UNITED KINGDOM

ONLINE RETAILING
SERIES

At the online retailing forefront
Sizes, players, opportunities and threats

ResearchFARM
RETAIL ANALYSTS

FEBRUARY 2011

THE KEY QUESTIONS

Retailers

Once again Tesco is at the cutting edge of innovation and its app development really stands out. But what exactly is Tesco's app hatt-trick? And how does the retailer use club card to its advantage in the online arena - apart from the obvious points awarded for online purchases?

The two most interesting online players in clothing are undoubtedly Asos and Next. In what ways is Asos ahead of Next, and where is it lagging? Who will will win the internationalisation race? Asos? Or Next with new initiatives such as the Sears tie up?

What is Asda's online strategy? How big are George's online sales? How does the retailer utilise its transparency drive online and navigate pitfalls from negative feedback for example?

How does Argos manage the transition from kiosks to m-commerce? Does the internet cannibalise sales from the store estate? How successful is Argos' push into m-commerce?

Why did CDiscount fail to take off in the UK?

What is Boots aim behind launching treat street? Partnering with Asos to offer click & collect solutions is an obvious win-win scenario for both parties, driving footfall into Boots' store estate and the retailer thereby gaining top up shopping and impulse buys, but what specific benefits does treat street offer?

What is Amazon's biggest sales generator? The eco system (kindle)? The loyalty programme (prime)? The utilisation of NSM (customer ratings and peer reviews)? The nudges (recommendations based on past shopping behaviour)? The marketplace function (guaranteeing best prices by offering second hand prices and offers from independents)?

Viewed from a business perspective are partnering and fulfilment services more promising for Amazon going forward, where the pureplay helps bricks and mortar retailers to set up their online businesses? And what exactly is the future for prime now that the pureplay has moved to free deliveries in the UK?

Structural Issues

Will click & collect remain the fastest growing fulfilment option? How will delivery slots and the battle for free deliveries affect and shape loyalty and indeed the sector?

How have the UK's mail order operators reacted to the online game changer? After slowly getting it right in managing the migration from catalogue to online, where next? Who is Littlewoods next target?

How big is the m-commerce opportunity, what percentage of sales do the UK's best online retailers derive from smartphones? (None of them are near Japanese levels yet, it has to be said)

Why are the grocers so successful with online grocery in the UK? What will happen to Ocado?

UK Outlook

What is the growth outlook for online retailing in the UK, especially in light of macroeconomic headwinds? What effects will the VAT rise, spending cuts, rising unemployment, a sluggish housing market and galloping inflation (as a decision has been made to weaken purchasing power to the benefit of reducing the debt burden) have on online retailing?

What are the growth avenues available to UK players now that growth rates are slowing? What must retailers do to target an ageing population profile?

Why do UK operators have a clear advantage over their European peers and rivals when it comes to internationalising their online operations?

OVERVIEW

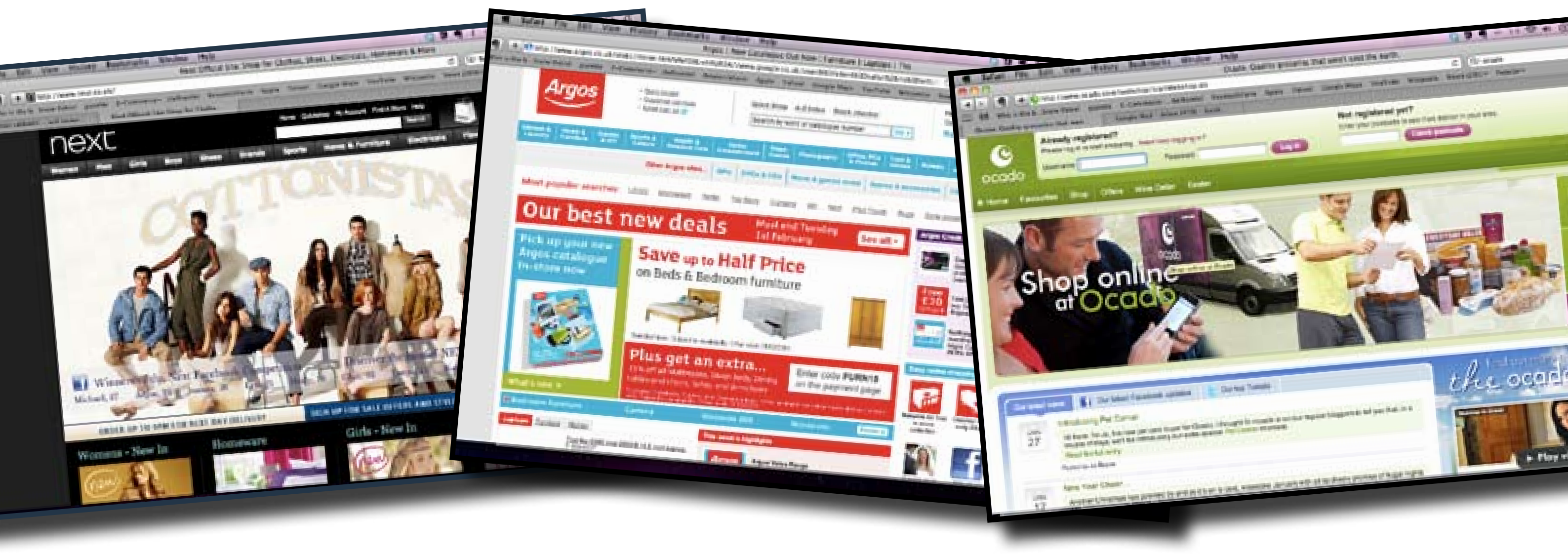
We believe that throughout 2011 Amazon will pip Tesco to the post of biggest UK online retailer ranked by sales (for both food and nonfood combined). Indeed Tesco has a real battle on its hands. An invigorated Asda (in online grocery at least) will challenge Tesco at the same time as Sainsbury's and Ocado are delivering strong online growth. With Waitrose stepping up and uncertainty surrounding both Morrison and M&S in terms of online grocery strategy and possible market entries, one thing seems clear, Tesco will feel the competitive heat in online grocery in 2011.

Amazon's move into groceries (an offer probably aimed more at the wholesale sector for now), does not help either, but more significantly the pureplay continues to raise the competitive bar and continues to set new standards in online retailing. We predict that free deliveries as offered by Amazon will become the new normal in UK online retailing in future, in the same manner as other features the global champion pioneered such as marketplace or prime will continue to be replicated by others (Asos, Ocado). Apart from installing click & collect in some of its store estate Tesco has not come up with a compelling answer to the challenge of free deliveries yet.

Making matter worse for Tesco is the defection of high flyer Laura Wade Gery to M&S. Currently M&S only achieves online sales of around £400m, but the retailer has set a target of doubling this over coming years. We believe that M&S will achieve this and more with the skill set and know how of the new management.

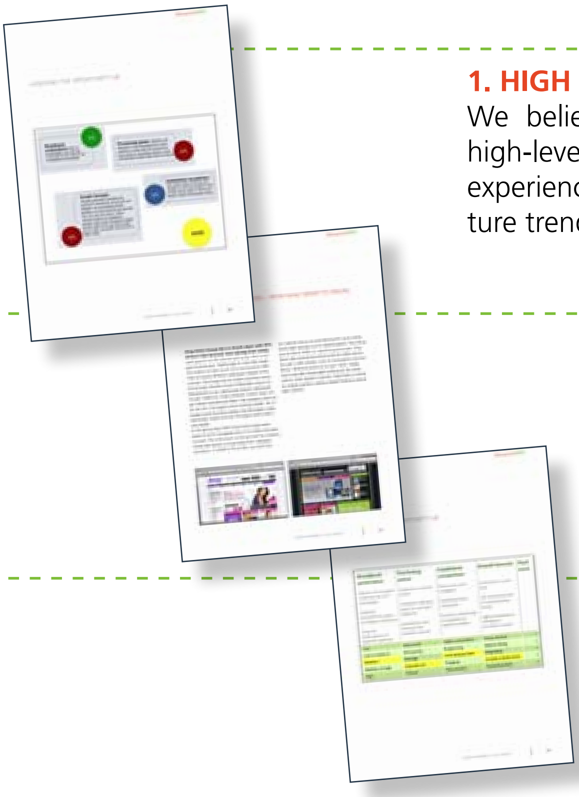
That said, it's not all doom and gloom for Britain's biggest retailer. Tesco can still wield its supreme loyalty tool, the club card, to its advantage and has also set the ball rolling in m-commerce. Indeed we believe Tesco has scored an app hat-trick. In terms of functionality Tesco's app suite and offer remains unrivalled in the UK with no other multichannel retailer anywhere near the standards set by Tesco.

As the sector is clearly in upheaval, Researchfarm assesses the UK online market by looking at the leading players ranked by sales fulfilled online and what tactics and strategies they use to drive online footfall and generate online loyalty.



METHODOLOGY

WE FOCUS ON DELIVERING ADDED VALUE THROUGH OUR REPORTS:



1. HIGH LEVEL ANALYSIS
We believe that delivering value means combining high-level analysis with real hands on, on-the-ground experience. We deliver premium insights, outlining future trends and opportunities.

2. ACTIONABLE RECOMMENDATIONS
Our reports provide you with recommendations for each chapter to help your strategic decisions.

3. BEST PRACTICES
Every chapter features a case example and is illustrated with high quality pictures.

TESTIMONIAL

"On DLF's (Danish Association of Fast Moving Consumer Goods Manufacturers) New Years Conference on the 20th of January 2011 we had the great pleasure to hear ResearchFarm speak about future trends in online grocery retailing. The feed back from the conference participants was very positive as they gave ResearchFarm's presentation the highest score of all speakers, finding the analysis about the key success factors of chosen EU and US online retailers both very interesting and inspiring. We can therefore give ResearchFarm our best recommendation."

Dagligvareleverandørerne
Danish Association of Fast Moving Consumer Goods Manufacturers

ABOUT RESEARCHFARM

ResearchFarm is a start up boutique focused on strategic insight and innovative topics and trends in the FMCG/retail space. A key word for us is innovation. We try to unearth what works and what doesn't and tell our audience about it. For us the client comes first, as such we are focused on the story to tell, sharing insight and analysis, not on getting our names in the media – though we will engage in this as well occasionally.

BENEFITS

Researchfarm strives to deliver a starting point for constructive discussions and provide clear solutions and direction.

Our in depth observations of fundamental changes combined with our strategic insights into the sector and our entrepreneurial thinking provide unrivalled, actionable and meaningful solutions.

Our recommendations will enable you to formulate new strategies, head for the right milestones, drive future growth and set the right incentives.

THIS REPORT WILL ALLOWS YOU TO...

- **Improve decision making quality**
- **Set strategic objectives** based on clear actionable insights
- **Drive your business forward** by making the right decisions at the right time
- **Benchmark** by comparing your KPIs with those of the outstanding players profiled in the report and shows best in class execution.
- **Identify** pitfalls and highlights opportunities with market an sector sizes to target the growing niche about to become mainstream.
- **Learn** from established players as key drivers for success and the points of difference in operating are clearly laid out, these can be incorporated into your own model, shows how to best communicate with the shopper.
- **Understand** the competition and what the future will bring.

OUR CLIENTS

kraft foods, Google, Carrefour, Kellogg's, colruytgroup, Energizer, Groupe Casino, Nestlé, MARS, HSBC The world's local bank, Carlsberg Group, Red Bull, L'ORÉAL, PHILIPS, Coca-Cola, METRO

WHO SHOULD BUY THIS REPORT ?

- Retailers (strategic insight/market research, buyers, online operation departments)
- Logistics providers
- Property companies
- FMCG players
- Financial services industry
- Telecoms and IT services providers

SAMPLE PAGES

ResearchFARM

THE TOP 10: UK, TESCO – APP HAT-TRICK AND CLUBCARD

Tesco's fulfillment model is based on store staff picking orders from the nearest store. The retailer also operates three dark stores or dot-com-only stores. The first two stores have opened in Croydon, Surrey, and Aylesford, Kent, and the third opened in 2010 in Greenford, Middlesex. The dot-com-only stores are laid out in the same manner as a normal Tesco store and are run by store staff. There are no tills however and the building is not open to customers. Consequently the sales density is much higher than a normal store, as pickers are more efficient than customers. Weekly sales at the Croydon site were well over £1m per week in 2008/09 already.

In 2011 the retailer started to really promote its transactional app, by showcasing its functionality in TV ads. The grocery app (available for Android, iPhone and Nokia) features all the must haves such as stored shopping lists, synchronisation of shopping baskets across PC and smartphones, a barcode scanner to scan products at home (or in store) that are then loaded straight into the online basket to be delivered next time round or acting as a reminder for the physical shop.

Indeed Tesco has completed the app hat-trick. The two other apps available are the clubcard, stored digitally on the smartphone and readable at the check out (it also lets customers check their points balance) and the store finder that also allows for instore navigation and SKU level search.

ResearchFA

TOTAL RETAIL AND ONLINE RETAIL SPEND 2005-2010 (€M)
ONLINE STORMING AHEAD

Sizes, historic evolution, segments,

In 2010 retailing achieved lacklustre growth of 2.4% in £ terms, while online outperformed with growth of 12% in £ terms. Online growth has been impressive and the channel has grown right through the recession with 16.3% in € terms in 2010, clearly outpacing general retail. Online now accounts for 8.2% of total retail.

We would want to add a cautionary note though, concerning the British £. As the currency gets competitively devalued to make the country's exports more competitive and drive relative productivity costs down it becomes increasingly harder to extrapolate trends from straightforward comparisons across boundaries, as such the UK figures have to be taken with a pinch of salt. The devaluation of the £ also means importing a lot of inflation, as most goods retailed in the country come from overseas, especially from Asia.

In many ways the UK online retail market serves as a model for the development of the other EU markets. Scandinavia apart – the UK clearly leads in terms of household spend on the internet. Similarly, UK players have been quick to release transactional apps to milk the smartphone revolution that is gripping the country and have been at the forefront of this development in the EU, with every major player offering apps for the iPhone as well as for devices running on Android.

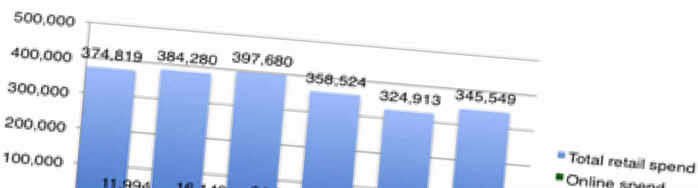


TABLE OF CONTENTS

HOW TO ORDER

PRICE

This report is priced **GBP 790** (46 pages, delivered as a PDF file).

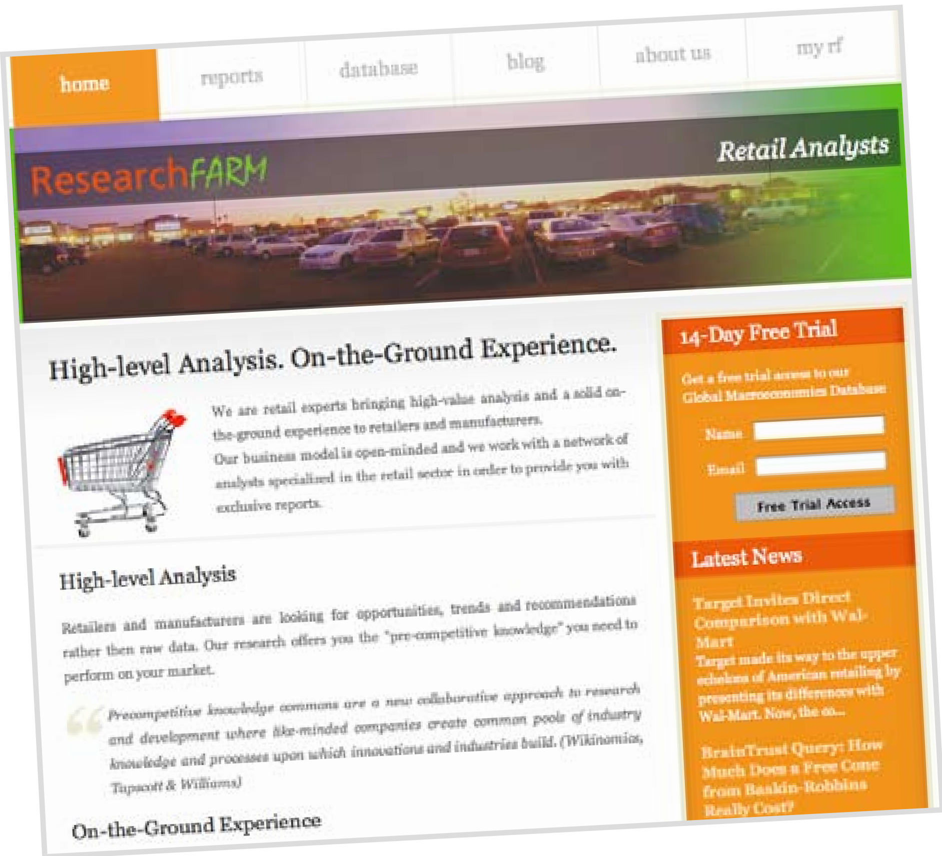
BUY ONLINE

To order your report, please go to www.ResearchFarm.co.uk

<u>Payment modes offered :</u>

- **By bank transfer**
  When checking out, please check 'invoice' as payment mode. We then send you an invoice.

- **By credit / debit card**
  Secure payment via Paypal.



CONTACT

ResearchFarm Ltd
Suite 12154 - 2nd Floor
145-157 St. John Street
London EC1V 4PY (UK)

Phone +44 (0)20 3286 9801
Email sales@researchfarm.co.uk
Web **www.researchfarm.co.uk**