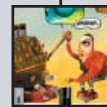




Electronics Retailing Online: Creating a Hi-Def Customer Experience

Where do you go for the best deal on that widescreen, flat panel HD-ready LCD TV? Or more importantly, which is the best one to buy? And what about a new computer, iPod dock, wireless phone system, digital camcorder, Bluetooth headset — or even a simple programmable coffee maker?



Electronics are pervasive in the lives of consumers today, playing a role in everything from personal hygiene to cooking and cleaning to entertainment to vital communications. And every major retailer is vying for a bigger piece of the consumer electronics pie. Competition is especially heated in the online channel, where general merchandisers are battling it out with electronics specialty stores, and the online versions of bricks-and-mortar chains are going head-to-head with the pure-play Internet retailers.

Who is winning the hearts and wallets of Web consumers? What are the key drivers that make or break the customer experience for online electronics shoppers? What are the trends to watch?

Benchmark looks inside the latest Keynote *Customer Experience Rankings* for the retail electronics industry and talks to some of the experts to present this snapshot of the industry and its key players.

MARKET OVERVIEW: AMAZON, AND EVERYONE ELSE

According to the U.S. Department of Commerce, second-quarter retail e-commerce sales totaled \$33.6 billion, growing 6.4 percent from the first quarter 2007 and 20.8 percent over the same quarter in 2006. Overall retail sales, by comparison, grew just 3.8 percent from Q2 2006 to Q2 2007. Still, e-commerce sales represented just 3.1 percent of total sales.¹

Forrester Research has estimated the consumer electronics share of online retail — including computers and software, consumer electronics, small and major appliances, and video games — at 13.9 percent.² *Internet Retailer* magazine offers specifics on actual 2006 performance for retail chains that operate both online and in brick-and-mortar stores. The biggest online players by far are

the office supply companies, with Staples, Office Depot, and OfficeMax all doing more than a quarter of their volume online. Electronics specialist Circuit City had online sales of \$1 billion in 2006, or just over 8 percent of its total volume; Best Buy moved nearly \$1.5 billion online, 4.63 percent of its total sales volume.³

But the poster child for e-commerce success is, not surprisingly, Amazon.com. As reported in *Internet Retailer*, it posted sales of \$10.7 billion in 2006, a 26 percent jump over 2005. To put it in perspective, the top five retail chains (Wal-Mart, Home Depot, Costco, Target, and Sears) had *combined* online sales of \$5.9 billion — barely more than half of Amazon's sales volume.⁴

Consumer electronics are a significant and growing category of online commerce. Leading specialty retailers Best Buy and Circuit City have made significant investments in their online storefronts and it shows, both in their sales and customer experience ratings. Hybrid retailers like Best Buy and Circuit City offer consumers the advantage of buying online and picking up the purchases in the store, as well as returning items to the store. But the pure-play online retailers such as Amazon and Dell still exert leadership, with greater depth of online experience and all of their energies dedicated to the online channel.

THE HIGH EXPECTATIONS OF ONLINE ELECTRONICS CONSUMERS

There's a big difference between a consumer shopping for a new coat or a book and one shopping for a flat panel TV or the latest computer. The consumer who is shopping for often-expensive electronic equipment tends to be more technology savvy and sophisticated than the average online shopper. As a result, their expectations of a Web site are higher in terms of both performance and overall experience.

Keynote's Donald Floss is intimately familiar with the profile of the online electronics shopper. He's a load testing expert who studies site performance in depth, and a partner to a number of major e-retailers that are striving to create seamless, optimum customer experiences.

"Electronic retail sites, because of the demographics, are even more sensitive to performance than other sites," Foss explains. "Latency tolerance is higher for a person shopping for clothing than somebody who's looking to buy a new computer. They're already thinking about speed, and they're going to be more technically oriented in general."

"It's interesting to note that the electronic retail space has pretty much abandoned the dial-up world," Foss continues. "I think they look at a person who's not willing to spend money on a 'real' Internet connection as not likely to spend a lot of money buying electronics in their store, either."

To satisfy the higher expectations of these consumers, Foss points out that the major online electronic retailers have invested and are still investing heavily in their online infrastructure. "It sounds cliché but it's true," Foss concludes, "Your closest competitor's only a click away."

OVERVIEW: TOP-PERFORMING ELECTRONICS SITES

So how does the current crop of online electronics sites stack up in the minds of those sophisticated electronics consumers? For overall customer experience, according to the Keynote *Customer Experience Rankings* from June of 2007, the answer is A-B-C-D: Amazon, Best Buy, Circuit City, and Dell. [See Chart A] Amazon, the quintessential online retailer, continues to exert its muscle as a brand powerhouse in virtually every category it enters. It sits on top of the Keynote

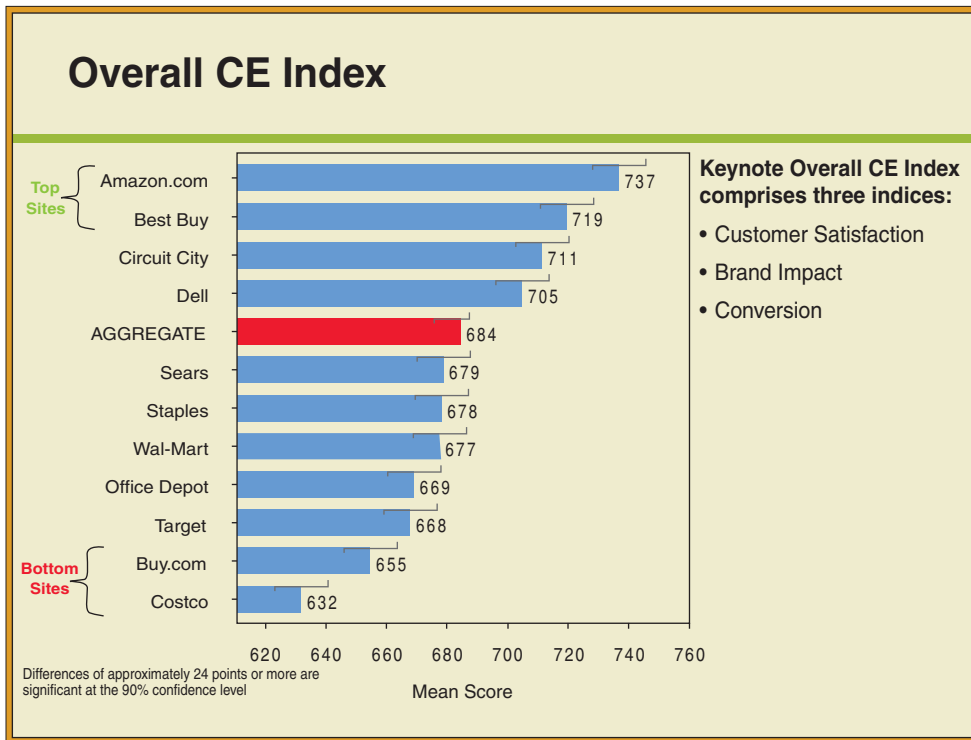


Chart A: Customer experience rankings for consumer electronics are dominated by the pure-play Internet merchandisers and the hybrid electronic specialty chains.

index rankings not only for customer experience, but for brand impact and conversion impact as well. The only area it missed top ranking is customer satisfaction, where it finished third behind Best Buy and Circuit City.

Best Buy enjoyed runner-up status behind Amazon, followed by Circuit City. Dell made a solid fourth-place showing across the board, except in brand impact, where it pushed Circuit City out for the number three spot.

Among the general merchandise and office supply retailers — none of which qualify as pure-play online retailers — Sears, Staples, and Wal-Mart filled out the next tier, followed by Office Depot. Buy.com and Costco landed at the bottom of the rankings.

Amazon's dominance is clear and

impressive. In brand index word associations, Amazon leapfrogs the rest of the pack by a whopping 29 percentage points in the “online leader” attribute. It enjoys a 19-point lead for “comprehensive,” and double-digit advantages for “good value” and “trustworthy.” Its also edged past Best Buy in the attributes “customer-focused,” “fun,” “helpful,” and “innovative.”

In general, the most successful sites are the specialists, either the pure-players whose only store is online, or the hybrid “bricks-and-clicks” players who specialize in consumer electronic goods. One advantage that the bricks-and-clicks retailers have over the pure-players is the ability to purchase online and pick-up at the store, or simply to do their research on the site and go to the store to make the final decision.

“If you think about it,” explains Jeremy Dalnes, vice president of e-business for Panasonic Consumer Electronics, “let’s just use the flat panel television as an example, which is certainly a hot-selling category right now in the consumer electronics industry as a whole. That purchase decision is made based essentially on picture quality. And that’s something you can’t represent online. So our zip code locator and dealer locator are definitely key pieces of value that we deliver to shoppers visiting our site.”

BUSINESS IMPACT DRIVERS: GOOD LOOKS, GOOD PRICE

So what makes a retail electronics site a top performer? It would seem that consumers are looking for the same thing in an electronics site as they are in a mate: Looks and money.

Visual appeal is the top business impact driver, followed by price satisfaction. [See Chart B] Search satisfaction, purchase process, and customer satisfaction are also key drivers. Interestingly, rankings for the impact drivers are more scattered, and do not correlate precisely to the overall customer experience index rankings.

VISUAL APPEAL. Best Buy tops the rankings for home page appeal and overall site looks, followed by Dell, Amazon, and Circuit City. Strong product photography, clear organization of the elements on the page, and strategic use of color are important factors contributing to consumers’ overall visual reaction to the sites.

PURCHASE PROCESS. How easy is it, how long does it take, how much information do I have to give, and what’s the *real* total price with shipping and taxes? Consumers want it easy, fast, simple, and accurate. Shoppers were most likely to cite availability of shipping costs without a required log-in as a most



important factor in the purchase process. Ease of determining shipping costs helped Circuit City and Best Buy to place number one and two, respectively, in the purchase process rankings, as did the ability to pick up a purchase at a store. Conversely, poor performance in the shipping calculation process contributed to pushing Amazon down to third place in purchase process.

SEARCH SATISFACTION. Amazon and Wal-Mart lead the field in search satisfaction. On Amazon, consumers liked the detailed heading information for each item, the reviews, and the multiple means to narrow the search. On the Wal-Mart site, consumers noted the speed, the narrowing features, and the accurate prioritization of results. However, when prospects were asked to rate the search feature compared to other sites they have used, Amazon and Best Buy came out on top, and Wal-Mart dropped significantly.

CUSTOMER SUPPORT. The rankings were shuffled still again for customer support, with Best Buy finishing first, followed by Sears and Staples. Best Buy offers multiple support channels, including the option to have a recall you back. Customers also cited the ability to return purchases to a Best Buy store as a valuable feature. On the Sears site, customers liked the detailed FAQs and the multiplicity of phone numbers to directly dial various departments.

NEGATIVE REACTIONS. One of the biggest stumbling blocks prospects noted was site registration requirements; no one wants to have to enter personal information in order to find out shipping and handling charges or a total price. Other areas that fell short for prospects were the product comparison function and consumer reviews.

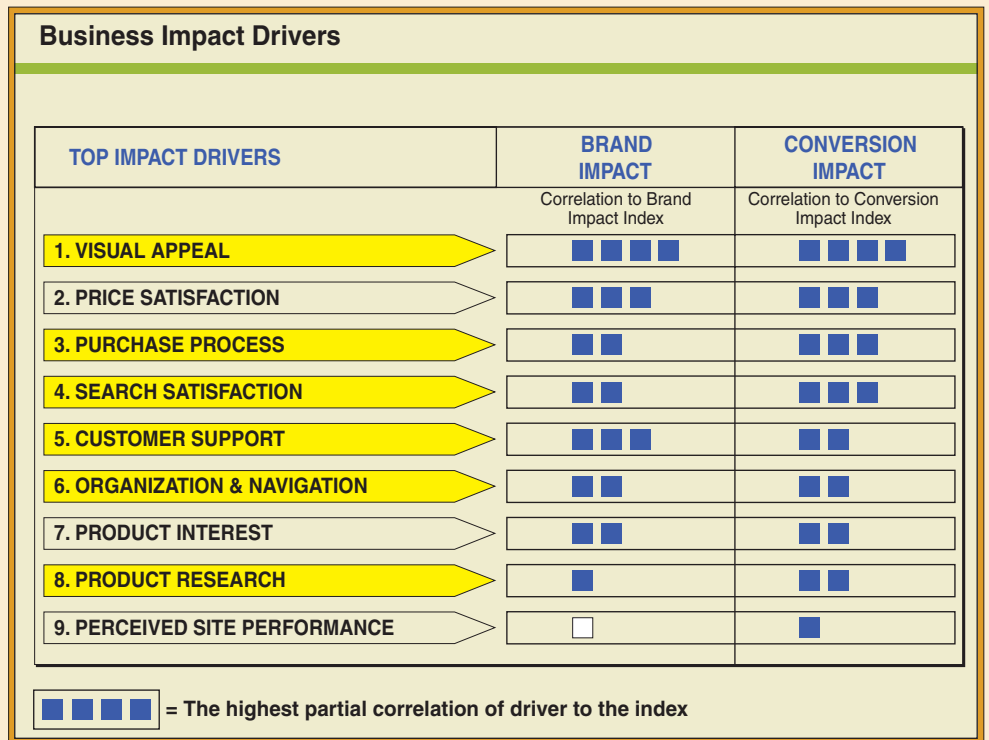


Chart B: Make it look good, make it a good buy, and make it easy – these are the things that matter most to the retail electronics consumer.

LOOKING AHEAD: THE ELECTRONIC STORE-FRONT OF THE FUTURE

Vik Chaudhary, Keynote vice president of product management and corporate development, characterizes the current field of online electronics retailers in terms of their market value, observing that the pure-play Internet companies such as Amazon enjoy a price-earnings ratio that is a multiple of ten to twelve times that of the bricks-and-clicks companies. Eventually, he says, this trend will level out, but it will take five to ten years.

“I believe that the number one success factor is going to be the ability for the big brands to seamlessly integrate these two channels, the brick-and-mortar stores and the online stores,” Chaudhary says.

He points to Giorgio Armani as an example of successful integration of actual

and virtual stores. “Giorgio Armani had one criteria,” Chaudhary observes, “that when a user walked through the Internet site, it should look and feel exactly like the Giorgio Armani headquarters store in Milan.

“Ten years from now, the number one success factor is going to be the ability to create an experience that is very much like you’re walking through a mall, walking through a store, looking at items in three-dimensional ways, talking to a virtual sales person who is standing right next to you, being able to ask questions about the products.”

It’s a tall order, as Chaudhary points out. “This is a multi-dimensional experience that is very, very difficult for Internet companies today to even fathom. But new technologies are making it possible to build



these kinds of interactions. And ten years from now, it'll all be just passé."

It's an exciting prospect. But even with all of the latest technology, will that virtual salesperson be able to finally give a definitive answer to the question on every electronic consumer's mind: LCD or plasma?

We'll keep you posted.

LESSONS LEARNED: BEST PRACTICES

The features and functionality that make a consumer electronics site successful are a good guide for any kind of consumer retail site. Here's what you can do to make your site effective and optimize the customer experience:

- Make the information prospects need to make a purchase decision readily available, particularly shipping costs and consumer reviews.
- Give consumers the ability to compare items side-by-side.
- Show products off with the best possible photography.
- Use color strategically to organize the page elements.
- Offer multiple search filters.
- Offer multiple customer support channels, and display support information prominently.
- If you have a brick-and-mortar store, give customers the option to pick up their purchase there, and return it if necessary.
- Oh, and offer the lowest price!

FOOTNOTES

1. U.S. Census Bureau News, "Quarterly Retail E-Commerce Sales 2nd Quarter 2007," U.S. Department of Commerce, August 2007
2. Forrester Research, Inc., Cambridge, MA, "US eCommerce: 2005 to 2010," September 2005
3. Internet Retailer, September 2007, "Follow the Leader," p. 41
4. *ibid*