E-RETAIL 2005 ANNUAL REPORT

This report is a single source of reference that helps to analyse trends, monitor markets and support investment decisions. It includes a summary of the broad array of news and data that is provided to the IMRG membership throughout the year.

£350 + VAT

FREE-OF-CHARGE TO IMRG MEMBERS

IMRG is the leading industry body for e-retailing, uniting all e-retail practitioners in a collaborative community, promoting the highest possible retail industry standards and best practices, and providing up to date market intelligence on the state of play of online shopping.

IMRG offers a wide range of intelligence, services and solutions that enable customers, large and small, to take full advantage of the new era of e-business.

ACKNOWLEDGEMENTS

IMRG thanks the following organisations who generously contributed to this report:

Actinic Software

AOL UK

Attenda

CyberSource

Hitwise

Kelkoo

MetaPack

MasterCard Europe

Reed Smith

THREETHINK

VeriSign

Worldpay

internet shopping is safe

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C O N T E N T S

1 EXECUTIVE SUMMARY

Ten years of online shopping: spectacular market growth

This annual report provides an in-depth analysis of the activities of the IMRG during 2004, a key year in e-retail since it is exactly ten years since the repositioning of the internet from a pure information-sharing medium to a brand new commercial and secure transaction channel. During those ten years the sector has made steady progress in terms of numbers of online shoppers, volume of sales, and general visibility within the wider retail environment. In 2004, the e-retail industry began to be regarded as a mainstream shopping channel - one that generated £14.5 billion's worth of revenue in the UK alone. All the indications are that growth in online shopping is about to accelerate even faster, boosted by the increased penetration of domestic broadband access, emergence of new transaction-enabling technologies, and steady improvements in infrastructure. The report includes examples of the successes and challenges that are part of this expanding marketplace, with particular reference to key areas of growth:

- Christmas sales, always the crucial barometer of the retail industry - in December the IMRG online retail sales index reached an all-time high of 1766
- Development of the mobile commerce infrastructure, which will make internet shopping available using the new generation of mobile phones
- Rising levels of investment in e-retail, as enterprises see real results on their bottom line, with faster broadband connections, improved search systems and other technologies

In some ways, the sector has been a victim of its own success, since climbing sales volumes and the increased use of online payments systems have thrown up challenges in some areas - notably fulfilment and delivery - and the need for more effective online security. The report analyses these challenges, and the strengths and weaknesses of the e-retail market, using authoritative industry news and data, and valuable real-world experiences from IMRG members, to provide a unique perspective of the overall marketplace. Part of the IMRG portfolio of products, this report is designed to be a single source of reference that will be indispensable to those in the e-retail community, providing the information that they need to spot industry trends, monitor market movements and support investment decisions.

E-retail key data trends

	E-retail spend	% change	No. of shoppers	Avg spend / head / annum	People using internet from home	Broadband connections
1999	£0.3 n		1.8 m	£167	9 m	0
2000	£0.8 n	+ 170%	3.5 m	£228	15 m	0
2001	£1.8 bn	+ 132%	6 m	£302	19 m	0.1 m
2002	£6.4 n	+ 95%	12 m	£533	24 m	1.7 m
2003	£11 bn	+ 74%	16 m	£688	29 m	2.9 m
2004	£14.5 n	+ 34%	20 m	£727	35 m	5.7 m
2005	£19.6 n	+ 35%	24 m	£816	40 m	9 m

2 A DECADE OF GROWTH

"Internet shopping is proving durable across all seasons and economic climates"

Just over a decade ago, 1994 was an important year for the online community, spawning both Yahoo! and the now ubiquitous banner ad. (The first one, designed by Tangent Design for AT&T, was unveiled on Hotwired in October '94.) The same year, the World Wide Web Consortium (W3C) was created to "Lead the Web to Its Full Potential," and VeriSign developed secure transaction technology that extended the Web from a communications tool into a transaction medium.

1994 also saw the release of Netscape Navigator, the first widely-available internet browser. One year later, there were 56 million internet users world-wide, and global e-retail sales were less than $300 million. Ten years on, there are nearly a billion users and global e-retail revenues exceed $150bn. Navigator turned out to be a groundbreaking product that created an explosion in technology businesses, the first dotcom millionaires, and a brand new information, advertising and retail environment. More than that, it marked a major change in the way that people work, communicate and consume. Society is changing faster than ever before, and internet technologies have been a key accelerator of progress that consumers are embracing via a range of products and services. These new communications technologies are now being increasingly embedded in home and personal devices such as white goods, mobile phones, and an array of personal computing products. Consumers are now accustomed to the advantages of new technologies and have adapted more rapidly than retailers to the new environment.

However, electronic retail channels are attractive and convenient for consumers, and by 2004, the internet was becoming a mainstream shopping channel generating £14.5 billion's worth of revenue in the UK. This phenomenal growth of online shopping is set to accelerate even faster in 2005, boosted by: increased penetration of domestic broadband access, emergence of new transaction-enabling portable technologies in consumers' pockets and cars, further investment by merchants, and steady improvements in infrastructure.

The IMRG Index, tracking key e-retail sales indicators since April 2000, reached a high of 1766 in December 2004, a 1700% increase since its inception nearly five years earlier and an average of 30% growth per month. By the end of 2004, as retailers faced the toughest trading conditions in decades (growth in total retail sales at just 2.5% annually), half the UK population was shopping online and internet sales potential was equivalent to five London West Ends or twenty Bluewater Shopping Centres. In the run-up to Christmas, the value of e-retail transactions surged 20% (more than treble an average 6.8% of total UK retail sales), with seemingly no end to its growth potential. The speed and scale of this growth - over just ten years from a standing start - has been all the more remarkable because opportunities in many key retail areas such as homewares, high-end fashion, cars and houses have yet to be addressed commercially. Had adequate services been available in these sectors, all the indications are that e-retail sales would have been higher still.

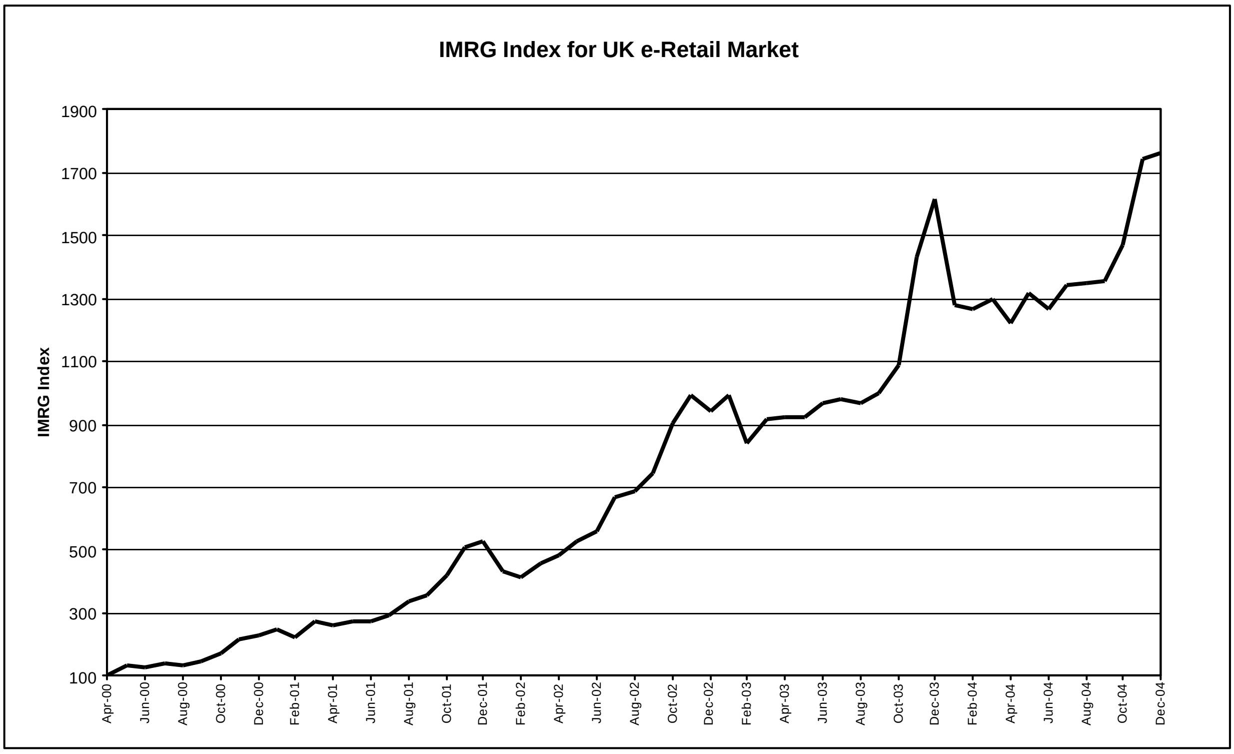
We have become used to seeing online shopping volumes grow rapidly during buoyant market conditions. But, in the harsh retail climate that prevailed as we entered 2005, e-retail sales looked stronger than ever, piling intense pressure on retail margins in the process. The message is: internet shopping is proving durable across all seasons, sectors and economic climates.

In 2004, the UK retail sector was worth £246.3 billion, employed 2.8 million people, and represented 11% of all UK enterprises. A third of all consumer spending goes through shops.

3 THE IMRG INDEX

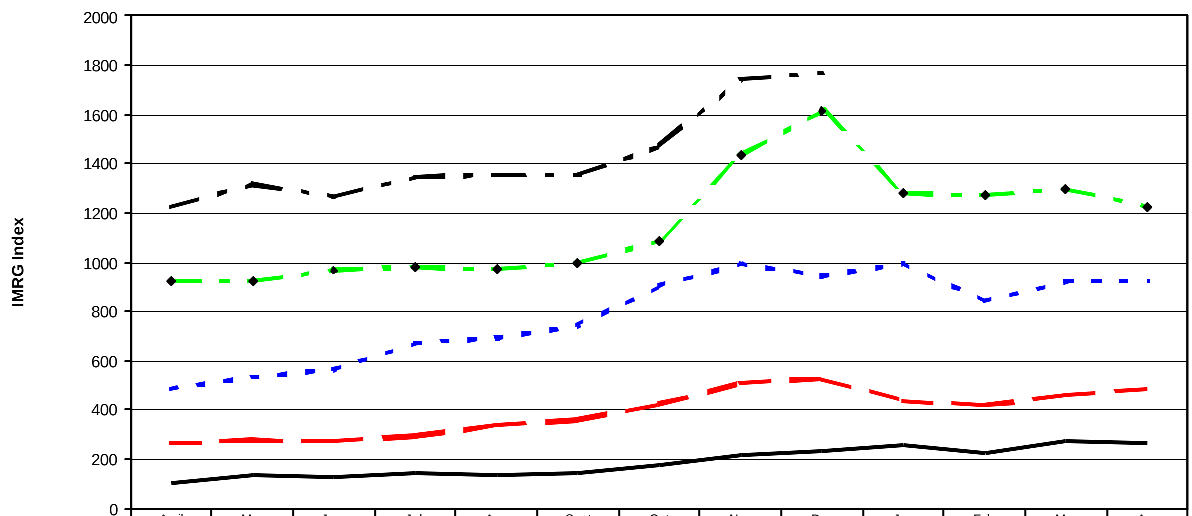
The IMRG e-retail sales index tracks the value of online sales for the entire UK market and across a range of retail sectors, calculated from information provided by more than 80 trading partners. This section provides a snapshot of the index using historic data from April 2000, its start point. As can be seen clearly, there is strong growth across all sectors of the retail economy, with year-on-year analysis demonstrating a steady increase in sales revenue. More importantly, these statistics show that the e-retail sector has shown a remarkable resistance to the vagaries of the bricks and mortar sector.

e-Sales Monitor - Tracking Online Retail Sales



While the whole of the internet shopping sector is growing strongly, there is clear evidence that consumers are migrating to online stores that take the trouble to provide added value services such as the ability for them to customise the site, rich information, calculators, and convenient delivery options. Analysis in January 2005 revealed that while 73% of Index merchants' sales were higher than a year ago, and 11% recorded sales up by 100% or more, 27% of the retailers' sales had fallen. Even within the same sector, IMRG observed merchants at both ends of the growth spectrum, indicating that trading is becoming as competitive online as it is on the high street.

IMRG Index - Year-On-Year Comparison



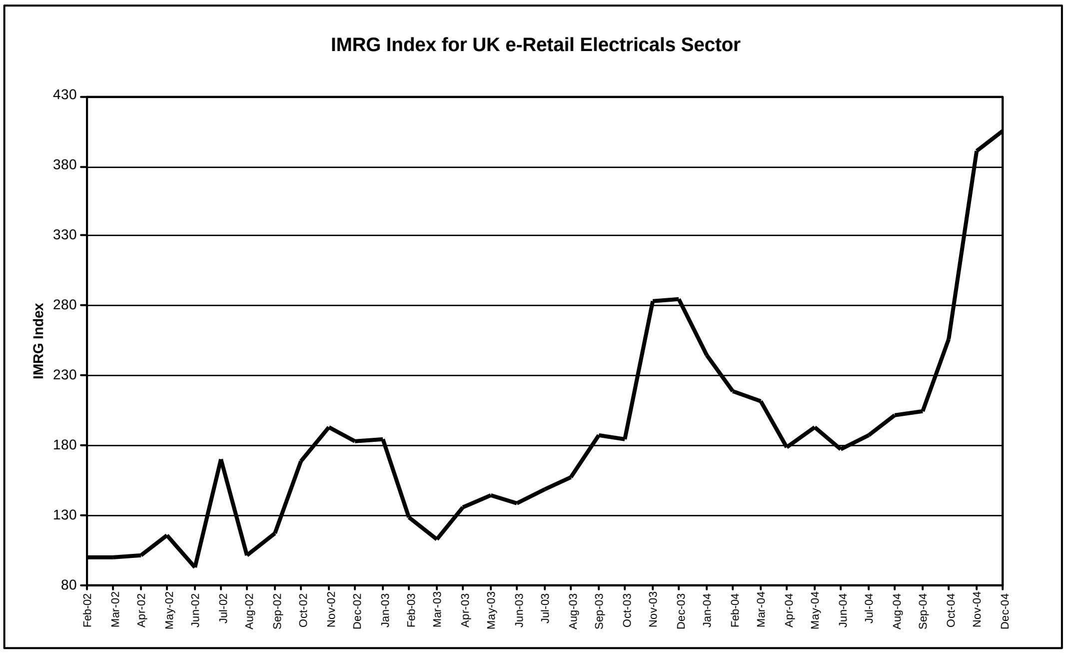
	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
2004/5	1222	1317	1264	1346	1351	1355	1470	1744	1766				
2003/4	922	922	967	979	970	997	1086	1433	1614	1282	1269	1298	1222
2002/3	485	531	563	670	690	742	902	993	942	993	839	919	922
2001/2	262	277	273	291	336	357	422	509	526	435	416	459	485
2000/1	100	133	129	141	134	143	172	215	230	252	224	274	262

More than eighty e-retailers regularly contribute data to the IMRG Index, including TheAA.com, Ancestral Collections, Ann Summers, Arcadia Group, Argos, Avon Cosmetics, Berry Bros. & Rudd, Boden.co.uk, Boots.com, Carphone Warehouse, Comet, Co-operative Group (CWS), Co-operative Travel, Co-operative Electrical, Cotton Traders, Crocus.co.uk, dabs.com, Daxon, Debenhams, e-flowersUK.co.uk, Empire, Empire Direct, Figleaves.com, Furniture123, gadgetshop.com, Greenfingers.com, Homebase, Interflora, I Want One of Those, J D Williams, John Lewis Department Stores, La Redoute, Lands' End, lastminute.com, Laura Ashley, Littlewoods Retail, Made in Sheffield, Marks & Spencer, MFI Furniture Group, Mothercare, Next, PetPlanet.co.uk, Otto UK (Freemans, Grattan, Kaleidoscope), QED, QVC The Shopping Channel, R C Roland, Redcats UK, Shoes Direct, Shoe-Shop.com, Shop Direct Group, Tesco.com Wine, The Store, The Sunday Times Wine Club, TUI UK, United Co-op, Vertbaudet, Virgin Wines, VoodooShoes.com, Waitrose, Widget.

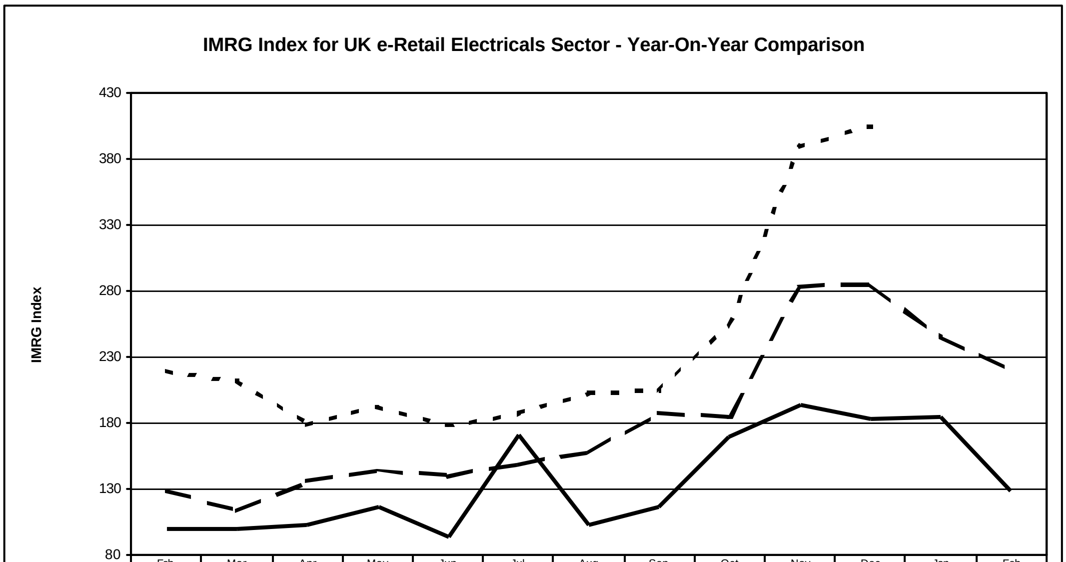
The IMRG Index is currently being expanded to report more data and break out more sectors; the next sectors targeted for breakout are Financial Services, Computers & Software, Health & Beauty, Travel and Digital Downloads. All interactive retail channels are included in the survey: internet, interactive TV, self-service kiosks and m-commerce.

3.1 Electricals Index

Over £2 billion worth of electrical goods were sold online in the UK during 2004, an increase of 37% on the previous year. Large numbers of consumers continue to switch to buying online, especially for high-ticket discretionary purchases such as LCD TVs and digital cameral, motivated by the huge choice, rich information and significant savings that the internet can offer.



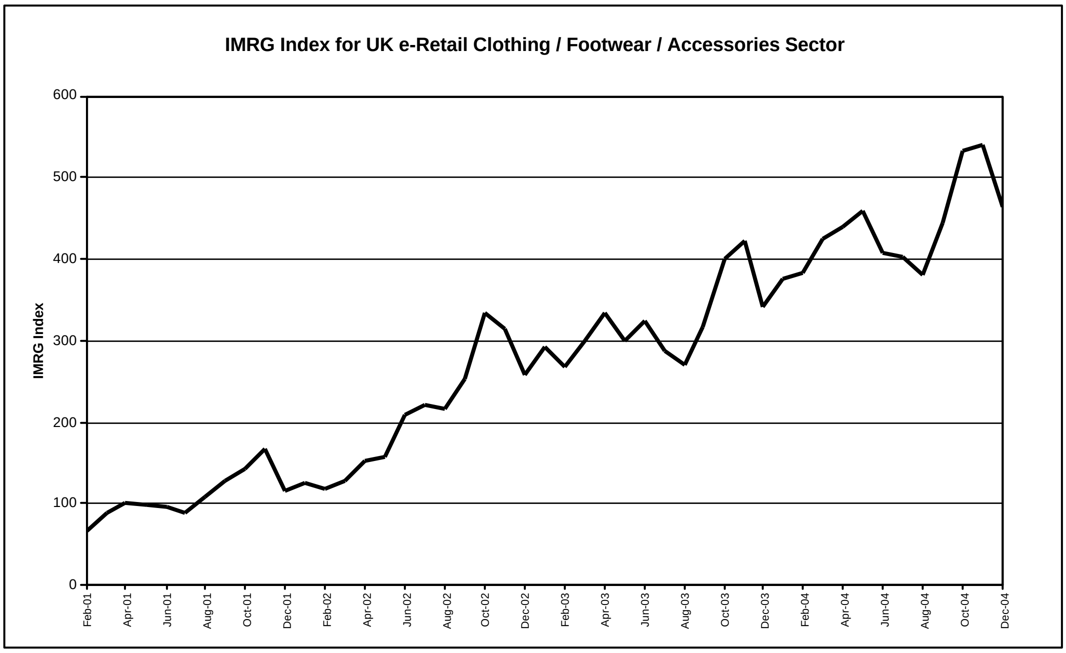
The IMRG Electricals index was broken out in February 2002. It registered five-fold growth in 34 months, to a high of 536 in December 2004.



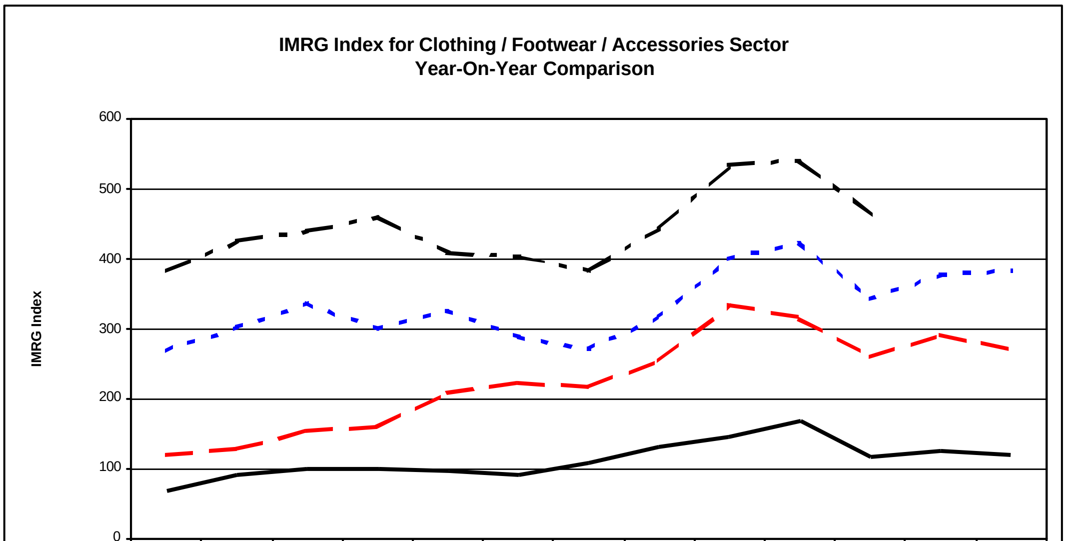
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
2004/5	219	211	179	192	178	187	202	204	256	390	405		
2003/4	129	113	135	144	139	149	158	187	185	284	285	244	219
2002/3	100	100	102	117	93	170	102	117	169	193	183	184	129

3.2 Clothing, Footwear & Accessories Index

Whoever said clothes would never sell online was wrong. Over £644 million worth of fashion goods were sold online in the UK during 2004, an increase of 37% on the 2003 value.



The IMRG Clothing, Footwear and Accessories Index was broken out in February 2001. It revealed that by November 2004, less than three years later, the sector's sales had grown by a massive 794%, and represented 9% of all British internet shopping. Online clothing sales worth £230 million were recorded in the run up to Christmas 2004.

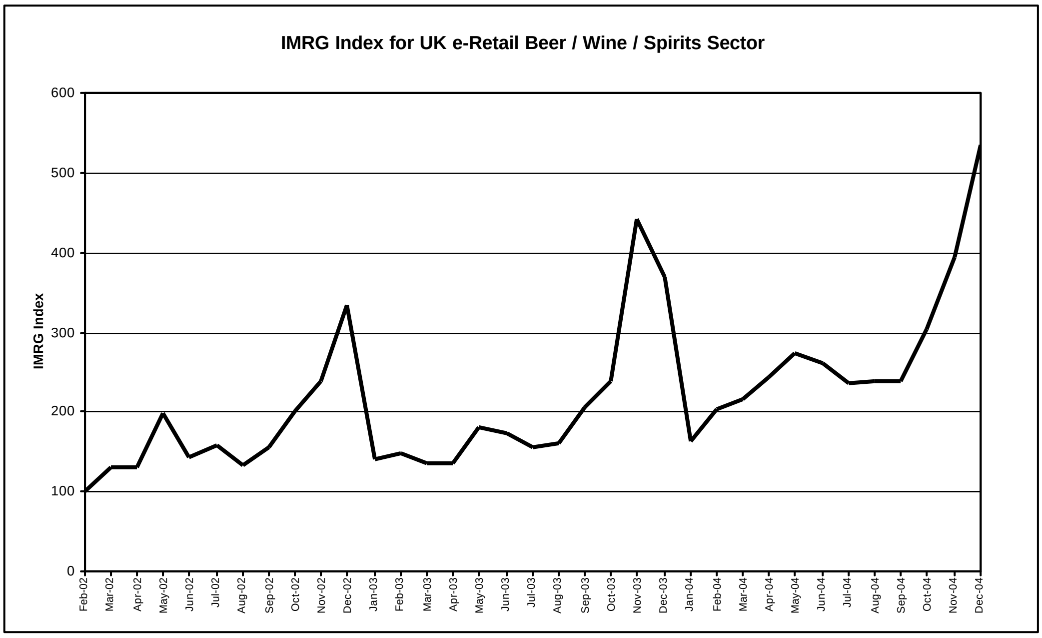


	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb
2004/5	383	424	438	458	407	403	381	443	532	540	463		
2003/4	269	301	335	299	325	287	270	316	399	422	342	375	383
2002/3	118	128	153	158	209	222	217	252	334	314	259	291	269
2001/2	68	89	100	99	96	90	107	129	144	167	117	125	118

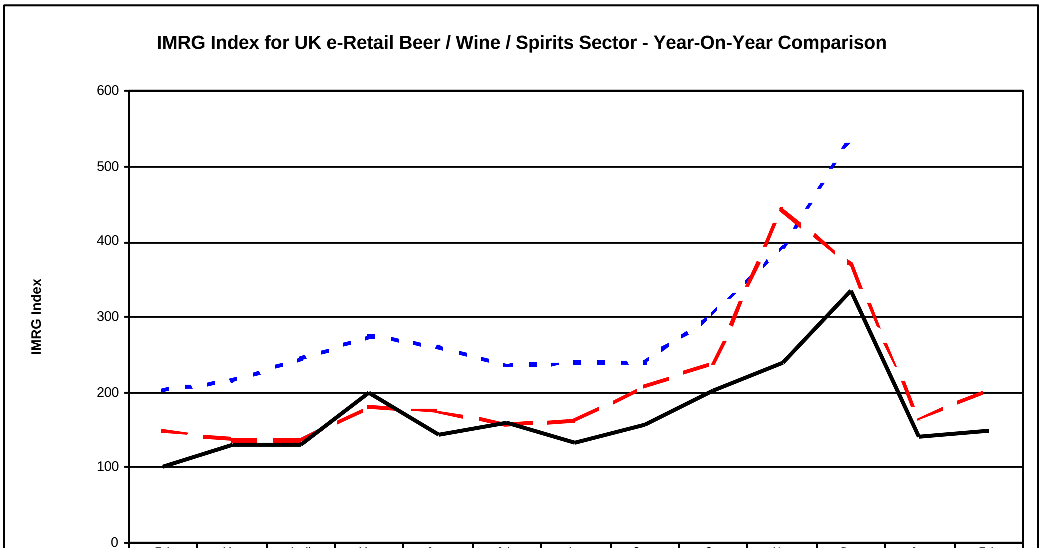
3.3 *Beer, Wine & Spirits Index*

More than £220 million worth of beer, wine and spirits was bought via the internet in the UK during 2004, with December witnessing a massive 45% year-on-year increase in sales.

This fast-growing e-retail category builds on the obvious benefits to consumers that the large wine catalogue industry has cashed in on for years: the convenience of ordering from their home or office ; receiving delivery of routine supplies which are heavy and bulky; discounted bulk buys, The internet extends merchants' options for adding value: for example, connoisseurs can be supplied with unlimited amounts of information about fine wines or real ale, and those with special interests can be alerted automatically by email to opportunities, as they arise. Party fare and gift services are popular with online customers. Some retailers are simply happy to extend their brand's reach online, capturing orders that are then serviced by their networks of local stores.



The Beer, Wine and Spirits Index was broken out in February 2002. The atypical spike in May 2002 was attributed to the England football team's strong showing the Korea / Japan World Cup that year, which prompted sales of TVs and video recorders.



	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb
2004/5	203	216	244	275	260	235	239	240	304	394	536		
2003/4	149	136	136	180	174	157	162	207	239	444	369	163	203
2002/3	100	130	129	199	143	159	133	155	202	239	334	141	149

4 THROUGH THE ROOF: E-CHRISTMAS 2004

Online shopping sales scored highly once again last Christmas despite significantly weaker retail demand, and in sharp contrast to generally disappointing results in the high street, after what the British Retail Consortium described as "…the worst Christmas for retailers in the last decade."

E-retail sales in November and December were up 20% on the previous year's exceptionally high levels, outperforming the high street by 800%. Half of the UK population was shopping online over Christmas, spending more than £3 billion, representing 6.8% of total UK retail sales. Stores without websites paid the price in lower sales. The IMRG index reached an all-time high of 1766 in November, having started at 100 just 57 months earlier. Total UK online shopping sales for the calendar year 2004 stood at £14.5 billion.

IMRG's chief executive, James Roper, commented: "Growth was slower this Christmas compared to last year but the entire marketplace has been more difficult and e-commerce hasn't escaped that. It has still done really well and, as the take-up of broadband increases and more retailers invest in their online sites, we believe that more shopping will move online."

Sales up across all sectors

Supermarket group Tesco reported that its online store achieved record sales during the Christmas period. Tesco.com delivered over 600,000 orders during December, its busiest month ever, including 10 million sprouts and 20 tons of stuffing. Rival online grocery retailer Ocado reported sales were almost three times higher in the week before Christmas, compared to the same period last year. Internet sales of beer / wines / spirits were a massive 45% higher. Virgin Wines' CEO, Rowan Gormley, commented: "Virgin Wines shipped 500 tonnes of wine in December."

In December, online sales of electrical goods surged a massive 42% higher than last year, more than two and a half times the online market's average growth. Dabs.com's sales director, Jonathan Wall, said: "Sales of MP3 players were huge this Christmas, and 38% of all MP3 players were sold online. Dabs.com sold enough MP3 players to store four and a half million albums."

Lastminute.com's chief executive, Brent Hoberman, said: "Every year since we started the business, we have consistently seen more and more consumer interest in buying Xmas gifts online. Each holiday season the consumer seems to be leaving their Xmas shopping later and later, this year was no exception - we sold 33% of gifts in the two weeks prior to Xmas Day, compared to 21% last year. We achieved almost 50% growth in gifts over Christmas this year. One of the key reasons we have been able to deliver strong growth year after year is because of the ever-expanding range of unique and unusual gift ideas we offer our customers, as well as increased consumer confidence in shopping on the internet. For example our best sellers included 'Own A Share in a Football Club', 'Become A Lord and Lady title' and Name A Star'."

Figleaves.com chairman, Daniel Nabarro, commented: "No high street doldrums were experienced by Figleaves over the Christmas period. We exceeded £2.5 million gross turnover in a month for the first time and our busiest day was 60% up on last year. We are particularly pleased to report that our fulfilment operation easily handled the increased order volume. In fact, we decided to exceed customer expectations regarding delivery by upgrading late orders to special delivery so that product would arrive before Christmas even where it wasn't expected. As a result we received some really positive feedback from customers."

Crocus CEO, Mark Fane, said: "People seem to have left everything later than usual this year and we were particularly busy during the last week. We were pleased to be 30% up because we don't discount any product until the New Year. Customers are also spending more: our average order was £55, double that of 3 years ago. Furthermore, despite taking orders up until midday on the 22nd December, we had no delivery problems."

Boden managing director, Julian Granville, advised: "This Christmas saw a record number of customers shopping on the Boden web site. In the weeks leading up to Christmas, three out of every four orders were placed online. Over our busiest weekend in December we took over 35,000 orders on the web site. Many customers tell us that they prefer shopping online as they can see exactly what's available in their size, they can order anytime of the day or night and the website carries exclusive sale items. Also by subscribing to our online newsletter, they receive offers, previews of new ranges, and advanced notice of special events. The internet is able to offer services above and beyond a catalogue."

John Veichmanis, Head Of Ecommerce at Otto UK, noted that, "2004 was defiantly the year that OTTO UK's multichannel strategy started paying huge dividends. We had a record number of our customers choosing to shop from both the catalogue and the web. This shopping behaviour is key to growth as our multichannel customers shop more frequently and spend more with us. We are providing them with a choice of contact points as they have told us this is how they want to shop. We plan to introduce a range of new services in 2005 so that we can try and surpass the 71% sales growth seen in 2004."

Ann Summers' marketing manager, Kevin Barnes commented: "Business was up 66% over the same period last year, with the new Platinum Rampant Rabbit proving to be a hopaway success. The new lingerie collections were also extremely popular. One of the factors behind this was undoubtedly the fact that Ann Summers and Knickerbox both extended the sizing on many of their lines up to a 40F /20. Ann Summers successfully fulfilled all of its orders, with guaranteed pre-Christmas deliveries extended to orders placed up until midday on the 22nd December. As a result of this guarantee and general confidence in our ability to deliver, customers continued to shop later into the final week than last year, effectively giving the web site an extra couple of business days."

Longer sales cycle

Internet shopping sales grew steadily throughout the run-up to Christmas, peaking in the week commencing 5th December, 44% higher than those of the first week of November. The way that weekends fall is critical to retail sales trends at this time of year: Christmas Day being Saturday in 2004 year meant that online sales fall-off was later in the month, as many consumers waited until the week before Christmas - and its widely anticipated sales - to make purchases, piling pressure on retail margins. E-retailers were also much more effective at timing and promoting their sales, many of which began around 15th December, resulting in revenues remaining strong through to the end of the month. Online sales remained high right through to Wednesday the 23rd, as consumers appeared much more confident in delivery advice and services. Overall, very few delivery problems were reported. Many merchants advised IMRG that they had either made special arrangements to guarantee delivery of late orders, or had stopped taking orders early to ensure that no customers were disappointed.

Much-vaunted media reports of a 'gift shambles' in the run-up to Christmas, proved unfounded. Claims had been made that many presents would not be delivered in time due to stocks running out and postal service failings, but the reality was very different, with a minimum of problems or complaints.

ISIS improves service

The ISIS (Internet Shopping Is Safe) management team received just 22 customer complaints between 1st November and 5th January, of which 20 were successfully resolved to the consumers' satisfaction within two or three days, and the remaining two were resolved within a few weeks. The ISIS trust scheme http://www.imrg.org/ISIS represents hundreds of ISIS-accredited merchants who collectively account for two-thirds of all UK internet shopping outlets. Many happy customers reported exceptionally good service from ISIS-accredited merchants. For example, a dabs.com customer reported being pleasantly surprised when a computer accessory ordered at six o'clock on the evening of 23rd December was delivered by ParcelForce at 8:30 am on Christmas Eve morning.

5 2004 E-RETAIL MILESTONES

Extracts from the IMRG Review, which is published monthly throughout the year.

DECEMBER

- 15 December 2004 saw the 10th anniversary of the launch of Netscape Communications' first commercial browser, Navigator.
- BT announced that it now has nearly 6 million wholesale broadband customers and is connecting a new broadband customer in the UK every 10 seconds. During the past 4 months BT connected a million ADSL customers and is currently adding around 8,500 customers on a daily basis. BT said that over 95% of homes and businesses in the UK could now use broadband services and that by next summer this figure would reach 99.4%. In addition to the 4 million broadband customers, there are also around 1.7 million broadband cable subscribers in the UK.
- Half of the UK population was shopping online at Christmas 2004, spending more than £3 billion, which represented 6.8% of all UK retail sales. E-retail revenues for November and December were up 20% on the previous year's exceptionally high levels, outperforming the high street by a factor of eight. Online retailers in the UK experienced a 23% increase in traffic during the Christmas season compared to December 2003, according to Hitwise.
- Research from Nielsen/Netratings reported that the number of Europeans actively surfing the internet from home had grown by 12% to 100 million over the past year. France saw the highest rise in internet users in the last 12 months, followed closely by Italy, the UK and Germany. The number of European web users accessing the internet via a broadband connection increased by 50% over the past year to just over 54 million. Italy saw the biggest increase in broadband users, where it rose by 120%.

NOVEMBER

- The IMRG Index reached an all-time high of 1766 in November, just 57 months on from its start point of 100, in April 2000. UK online shopping sales for calendar year 2004 were valued at £14.5 billion.
- Forrester Research announced that Europe would not only catch up with the US in online holiday sales 2004, it would surpass it. The UK is responsible for a third of these European sales, followed by Germany with 29%, then Italy and Spain, with 4% each.
- A report by the Office for National Statistics announced that revenues from online sales in the UK almost doubled last year to £39.5 billion, up from £19 billion in 2002. The value of e-commerce sales to households reached £11.4 billion in 2003, up from £6.4 billion the previous year. The ONS survey found that 67% of online transactions related to physical products, with the remainder spent on services or downloads.
- Kelkoo, Europe's leading shopping search engine, began displaying ISIS accreditation within its search results next to the names of ISIS (Internet Shopping Is Safe)-certified shops, the first time that Search and Official Merchant Certification had come together in an industry backed and Government endorsed merchant accreditation scheme. The ISIS scheme is also supported by leading payment service providers including Visa, MasterCard and Worldpay and ISIS-accredited merchants now account for approximately two thirds of all UK online shopping.

OCTOBER

- Amazon.com announced that Q3 profits more than tripled to $54 million, compared to $16 million in the same quarter 2003. Overall sales were up 29% during the quarter, reaching $1.46 billion. Sales in the US reached $816 million in this quarter, up 15% on 2003, while international sales for the business rose by 52%.
- Online auctioneer eBay reported that Q3 profits reached $182.3 million, a rise of 77%, due mainly to its growing international sales and the success of Paypal, its online payment unit. Sales during the quarter increased by 51% to $805.9 million.
- Internet portal Yahoo said its profits had more than tripled in the third quarter, helped by a surge in online advertising. In the three months to the end of September 2004 the group announced

profits of $253.3 million, a rise of 287% compared to the $65.3 million profit in the same quarter 2003. Yahoo said group sales reached $906.7 million, a rise of 54% compared to 2003.

- Figures released by the Interactive Advertising Bureau in conjunction with PriceWaterhouseCoopers said that the UK online advertising market now accounted for over 3% of total ad spend. Marketers invested £268.8 million in the medium from January to June 2004 with the yearly total from July 2003 to June 2004 reaching £468.8 million.

SEPTEMBER

- Telecom Markets' Broadband Subscriber Database released figures that said that more than five million people in the UK now had broadband internet connections. By the end of 2005 the figure is expected to surpass eight million. By the end of 2004 3.6 million subscribers will access broadband via their telephone line, with around 40% accessing it directly through BT. The rest will use an ISP that buys broadband lines wholesale from BT. Around two million web users will access broadband via cable.
- According to a survey by YouGov, commissioned by Alliance & Leicester, internet shoppers spent an average £770 each in the preceding 12 months on goods and services.
- After a cabinet re-shuffle, Mike O'Brien, the former international trade minister, took over from Stephen Timms as e-commerce minister in a part-time role, with immediate effect. Mr O'Brien's main role was to be as energy minister.
- Microsoft launched an internet music download service in the United States, rivalling Apple's iTunes, Napster and other online music providers. MSN Music offered users single music downloads for 99 cents and albums for $9.99. Around 500,000 tracks were initially made available for download, with more added each week.

AUGUST

- 11 August 2004 saw the tenth anniversary of the first recorded secure online shopping transaction (Sting's *Ten Summoner's Tales* in August 1994) on US site NetMarket.
- Tesco, the first High Street retailer to offer internet, home telephone and mobile packages, launched a new broadband service following trials by a group of parents and children from a primary school in Barking, east London. The 512 kilobits-per-second service was made available in the supermarket's 700 stores and online via its internet service, priced at £19.97 per month, slightly less than BT's basic broadband offering. Customers were offered unlimited downloading as part of the package.
- Figures were released showing that legal music downloads had increased five-fold. About 500,000 downloaded songs are bought a month from websites such as Apple's iTunes, compared with the first half of 2004 when only 100,000 tracks a month were bought. Cheaper broadband internet access and prices as low as 79p for a single track were thought to be behind the boom.
- New figures from the Association of Payment Clearing Services revealed that 10% of credit card purchases during the second half of 2003 related to internet purchases, up from just one in 50 in 1999, according to APACs. Online shoppers had almost doubled the amount of purchases they made online since 2000.
- Lastminute.com announced a Q2 profit of £4.3 million before tax and charges, up from £4.1 million in the same period 2003. The total value of transactions in the quarter reached £268.9 million, a rise of 78% compared to Q2 2003.

JULY

- New research from Mintel announced that 57% of all adults in the UK now had access to the internet. A surge in internet usage in the three previous months took the number of web users in Britain to 27.8 million. Mintel predicted that penetration levels would reach 67% of all UK adults over the next two years, with a maximum penetration rate of 75%. Around half of web users connect at home, while 30% log on at work or their place of study, according to the research. 20% of adult web users connect using broadband, around half the figure for dial-up access.
- Marking its 100 millionth legal music download since launch in the US in May 2003, online music store iTunes said it was now the biggest legal music site in the world. The site claims to have gained more than 70% of the market share for legal downloads.

- Mobile users in the United Kingdom viewed a record-breaking 1.46 billion WAP pages via their mobile phones during May, according to figures from the Mobile Data Association (MDA). 47 million WAP pages were viewed on a daily basis, compared to 22.5 million during the same period last year, the MDA said. It predicted that the total WAP page impressions would reach 13 billion for the whole of 2004.

JUNE

- A study by Visa revealed that Britons more than doubled their online spending in the past year as more people turned to buying their groceries, booking holidays and paying bills over the internet. Visa said its UK cardholders spent over £2.4 billion online in the first quarter of 2004, a year-on-year increase of 123%. Online sales in the grocery sector more than trebled and books and music sales were up 116% in the quarter. Online travel sales increased 159% during the same period.
- Debenhams dropped its mail order catalogue, Debenhams Direct, and moved all its home shopping to the internet. The retailer said that its Spring/Summer catalogue would be the last of the twice-yearly publications. Last year Debenhams reported 90% sales growth in its internet shopping service.
- The Alliance & Leicester announced it was to close 46 branches due to the increasing number of customers who use the internet and other direct channels to manage their banking. The group said that 80% of its customers now bank directly over the web, the telephone or via cash machines.
- Apple's iTunes Music store launched in the UK, France and Germany following its successful launch in 2003.
- Visa reported that online sales across Europe, quarter-on-quarter and year-on-year, are growing at a healthy rate. The report found the online retail industry saw the biggest gains, particularly the food and drink sector, which saw web sales more than triple. Online sales of books and music across Europe were also strong, with sales rising 116%. UK consumers spent five times as much on insurance and four times as much on paying taxes and utility bills over the internet during the past year. Online travel bookings grew by 159% during the past year. Visa cardholders in the UK spent over £2.4 billion online in the first quarter of 2004, an increase of 123% over the same period in 2003. The overall increases across Europe by country are: Spain 166%; Italy 144%' France 140% and the UK 123%.
- Figures from the Office of National Statistics (ONS) revealed that 27% of internet connections in the UK were now broadband, compared to 15% in April 2003. Dial-up users now account for 73% of net connections, compared to 85% in 2003. Communications watchdog Ofcom announced that there were now 3.9 million broadband users in the UK, with the market growing steadily at around 40,000 new connections each week.

MAY

- Napster, the music download site, got ready to launch in the UK in a deal with electronics retail chain Dixons. Napster-branded blank CDs, CD labelling kits and CD wallets are now promoted in Dixons stores and also through the retailer's web site.
- An annual survey conducted by Shop.org and Forrester Research announced that online retailers in the United States made a collective profit for the first time last year as e-commerce sales rose by 51%. Web sales, including travel, rose to $114 billion in 2003, exceeding forecasts of $96 billion, compared to $76 billion in 2002. Excluding travel, e-commerce sales increased 34% to $71.8 billion last year.

APRIL

- After the Danes, the British were judged to be the most web-savvy people in the world, according to a report by IBM and the intelligence unit of The Economist. Americans slipped to sixth place from a shared third place in 2003. The research found that Denmark was more aggressive in taking advantage of the internet than any other country. Denmark overtook Sweden's number one position in the rankings in 2003, after launching a government portal web site incorporating five ministries and 24 other organisations.

- Supermarket giant Tesco reported that online sales at Tesco.com rose 29% last year, reaching £577 million. The online grocery service saw profits more than double from £12 million in 2002 to £28 million in 2003.
- Online auctioneer eBay said its Q1 profits soared to $200.1 million, a 92% increase over the same period in 2003. In the run up to Christmas and New Year eBay launched a TV and newspaper advertising campaign in the US, which the company claims increased sales, as did its PayPal electronic payment unit.
- Amazon.com posted a Q1 profit of £62.7 million, compared with a loss of £5.8 million in the same period 2003. The online retailer also announced the launch of its online jewellery store, offering more than 75,000 items. In the preceding month, the group rolled out a test version of A9, an online search tool.

MARCH

- The IMRG Senate published its Annual Statement for 2004 focusing on e-retailing opportunities and challenges over the coming years. It predicted (correctly) that during 2004 internet shopping would become mass market, as millions of consumers routinely went online to buy and research every kind of product and service. The group further predicted that by 2009, 25% of all shopping would be conducted via the web or mobile devices in a UK market worth £80 billion.
- Ebookers, the internet travel company, announced online bookings rose by 70% in the first quarter of 2004, compared to the same period last year.
- John Lewis, the department store group launched its first big-book home catalogue shopping service. The retailer hoped to create a £200 million direct selling business offering 3,000 products, including items such as furniture. The company said department store-related online sales reached around £60 million during 2003.
- A report by the Online Publishers Association said that 72% of all 18 to 34 year olds in the United States were connected to the internet. Men in the 18 to 34 age group were most likely to search the web for music or information about sports, whereas women were more likely to visit retail web sites." The internet has become the dominant medium in the lives of this highly sought after group," said Michael Zimbalist, executive director of the online Publishers Association. "They use it not only as a source of news and information, but also as a primary source of entertainment and as the central control panel for their personal finances. So if you are looking to reach these rather elusive consumers, look no further than the internet."

FEBRUARY

- McDonalds installed 1,200 touch screen internet terminals in its UK restaurants, offering its customers high-speed internet access. Customers were able to securely browse the web, send and receive emails, shop online and play interactive games.
- European shopping search engine, Kelkoo reported record revenues of 17million euros in Q4, a 170% rise on Q4 2002. The company attributed the boost to a bumper online Christmas season, together with the launch of its new product search function, which enables customers to find products more quickly and easily. During the fourth quarter Kelkoo more than doubled the number of listed UK retailers to over 1,200. The company also added around 3 million new users each month during the period, bringing the total number of UK users to over 13 million in December.
- Retail consultancy Verdict reported that, for the first time ever, UK women were spending more on the internet than men. Women now spend on average around £500 a year on gifts, an increase of 71.4% on 2002, compared to men's average spend of around £470. The report says the biggest online spenders of both sexes are the over-55s, who spent an average of £527 on goods and services in 2003.
- US e-commerce sales exceeded $50 billion during 2003 - an increase of 26.3% from the previous year, according to the US Commerce Department. Online sales accounted for 1.6% of total retail sales of $3.5 trillion in 2003, up from 1.3% in 2002. The figures do not include online travel sales, financial brokers and ticket sales agencies. Some estimates including these sectors put total e-commerce sales for 2003 at around $100 billion.

- Tesco reported £500m online grocery sales for 2003. The UK's biggest grocery chain said Tesco.com is the world's largest online grocer, delivering over 110,000 weekly orders with a fleet of 1,000 vans covering 96% of UK homes.

JANUARY

- The IMRG Index rockets to a new all-time high of 1614, up 12.6% on November 03 and up 71.3% on December 2002, as Britain's 16 million internet shoppers bought online for Christmas. Online sales for November and December 2003 combined are worth £2.5 billion, representing some 5% of all UK retail sales.
- January figures indicate that UK internet shopping rose by over 70% to £1,324 billion in December, with particularly large increases in areas such as electrical consumer products (95% increase on December 2002).
- Amazon reports record profits for Q4 of 2003 and a net profit of $35.3 million for 2003 as a whole. International sales rose 74% to $804 million. During its busiest holiday period ever, 2.1 million items were ordered in just one day.
- Over 150,000 legal music downloads sold in the UK in January 2004, according to the Official Charts Company (OCC), including a record 50,000 downloads in the week following the launch of online music web site MyCokeMusic, exceeding the sales of vinyl and DVD singles.

6 2005: POWERING AHEAD

Breaking news that is expected to impact this year's activities.

Convenience, choice and the ability to compare offers propelled online shopping's popularity, while the look-alike high streets with their constant sales looked tired. Online shopping's spectacular growth is ten times faster than that of the high street. Large numbers of consumers continue to switch to buying online, especially for high-ticket discretionary purchases such as plasma TVs and digital cameras, motivated by the huge choice, rich information and significant savings that the internet can offer. Hot sellers include consumer electricals, leisure travel, clothing, and food and drink.

Investment in e-commerce is starting to re-emerge strongly after a four-year absence. There is a noted increase in activity associated with e-commerce IPOs, mergers and acquisitions. The UK e-retail market is progressing strongly, and facilitators are seeing strong client interest in improving their e-retail services.

Mobile e-commerce

E-retail's horizons are about to be greatly expanded as m-commerce finally takes off. 2005 will see a raft of new gadgets, many of which will enable online shopping. A main thrust of consumerism will be portable technologies which put people in charge of multimedia content so they can store, listen to, watch and interact with what they want on a variety of devices anytime, anywhere.

Today's mobile phone, which has already become a wallet, address book, organiser, scheduler, camera and ID card, is about to become an internet device. During 2005, 3G technology will enable broadband-speed wireless internet communication direct to your pocket, car, holiday home or yacht.

With the first 'phonecast' gig selling out; major 3G players touting video downloads, Apple teaming up with Motorola and handset makers excited about the revenue potential associated from music-enabled smart phones, digital tunes may have conquered the mainstream – next stop is your mobile.

And with mobile phone ownership exceeding that of PC penetration in the home, the potential for internet services adapted to a 3G platform is enormous. More than 600 million 3G-enabled mobile phones are forecast to sell this year into a world market of more than 2 billion. Companies in Europe and the US are already experimenting with ways to download high-quality media files over cellular networks.

Global e-revenues top $150bn

The latest data from Visa International showed world e-commerce revenues reached $150 billion in 2004, 54% higher than in 2003. Almost 8% of Visa's transaction total now represents online sales, 5% more than in 2003. Cross-border transactions comprise about 16% of online payments, 15% up on 2003.

China gets in gear

Alibaba.com has announced the launch of an online payments system aimed at the Chinese market. "2005 will be the year online payment becomes a reality in China. With the help of our 10 million members, we expect AliPay will become the industry standard for safe online payments in China," said Jack Ma, CEO, who is one of the wealthiest entrepreneurs in China. Around 94 million people on the Chinese mainland were using the internet by the end of 2003, according to a survey by the China Internet Network Information Centre (CINIC), representing year-on-year growth of 18.2%.

Music moves online

A million songs are now available to buy from legal download sites like iTunes and Napster in a market that totalled $330m (£175m) in 2004 – a figure expected to double in 2005. Between 20-25 million portable players were sold in the last 12 months, including 10 million iPods. Easy Group has launched a music download service Easymusic.com in the UK, with tracks starting at €0.35 (25p), the cheapest on the market. Virgin Megastores is to invest in the online sector this year in a bid to protect its share, as HMV puts £10 million into a new online download service in partnership with Microsoft.

7 THE INTERNATIONAL MARKETPLACE

At the beginning of 2005, there were around one billion internet users online, with average access in the developed world now at just over 50%, half of these making regular online transactions. Internet penetration in the rest of the world is still growing rapidly, and there appears to be no end to the potential offered by the e-retail marketplace. The user base is expanding exponentially, there is growth potential in existing sectors, and there are many retail sectors still to be exploited commercially.

This report focuses on the UK e-retail marketplace, but regional, national and international lines of demarcation are increasingly becoming blurred. The online retail environment is a global phenomenon, and as payment and fulfilment methods adapt to cater to consumer demand, there will be increasing overlap of traditional national boundaries.

7.1 United Kingdom

Record Christmas sales revenues and ever-greater numbers of UK internet shoppers have shown that the online channel has become a retail reality. Retailers that get it right are now reaping the benefits of an early commitment to e-retail, and the race is on as many others now struggle to catch up. With broadband penetration increasing daily, enhanced interactive media offerings are becoming standard, and internet shopping is fun, safe and an increasingly rewarding experience. New technological innovations in infrastructure, home devices and especially m-commerce are now gearing up to pave the way for further enhancements.

High take-up increased the number of Freeview households in the UK to 5m, compared with almost 4m at the end of September 2004. In each of the two weeks leading up to Christmas, 190,000 of the terrestrial set top boxes were sold, beating 2003's Christmas best of 140,000 in a week. This puts the figure of set top boxes sold in the three months to Christmas at 1.5m. Freeview, the digital terrestrial television service owned by the BBC, BSkyB and Crown Castle, estimates that 1.1m of those sales account for Freeview while the remaining 400,000 account for BSkyB's free-to-air satellite service, FreeSat, which launched in October 2004.

Britain's broadband standards body has agreed to support a new technology that will transmit information on BT's existing copper wire network 35 times faster than current ADSL technology. ADSL2+, will send data at up to 18Mb per second and will allow suppliers to offer convergent communications, for example VoIP, multichannel TV, shopping and video on demand, all to be delivered over the existing network infrastructure. Services could be launched as early as the end of 2005.

Carphone Warehouse has seen good sales growth across the quarter, increasing both mobile sales and fixed line services. In the 13 weeks to December 25 2004, Carphone Warehouse saw 24.9% total growth in retail revenues, with 11.2% like-for-like growth. There was a 23.1% growth in connections to 2.06m. Q3 saw 95 new stores opened, taking the total to 1,424 and hitting the group's target of 200 new stores in the 2004 financial year. Up to 30 more new openings were expected by the end of March 2005. The company said the mobile market was strong over the Christmas period, particularly pre-pay sales up 33% and subscription connections up 8.9%.

The Mobile Data Association announced that UK mobile users sent a record 25 billion text messages during 2004, 4.5 billion more than in the previous year and double the 12.2 billion texts sent in 2001. Forecast for 2005 is a staggering 30 billion.

AOL's UK customers spent more than one billion hours surfing the internet last year and 100 million subscribers are on the AOL Instant Messenger service, sending 2.5 billion messages every day. AOL now has more than 2.3 million members in the UK – including more than 600,000 on AOL Broadband.

Twice as many UK internet shoppers are using alternative payment systems like PayPal, compared to two years ago. Consumers are signing up with payment schemes to pay for online auction purchases, buy from online retailers, pay for online content, and send money to other people.

7.2 Europe

Europe will outpace the US in online holiday sales in 2005, generating €13 billion in revenues. A combination of more affluent online shoppers - and a major e-retail initiative - are driving an estimated 44% growth compared with 2004. The UK is expected to see the largest increase.

32% of retailers report that deploying or upgrading a major application software package will be a primary theme for 2005, and 36% of those that plan to up their IT budgets will do so by an average of 25% (against an average of 16% for all types of organisations).

There are opportunities in international sales. As barriers to cross-border fulfilment fall and international reach increases, a growing number of European consumers are shopping online at sites based outside their home country, taking advantage of price and tax anomalies. For example, Jersey's VAT-free rules do not charge VAT on goods sold on the island so long as they are worth a maximum of £18 - a fact that has attracted e-retailers including Play.com and Tesco to sell CDs and DVDs from the island, even though they must ship goods as single orders rather than in bulk. These online cross-border shoppers are valuable consumers, but few retailers - or nation-states - actively target them yet.

Forrester Research has projected that Europe will have 71 million broadband connections by the year 2010. This equates to 41% of the population. In the first half of 2004, market growth was strong in France, Italy and the United Kingdom - up 34%, 45% and 38%, respectively. Residential broadband penetration will be 54% in the Netherlands by 2010, while Europe's Big Five economies (France, Germany, Italy, Spain and the United Kingdom) will see penetration of between 35% and 45%.

In its 2004 European Online Retail Consumer report, Forrester Research noted that the number of European online shoppers is growing steadily in a healthy climate for development. The UK and Germany account for two-thirds of all European online shoppers, with a combined 40 million online shoppers. France and Italy lag behind in terms of numbers, but e-commerce revenues increased sharply last year. In the latter countries, the average online shopper is still a Net-savvy, young consumer with a higher disposable income. In Northern Europe, however, online shoppers are more representative of the mainstream; for example, the earlier male dominance has disappeared.

Multichannel buying continues to grow. Traditional channels are still the most important retail channels, but the significance of the internet is increasing rapidly as consumers become more familiar with and confident in it. It is already commonplace for consumers throughout Europe to research products online then buy in-store, and vice versa. Shoppers routinely research larger items such as cars, holidays and furniture online then go into a physical shop to confirm that it is what they want and make the purchase. Conversely, they visit high street shops to inspect products - electrical goods being a good example - and once they have decided which they want, use the internet to purchase at the best price available.

Whereas it is likely that there will always be need for bricks-and-mortar shops, the impact of the internet will mean that their roles, sizes and locations will change - for example, . In the multichannel world, information technology is enabling small retail spaces to present large ranges, minimising floor space.

For certain products, such as event tickets or audio devices, e-retail is already having a profound impact on traditional channels, especially shops. How much depends on the product and the profile of the consumer purchasing it, for example while 55% of online clothing shoppers also bought clothes from a shop, just 16% of online event ticket buyers also bought tickets from a physical location.

Confidence up across Europe

The European Interactive Advertising Association (EIAA) has published data that reveals British consumers as the most active online shoppers across Europe. Last year saw some 30% of online Britons purchasing 16 items or more from e-commerce sites. That compares with only 19% across Europe. The study, commissioned by the EIAA and conducted by market research company Millward Brown, questioned 7,000 people across the UK, Germany, France, Spain, Italy, Scandinavia, Belgium and the Netherlands. The study concluded that over 25% of UK consumers spent more than £1,000 online in the past 12 months, compared to a Europe-wide average of 15%. The report also revealed that 96% of shoppers were satisfied with their experience online, and that 49% felt more confident buying online than they did in 2003.

7.3 North America

US Christmas sales up 20%

US online sales for the week ending 12 December 2004 reached $2.67 billion, an increase of 22% compared to $2.19 billion during the same week in 2003, comScore Networks Inc. reports. It is the highest figure ever reported by comScore for online weekly sales. Online sales exceeded $400 million each day between Dec. 6 and Dec. 10. Before this year, online retail sales had crossed the $400 million mark only once before, Dec. 9, 2003.

US Department of Commerce figures show that, as in other regions, e-retail growth is far outstripping overall retail growth statistics. According to its latest available quarterly data (2004, Q3) e-retail sales reached $17.6bn (an increase of 4.7% over Q2), out of total retail sales of $916.5bn. This represents an increase of 21.5% in e-retail sales and 6.2% in total retail sales over the same period in 2003.

Over the Christmas period, US online shoppers spent $23.2bn (excluding travel) during the holiday period, a 25% increase on the same period in 2003 (Goldman Sachs / Harris Interactive / Nielsen / NetRatings). This study found that online consumers spent most on clothing – $3.8bn dollars, or 16% of total online revenue, during Christmas 2004. The second-largest category was toys and video games, with $2.5bn dollars (11%), followed by consumer electronics in third place at $2.3bn (10%). In line with last year’s results, the study found that 36% of respondents cited (a) a preference to avoid crowds, and (b) lower prices, as the primary reasons to buy online rather than visit a store. Fastest-growing e-retail sector was the jewellery category, with online sales of $1.89bn, more than double the 2003 figure of $888m.

More and more Americans are subscribing to broadband internet services. 32 million people are now connected, an increase of 38% in the year to June 2004, according to the US Federal Communications Commission (FCC). This is well behind many other nations, the US is ranked 13th in the world by a UN telecoms body. But in the US, cable leads the way, accounting for 18.6 million lines, while broadband over the telephone network accounts for 11.4 million connections.

Google exceeds expectations

Google reported net profits of $204.1 million in the three months to 31 December 2004, boosted by strong advertising revenues over the festive season. This compares to a profit of $27.3 million in the same quarter the previous year. Turnover during the fourth quarter jumped to $1.03 billion from $512.2 million in Q4 2003. Both turnover and profits beat analyst estimates. The internet search engine earned profits of $399.1 million for the whole of 2004, with a turnover of $3.19 billion. Google earned $105.6 million in 2003, on revenue of $1.47 billion.

Amazon sets new record

Amazon.com has reported its highest Christmas sales in its 10-year history. On its busiest day the e-retailer received orders for 2.8 million items, or around 32 items per second worldwide. The online retailer did not specify which day was its busiest during the Christmas shopping season. Amazon attributed the increase in sales mainly to the huge demand for iPod music players and Apple computers. Sales of consumer electronics such as DVD players and digital cameras also topped the list of most sought-after items.

Apple booms

Apple’s profits have risen four-fold after booming sales of its PowerBook notebook computers and iPod music players. The company has now sold more than 10 million iPods - almost half over Christmas 2004. Profits for the three months to 25 December were $295m (£156m), up from $63m in the same period in 2003, on sales of $3.49bn, compared to $2bn a year ago, a 75% increase. The earnings for Apple's first fiscal quarter were the highest quarterly figures in its history and ahead of market expectations. Apple forecasts sales of $2.9bn for the first three months of 2005.

Yahoo raises ad revenues

A rise in online advertising pushed Yahoo!'s revenues past the $1bn (£530m) mark in the last quarter of 2004, and helped the group post a profit of $187m, compared with $75m last year. Revenues were $1.08bn for Q4 2004, a 62% increase compared with $664m for the same period of 2003. Revenues, excluding traffic acquisition costs, were $785m for the fourth quarter of 2004, a 54% increase compared to $511m for the same period of 2003. The company also predicted strong growth for the year ahead, saying that it expected revenue to rise by 31% in 2005.

8 TOP E-RETAIL OPERATIONS AND WHY THEY THRIVE

kelkoo

In 2004, Kelkoo received the results of a year-long study in association with Cambridge University investigating relative influences on consumer purchase behaviour. The study revealed that only one in eight shoppers is influenced purely by price considerations, which shows that the vast majority of shoppers are looking for much more than just the cheapest price. These findings reveal the importance of such factors as providing detailed product information, communicating and building your brand and the location of your offers on the screen.

- Brand investment can result in a 32% increase in leads
- Qualitative product information can deliver 21% more leads
- Ranking counts - the top position on the results page delivers twice as many leads as other locations

The Rise Of Specialist Search

2004 saw multiple new entrants to the specialist shopping search market – Ask Jeeves' Product Search and Froogle – to name a couple. This sector thrives because it addresses both the needs of the consumer, and the commercial interests of retailers. Specialist shopping search engines provide a fast, simple and effective means for shoppers to find products available online. At the same time, they offer a highly targeted and measurable marketing solution for advertisers: getting products in front of customers who are actively searching for them.

Key developments of 2004: technology

Kelkoo is constantly striving to improve its service for both retailers and consumers. In 2004, Kelkoo undertook several major technical development projects including the complete redesign of the site. This redesign enabled us to introduce new search filtering facilities and to enhance our product feature comparison technology to help shoppers to complete the research phase of the purchasing cycle, ensuring that users who click through to a retailer, do so only to make a purchase. This new search filtering technology enables users to search by several criteria simultaneously, refining the results to find the product which satisfies all of their requirements.

In 2003 Kelkoo launched its ultra-fast and comprehensive Product Search (typical search time 0.227 seconds). 2004 saw the Product Search increase in popularity to account for over 50% of total leads (clicks through to a retailer's site) generated through Kelkoo. The Product Search enabled Kelkoo to offer a new marketing solution for SMEs through the free trial offer, helping them to open up the online marketing market to a far wider range of retailers, selling everything from nose hair trimmers to tanks! Through the introduction of Product Search, Kelkoo was able to add over one thousand new retailers in 2004 as well as creating a number of new export partnerships including Ask Jeeves Product Search, Loot, Shopping.net and UKNetGuides, bringing the Kelkoo service to a far wider audience.

Key developments of 2004: security and payments

Safety concerns were the hot issue at the start of the year, but 2004 saw marked changes in consumer confidence in buying online. In October Kelkoo became the IMRG's exclusive shopping search partner for the ISIS (Internet Shopping is Safe) scheme by integrating the ISIS accreditation logo into its search results. By displaying the ISIS logo in this way Kelkoo enables consumers to identify accredited shops at the decisive stage of the buying process.

Two recent surveys, - one nationwide survey by Kelkoo and another conducted by Millward Brown for the EIAA – highlighted the change in attitude to shopping online and on the high street. Whilst the EIAA survey revealed that 91% of Europeans were satisfied with their online shopping experience, in Kelkoo's nationwide survey, 75% of shoppers complained that they were not getting value for money from the high street. This research was further supported by retail trends. This year the internet outpaced the high-street (again). We believe that the shopping experience will be changed forever, with people only going out for special purchases, and buying from the comfort of their home for almost everything else.

8.1 Key sector data from Kelkoo

2004 saw significant growth in the range of products that people were searching for and buying online. In particular, 2004 was a year of strong growth in categories dominated by high ticket items, such as electronics and cars, indicating that consumer confidence in buying online is also growing.

Fastest growing categories in 2004

1. Home and Garden
2. Fashion and Lingerie
3. Cars and Accessories
4. Sport and Fitness
5. Electronics

Top electrical searches

1. iPod
2. Mini iPod
3. MP3 players
4. Freeview set top boxes
5. Portable DVD players
6. Bose (audio systems)
7. Sony Cybershot Dsc t1
8. DVD recorders
9. Vivitar (digital cameras)
10. Dab radio

Most searched for fashion brands

1. Nike
2. Timberland
3. Burberry
4. Converse
5. Gucci
6. Adidas
7. Lacoste
8. GHD
9. Evisu
10. Berghaus

Top home and garden searches

1. Tents
2. Curtains
3. Gazebo
4. Garden Shed
5. Sofa Bed
6. Luggage
7. Pressure washer
8. Wallpaper
9. Trampoline
10. Brabantia

Top automotive searches

1. Yamaha
2. Sony
3. Alloy Wheels
4. Satellite Navigation
5. Scooter
6. Roof Box
7. Road Angel
8. Subwoofer
9. Pressure Washer
10. Battery

Top sport and fitness searches

1. Nike
2. Nike Shox
3. Nike Air Force Ones
4. Adidas
5. Timberland
6. Football boots
7. Adidas football boots
8. Trampoline
9. Tents
10. Lacoste

Top music searches

1. Britney Spears
2. Destiny's Child, Destiny Fulfilled
3. Karaoke
4. Usher
5. Blink 182
6. Blazin' Squad
7. American Pie Soundtrack
8. Dizzy Rascal
9. Bob the Builder
10. Beatles

Top consoles and games searches

(a) Consoles

1. Playstation 2
2. Xbox
3. Gameboy Advance
4. Dreamcast
5. N-Gage

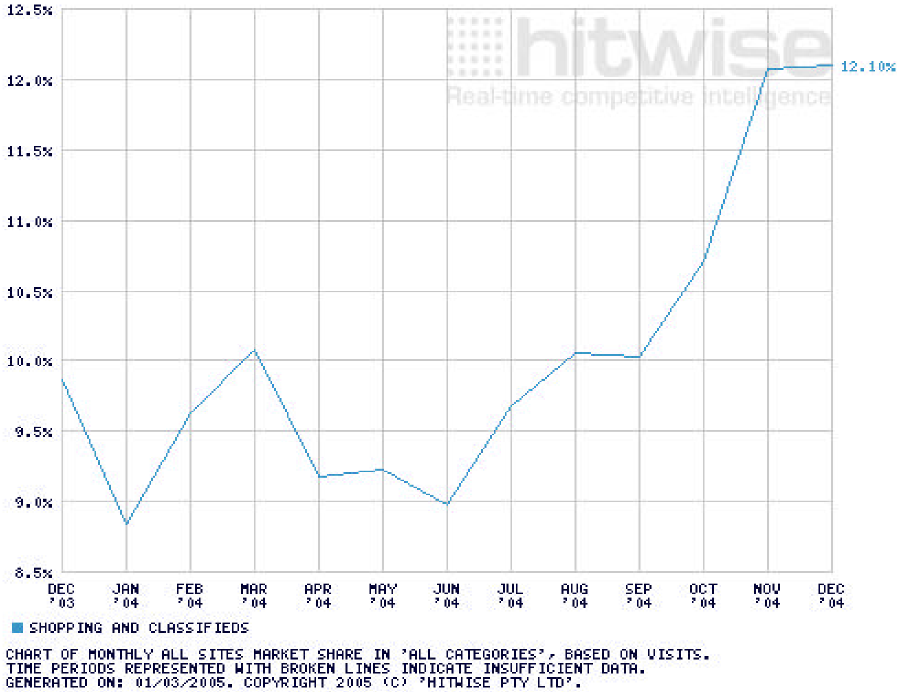
(b) Console Games

1. Halo 2
2. Warhammer
3. Finding Nemo
4. Grand Theft Auto
5. Pokemon

9 RETAIL TRAFFIC DATA - 2004

The online retail sector saw tremendous growth in 2004, particularly between September and December 2004 during which time its market share increased by 20%. The Christmas season saw the retail sector surpass 12% of all UK internet traffic for the first time (from 9.8% in December 2003).

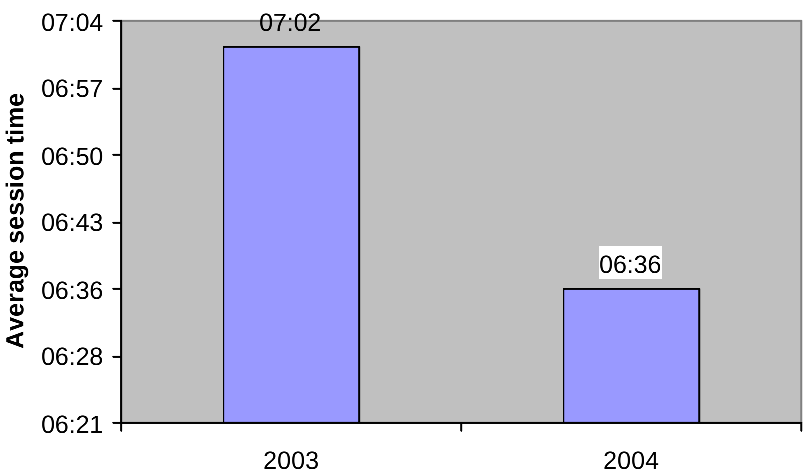
Monthly performance of VISITS to retail sites: December 2003 - December 2004



Average SESSION DURATION

Visitors were spending slightly shorter periods of time on retail sites in December 2004, down from an average session duration of 7 minutes and 2 seconds in January 2004 to 6 minutes and 36 seconds. The average session time for all sites during December 2004 was 5 minutes and 34 seconds.

Decrease in average session time



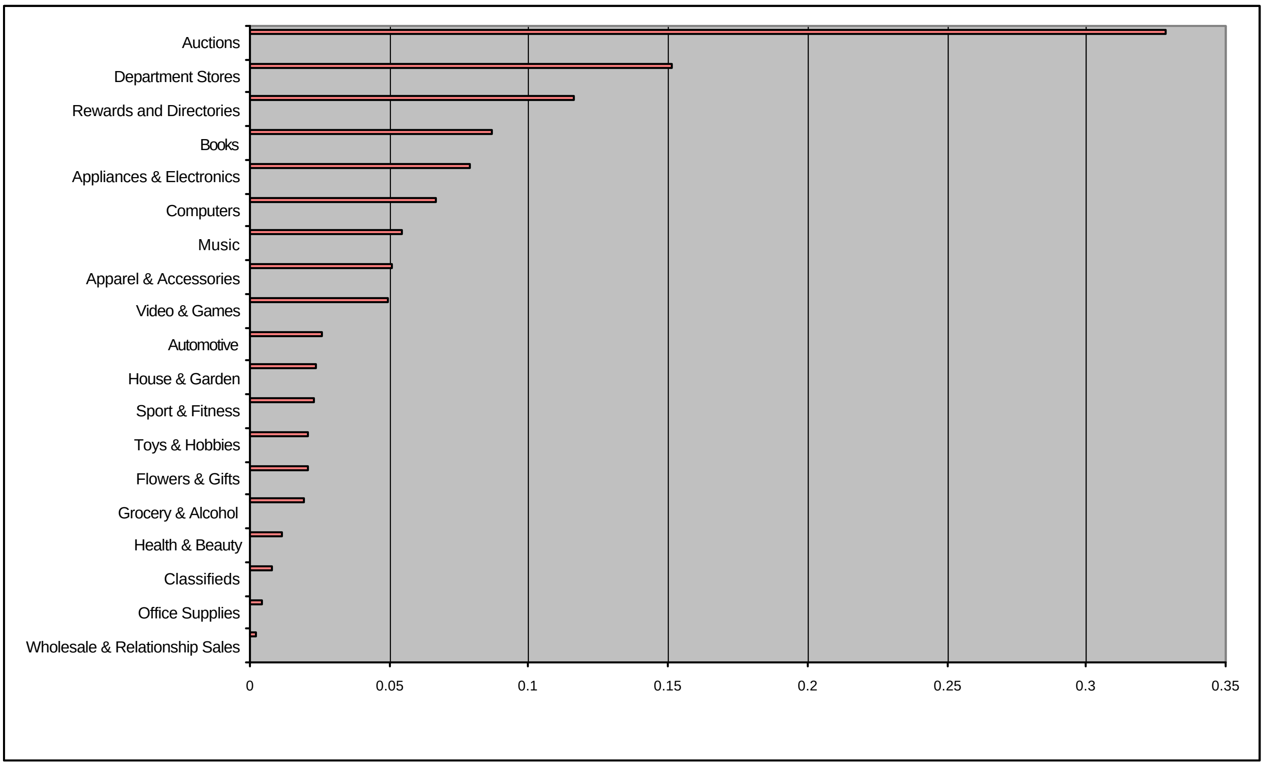
Shopping & Classifieds: TOP 10 SEARCH TERMS

Rank	Search Term	Share
1	ebay	2.94%
2	argos	1.64%
3	amazon	1.21%
4	currys	0.70%
5	ebay uk	0.61%
6	comet	0.59%
7	tesco	0.50%
8	www.ebay.co.uk	0.43%
9	dixons	0.42%
10	woolworths	0.38%

Based on data for four weeks ending 25th December 2004

Top performing RETAIL SUBSECTORS

Online auctions were undoubtedly the strongest performers in terms of retail sub-sectors in 2004, with eBay dominating online retail throughout the year. Other top performing sectors included Rewards & Directories, which includes price comparison searches such as Kelkoo and Pricerunner, as well as Department Stores and Books.



HIGH PERFORMING RETAIL SITES: January / December

eBay was once again a top performer for 2004, remaining in the #1 position in the Hitwise Shopping & Classifieds category throughout the year with well over 20% market share. Other top performers included Amazon UK, Kelkoo, Argos and Tesco.

Shopping & Classifieds: TOP 20 SITES, JANUARY 2004

Rank	Name	Domain	Market Share
1	eBay UK	www.ebay.co.uk	24.41%
2	Amazon UK	www.amazon.co.uk	6.57%
3	eBay	www.ebay.com	3.81%
4	eBay Shops	www.ebayshops.co.uk	2.06%
5	Kelkoo United Kingdom	uk.kelkoo.com	1.64%
6	Argos	www.argos.co.uk	1.27%
7	Amazon.com	www.amazon.com	1.19%
8	Tesco.com	www.tesco.com	1.18%
9	Play.com	play.com	1.03%
10	Dell Europe	www.euro.dell.com	0.73%
11	DealTime UK	www.dealtime.co.uk	0.72%
12	MSN eShop	eshop.msn.com	0.56%
13	Comet UK	www.comet.co.uk	0.54%
14	CD Wow!	www.cd-wow.com	0.50%
15	Currys	www.currys.co.uk	0.50%
16	PC World E-Commerce	www.pcworld.co.uk	0.48%
17	Next	www.next.co.uk	0.48%
18	eBay Motors UK	www.ebaymotors.co.uk	0.47%
19	Tesco Register	www.tesco.com/register	0.45%
20	ShopAtHomeSelect.com	www.shopathomeselect.com	0.43%

Shopping & Classifieds: TOP 20 SITES, DECEMBER 2004

Rank	Name	Domain	Market Share
1	eBay UK	www.ebay.co.uk	24.85%
2	Amazon UK	www.amazon.co.uk	6.39%
3	eBay	www.ebay.com	4.25%
4	Kelkoo United Kingdom	uk.kelkoo.com	2.04%
5	Argos	www.argos.co.uk	2.04%
6	Play.com	play.com	1.62%
7	Dell Europe	www.euro.dell.com	1.51%
8	Tesco.com	www.tesco.com	1.49%
9	eBay Motors UK	www.ebaymotors.co.uk	1.37%
10	Amazon.com	www.amazon.com	0.89%
11	Comet UK	www.comet.co.uk	0.87%
12	Currys	www.currys.co.uk	0.78%
13	DealTime UK	www.dealtime.co.uk	0.76%
14	Next	www.next.co.uk	0.64%
15	Tesco Register	www.tesco.com/register	0.58%
16	Marks & Spencer	www.marksandspencer.com	0.53%
17	MyOffers	www.myoffers.co.uk	0.53%
18	Tesco Superstore	www.tesco.com/superstore	0.53%
19	PC World E-Commerce	www.pcworld.co.uk	0.49%
20	Woolworths UK	www.woolworths.co.uk	0.48%

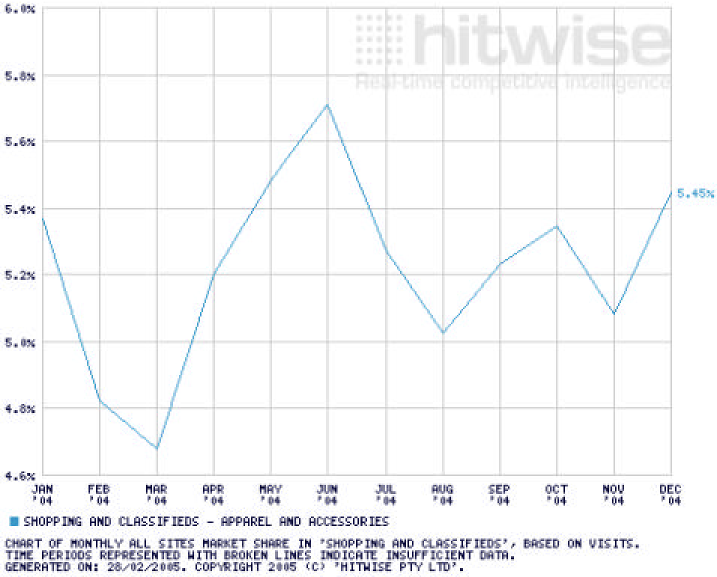
KEY RETAIL SECTORS

Several key retail sectors experienced significant growth over 2004, including fashion, music and groceries. These sectors also experienced a boost in traffic over Christmas, contributing to the stellar performance of the retail overall during this period.

Shopping & Classifieds Apparel & Accessories

Rank	Search Term	Share
1	next	3.28%
2	ann summers	1.47%
3	topshop	1.22%
4	river island	0.99%
5	mothercare	0.74%
6	www.next.co.uk	0.73%
7	dorothy perkins	0.70%
8	lingerie	0.58%
9	schuh	0.50%
10	boden	0.50%

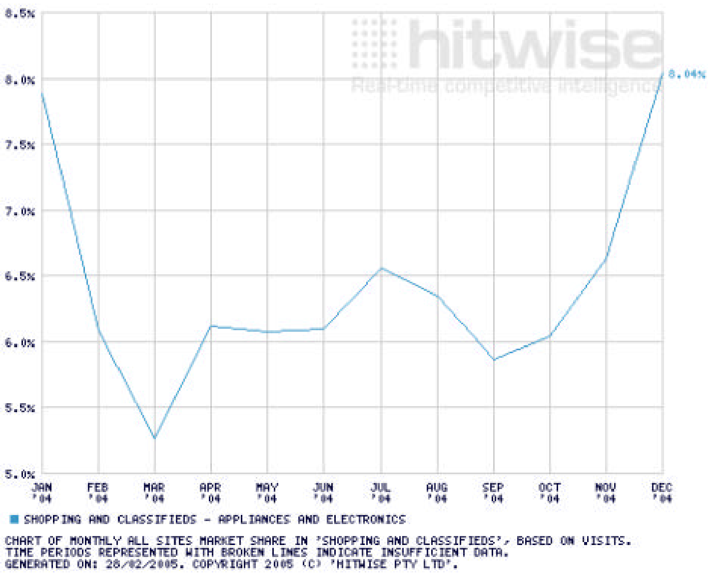
Top 10 search terms based on data for four weeks ending 25th December 2004



Shopping & Classifieds - Appliances & Electronics

Rank	Search Term	Share
1	currys	6.72%
2	comet	5.63%
3	dixons	4.11%
4	carphone warehouse	1.51%
5	jessops	1.06%
6	the link	1.04%
7	mobile phones	0.99%
8	richer sounds	0.85%
9	www.currys.co.uk	0.62%
10	dabs	0.57%

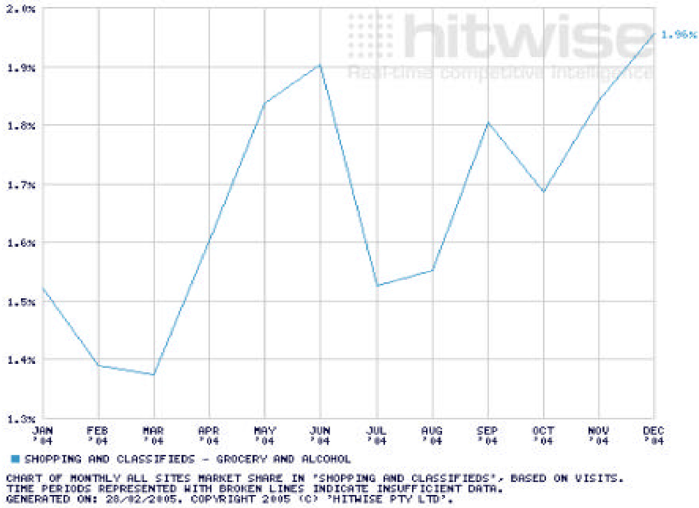
Top 10 search terms based on data for four weeks ending 25th December 2004



Shopping & Classifieds - Grocery & Alcohol

Rank	Search Term	Share
1	asda	16.91%
2	sainsburys	7.77%
3	waitrose	3.53%
4	sainsbury	3.13%
5	aldi	2.38%
6	iceland	1.58%
7	morrisons	1.49%
8	ocado	1.10%
9	sainsbury's	0.87%
10	oddbins	0.83%

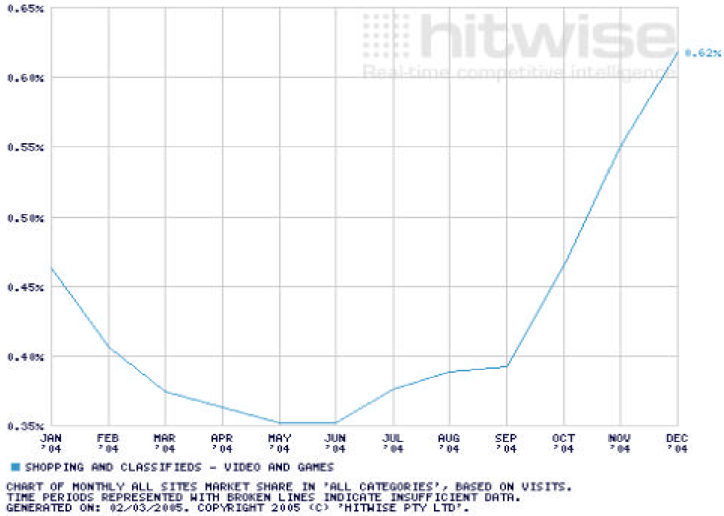
Top 10 search terms based on data for four weeks ending 25th December 2004



Shopping & Classifieds - Video & Games

Rank	Search Term	Share
1	play.com	6.19%
2	hmv	5.43%
3	game	2.33%
4	www.play.com	1.80%
5	whsmith	1.57%
6	play	1.37%
7	wh smith	1.08%
8	mvc	1.06%
9	w h smith	0.83%
10	virgin megastore	0.67%

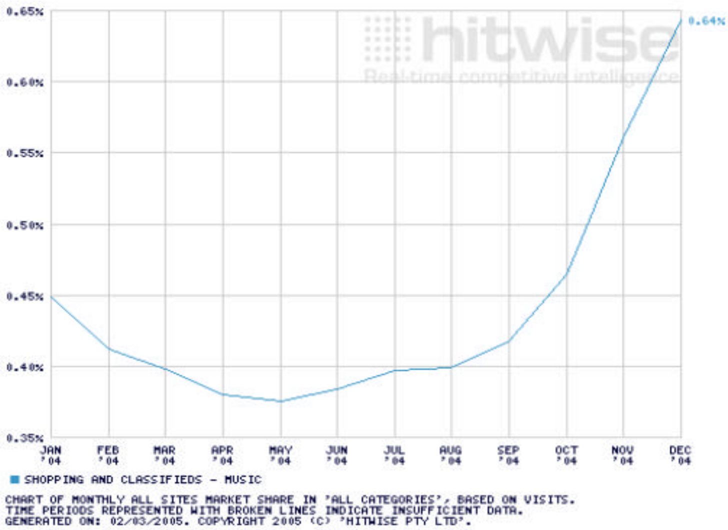
Top 10 search terms based on data for four weeks ending 25th December 2004



Shopping & Classifieds: MUSIC

Rank	Search Term	Share
1	play.com	5.72%
2	hmv	5.02%
3	cd wow	1.71%
4	www.play.com	1.66%
5	whsmith	1.44%
6	play	1.26%
7	cdwow	1.20%
8	wh smith	1.00%
9	mvc	0.97%
10	w h smith	0.76%

Top 10 search terms based on data for four weeks ending 25th December 2004



10 THE HIGH STREET'S CHALLENGE

For the past fifty years, the primary thrust of the retail industry has been based on economy of scale: bigger self-service superstores and lower prices. Retailers have made shopping convenient for themselves, but less so for the consumer who is required to provide transport, effort and time to find, buy and then carry home their goods. Loyalty cards proved to be the final nail in the coffin. Consumers want choice and value, not a relationship with an outdated, corporate behemoth. Today's busy people seek more convenient ways to shop, and many are prepared to pay a premium in order to save time. Technological advances have meant that the internet now provides the most efficient and effective form of self-service. Opening hours, parking and transport, proximity – all pale in comparison to the advantages of home shopping via interactive media, card payment schemes and effective fulfilment.

Consumers' allegiance to the High Street is also being challenged by fundamental and seemingly permanent shifts in social behaviour and organisation. There is growing evidence that people now want to spend their money in different ways: mobile phones and digital downloads consume a significant proportion of young people's cash, more people routinely take several weekend breaks during the year, as well as longer holidays. These major changes in consumer behaviour are bad news for the High Street: urban (and rural) transport is increasingly problematic, an increasing number of intangible items are more conveniently bought online, increased travel funnels consumers to alternative outlets. In short, a greater proportion of traditional consumer spend is being diverted elsewhere than to local stores.

Even in the case of shopping for physical goods, *all* products are available to consumers via the internet, not just what happens to be in stock locally - one reason why middle-market mass chains are showing the strain. People are increasingly time-pressured, so if they can do the same amount of shopping more easily online, but in a quarter of the time, it is four times more convenient.

Perhaps the biggest threat is broadband access. Over half of Britain's 24.5 million households are now online and 30% of these have broadband, which is significant because nothing encourages consumers to take up internet shopping more than the availability of 'always on' broadband. Take-up of broadband has doubled in the past year; if, as expected, we follow the US and European model in which more than half of all households now have broadband connections, the number of British homes with high-speed internet connections will jump from 4 million to 12 million, by the end of 2006.

As society moves online, most leading retailers are reacting as successful organisations always do to changing market conditions, by embracing the new technologies. However, some merchants still shun the web, seeing it as a negative innovation, a threat that will make life harder and more competitive for them. The latter tend to be traders that are struggling anyway, forced to focus on short-term firefighting, or hamstrung by outdated back-end technologies. For them, things are likely to get even tougher in 2005 as e-retail begins to expose weaknesses, and online performance begins to impact share prices again – a factor that has been absent since the dot.com meltdown. With margins squeezed even further, to thrive, retailers will have to be successful in all available channels. The e-retail sector provides sound opportunities for those merchants who effectively exploit them, and as in any race, there will be winners that go on to be household names, and there will be losers that will be forgotten.

10.1 Online Trends Point To Declining Trust In Brands

People are buying more online, spending more time researching purchases on the internet and trust the information they find on websites above conventional offline sources, according to new research published by AOL. The Henley Centre report for AOL (UK), also suggests that this may lead to consumers rejecting established products with a poor online presence in favour of goods and services from more internet-savvy brands. The study found that three-quarters of all online consumers use the internet for researching products before making a purchase. As a result, the same proportion claim to spend longer making that choice when shopping online versus offline.

"Brand New World: How the Internet is changing consumer attitudes to brands" suggests that the factors which influence buying online vary dramatically from more traditional offline purchasing. In addition as the number of people using the internet increases, brands will be less able to ring-fence their offline sales from the influence of the internet over consumer habits. Andy Jonesco, Vice-President of Interactive Marketing for AOL UK, said:

"*We have known for sometime that the internet is having a fundamental impact on the way people view brands. For the first time, this research shows that consumers look to the internet first for reliable information and that they often change their mind about what product to buy as a result. As people are becoming more and more expert at navigating the internet to gain access to the things they want to buy, the more likely they are to try new things out, often at the expense of a brand they are far more familiar with or may always have bought in the past.*"

Nearly half of all people questioned by the Henley Centre claim that their trust in the information they find online has caused them to change their mind about the product they wanted to buy. This trend proved to be particularly strong amongst traditional 'brand embracers' who claim to be most brand-loyal.

Jonesco continued: *"The implications of this research are quite clear: once people get online their behaviour changes dramatically. This will be something of a wake up call to marketing managers who should address, as a matter of priority, their online marketing strategy.*"

11 INVESTMENT IN E-RETAIL

"BT is looking to invest more capital than the UK spends on roads to build the digital network that the nation needs."

"There is a noted increase in activity associated with e-commerce IPOs, mergers and acquisitions."

"The UK e-retail market is beginning to mature, and facilitators are seeing strong client interest in improving their e-retail services."

With a strong Christmas under its belt, statistics that indicate a sound, growing market, and a healthy supply/demand ratio at the business end. All the signs are that e-commerce has arrived as a viable, mainstream retail channel, with new levels of investment coming from many segments of the industry. In infrastructure, BT is reportedly planning to invest 10 billion pounds – more than the total UK annual investment in major roads – upgrading its digital backbone network. This section presents some perspectives drawn from real world experience during 2004, and the results of an e-business survey, designed to highlight investment trends in the industry.

11.1 Drawing The Virtuous Circle

WorldPay
Internet Payment Solutions

In 2004, e-commerce became a greater force than ever before in Europe. In the last quarter of the year, online sales in Europe were greater than in the USA, with the UK accounting for more than a third of all spending. As one retail analyst put it: “The UK market is hot….UK online shoppers are not just buying more, but more per head.” It seems to be a virtuous circle. Businesses are developing and expanding their e-commerce propositions; this is attracting more and higher-spending shoppers, which is in turn persuading other businesses to follow suit.

Forecasts for 2005 are, unsurprisingly therefore, bullish. Recent research suggests e-retailing will grow by 36% in 2005, to £17bn. By 2009, the research projects that no less than 25% of all shopping will be conducted over the web.

E-commerce is set to describe ever larger virtuous circles, it seems. Yet there are significant issues that professional e-retailers will need to address in 2005 and thereafter in order to continue to secure shoppers’ confidence.

Back end automation

The first of these issues is the ‘back end’ of e-retailing – fulfilment, shipping, reconciliation, financial management and so forth.

The same research that forecasts growth in e-retailing in 2005 (see above) also shows that 39% of businesses selling online have no automated processes in place. From the shoppers’ point of view, the absence of automation is likely to lead to increases in service failure, as e-retailers struggle to manually process growing volumes of business. From the e-retailers’ point of view, it will simply drive a parallel growth in overheads, leaving the bottom line static or even reduced.

With online payment provision now an integral part of some new generation financial management software (Intuit’s Quick Books product comes to mind), it is in fact becoming much easier for businesses to automate many of the back end e-retailing processes.

Pricing

The second issue is pricing. Competing purely on price is becoming a dangerous game in the online retailing world – particularly now that numerous online “price comparators” enable users to instantly find the cheapest price for a given product, across scores of online retailers.

Wise e-retailers will differentiate their services in other ways; the quality of customer service, the generosity of guarantee schemes, the reliability and security of payment services or the timeliness of deliveries must all be made to compete effectively for shoppers’ loyalties.

Payment culture

The third issue is online payment. Retailers must understand that debit and credit card payment facilities, though elemental, are no more than a starting point. Growing numbers of shoppers in 2005 will favour other payment types, such as stored value cards, micro-payments added to their mobile phone bills, and repeat (rather than one-off) billing from a card.

The best e-retailing operations will recognise when their shoppers want to transact in many different ways and will provide options to accommodate this.

Trust and confidence

The last major issue [in respect of payments and investment] relates to the special forms of trust and confidence that both e-retailer and shopper need to have as part of the e-commerce process. Playing a significant role in this in 2005 will be “cardholder authentication” – the idea of a shopper being able to identify themselves during an online transaction, using a password or similar at the moment of payment, to demonstrate the authenticity of the transaction.

Both Visa and MasterCard have their own versions of cardholder authentication – Verified by Visa and MasterCard SecureCode respectively. In many ways, these are the online equivalents of that which in the bricks and mortar world is known as Chip and PIN.

Authentication is important to both e-retailers and shoppers. It protects e-retailers against many of the financial liabilities that they would otherwise suffer if a card were used online by an unauthorised person. Also, it gives shoppers peace of mind that their card cannot be used by anyone else – at least on those sites where cardholder authentication is supported.

Accreditation of various types will also continue to play a major role in the growth of e-commerce trust in 2005. The invaluable work of the ISIS trust scheme and other forms of accreditation will help online businesses – particularly those that are small and have no bricks-and-mortar presence – to acquire, in the mind of the shopper, the trustworthiness that high street shops seem to automatically enjoy.

Unquestionably, we have seen outstanding online performance in 2004. In 2005, some online businesses will adapt to the new issues and challenges and others may fail to do so. It is worth remembering that, according to the DTI, 69% of small businesses in this country are currently not trading online – but nothing says that they won’t decide to do so in 2005!

Armed with the knowledge born of other business’s mistakes, and forewarned of the issues described above, there is no reason why these businesses should not experience more rapid online growth than many of their predecessors – providing more choice for shoppers and, ultimately, helping to lay the foundations for success in 2006 and beyond.

11.2 Investing In Fashion

THREETHINK

In the internet boom of late 1990s, traditional fashion and luxury goods retailers were consistently among the most cautious onlookers. They remained resistant to the idea of an online presence, citing the risk of damage to their highly-protected brands and an unwillingness to spend the required level of investment. Even today, traditional UK multi-brand fashion retailers such as Harrods, Harvey Nichols, and Selfridges have not yet translated their highly-regarded bricks and mortar operations into successful commercial online models. The reason for this apparent anomaly is that merchandise available in department stores is generally sold through in-store concessions directly operated by major fashion and luxury brands. In effect, large department stores have become landlords rather than retailers, under a system that made financial sense by generating consistent earnings while lowering the impact of volatility in a difficult and highly-dynamic sector. This type of retail model is perceived as representing a substantial barrier to integrated e-commerce operations. The logistics involved, the lack of ownership, and initial scepticism of the online sales potential for high-priced merchandise – have meant that leading department stores have been unable to exploit their valuable brand values as premium retailers within the online marketplace.

This caution on the part of the big brands opened up a gap that saw the simultaneous development of two e–retail business models within the market. One was the establishment of full-price internet retailers such as Net-a-porter.com, e-luxury.com and asos.com (together with unsuccessful start-ups luxuryfinder and luxlook.com). The other was the establishment of discount e-retailers such as Yoox.com and Bluefly.com, created as a method of selling excess inventory at the end of fashion seasons. We are seeing now that internet fashion operations have the ability to improve both operating margins and inventory risk management compared to offline business models. In fact, the success, profitability and continued rapid growth of pure-play online businesses such as Net-a-porter.com, Yoox.com, and Asos.com has resulted in many offline stores and major fashion brands re-evaluating the potential for online sales operations.

In the US, there are other successful examples. Premium retailer Neiman Marcus Direct reported that website sales in the 12 months to July 2004 had increased by 50% to $240 million. The consistent success of Neiman Marcus in the USA in driving sales growth demonstrates the potential value department stores can achieve within a well-executed online retail strategy.

Another indicator of rising interest in online activity by major fashion brands, has been the successful e-commerce portal trial by world fashion bible Vogue magazine in the USA. Launched in September 2004, the Vogue web portal allowed brand advertisers to sell merchandise direct, but only after purchasing one or more full-price page ads in the magazine (at around $100,000 per page). Vogue estimates that the resulting deals brought in at least 30 additional ad pages for the magazine. A similar campaign is planned to coincide with publication of the March 2005 issue.

These examples demonstrate conclusively that e-retail business models translate effectively to the fashion and luxury merchandising sectors. Moreover, that online advantages can be exploited to increase operating margins and drive down costs. Websites that provide consistently-high customer service standards and global fulfilment operations have developed a substantial base of loyal customers, and can now compete effectively with traditional, offline retailers.

11.3 E-retail investment survey

Q. How much are businesses spending?

A. A 2004 poll among a random sample of online retailers, conducted by pfa Research on behalf of Actinic, found that they spent an average of £2000 to set up their online store. This obviously encompasses the whole spread of e-commerce, but excludes large corporates.

Q. What should they be spending?

A. Another poll by Actinic in 2003 found no site was profitable that cost less than £1000 to set up. So that would be a minimum recommended level of investment even for the smallest companies. Whatever the budget, retailers should aim to spend more on marketing and site promotion than on technology. No visitors means zero sales. With good e-commerce software packages coming in at under £500, that is still achievable on a shoestring.

Q. Have retailers missed the boat if they do not already have a credible e-commerce offer?

A. The e-commerce market is still young, and the number of people shopping online is growing faster than the number of people selling online, so there are still opportunities to get on board. The key thing is to have a sound business proposition.

Q. Should merchants build their e-retail platform in-house, sub-contract, or outsource?

A. Sites like Amazon and eBay offer the benefit of a ready-made pool of potential customers. The disadvantage is that you have to share them with hundreds of your competitors, and pay a significant monthly fee for the privilege. If you purchase an off-the-shelf e-commerce solution you can set up your own site relatively quickly, and at low cost. You have the responsibility of attracting customers. But once they arrive at your site, they are all yours.

Q. Who are the leading e-retail suppliers/facilitators, and what do they do?

A. Many web hosts offer e-commerce facilities as part of their package, though these tend to be limited. Specialist e-commerce providers have more functional offerings, which can also be moved from one web host to another if necessary. Actinic is one of the best known, and the most widely used among small businesses.

Q. Is there a shortage of suppliers or human resources?

A. There are literally hundreds of providers of e-commerce products and services. The problem is sorting out the wheat from the chaff.

Q. What important e-retail innovations are we likely to see this year?

A. E-commerce sites will become more sophisticated, and Amazon-type features will become standard across the industry.

11.4 The big picture

Despite high profile initiatives by some leading retailers to build e-commerce and integrated multichannel offerings, the general picture in retail is less encouraging. If retailers want to protect and grow their loyal customer base they will have to increase their investment in this area.

The larger retailer groups, such as Kingfisher, Shop Direct Group, Argos, Dixons and Kesa Electricals (Comet), continue to invest in e-retail and multichannel operations. Other major retailers who have maintained a steady investment include Tesco, Boots, Sainsbury and JLP. Of these, Shop Direct Group and JLP made early acquisitions (in 2000 and 2001) of pure-play online operations Buy.com and Jungle.com, respectively, and have gradually built on these foundations.

At first glance the general investment in e-retail picture looks healthy, yet when it comes to levels of investment and where the money has traditionally been spent, the opposite is the case. There are still significant numbers of retailers who have no online presence, for example: Safeway, Somerfield, Threshers, Superdrug, Bhs, Matalan, JJB Sport, New Look, Clarks, Brown & Jackson, Gap and Selfridges. Many tier two and smaller organisations are at the lower end of the investment scale. If they have invested anything, it might total a few hundreds of thousands of pounds. Substantially more is required for a fully integrated multichannel strategy. More often retailers tend to first invest in visually-rich customer-facing front-end systems, which can attract shoppers, but fail to invest in systems that build loyalty through service and trust. Back-end systems to manage order-taking and stock confirmation, warehousing to handle picking and packing, and delivery systems are key modules that are required to build an effective operation and a loyal customer base.

Full multichannel integration can cost millions of pounds: expensive yes, but significantly less than a major store refurbishment. Only the leading retailers are undertaking this type of investment and providing a wide range of products that can be ordered on line, delivered direct from supplier or retailer stock, conveniently collected at home or in store, and returned by any channel.

But all is not lost. Retailers have not missed the boat if they do not already have a credible e-commerce offering. There is still enormous loyalty to bricks and mortar stores. Also, high street brands have the opportunity to cross-promote e-retail offering from the store portfolio. And there is a further incentive: if high street stores do not move into the online envi ronment, their customers will be persuaded to shop elsewhere.

Finally, should retailers create their own online offering or use a third party? We believe the major merchants must control their end to end e-retail platforms to ensure that they provide their customers with quality service and adequate differentiation. Given the available options, this means building their platform in-house. Merely providing a shop window through another e-commerce aggregator leaves them in danger of disintermediation. So we should expect to see further investment in e-commerce and integrated multichannel retailing in the coming years, at least amongst the organisations that want to get ahead.

11.5 Online delivery: a major opportunity for retailers and transporters

'Inadequate Delivery' is a major barrier blocking the progress of the e-retail industry. It is responsible for inefficiency, confusion and unnecessary cost, and stops many consumers from shopping online altogether.

Millions of people don't shop online because of the uncertainty and hassle associated with goods arriving when they're out. And given that the most active internet shoppers are cash-rich, time-poor working people who are almost always out during the day, when shippers typically deliver, this remains a big problem for consumers. In the UK, half of all households are unoccupied during normal working hours; 20-40% of deliveries of items that do not fit into the letterbox fail first time round; and without proof of delivery, the merchant is liable for loss. For the industry as a whole, inadequacies in the system are blocking progress at a time when the rest of the sector is developing rapidly.

Internet shopping, with its blindingly-fast searching, galaxy of instantly-available possibilities and real-time information, has raised the expectations of customers who want to compare products and prices, buy online and receive goods at home. But these expectations are all too often dashed by outdated delivery methods that have barely changed in 150 years – 28 days delivery in catalogue shopping, a day or half-day slot for furniture or white goods suppliers. The only solution has been to take time off work and hope for the best – a solution that has become unacceptable because it eliminates a key benefit of shopping online: convenience

New models

E-retail shopping has moved quickly in ten years to the point where instant product and price comparisons with buy-it-now buttons represent an efficient, effective service. In a market estimated at £19.6 billion this year, online shopping falls down in one area – delivery. If consumer-direct commerce is to reach its full potential – which we forecast to be 30% of the retail market – parcels must be given the same sort of delivery priority as letters. Shoppers want different solutions at different times, so the answer must be to find a way to offer shoppers (a) a portfolio of delivery solutions from which they can choose the most appropriate, (b) better exchange of information, (c) convenient collection options, and (d) scheduled time slots. With the channel expected to generate some 400 million consignments this year in the UK alone, hopefully the commercial volume is now large enough to attract new strategic investment by delivery companies in new fulfilment models that will address these challenges.

While e-retailing can offer substantially lower operating costs for the merchant's core business, the two biggest areas of expenditure are marketing - getting the message to the consumer, and fulfilment - getting the product out to the buyer. Improvements at the front end lead to more volume at the back end, and with ineffective fulfilment, more volume means more problems.

The heart of the e-retailing delivery problem is poor information exchange between the merchant and the customer, ironic given that information exchange is what e-commerce facilitates. Fixing this problem will present golden opportunities: as well as being a fundamental requirement of e-retail, strategic information services could generate additional revenue for the delivery business. All parties, including consumers, have key roles to play in making e-retail fulfilment work. Currently there is neither penalty nor reward for the quality of consumers' information, care or behaviour. Improved information services could address this, driving traffic, efficiency and loyalty.

International issues

One of the effects of the single market in Europe has been the ease with which retailers and other businesses can move across national borders, but as many as 80% of retailers are unable to handle international orders. The advent of the euro has made it easier than ever to compare prices, since all retailers in the Eurozone use the same currency. A car, TV or DVD can now be purchased from any number of sources, and the best option selected instantly. Fulfilment is set to become one of the main product differentiators, since few others exist. The costs of international shipping rise dramatically once companies attempt to ship outside traditional operating regions, or where warehouses and transport systems already exist. Additionally, taxes, inability to register addresses or price tariffs, and potential problems with returns, deter many retailers from attempting to ship across borders. So efficient delivery information systems will be pivotal in enabling merchants to exploit the expanding European and global online marketplaces.

New solutions are therefore needed, such as the 'collection-point model', in which goods are delivered to convenient local depots for collection at a suitable time, and 'drop box systems', in which goods are delivered to a secure container at or near the customer’s address, which can be accessed by carrier personnel. These systems have been trialled successfully for several years, but now need to be rolled out.

Efficient fulfilment is a key online brand attribute. Traditional retail strategies should apply, with the end price varying according to service, ease of returns, confidence in the brand or retailer, and convenience for the consumer. But if the required delivery and associated services don't exist or are unaffordable, merchants can't offer them. Conversely, unless a critical mass of merchants agrees a specification and commits to buying, it can be very difficult for suppliers to create new delivery services, as the scale of investment can be large.

IMRG Delivery Forum

The need for change is obvious: half of UK households are unoccupied during normal working hours; 20 to 40 per cent of deliveries of items that do not fit into the letterbox fail first time round; without proof of delivery, the merchant is liable for loss.

Changing the face of home delivery in the UK will take considerable co-operation across the industry, including between organisations that generally see themselves as competitors.

IMRG's 'Deliverance Programme' has been highlighting the issues for several years, and last summer (2004) spawned a Delivery Forum, bringing together interested parties and industry expertise to streamline progress.

The objectives for the Delivery Forum have been established as:

- Thought Leadership: clarifying the industry's requirements and setting expectations;
- Focal Point: for interest, resource, collaboration and innovation;
- Good Practice: define, evolve and communicate;
- Education: of all stakeholders;
- Set Standards: introduce robust delivery standards within the IMRG Code and ISIS Accreditation.

Following the second Delivery Forum meeting (26/01/05), it is clear that:

- The quality of delivery options available to the consumer varies considerably in both choice and consistency;
- The cost of delivery failure is very high - both up and down the supply chain - and impacts all stakeholders;
- There is a need across all stakeholders to tackle this problem quickly.

The IMRG Delivery Forum, as an independent and neutral resource that provides objective analysis and perspective, directs IMRG's work in the 'last mile' area.

12 THE E-RETAIL TIMELINE

Online shopping is now not only a reality, it's a secure, usable and profitable e-retail channel. Here are some of the major e-commerce milestones that led to where we are today.

1957: The USSR launches Sputnik, the first artificial earth satellite. The US forms the Advanced Research Projects Agency (ARPA) to re-establish a lead in science and military technologies.

1962: The US Air Force commissions a study on how it could maintain command and control over its missiles and bombers following a nuclear attack. Paul Baran, of the RAND Corporation proposes "packet-switching" – a computer networking concept that allows data to be broken into labelled packets, forwarded from computer to computer, with any lost packets being automatically re-sent.

1968: Intel, founded by Robert Noyce and Gordon Moore, creates large-scale integrated memory and the microprocessor, two of the major innovations in microelectronics that power e-commerce.

1972: Ray Tomlinson of BBN designs the first e-mail program.

1973: Vinton Cerf from Stanford and Bob Kahn from DARPA begin development on a new network protocol (TCP/IP), that will allow different computer networks to communicate with each other.

1980: Tim Berners-Lee, software engineer at CERN, invents the concept of "hyperlinked" documents that can reside on networked computers – the basis of today's World Wide Web.

1981: August 12, IBM releases the IBM PC. Retailers use this technology to invent interactive kiosks that provide automated functions, using touch screens and laserdiscs with video and audio segments. The first recorded kiosk application was used at Los Angeles airport to speed up hire car returns.

1994: Marc Andreessen develops the point and click browser, which evolved into Netscape Navigator. The Netscape browser made it easy for anybody to get online and do things, using the expanded DARPA network, hypertext and the TCP/IP communications protocol. At a stroke, Netscape provided the e-commerce environment and set a precedent for making software available free.

1995: Amazon opens an online bookstore operating out of Jeff Bezos' spare bedroom. Microsoft adds SSL technology to its internet browser. E-bay conducts its first online auction.

1996: Microsoft launches Merchant Server, an online retail solution that combines shopping cart, product database and secure back-end payments modules, kickstarting the e-retail infrastructure.

1998: Always-on internet arrives when SBC Communications launches its DSL service in California. Within a year, there are 60,000 DSL subscribers and more than half a million using broadband cable.

1999: Amazon and AOL put a rocket under the traditional retail sector as both companies report breaking the billion-dollar sales barrier. After Napster reported that users of its music swap site had quintupled in one week, there was no stopping the digital download bandwagon.

2000: AOL and Time-Warner merge, heralded as the deal of the century, marrying old and new media with an eye to AOL's 24-million strong online community. The merger nearly destroys Time-Warner, but AOL comes out on top.

2001: Investors panic as one after another new media startups burn through venture capital funding faster than profits materialise. Too late, many realise that the internet is a channel, not a business model, but billions are wiped off stock market listings.

2003: Apple iTunes launches, following rights deals with all major record companies, racks up 70m sales in 12 months, and kills the traditional music distribution model.

2004: Global online e-commerce revenues reach $150bn, after ten years of steady growth. Half of the UK population shops online. IBM sells its PC division to Lenovo, a Chinese company.

13 DIGITAL DOWNLOADS

200 million music tracks were downloaded in the four big digital music markets during 2004 - the UK, France, Germany and the US

With the traditional global music industry in turmoil, the internet has quickly become the primary channel for music distribution. Despite huge measures to protect the traditional industry organisation, digital downloads have all but cut out the old consumer channels to market, and are poised to do the same in the film industry.

During 2004, a spectacular boom in music downloads resuscitated the UK singles market. By the end of the year, legal digital music singles were outselling traditional physical formats. In January, Coca-Cola led what rapidly became a bandwagon when it launched online music download site, MyCokeMusic.com, with more than a quarter of a million tracks available, the largest collection of legal downloads on the internet at the time, and a second official singles sales chart. The site sold 150,000 downloads in its first month, and before the year was out, Microsoft, Tesco, easyGroup and even Oxfam all had download music services. Napster, once acquired by BMG with a realistic eye to selling its entire catalogue online, was reborn as a legal downloading service in May, and soon had the Post Office, Dixons and The Sun, among others, selling its vouchers.

In June 2004, Apple's iTunes arrived in the UK, Germany and France, having already sold more than 70 million songs in the US in its first year since an April 2003 launch. Steve Jobs, CEO of Apple, demonstrated his astute grasp of the music business by also launching the year's "must-have" gadget, the iPod range of portable players and storage devices. By the end of 2004, iTunes had achieved an 87% market share, with sales of 200 million songs and 6 million iPods. Key to Apple's success have been the proprietary AAC file format and a Digital Rights Management (DRM) scheme, known as FairPlay. These specify technology and guidelines that govern what consumers can do with their music or other digital assets once purchased. For example, they are what prevents songs bought from iTunes being played on anything but the iTunes environment or an iPod and what restricts Microsoft format songs to being played only on Microsoft digital music players (for now). Record industry trade bodies in the UK (BPI) and the US (RIAA) are behind DRM schemes since they maintain rights and payments structures for artists and provide a satisfactory degree of copy protection.

The digital download industry can, along with airline ticketing, be considered one of the first real commercial internet breakthroughs. It incorporates online delivery of a software product, with built-in quality, protection, and a secure payments system. What took so long? The fact that for many years, the industry struggled to protect its traditional base, failing to grasp that what consumers want is simple convenience and value for money from the music business, as in any other sector. Now that digital downloads have become a viable business, there are clear opportunities to extend these to other technologies, especially mobile phones and in-car devices, and to other sectors, particularly film and video.

14 ONLINE SECURITY

Early internet security threats were mainly a matter of kids causing mischief to impress their peers. Now these pranksters have been replaced by criminals seeking to make serious money. During 2004, new bank security systems such as chip and PIN payment cards sent fraudsters looking for new soft targets, and many moved online. Organised criminals are becoming increasingly technologically competent, and they have demonstrated that they are willing to buy in skills and expertise, or subcontract to specialists, where there is an advantage in doing so. It is reasonable to assume that criminal use of hi-tech methods will only increase as businesses, banks and individuals become more reliant on IT and online transactions, and more and more potentially valuable data is stored on networks.

Gone phishing

2004 was also the year of phishing, a new form of larceny via identity theft that increased suddenly in response to the opportunity presented by large numbers of people shopping and banking online. The Anti-phishing Working Group, a consortium of businesses and law enforcement officials, reported that 85% of all reported phishing attacks during December directly focused on banks and financial institutions. These attacks typically consist of email messages that appear to come from trusted companies which attempt to lure people to bogus web sites where they're asked to divulge sensitive personal information – data that can be used to commit identity fraud (the impersonation of an individual for financial gain). Overall, the group said that there were 9,019 new, unique campaigns reported over the course of December, representing a 6% increase over the previous month. Since July 2004, the volume of new attacks has grown by approximately 38%. The number of web sites supporting the scams has grown at an even faster rate, from 1,546 in November 2004 to 1,707 in December 2004, 24% up since August 2004.

The APWG report also found that the number of individual companies targeted by the schemes is growing. There were 55 brands specifically mentioned in phishing campaigns in December, up from 51 companies in November, and 44 in October 2004.

In a recent interview with CNET News.com, Mike Cunningham, senior vice president of fraud management at Chase Card Services, a division of financial services giant JPMorgan Chase, said that despite the growth of these schemes aimed at companies in his industry, consumers have yet to grow reluctant to conduct their business online. "I don't believe customers are avoiding the online channel because of phishing, I think they're becoming more wary and figuring out what sort of things banks will or will not send you via e-mail," he said. "We haven't seen any decline in use of online channels and, in fact, that business continues to grow."

However, industry watchers following the growth of the phishing phenomenon have predicted that the explosion of financial services-oriented scams could have a long-term effect on that industry and encourage customers not to communicate with their providers via the Web. "At one point we thought these attacks were rare, but now they are so common in financial institutions that we see huge amounts of them and have to continually warn people to be wary," said Susan Larson, vice president of global content for SurfControl, a company that markets e-mail filtering software. "There's a growing perception that you have to be careful of anything coming from financial institutions, or payment service providers, and that can't be good for business in the long run."

Extortion with a threat to bring down a website if a payment is not paid, also became increasingly common in 2004. Bookmakers and financial institutions were most commonly targeted, but IMRG considers it only a matter of time before retailers are also threatened.

In the UK, IMRG and NHTCU (the National Hi-tech Crime Unit) have joined forces to address e-crime issues facing the e-retail community, and to raise the profile of the organisations involved in tackling this threat to consumer confidence, industry growth and business integrity.

The botnet threat

An alarming development was the coming together of virus writers, spammers and organised criminals to use botnets - networks of compromised computers whose processing power and bandwidth can be abused to send out large volumes of spam and phishing emails. Botnets were the primary delivery mechanism for 70% of spam and almost all phishing scams. Botnets greatly amplify their controllers' power and give them almost total anonymity, and can be highly profitable, reputedly being rented out for just $10 per hour. People whose computers are infected with the remote access Trojans that control botnets are usually unaware that they are contributing to the problem. As a result, major government-led programmes are being developed that will help the public be aware of and avoid being caught out by such security threats.

As people's online activity goes multi-device, wireless and mobile, security threats are expected to increase exponentially. Individuals and businesses already struggle to effectively secure their perimeter defences, but risk losing control of what data is flowing in and out of their networks and how people communicate as the concept of a “secure perimeter” evaporates.

Spyware and adware

Spyware and adware are general terms for software that performs certain functions such as advertising, collecting personal information, and delivering targeted content. Most spyware is included in free downloads of games trials, some search engines, file sharing and other applications. Any program that supplies a PC with ads that run in a window other than a standard banner ad, has an adware - or spyware – component, generally an analysis and tracking program that reports certain activities to the advertising providers' web site. This is not illegal, and can be positively helpful in identifying a user’s preferences to an ad-serving web site or network. For example, you might sign up for a free online service, but pay for that service by agreeing to receive targeted ads. If you understand the terms and agree to them, you may have decided that it is a fair trade-off. You might also agree to let the company track your online activities to determine which ads to show you. But what spyware providers do with the collected information and what they're going to serve you with, is beyond your control.

Adware providers that pay publishers of games, utilities and music/video players, to include their ad serving programs.

Stalking horses that enable adware networks to function on desktop PCs are bundled in many popular programs and often (not always!) presented in installation disclosure screens as desirable add-ons. All collect information.

Trojan horses, popular downloads that usually come with the ad serving network basic software and at least one stalking horse.

Backdoor Santas, stand-alone programs that collect information from users but have no links to ad serving networks.

Cookies, sent by Netscape Navigator and Internet Explorer even after disabling cookies in the browser settings. You must manually delete all cookie files on your system to eliminate being tracked by third-party ad networks, spyware or adware providers.

Spyware can also contain code that can make remote changes to a computer that can be annoying and can cause the system to slow down or crash, change the browser's home or search page, or add additional browser components. Sometimes it can be difficult to change back to the initial settings. The main categories of software involved are:

Signs of a spyware infection are pop-up advertisements even when disconnected from the internet, if browser settings change unexpectedly or if the browser suddenly displays a new toolbar, and if the system is running slowly, or crashes more often. Like viruses, spyware is best removed by software that scans and recognises certain code. These removal tools are provided free of charge from Microsoft and other suppliers. On a clean system, spyware can be kept at bay using a firewall, spyware protection software, and most of all, by observing responsible surfing behaviour.

14.1 The True Cost Of Online Fraud

The Association for Payment Clearing Services (APACS) announced some shocking figures. In 2004, fraudulent Card Not Present (CNP) transactions totalled £150.8m, making it the fastest growing form of fraud. But research from payment and risk management solutions company CyberSource suggests that the real costs could be much higher.

Reliance on manual review

In a survey of over 100 online retailers in the UK, CyberSource found that while 1.6% of CNP transactions processed prove to be fraudulent, a further 6% of transactions are rejected on the suspicion that they could be. Some of these transactions will be genuine.

Perhaps even greater than the cost of lost transactions is the cost of manually reviewing potentially fraudulent orders. CyberSource's study showed that online retailers are reviewing 20% of orders, of which 80% are then accepted. Manual review is both costly to operate and difficult to scale; without more sophisticated anti-fraud measures, businesses risk spending as much on manual review as they lose to the fraudsters.

The survey revealed that online sales will increase by an average of 36% in 2005, but only 28% of respondents expect to be able to boost their manual review staffing levels. Merchants will therefore need to improve productivity to maintain the growth in sales. However, with each manual check taking around three minutes, it is unlikely they will be able to cope with demand.

The toolkit approach

The survey highlighted that today the majority of merchants are using a toolkit approach and taking advantage of a variety of the fraud management services available. At present, Address Verification Service (AVS) and Card Security Code checks are two of the most widely-used anti-fraud methods. However, 39% of respondents have no automated systems in place at all.

Looking to the future, 43% of respondents plan to implement the card association schemes Verified by Visa and MasterCard SecureCode, in an effort to obtain relief from chargebacks and online fraud liability. In addition, nearly one fifth of merchants intend to purchase a commercially-developed fraud screen.

Future fraud

The IMRG has predicted that by 2009, a quarter of all UK shopping will be conducted via the web and mobile devices, creating a market worth £80 billion. And as the market grows so will the opportunity for fraud: 56% of respondents to CyberSource's survey expect online fraud to become more serious for their business in 2005.

Nathan Jackson, managing director at CyberSource concludes, "The CyberSource survey has revealed that many merchants are struggling to contain the true costs of fraud. Furthermore, current approaches to managing online fraud are likely to result in increased, even unsustainable, costs as order volumes grow. Successful and cost effective management of online fraud will depend upon the deployment of strategies designed to streamline the order process, translating online revenue growth into bottom line profits."

14.2 Fraud Prevention: What Every Merchant Should Know About Internet Fraud

Internet fraud is a growing threat to online merchants, with scams such as 'phishing' and stolen consumer identities making headlines around the world in 2004 and continuing to do so in 2005.

Internet fraud is also very difficult to detect and for this reason, is 17 times higher than in-store fraud, according to Gartner. Hackers can break into your network without you being aware, to steal money, products, sensitive information and customer identities as well as to commit crimes against other merchants. Of equal concern is that Great Britain ranks fourth among countries with the highest volume of fraudulent transactions according to a recent Internet security report from VeriSign.

In addition to the financial implications for processing a fraudulent online transaction, such as chargeback penalties and inventory loss, security concerns are eroding confidence in e-commerce and deterring consumers from shopping online. A 2004 report by TNS Research found that 56 percent of online shoppers in the UK have terminated a transaction because they did not trust the security of the Website. As every merchant is at risk of fraud, and a single fraud incident can put a merchant out of business, it's clear that online payments security and fraud prevention must become a top priority for any online business.

The message is clear. Without integrating the appropriate level of preventive internet security, merchants are increasing their exposure to online fraud and both the brand and revenues will suffer.

So how can internet merchants protect their business against fraud?

There are essentially three levels of exposure to fraud on the internet: the individual transactions themselves, access to your payment gateway account, and access to your network. Protecting your business from fraud requires you to address each level in an integrated manner.

1) Transaction Level

Ensure that each transaction you accept and process is a valid transaction. You should also be careful not to deny suspicious transactions that are actually valid. Validation at the transaction level includes:

- ***Authenticating buyers when possible***. This includes understanding who your repeat customers are. Keeping lists of repeat customers who have legitimately transacted at your site is important not only for fraud control, but also for understanding purchasing patterns and building customer loyalty. Make sure all customer information is encrypted and stored safely. Also, take advantage of MasterCard and Visa's Buyer Authentication programs described above to authenticate customers and benefit from the liability shift.
- ***Screening order content for fraud patterns.*** There is a wealth of information associated with each transaction that can help you understand the risk level. Activate the address verification service and card security code features with your payment processing service. Other screens such as IP address checks and shipping address validation will also help bring more certainty to a transaction with new customers.

  Also, keep a list of information associated with "bad" or fraudulent orders and check transactions against them. Similar to your list of "good" or repeat customers, bad lists help you streamline the checkout process. To effectively manage all of the risk information associated with a transaction it is important to use a rules engine. A rules engine automates the process of transaction screening so that you quickly fulfil orders for good customers and proactively block risky orders.
- ***Reviewing suspicious transactions.*** Finally, review each transaction that is suspicious to make sure you are doing business with a legitimate customer. Effective screening is essential to ensure that you have all the information necessary to make decisions regarding questionable customer orders before they are fulfilled. Online merchants today reject five percent of all transactions because they do not have the time or information to save a good sale from a suspicious one.

2) Account Level

Make sure that only authorized users have access to your payment gateway account, and be alert for suspicious account access patterns. Protection at the account level includes:

- ***Locking down administrative access.*** Activate the "transaction settings" features that are standard with payment processing services. These settings allow you to limit access to high-risk administrative transactions, such as issuing credits. You should also change your account password on a regular basis.
- ***Monitoring account level activity for suspicious patterns.*** Watch your account for signs of unauthorized access that could indicate merchant account takeover. Account Monitoring can help you catch account takeover before it does any damage—whether the takeover is due to a hacker or fraudulent employee usage of your service.

3) Network Level

Ensure your network or “perimeter” is defended against unauthorized access. Protection at the network level includes:

- ***Locking down network access***. Activate the “allowable” IP address feature on your payments processing service to ensure that only IP addresses you select have access to your network.
- ***Updating all patches on servers and operating systems.*** Invest in regular scheduled security audits or port scans to identify network vulnerabilities.
- ***Monitoring firewall activity.*** Enterprise level e-commerce companies should also monitor their perimeter security on a 24-hour basis.

Let Customers Know That Your Store Is Safe for Purchases

While fraud prevention is the first step in ensuring the success and profitability of an online business, it’s just as important that merchants let customers know their store is a real business that is safe to do business with. You can let your customers know that you are who you say you are by displaying a ‘Trust Mark’ on your Web site. This also reassures them you are using premium business authentication, and SSL encryption services. By taking control of online security and helping customers identify that a site is legitimate and secure, Internet merchants can not only protect their business against fraud but also foster consumer trust in their brand and boost overall confidence in e-commerce.

15 ISIS: RAISING STANDARDS

internet shopping is safe where you see this sign:

http://www.imrg.org/ISIS

The online shopping environment is improving rapidly thanks to wide recognition of industry standards, new payments solutions, strong legislation and the strenuous efforts of committed merchants and facilitators throughout the world who now have several years' experience under their belts. Enormous scope for improvement and further development remains: internet shopping as we know it today is a mere shadow of the rich, fast, highly-functional medium it will be in ten years time. And new challenges are emerging all the time. As e-retail becomes more widespread, important and valuable, the attention it attracts from criminals will inevitably increase correspondingly. And as people's online activity goes multi-device, wireless and mobile, security threats are expected to increase exponentially. Maintaining confidence in e-retailing will therefore remain a primary challenge and obligation for the industry for the foreseeable future.

Trust and confidence

Why is 'confidence' so important in distance trading? We all buy things every day from people we don't know. We don't worry about it because, typically, the familiar shop brand or shopping environment give us a sense of what to expect, and confidence to trade with the seller. The internet makes a vast array of shops available for people to buy from, but all that choice is irrelevant without trust in the quality of service they can expect. Confidence is important in all retailing, but in internet shopping it is critical.

There is no lack of adequate laws or payment scheme rules to protect consumers' rights - these exist and are robust. But few of the 'bad' internet shops have ever been rogues; most problems occur because merchants are either novices, or just don't take enough care. A shop may be fine in the High Street but provide a poor or inconsistent online service. The law may protect the consumer, but why take the risk?

The ISIS trust scheme

IMRG introduced the ISIS (Internet Shopping Is Safe) merchant accreditation scheme to provide the core functionality necessary to support consumer confidence and create a level playing field on which reputable online merchants can trade. ISIS has subsequently been adopted by hundreds of e-retailers who are collectively responsible for two-thirds of all UK internet shopping sales. Leading ISIS-accredited merchants include B&Q, Comet, dabs.com, Empire Stores, Freemans, Kays, La Redoute, Marshall Ward, QED, QVC, Reebok and Tesco.com.

Kelkoo, Europe's leading shopping search engine, introduced a new service in October 2004 that conveniently displays merchants' ISIS accreditation within its search results next to the names of ISIS-certified shops.

This is a major step forward, bringing together for the first time, everything the consumer requires to find what they need online, and buy with complete confidence.

The primary requirements for trust in the rapidly evolving online marketplace are commonly adopted e-retail standards, so consumers know what to expect, and for merchants to state clearly what they will do and then do it, so consumers know where they stand. But whereas standards are important for boosting confidence and trade, merchants must also be free to differentiate themselves and their propositions by means of the quality of service and innovation they provide. So what constitutes acceptable service? The cornerstone on which e-retail standards are being built is the IMRG Code of Practice for e-Retailing, with which all ISIS-accredited merchants agree to comply. When online merchants comply with the IMRG Code, it's a guarantee that their operations are both legal and user-friendly.

16 ABOUT IMRG

IMRG is the leading industry body for e-retailing, uniting all e-retail practitioners in a collaborative community, promoting the highest possible retail industry standards and best practices, and providing up to date market intelligence on the state of play of the online shopping.

IMRG unites all e-retailers in a collaborative community, promotes the highest possible retail industry standards and best practices, and provides up-to-date information on the state of play of the e-retail market. It is a London-based membership organisation and serves some 4,000 individuals in hundreds of merchant and facilitator organisations around the world.

IMRG MEMBERSHIP

The IMRG provides a forum for the e-retail community and membership is open to e-retail companies and facilitators all over the world. Each year since 1995, the IMRG membership has voted on what it considers the main issues for the industry body to address during the coming year. Consumer confidence, and the fostering of trust in both shops and online shopping media, have always been near the top of the priority list. This year's top three priorities as voted by the membership boards are: maximising ROI, customer retention, and marketing effectiveness.

16.1 The IMRG e-Retail Sales Index

http://www.imrg.org/index

Initiated in 2000, the e-Retail Sales Index provides the primary indicator of UK e-retail market conditions. Now in its fifth year, the Index has tracked the progress of UK e-retail industry, and is calculated from a basket of hard data to which more than 80 merchants routinely contribute their online shopping sales figures each month.

16.2 The IMRG Senate

The IMRG Senate provides strong and proactive leadership for the e-retailing industry. Comprising leading e-retail practitioners, the Senate steers IMRG's direction and work, governs the IMRG Code of Practice, and makes critical industry decisions. It provides strong and proactive leadership for the e-retailing industry, steering IMRG's direction and work, governing the IMRG Code of Practice, and making critical industry decisions. The ISIS scheme was established at the IMRG Senate's instruction to address and resolve the issue of consumer confidence. The biannual IMRG Senate Meetings set the IMRG agenda for the forthcoming year, assess changing market conditions, and direct the IMRG's focus.

17 E-RETAIL INDUSTRY PRIORITIES 2005

Each January, IMRG Members identify and prioritise the key e-retail issues for the industry to address during the year ahead. 644 members voted this year: 107 facilitators, and 537 merchants. This document records how members ranked the 35 identified issues: HIGH, MEDIUM, or LOW. The figure in brackets indicates last year's position.

	(2004)		High	Med	Low
1.	(=)	Maximising ROI	456	125	63
2.	(=)	Customer retention strategies	427	178	39
3.	(=)	Marketing effectiveness by media / channel	320	247	79
4.	(=)	Multichannel integration	312	165	166
5.	(▲ 9)	Fighting fraud	265	240	134
6.	(▲ 13)	Delivery / fulfilment (physical product)	264	145	233
7.	(▲ 12)	Affiliate marketing	246	226	172
8.	(▲ 10)	Web design / usability / testing	241	242	150
9.	(▲ 11)	Email management	238	244	262
10.	(▼ 7)	CRM	216	278	143
11.	(NEW)	User journeys: how shoppers plan / execute online trips	206	64	21
12.	(▲ 14)	Impact of web on in-store / other channels	172	245	227
13.	(▲ 18)	Promoting the e-retail industry	161	239	234
14.	(=)	Payments (chargebacks, new solutions, etc.)	157	235	254
15.	(NEW)	e-Crime	156	224	262
16.	(▼ 15)	Email differentiation: legitimate vs spam	147	239	257
17.	(▼ 8)	Legislation	139	335	173
18.	(NEW)	Migration from call centre to web	138	116	164
19.	(NEW)	Tracking / managing customer satisfaction	131	128	14
20.	(▼ 6)	Statistics	127	269	249
21.	(NEW)	Pay per click	115	99	63
22.	(=)	Consumer tracking of order / package	113	242	289
23.	(▼ 19)	Co-operation between existing e-businesses	109	281	202
24.	(NEW)	Organic search engine marketing	109	226	45
25.	(NEW)	Personalisation and customisation	105	115	67
26.	(▼ 21)	Supply chain management (end to end)	101	213	334
27.	(NEW)	KPIs and management reporting	95	128	50
28.	(▼ 17)	Consumer confidence / dispute resolution	94	312	240
29.	(NEW)	International shopping	85	133	424
30.	(NEW)	Getting value from external agencies / consultants	84	89	107
31.	(NEW)	Spyware	67	205	375
32.	(NEW)	Exploiting new technologies	64	182	38
33.	(NEW)	Mobile commerce	53	100	126
34.	(NEW)	Local online marketing and purchasing trends	53	107	134
35.	(NEW)	Passing trade: optimising location online	26	125	96
		Total % of vote	31%	37%	32%

18 IMRG SENATE & MEMBERS

IMRG Senate Members

Additions Direct
Arcadia
Argos
Attenda
BT
Comet
dabs.com
Debenhams
Deloitte
DHL
Domino Systems
easyJet
figleaves.com
Forrester Research
Hitwise
Homebase
Inter IKEA Systems
Itim Group
John Lewis Partnership
Lastminute.com
MasterCard
Microsoft
Pixmania
QPQ
Reed Smith
Royal Mail
Shop Direct Group
Smart Voucher
Sterling Marketing
Tesco.com
WorldPay

IMRG Members

Abound
Actinic Software
Airport Parking & Hotels
American Express
Amity Business Solutions
AOL UK
ASDA
Auxinet
Axida
Barclaycard Merchant Services
Berry Bros. & Rudd
BIBIT Internet Payments
Blockbuster
Bluesky Communications
Blue Martini
Boots Wellbeing
Bond Safety
Bourne Leisure Group
Burton Menswear
Buy.com
Cable & Wireless
Camelot Group
Carphone Warehouse
Choice
Claria
Co-operative Group
Cotton Traders
CollectPoint
Cybersource Group
Datacash
Dialect Solutions Group
DNA
Dorothy Perkins
Early Learning Centre
eDigitalResearch
e-inbusiness
Empire Stores
Empire Direct.co.uk
EMS
Epson Europe
Evans
Fat Face
Firebox
Focus Wickes
Freemans
FT.com
Game Stores Group
Grattan
Homebase
Hyperlink-Interactive
Interflora
Ixaris
J D Williams
Javelin Group
Kaleidoscope
Kays
Kelkoo
La Redoute
Lands' End
Lateral
Laura Ashley
Littlewoods All Inclusive
Littlewoods Sport-e
LX Direct
Made in Sheffield
Maplin Electronics
Marks & Spencer
Marshall Ward
Metapack
MFI Furniture Group
Midland Co-operative
Miss Selfridge
Monsoon Accessorize
Mothercare Direct
National Lottery
Norwich Union
Ocado
Orange PCS
Outfit
Overture
Past Times
PayPal
Pixmania
Place
PRC Direct
Premier Farnell
Principles
QED-uk.com
QVC The Shopping Channel
Redcats
Reebok Sports
Retail Decisions
Richer Sounds
Right Now Technologies
Royal Bank of Scotland
Shopping.com
Schuh
Scimitar International
Scivisum
Screwfix Direct
Shopping.com
Schuh
Scimitar International
Scivisum
Screwfix Direct
SECPay
Seek.net
Signet Group
Snow Valley
spannerworks
Spence & Co
Streamline
theAA.com
The Hub Communications
Thomson Travel Group
Topman
Topshop
The Body Shop
Three Think
Trade Appliances
TradeDoubler
TUI UK
UC Group
Unipower Solutions
Verisign
Vertbaudet
Virgin Megastore
Visa EU
Yourschooluniform.com
Waitrose
Wallis
Warehouse
Web Abacus
Wheel
Widget UK
Zendor.com
Zoom.co.uk

IMRG ISIS Members are listed here: http://www.imrg.org/ISIS

19 CONTACT DETAILS

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A leading developer of e-commerce software for small and medium businesses, Actinic has over 10,000 users worldwide

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Email: btownsend@actinic.co.uk

AOL UK: www.aol.co.uk/mediaspace

AOL is the leading online services provider to the UK, with more than 6.8 million users. More than just a route online, AOL provides some of the Web's most compelling online experiences for both audiences and marketers. We partner with marketers, retailers, and agencies to craft innovative, customised solutions that take full advantage of our unique products and editorial environment.

Contact: Giles Ivey, Sales Director

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Attenda: www.attenda.net

Attenda allows clients to selectively outsource their IT operations to a trusted, specialist partner so they can focus on using IT to add strategic value to their business. We manage, secure and optimise the performance of Internet and enterprise applications, irrespective of the physical location of the infrastructure. Clients include Emirates Airlines, easyCar, Debenhams, Harrods, MFI and other organisations that run some of the largest B2C and B2B Internet applications in the Europe. Last year over £10 billion was securely transacted through applications managed by Attenda.

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CyberSource: http://www.cybersource.co.uk/

CyberSource provides payment and risk management solutions that help merchants to maximise sales and minimise fraud.

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Hitwise: www.hitwise.co.uk

Hitwise is the world's leading online competitive intelligence service. Each day, Hitwise monitors how more than 25 million internet users interact with over 500,000 websites across 160 industry categories. By monitoring more people, more websites, more often, Hitwise provides marketers with timely and actionable marketing insights on how their online presence compares to competitive websites. Companies use this information to maximize the return on their online investment, in efforts such as search marketing, affiliate programs, online advertising, visitor segmentation, content development and lead generation. Founded in 1997, Hitwise is a privately held company, headquartered in New York City and operates in the US, UK, Australia, New Zealand, Hong Kong and Singapore.

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IMRG: www.imrg.org

IMRG (Interactive Media in Retail Group) is the industry body serving e-retail. The world of e-commerce evolves rapidly. IMRG, which has 15 years experience in the sector, helps its members make the most of the ever-expanding market opportunities

IMRG represents its members; who account for approximately two thirds of UK online retail. IMRG Senate Members provide the organisation's direction, insight and leadership.

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Kelkoo: www.kelkoo.co.uk

Founded in 2000, Kelkoo is Europe's leading shopping search engine, visited by over 4 million buyers each month. With over 3 million product offers from more than 6 thousand retailers, Kelkoo helps buyers to find great deals on everything from CDs, to cars in seconds.

Contact: Bruce Fair, Sales Director

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MetaPack: www.metapack.com

Founded in 1999, MetaPack is the leading provider of delivery management solutions that promote best practice, transform online shopping and enable retailers to exceed customer expectations.
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MasterCard Europe: www.mastercardinternational.com

MasterCard International is a leading global payments solutions company that provides a broad variety of innovative services in support of our global members' credit, deposit access, electronic cash, business-to-business and related payment programs. MasterCard International manages a family of well-known, widely accepted payment cards brands including MasterCard, Maestro and Cirrus and serves financial institutions, consumers and businesses in over 210 countries and territories. The MasterCard award-winning Priceless advertising campaign is now seen in 98 countries and in 46 languages, giving the MasterCard brand a truly global reach and scope. More information can be found on www.securecodemerchant.com/

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Reed Smith: www.reedsmith.com

Reed Smith is a leading international law firm and one of the 20 largest law firms worldwide. We have over 1,000 lawyers firmwide and 18 offices, 16 in the US (incl. New York, Washington DC, Los Angeles and San Francisco) and 2 in the UK (London and the Midlands). We represent large, listed companies as well as midmarket and emerging companies. Clients include financial institutions, pharmaceutical companies, technology companies and healthcare providers.

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THREETHINK: www.threethink.com

Mark Quinn-Newall founded THREETHINK in 2004, following co-founding and establishing Net-a-porter.com as one of the few global e-commerce success stories. THREETHINK is an e-commerce consultancy.

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VeriSign: www.verisign.co.uk

VeriSign (NASDAQ: VRSN) operates intelligent infrastructure services that enable people and business to find, connect, secure, and transact across today's complex, global networks.

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WorldPay: www.worldpay.co.uk

WorldPay supplies internet payment services to over 40% of the UK small and medium enterprise e-commerce market. It also supplies both online and offline payment services to major corporate clients, including Interflora and Disney Travel.

WorldPay is also prime partner in the ISIS safe shopping scheme that promotes responsible behaviour amongst online retailers (see www.imrg.org/isis).

WorldPay is headquartered in Cambridge, UK, and has offices around the world.

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Internet Shopping is Safe

where you see this sign

http://www.imrg.org/internet-shopping-is-safe/