



Consumer Online Sales

A survey of merchandise and service categories on the Internet.

In the last issue of the *Research Quarterly* (Winter 1998/99, Vol. 5, No. 4), an article entitled “The New Cottage Industry—Forecasting Internet Retail Sales” presented a variety of consumer Internet sales projections from private sources. The most important objective of that article was to demonstrate that the projections themselves are somewhat meaningless unless the reader takes the care and time to examine how they are produced and what goods and services they include. In short, the focus needs to be on the details rather than on the headlines, since that is where the only really useful information lies.

This follow-up article takes a closer look at one of those details: the various products and services that currently make up the bulk of Internet sales and the products and services that some researchers predict will dominate online sales in future years. Since shopping centers have traditionally been much more dependent on certain kinds of merchandise and services, it is important to know what kinds of merchandise and services sold over the Internet are traditionally shopping center-based. Of those that are shopping center-based, what is the likely impact of online sales?

ICSC emphasizes that category-specific projections of online sales vary widely and large uncertainties are inherent in the calculations. The fact is that, despite the confidence with which forecasters present their various conclusions, *no one really knows*. However, it is still a useful exercise to look at the existing projections—imperfect as they are—and use them to isolate common characteristics of items expected to do well online, and items not expected to do as well.

CONSUMER ONLINE SPENDING IN 1998

Virtually all companies that made 1998 Internet sales projections prior to the fourth quarter have subsequently revised their initial estimates upward. Most of them cited unexpected online sales strength during the holiday season as the cause of their respective revisions. Table 1 lists a sampling of the initial and revised estimates.

Table 1

CONSUMER ONLINE SALES ESTIMATES 1998			
Source	First Estimate (\$billions)	Revised Estimate (\$billions)	Difference (Percent)
Boston Consulting Group	N/A	13.0	N/A
Forrester Research	4.8	7.8	62.5%
Cyber Dialogue	7.4	11.0	48.6%
International Data Corp.	9.3	12.4	33.3%
Jupiter Communications	5.8	7.1	22.4%
Yankee Group	7.2	11.5	59.7%
Average	6.9	10.0	45.3%

Source: *The Industry Standard*

Table 1 shows that despite large revisions by each company, the final estimates still have a dispersion of \$5.9 billion between the lowest and highest. This is partly because of inaccuracies on the part of some or all of the estimates, and partly because there are no rules governing which expenditure items are included and which are not. For example, the Boston Consulting Group estimate includes things like online discount brokerage fees, customer membership fees and a variety of other categories that are not retail items and may or may not be included in the estimates of other companies. The Boston Consulting Group number also includes automobiles, another category of little relevance to shopping centers. (The brokerage fees and automobiles may have accounted for as much as a few billion dollars.¹)

The main point to take from this is that consumer online sales are not synonymous with online *retail* sales. Consequently, when the U.S. Commerce Department begins to report Internet retail sales as a separate category in its Annual Retail Trade Survey for 1999 (due out in 2000), there is likely to be a significant difference between its figures and the projections from private sources. Specifically, the Commerce Department’s numbers may be markedly lower.

¹ Online article at www.emarketer.com, 23 November 1998.



Figure 1

CONSUMER ONLINE SPENDING BY CATEGORY

In terms of actual dollar expenditures, computer products (hardware and software) and travel services dominated consumer online spending in 1998, collectively accounting for almost 70% of sales. Books accounted for perhaps another 13%, leaving a number of other merchandise and service categories to divvy up the remaining fraction. (See Figure 1.)

A study released in January 1999 by Ernst & Young (E&Y) indicated that computer products and books were easily the most popular categories in 1998, measured by the percentages of online shoppers that purchased these items. (See Figure 2.) Travel ranked a relatively low seventh on E&Y's list, behind several categories—apparel, music, so-called “gifts” and consumer electronics—that were much less important than travel in terms of total dollar spending. Expenditures per purchase and/or expenditures per shopper were, therefore, presumably much higher for travel than for these other categories.

Online sales forecasters have projected some significant shifts in the relative importance of various expenditure categories in the next few years. These shifts are examined below, as each major category is looked at in turn.

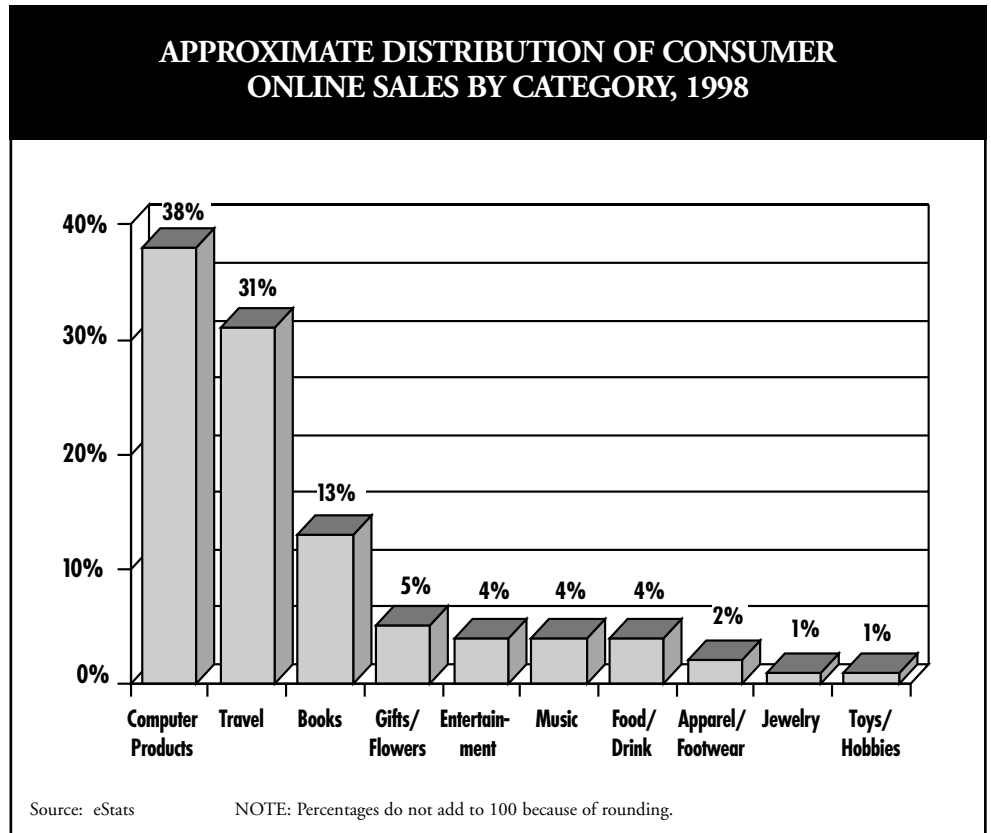


Figure 2





Computer Products

Computer products—hardware and software—got off to a fast start on the Internet, for a number of reasons:

- The nature of the product itself—you don't have to touch or feel it, but you do have to research it carefully for technical performance and price. The Internet provides a good medium for doing both.
- Mail order hardware sales were popularized well before the emergence of the Internet (witness Dell and Gateway), so the Internet merely provides a superior research and transactional medium for a system that was already in place.
- Favorable online consumer demographics: According to a survey conducted last June by Nielsen Media Research and CommerceNet, 71% of Internet purchasers were men, the gender traditionally associated with computing professions. The study noted that computer hardware and software ranked first and third, respectively, of items purchased by men on the Internet. Meanwhile, computer

software ranked fourth among online purchases for women and hardware failed to make it into the top five.

It is hardly surprising, then, that computer products probably capture more than one-third of consumer online revenues. There is no reason why revenues would not continue to grow in this category, particularly as the Internet offers some convenient innovations, such as enabling the consumer to build a customized machine online, component by component. It is difficult to see how software sales would not also thrive, given its ease of online distribution.

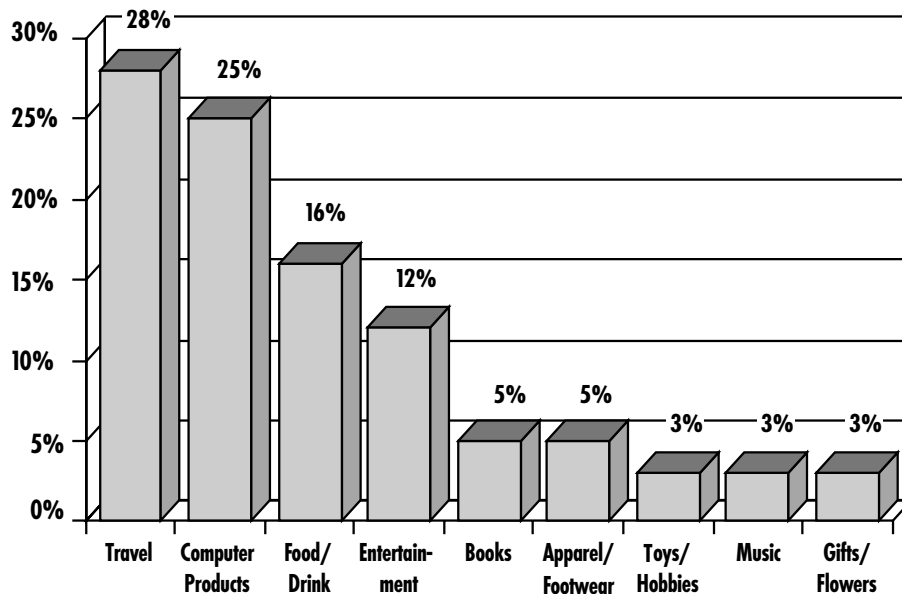
Travel Services

Travel services is believed to be the fastest-growing segment of consumer online sales. Travel and computer products are similar in the sense that they are both research-intensive categories, thus lending themselves strongly to the Internet medium.

Airline tickets currently account for the bulk of online sales in the travel category but car rentals, hotel bookings and tour bookings are also included. Thus, without

Figure 3

**PROJECTED MAJOR ONLINE EXPENDITURE CATEGORIES BY 2002
(PERCENT DISTRIBUTION OF TOTAL ONLINE SALES)**



Source: ICSC estimates based on online sales projections by Jupiter Communications and eMarketer.



depending on an intermediary over the telephone or at the booking counter, a customer can theoretically do integrated trip planning and booking online, including systematically comparing routes and prices, looking at photographs of alternative destinations, accessing mapping services and weather information, and, finally, booking the air ticket, the car rental and the hotel room.

Travel providers—particularly airlines—have been quick to embrace the Internet because of its potential for cutting administrative costs associated with taking and processing reservations. One major airline went so far as to levy a fee of \$2 per round-trip ticket for bookings *not* made on the Internet. Pressure from travel agents subsequently caused the airline to withdraw the fee.

Surveys indicate that the number of people visiting travel-related sites is growing quickly and that travel is already the second-highest consumer online revenue earner after computer products, with a little less than one-third of all sales. (See Figure 1.) Many forecasters agree that this category will rank number one for online revenues within

the next couple of years, pushing computer products into second place. (See Figure 3.)

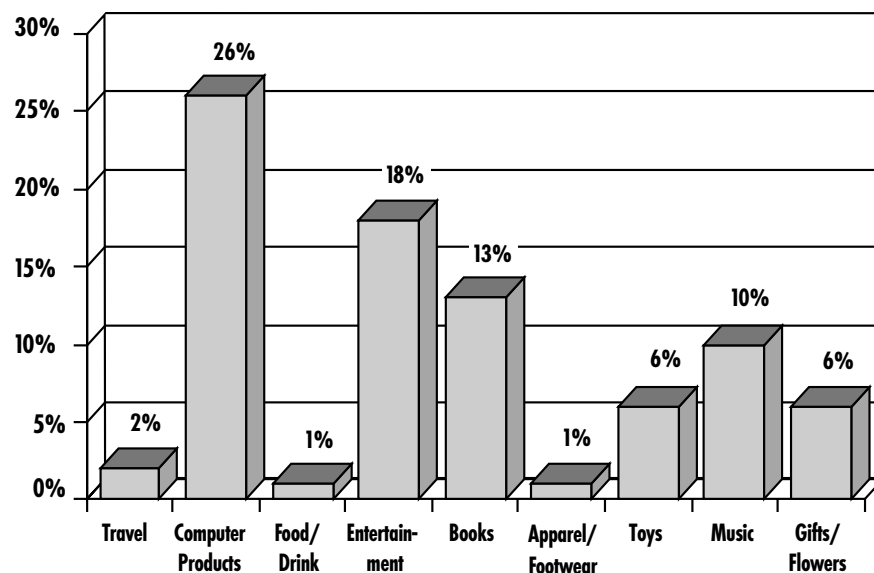
Books

Books is another category that got off to a fast start in the online shopping medium. Shoppers found that they could purchase books from a vastly wider range of titles, read reviews and obtain other valuable information about the books and authors prior to purchase. Research and purchasing could be done 24 hours a day, seven days a week.

However, gratification is postponed unless the consumer goes to a conventional bookstore to make his/her purchase after using the Internet to do the research. This appears to happen in many cases. Also, there is a strong social and recreational component to in-store book buying that is likely to limit the growth of Internet sales beyond a certain point. That point has almost certainly not been reached, and online book sales may continue to grow as a percentage of the overall book market—perhaps accounting for close to 10% of total book sales in 2002. (See Figure 4.)

Figure 4

PROJECTED ONLINE SALES AS A PERCENT OF TOTAL INDUSTRY SEGMENT SALES, 2002



Source: ICSC estimates based on online sales projections by Jupiter Communications and eMarketer. Estimates for industry segment totals were obtained by assuming 4% average annual growth in current sales.



Gifts/Flowers

In terms of revenues, this category is dominated by electronic greeting cards and flowers, with miscellaneous gift items like chocolates, small picture frames, candles and teddy bears also included. It is likely that a significant fraction of Internet orders for flowers represents migration from telephone sales. Gifts/Flowers currently earn about 5% of all consumer online sales, and forecasters expect this category to experience strong sales growth.

Entertainment

This category includes purchase of tickets for things like concerts and sporting events, as well as online games, “adult entertainment,” videos and gambling. This is projected to be the fourth-largest category for consumer online revenues within a few years, behind travel services, computer products and food/drink. (See Figure 3.)

One of the principal drivers of online sales in this category is pornography. The estimate shown in Figure 1 for entertainment’s share of online sales in 1998 is conservative, according to some estimates. Some believe that sales of “e-porn” alone were closer to a billion dollars.²

Music

Music is among the most popular online retail items, although it ranks probably only sixth among all consumer online categories. Like videos, music is currently purchased and shipped in the conventional CD or cassette format—its full potential in terms of sales revenues will not be realized until it is distributed directly to the consumer over the Internet, like software. Major music labels have so far opposed digital distribution, claiming piracy concerns, but they are unlikely to hold out in the long term, particularly with technological developments that are already enhancing the deliverability and security of music transmission over the Internet.

Like books, there is a social and recreational aspect to music buying that the Internet fails to provide, which is likely to act as a partial restraint to online sales growth.

Still, despite the relatively small overall size of the recorded music market, online music sales may sustain enough growth to claim a steady 3% to 4% share of total online revenues over the next few years.

Food/Drink

Items in this category probably fetched less than \$200 million online in 1998—less than 5% of total online sales for the year. Although this is projected to change, forecasters are at odds about the magnitude of the increase and some believe that progress will be slow. Given the logistical problems involved with efficient, cost-effective and timely delivery of groceries—especially perishable and frozen goods—the cautious outlook is not surprising.

Some researchers have concluded that—despite the inconvenience and time-consuming nature of grocery shopping that many consumers would rather forgo each week—full-line grocers (exemplified by companies such as Peapod) will continue to struggle to overcome the logistical problems and find a profitable business model. So far, they have relied on sending employees into stores to fill their customers’ shopping carts, and then operating their own delivery services to get the groceries to customers’ door steps. Most households cannot afford to foot the bill for these services.

In the near term, specialty/gourmet food retailers are expected to have better luck because they can provide convenience to shoppers without having to be as unerring in the punctuality of delivery. Consequently, much of the growth in online food/drink sales may come from this latter group of retailers. Some forecasters believe this growth may be sufficient for category sales to reach about 15% of all consumer online sales within a few years, although that would still represent only about 2% of the total food/drink market. (See Figure 4.)

Apparel and Footwear

This category is of vital concern to shopping center operators. Despite the success of catalog retailing, researchers have not typically given apparel a high ranking in their sales forecasts. This is probably because of the difficulty that

² Online article at www.emarketer.com, 5 March 1999.



online retailers have in convincing most consumers that it is not necessary to touch garments and try them on prior to purchase. Online sales estimates for 1998 were widely dispersed, but few of them exceeded \$150 million, or 1% to 2% of the total apparel market. Forecasters have predicted steady but unstellar growth in the online segment, with an emphasis on commodity-type, rather than fashion-oriented, items. However, technological innovations that provide the online browser with an improved qualitative perception of garments could alter expectations.

Jewelry

Jewelry has been a successful sales category for TV shopping channels and should see some growth through the online medium as well. However, compared with categories like travel and entertainment, it is likely to be a minnow in the long run. This is a relatively expensive item that consumers usually want to see firsthand and take away with them from the point of purchase.

Toys and Hobbies

The toys and hobbies category should, like jewelry, experience substantial growth but still remain relatively small in the overall scheme of things—perhaps claiming about 3% of the consumer online market in 2002 and about 6% of the total market for the toy and hobby segment.

CONCLUSIONS

Although the available data are conflicting and forecasts are subject to many unknowns, there are several important things that can be learned:

1. Forecasters disagree not only about the future growth of online sales categories but also about the past. This is partly because of measurement error and partly because different researchers are measuring different things—i.e., some include items that others do not.

2. There is a significant difference between consumer online sales and online retail sales. Two of the leading consumer online categories, accounting for about one-third of online sales in 1998—travel and entertainment—are not, for the most part, retail categories and are certainly not the “meat and potatoes” of shopping centers, to the extent that they are usually available in shopping centers at all. The reader needs to take that into account and factor them out of total sales projections. The reader also needs to be aware of items such as brokerage fees, which are often included in the sales projections.
3. The Internet is a good medium for research and comparison shopping. Consequently, research-intensive categories such as travel and computer goods are more likely to thrive on the Internet. On the other hand, categories that have a larger social and/or tactile component—such as fashion-oriented apparel and home furnishings—are less likely to prosper online. Book- and music-buying also have a significant social element, which may ensure that stores maintain by far the dominant share of sales revenue in their respective segments.
4. One of the advantages of Internet shopping is convenience—the convenience of research, selection and purchasing. However, few shoppers find it convenient to wait some period of days for their purchases to arrive. This desire for rapid gratification is particularly acute when it comes to items that must be received punctually, such as perishable groceries, or relatively expensive items, such as jewelry, but it also extends to most other categories of goods.

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