

# PRESS RELEASE

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## E-retail: the next generation

### Online retail evolves as new factors for success emerge

It is now more important than ever for retailers to drive customer traffic to their websites and to keep it coming back, says a new report produced by Verdict for the leading online marketing services company, Webloyalty. But unlike the past, high traffic isn't just about generating sales – it's now also about driving lucrative, incremental revenue streams.

### A lesson in history

The Verdict report shows that ten short years ago the e-retail market was insignificant: worth just £177m and accounting for only 0.1% of all retail spend. From these humble beginnings, e-retail has grown dramatically by over 7,700% and, this year, shoppers will spend more than £13.8bn online – over 5% of total retail expenditure.

Verdict believes that as the internet has grown the online retail business model has changed in a number of very critical ways and that this has continually remapped the online competitive landscape, ultimately determining the fortunes of the various players.

"When e-retail first started, it was a race for sales and market share – especially among the newly formed internet companies" says Saunders. "Essentially it was a landgrab – most retailers weren't too concerned about profitability, that was always something to aim for tomorrow, what they wanted was to sell and to take share away from physical players."

With the bursting of the dot com bubble in the early 2000s this model proved to be unsustainable and the focus switched away from attaining market share to making operations profitable. This focus has continued to this day, but Verdict argues that the online model is now changing again in a way that will reshape the competitive landscape for the next five or so years.

### A new model emerges

Although the quest for profitability will continue, Verdict suggests the way in which this will be attained is beginning to shift.

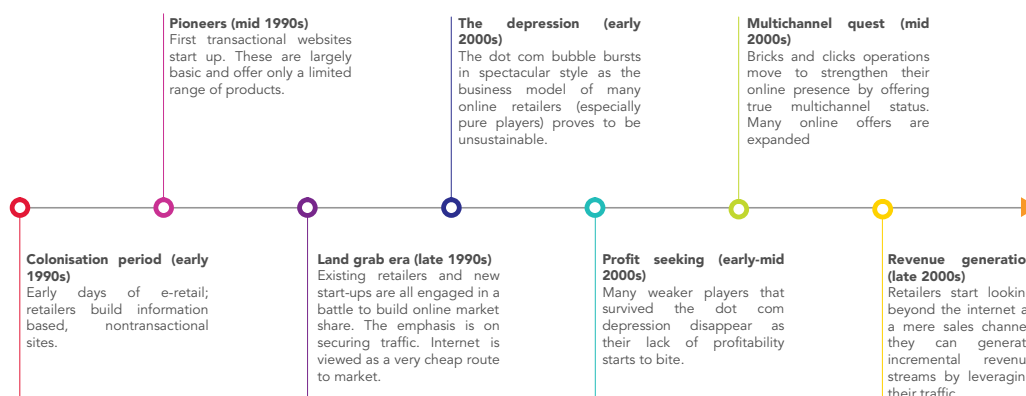
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The report highlights the fact that over the past few years, a lot of effort has been put into streamlining operations, making the supply chain more cost effective and improving the credibility of web offers. However, there is a limit beyond which it becomes increasingly difficult to reduce costs; and when that limit is reached the only way to greater profits is to start growing the top line – to grow sales.

Verdict stresses that sales cannot be grown blindly, and that the key lies in maximising traffic to sites by both attracting and keeping shoppers. With over 31m UK consumers currently shopping online, the key priority for e-retailers is to have much closer relationships with the customers they serve to try and secure their loyalty. This is for two reasons.

- Now that most e-retailers have got the technical and logistical sides of their operations in order, the priority is to attract more customers and to increase the average transaction values of existing customers; both things that will grow sales and profitability. In a market that offers extensive choice and facilitates easy comparison between companies, the only way to do this is to understand customers a lot better and then to consistently deliver on their requirements.
- A large base of regular customer traffic can also be used to generate lucrative incremental revenue streams for online players. It is in this regard that Verdict believes retailers can make money without actually selling any products.



The evolution of internet shopping

Source: Verdict Analysis  
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## The concept of monetisation

Verdict's analysis shows that online retailers have a lot to learn from offline operations in regards to using customer traffic to generate money.

Offline retailers are sophisticated at utilising space in their stores to generate incremental revenue: grocery retailers, for example, will charge brand owners a premium to have their products displayed in 'hotspots' such as at the end of aisles. This concept of charging another company to promote something to consumers is a model that can be applied to internet sites with strong traffic.

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The Verdict report suggests using web traffic to generate incremental revenue for retailers – a concept commonly known as ‘monetisation’ – is an area which retailers are beginning to explore. Going forward, Verdict believes that monetising retail websites will provide an important additional stream of revenue for retailers. Indeed, Verdict’s analysis shows that in 2007 the potential value of the monetisation of retail websites from schemes such as Webloyalty’s\*, could be worth up to £129.97m; and, as e-retail continues to grow this figure will only increase: potentially up to £817.5m by 2011.

In comparison to overall online retail spend this figure is small – but the costs associated with generating this revenue are actually very low making it a lucrative revenue stream.

### **The bottom line**

Verdict believes that the main lesson retailers will learn over the next few years is that online retailing is becoming more sophisticated. As the online channel starts to mature and the battle between larger retailers heats up, the e-business model will begin to one focused on deepening the relationship with consumers and using the web in a more creative way than as a mere sales channel.

\* Webloyalty is an example of a monetisation programme. The company offers consumers membership of a ‘shopper discounts and rewards’ club. This enables them to receive ongoing discounts of up to 40% from over 400 online retailers; they also receive a suite of additional benefits such as delivery insurance, free extended warranties and best price guarantees. Shoppers pay £8 per month to be a member of the Webloyalty programme and this is where the company makes its revenue. The programme is promoted to consumers on retailers’ websites via a link from a post-transactional page. Once they have completed their purchase shoppers are offered a free 30 day trial of the programme and an incentive in the form of money off their next purchase from the same retailer. Webloyalty fund the money off discount and also pay retailers a fee based on the number of shoppers who view the offer and the number who subsequently join.

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Neil Saunders, author of the research is available for comment. To arrange an interview or for further information about the report, "e-Retail 2007," contact the Verdict press office:

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#### About Webloyalty:

Webloyalty is a leading provider of online marketing services. In the US, Webloyalty.com has more than two million subscribers, benefiting from reward, discount and protection programmes, including Shopper Discounts and Rewards and Reservation Rewards, an entertainment and travel programme with discounts off top attractions and dining. Webloyalty's US clients – over 140 e-commerce and e-travel businesses – benefit from increased revenue and repeat purchases. Founded in 1999, Webloyalty was recently named the 12th fastest-growing technology company in North America by the Deloitte and Touche "Technology Fast 500" award programme. Webloyalty.com was also named in the AlwaysOn Media list of the Top 100 Private Companies.

#### About Verdict:

Verdict Research is the leading authority on retailing. The firm has privileged access, at the highest level, to key executives working within the top 200 retailers. Its research and publications provide executives working in a wide range of business sectors - retailing, manufacturing, advertising, marketing, professional services, property, finance and the media - with unrivalled independent analysis of the retail sectors, key trends driving each, insight into the major players and forecasts. Verdict Research ([www.verdict.co.uk](http://www.verdict.co.uk)), is a wholly owned subsidiary of Datamonitor plc (DTM.L)

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