

BRIEF

JANUARY 28, 2003



By Carrie A. Johnson

With Kate Delhagen

Kimberly Chaskey

2002 US eCommerce: The Year In Review

Online sales grew 52% over last year to \$78 billion, bolstered by yet another record Q4. What fueled eCommerce sales last year? Growth in new product categories and retailer mastery of digital marketing, Web analytics, and multichannel marketing.

As the final sales data comes rolling in, 2002 goes on the book as another banner year for eCommerce: We estimate that online sales reached \$78 billion last year, a 52% increase over 2001 and nearly \$6 billion higher than our initial forecast of \$72.1 billion (see the August 27, 2002 Forrester Brief “US eCommerce: The Next Five Years”).¹ The year started off strong, suffered a small setback in Q3, and then rebounded with Q4 sales of \$21 billion and holiday sales of \$8.4 billion (see Figure 1). The details of Q4:

- **Free shipping saved Christmas.** What’s the definition of a perfect promotion? One that draws in shoppers but doesn’t kill profits -- like free shipping that inspired people to shop early during the short holiday season. But according to BizRate.com, only 9% of all orders actually qualified for free shipping, saving retailer profits (see the December 20, 2002 Forrester Brief “Hark! The Online Registers Ring”).² As a result, most retailers, including Amazon.com, expect to keep free shipping promotions during 2003.
- **Nearly all retailers celebrated the season.** Unlike other quarters, when some categories exploded and others stagnated, almost all retailers across all categories enjoyed increased sales in Q4. Books, music, apparel, and electronics were the top categories, bringing December sales increases of 24% to jcrew.com and 68% to sharperimage.com. In addition, 1-800-FLOWERS.com reported Q4 sales of \$75 million, a 25% increase over last year; eBay’s Q4 US sales were up 46% to \$3 billion; and an ever-expanding product assortment and free shipping helped Amazon record US sales of \$868 million.³

Headquarters

Forrester Research, Inc.

400 Technology Square

Cambridge, MA 02139

USA

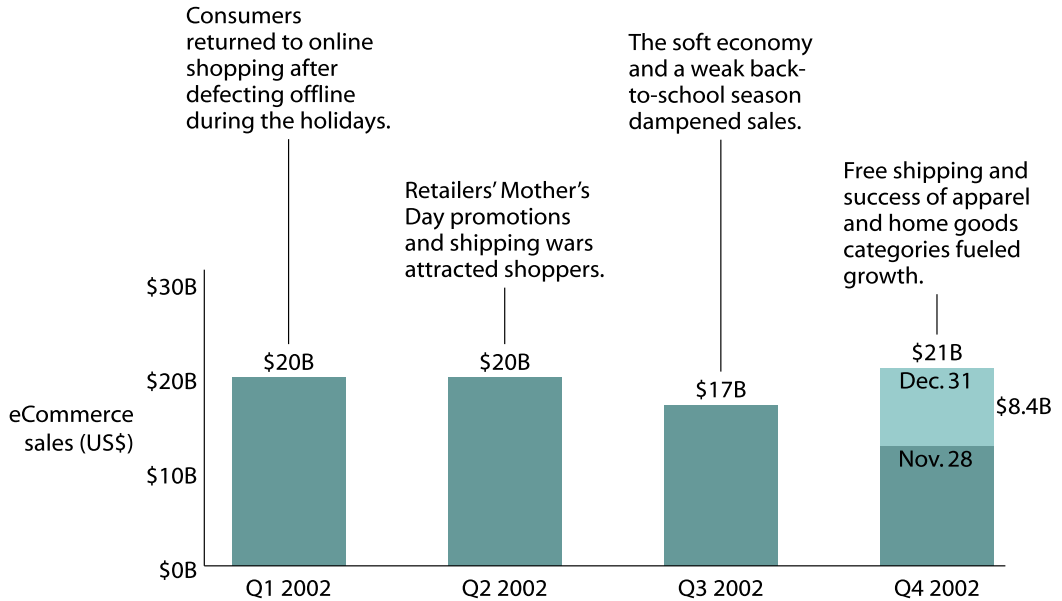
+1 617/613-6000

Fax: +1 617/613-5000

www.forrester.com

Figure 1 A Quarterly Recap Of US eCommerce In 2002

Total 2002 eCommerce spending: \$78B (US\$)



Source: Forrester Research, Inc.

2002: A YEAR OF FINE-TUNING AND MASTERING ONLINE SALES

During Q4 and the entire past year, retailers ironed out more of the online retailing kinks. According to data from Shop.org's 2002 "The State of Retailing Online 5.0" study, more than 50% of online retailers reached profitability in 2001, with more expected to cross that threshold in 2002. With fears of dot-com instability behind them, retailers seized the chance to optimize sales. To drive 2002's growth, online retailers:

- **Pounced on new fast-growing product categories.** The timing of Amazon's apparel tab launch and eBay's home page fashion showcases couldn't have been better. With more women than men now shopping online and catalog shoppers shifting money to the Web, apparel rose to the third most popular product category for online shoppers, attracting 75% more shoppers than last year (see the October 2002 Forrester Report "Retail North America: Consumer Technographics® Data Overview").⁴ Retailers also took advantage of another fast-growing category -- online grocery, which attracted 36% more shoppers this year: Peapod expanded into Providence, R.I. and more Chicago areas, and FreshDirect launched in New York City.

- **Trimmed and tweaked digital marketing spending.** With smaller budgets, retailers quickly sought out new and cheap ways to get consumers to their sites -- especially search and email (see the December 2002 Forrester Report “Retail Digital Marketing Best Practices”).⁵ According to Nielsen//NetRatings data, search engine Google drove more than 6% of Amazon’s December traffic and 5% of Sears.com’s traffic -- signs that performance-based marketing, done right, delivers customers.
- **Put Web analytics to use -- finally.** When we surveyed retailers last March, most still focused on outdated site metrics like traffic and session length, and they were analyzing site data haphazardly (see the March 2002 Forrester Report “The Retail Revenue Metrics You Need”).⁶ But throughout 2002, retailers got data religion and began using tools that gather detailed path analysis and clickstream data to improve conversion rates and customer satisfaction. Site analytics vendor Coremetrics’ growing retail client list provides evidence: In the last six months of 2002, it signed Ann Taylor, CompUSA, Hammacher Schlemmer, Petco, Restoration Hardware, Victoria’s Secret, and Williams-Sonoma.
- **Moved forward with multichannel marketing.** Although plenty of integration remains -- only 13% of the top 100 retailers currently offer a buy online, pick up in store option -- many retailers put on a good multichannel face to consumers this year (see the December 2002 Forrester Report “Multichannel Best Practices: Sears And REI”).⁷ Best Buy and Sears ran TV ads touting the ability to research or buy online and pick up in stores, and J.C. Penney and Eddie Bauer launched email campaigns pushing in-store promotions and coupons. Other merchants had smaller wins: One retailer celebrated when its site URL got moved from the bottom of store bags -- where no one saw it -- to the side of the bag. Progress!

¹ After five years of blazing 97% compound annual growth, US eCommerce will grow at a still powerful 25% CAGR through 2007. Barring unforeseen events, eCommerce will grow to \$217.8 billion, representing 8% of total retail sales, by 2007.

² Free shipping and powerful cross-channel campaigns -- like Pier 1 Imports’ dynamic online circular -- drew consumers to shop online early and often.

³ eBay reported gross merchandise sales of \$4.6 billion in Q4 2002 and that international sales comprise 35% of that figure.

⁴ Between 2001 and 2002, the number of online travel buyers increased by 40%, online book buyers increased by 13%, and online apparel buyers increased by 75%, making apparel the fastest-growing general merchandise category online.

⁵ Although most consumers go direct to a retailer’s site to find a product, a combined 25% found the product that they bought most recently through a search engine or by clicking on an email that they received.

⁶ Only half of retailers we interviewed in March measured sales and conversion rates, while more than 90% measured less relevant metrics like page views.

⁷ Although 32 million households research purchases online and buy in stores, just 54% of *STORES* magazine's Top 100 Retailers allow customers buying products online to return them in stores, and only 13% offer in-store pickup of online purchases.