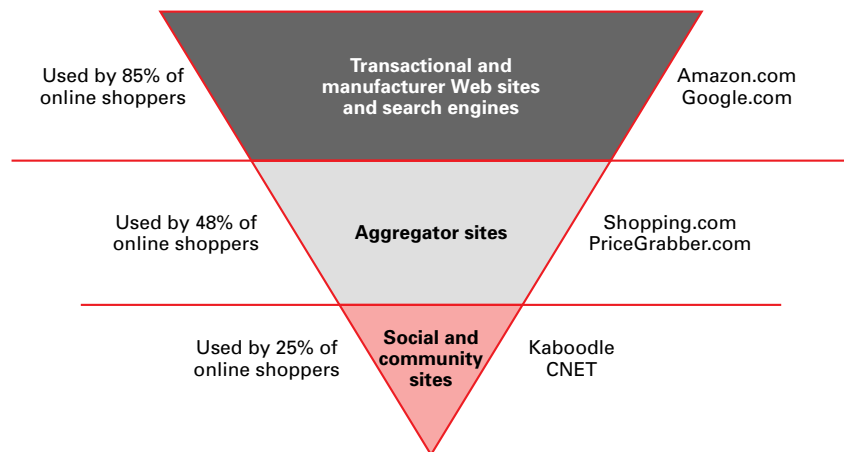
Social Networks and Community Sites Are Beginning to Extend the Reach of Online Branding and Loyalty

Social and community sites are garnering influence over online branding and advertising initiatives, but such sites' full potential impact on retailers and the means to effectively measure it are still developing.

Landscape: Social Networks and Community Sites Are Garnering Influence

Sites Offering Direct Access to Purchase Options and Search Remain Among Shoppers' Top Research Resources

Fig. 4 Three Tiers of Online Shopping Sites Based on Shoppers' Research and Purchase Habits



Question: Which of the following have you used when researching and purchasing both online and off-line? Select all that apply.
 Source: JupiterResearch/Ipsos Insight Retail Consumer Survey (3/07), n = 1,867 (online shoppers, US)
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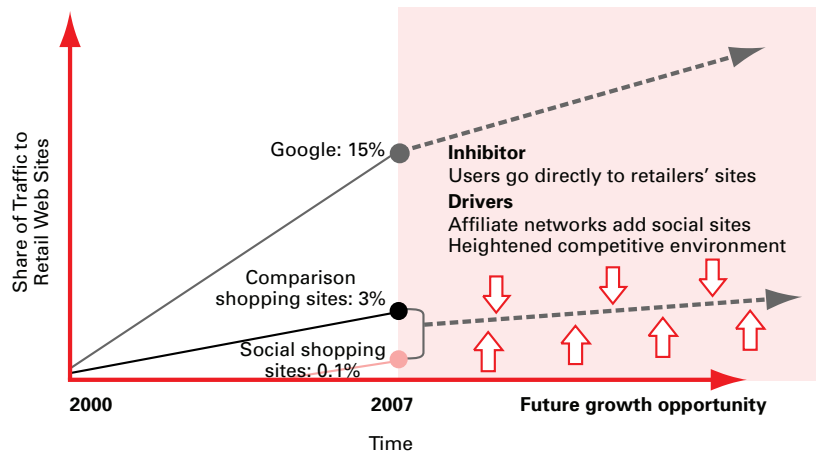
Social networks and community sites, led by MySpace, Facebook, Bebo, and others, are online destinations dedicated to allowing individuals or entities to communicate and network with one another. The general requisite components of these sites involve giving users the ability to create a personal profile, with which they can connect to others by adding them as friends, posting comments to others' profiles, and providing recommendations for products, other users, cultural events, and so on. Social shopping sites, which aim to gather the collective experience of online shoppers in order to drive sales, comprise a subset of this category. Considering that they represent a relatively new and developing source of online influence, retailers are largely taking a wait-and-see approach to implementing social networks and community sites into their overall marketing strategies. However, real opportunities exist to test the waters and develop the means with which to track social shopping sites' efficacy over time.

At present, 25 percent of online shoppers consult social and community sites, including enthusiast sites, forums, blogs, social shopping sites, and social networking sites, to conduct research on potential purchases, making them a small but significant means of seeking out new sources for customers outside of an increasingly competitive and expensive search marketing arena. However, considering that only 12 percent of online shoppers reported spending incrementally more due to their use of social and community sites, retailers should not expect that involvement with such sites will significantly drive sales and noticeably increase their ability to directly influence purchase decisions. Rather, the greater benefit retailers may experience from engaging with these sites will be realized through overall branding and awareness-building opportunities.

Outlook: Growth of Social Networks and Community Sites Will Mirror That of Comparison Shopping Sites

Growth in Traffic from Social Shopping Sites to Retail Sites Will Parallel That from Shopping Comparison Sites, and Will Present New Affiliate Opportunities

Fig. 5 Projected Growth in Traffic from Social Shopping Sites to Retail Sites



Source: JupiterResearch (8/07); HitWise (2007)
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Developments in social shopping sites' ability to drive retail site traffic will follow a pattern similar to that of comparison shopping sites, which have increased shoppers' capability to locate products, evaluate prices and features, and find places to buy products via direct links. Growth for social shopping sites will be driven by factors such as the general proliferation of social sites and blogs, the increased inclusion of social shopping sites into affiliate networks, online users' proclivity toward social behavior, and a heightened competitive environment in retail that will provide incentives for retailers to seek cost-effective ways to acquire new customers and communicate with existing ones. As the

online retail marketplace matures over the next five years, fewer new customers will be entering the marketplace, forcing retailers to differentiate themselves and poach customers more actively from competitors, who will naturally be taking strides to retain their customers and protect their businesses. Therefore, retailers will need to seek out new means of both acquiring new customers and maintaining relationships with their current customers in a cost-effective manner.

As mentioned above, affiliate networks have begun to add social shopping sites such as Kaboodle to their networks, allowing retailers to monitor them and test the waters in a low-risk fashion. JupiterResearch predicts these networks will expand to include all manner of social and community sites that will provide retailers with low risk, pay-for-performance models with which they can gain broader access to promote their brands and potentially increase click-throughs to their sites. As retailers discover which social shopping and community sites perform best according to their respective target consumer groups, creating direct and tailored partnerships with these sites will follow.

Mandate: Metrics Are Essential for Successful Utilization of Social Network and Community Sites

Ultimately, social shopping and community sites represent a node in the overall retailer-customer communication ecosystem, not an end unto themselves. Again, considering the relatively nascent state of these sites and the opportunities they represent, JupiterResearch recommends that interested retailers engage with affiliate networks and leverage metrics that will specifically mirror social and community sites' value to customers. These sites may have value beyond the scope of simple traffic numbers, and could provide a more long-term view of customer loyalty. Long-term loyalty may be better determined by examining the following metrics:

- Repeat visits
- Average length of visit
- Increased referrals/word-of-mouth
- Click yield
- Customer lifetime value

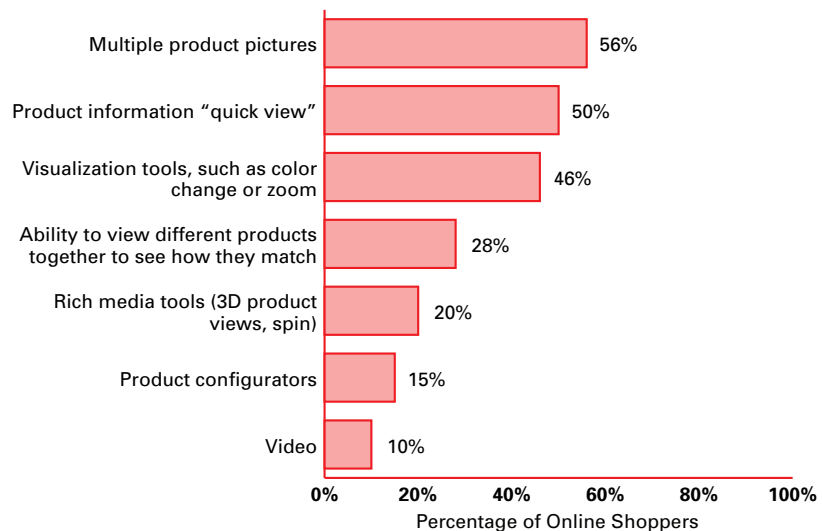
Retailers Using Rich Media/Rich Internet Applications Should Employ Metrics to Optimize the Online Shopping Experience

RIAs are steadily proliferating on the Web, incorporating many of the features and functions of traditional desktop applications and applying them to a Web environment in order to aid customers in making retail decisions. As site operators increase the complexity of online tools, cognizance of site usability and measurement of successful implementation are paramount to ensuring RIAs are applied in such a way that maximizes their benefits to consumers, rather than confounds them with complicated technology for its own sake.

Landscape: RIAs Are a Growing Part of the Online Retail Landscape

Online Consumers Find Visualization-Based RIAs Most Useful in Making Purchase Decisions

Fig. 6 Visual Features Online Shoppers Consider Most Useful When Researching and Purchasing Online



Question: Which of the following visual features do you find most useful while researching and purchasing products online? Select all that apply.

Source: JupiterResearch/Ipsos Insight Retail Consumer Survey (3/07), n = 1,867 (online shoppers, US)

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RIAs are becoming a significant part of the online customer experience. Site features such as product configurators, virtual catalogs, and rich media applications, along with even newer applications like single-screen checkout, allow customers to experience online shopping in new ways and increase their product knowledge prior to purchase. Recent JupiterResearch consumer survey results show that online shoppers favor visualization tools, particularly the same-page quick-view applications offered by retailers such as Gap.com: Over 50 percent of online shoppers described such features as useful for making product decisions. In addition, 46 percent of online shoppers considered the tools that provide color change and zoom useful, and 20 percent favored 3D and spinning product views.

Single-screen checkout is aimed at providing convenience in order to streamline the purchase process. At present, there are no concrete success metrics from any implementations at retailer sites. The proposition of single-site checkout holds promise, however, in that it makes the online shopping cart more dynamic, allowing for changes to be made more smoothly, thereby minimizing shoppers' frustration and potentially mitigating shopping cart abandonment (SCA).

Outlook: Retailers Can Overcome RIAs' Usability Challenges by Applying Metrics and Analysis

The challenges associated with an optimized utilization of RIAs involve striking a balance between the RIA tools that are genuinely useful to shoppers and those that provide flashy capabilities but serve little purpose, or worse, create confusion and make shopping processes more difficult. The average SCA rate among online retailers currently hovers at 36 percent and is probably exacerbated by retailers' reluctance to implement regular, ongoing improvement processes that include testing, measuring, and refining checkout procedures. Instead, retailers have shown more willingness to simply apply site "fixes" by adding new RIAs without actively applying metrics and analysis to inform and monitor them.

Mandate: Retailers Should Measure RIAs Against Preexisting Site Goals

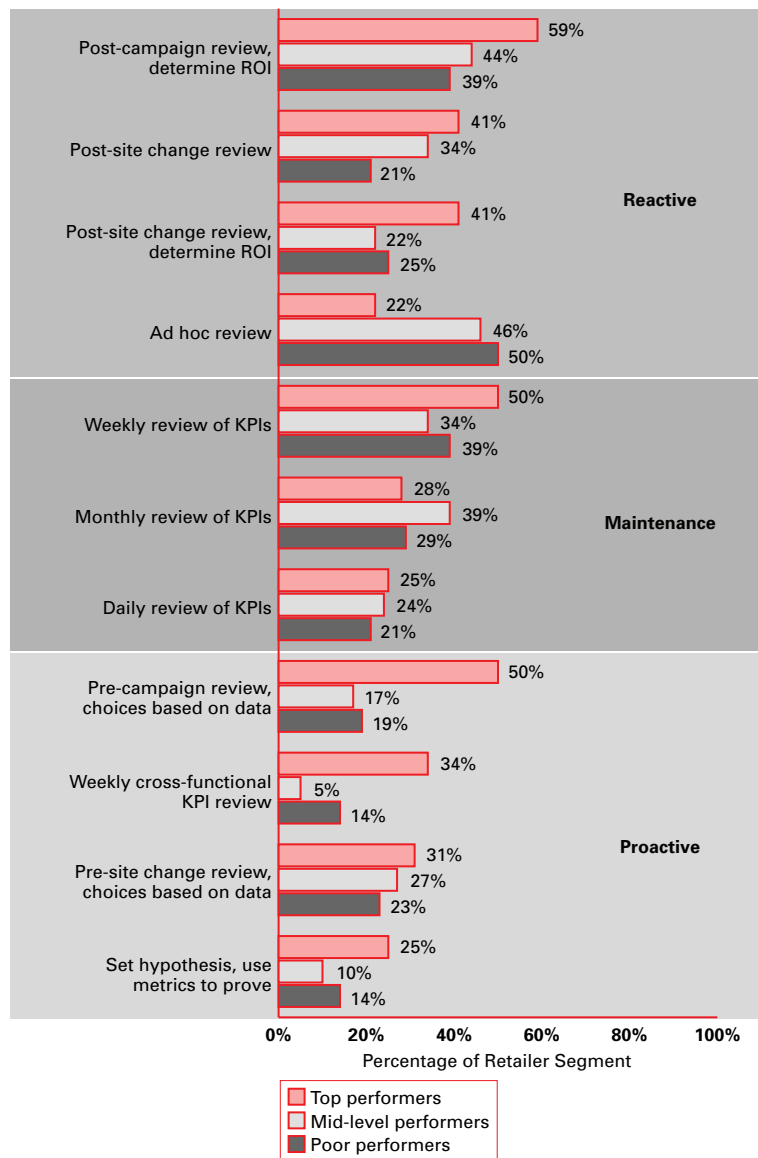
Tracking RIAs involves examining the frequency and depth of their use, as well as determining their impact on crucial factors such as SCA and AOV. Implementation of best design practices can help ensure RIAs' usability in the initial stages, but retailers must follow up with thorough measurement of customers' use of these tools to ensure they are driving the desired effect. Retailers should match KPI analysis against preexisting goals and leverage this information into direct action aimed at optimizing the ROI of RIAs. RIA rollouts should involve an examination of the following KPIs throughout their cycle of conception, implementation, and execution:

- Engagement (a combination of average length of visit, RIA feature activity, and click-throughs, indicating the degree of interest in and interaction with RIAs)
- Average length of visit
- RIA feature activity
- RIA abandonment
- Repeat visits
- SCA rates
- AOV
- Visit yield
- Conversion rate

Conclusion

Retailers Must Employ a More Proactive and Organized Approach

Fig. 7 Processes Retailers Use to Apply Metrics



Question: What is the process your company employs for using Web site metrics? Select all that apply. (Responses under 12 percent not listed.)

Source: JupiterResearch/Ipsos Insight Retail Consumer Survey (3/07), n = 1,867 (online shoppers, US)
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For retailers, the implications and benefits of Web 2.0 technologies are still developing, and in some cases they involve pitfalls that accompany the opportunities they represent. Incorporating a system of proactive measurement, analysis, and strategic decision-making against specific goals for Web 2.0 appropriation will be essential to retailers' success in

this new customer landscape. Clearly identifying and correctly applying critical KPIs behind these technologies can be the difference between realizing business goals and merely dabbling in trendy software applications.



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