



625 Avis Drive, Suite 200
Ann Arbor, MI 48108

T 734.205.2600

F 734.205.2601

www.ForeSeeResults.com

FORESEE RESULTS / FGI RESEARCH

Top 40 Online Retail Satisfaction Index:

How Satisfied are Browsers of the Top 40

E-Retail Websites, and What Does This Predict

for the Industry's Future?

Commentary by Larry Freed, ForeSee Results

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OVERVIEW

E-retail analysts and headlines often focus on revenues—whether they are up or down—and lately there has been a great deal of upward momentum. There is no question this tells us a lot about the state of the industry, as does reviewing the rate and trajectory of growth. There have typically been severe limitations to understanding what is fueling the growth, however, and that is an area in need of closer observation and analysis. That is where understanding customer satisfaction of online shoppers comes in.

Customer satisfaction, when measured scientifically using the methodology of the University of Michigan's American Customer Satisfaction Index (ACSI), has been shown to be a leading indicator of financial performance and an influencer of future customer behaviors. Where financials are backward-looking, customer satisfaction is a forward-looking measure that shows what aspects of the website experience are driving satisfaction and in turn, driving the behaviors that online retailers care about: return visits, future purchases (online or offline), recommendations and intent to make the next purchase of similar merchandise with their company.

Internet Retailer's list of the Top 40 Retailers by sales volume (as reported in the June 2005 issue) certainly shows whose online revenue was greatest last year. But it is also crucial to understand the dynamics behind the numbers. Customer satisfaction analysis of the Top 40 online retailers sheds light on questions of why, how, and whether the kinds of numbers we are seeing reflect good performance or not. We certainly see major players making significant money on the Internet, but is there even greater potential or is this a ceiling?

ForeSee Results and FGI Research joined together to create the first benchmark of browser satisfaction among the leading e-retail web sites – the Top 40 Online Retail Satisfaction Index. ForeSee Results conducted surveys of browsers of each of the Top 40 online retailers using FGI Research's SmartPanel™, a nationwide panel of approximately 1.6 million consumer households who have agreed to participate in opt-in surveys. As we do in all our research, we analyzed the results using the scientifically rigorous methodology of the American Customer Satisfaction Index (ACSI). While there are other measures of satisfaction and loyalty, most are simple beauty contests whereas the ACSI uses a sophisticated formula that isolates factors that most influence whether people are satisfied or not, and whether they are likely to be future customers or not. *Why* people are satisfied and *what* makes them satisfied is far more valuable to know than simply whether or not they *are* satisfied.

We used the ACSI methodology to shed some insight on how and why customers are behaving with respect to the top retailers. We looked specifically at browsers instead of buyers, which is the best way to get insight on the vast majority of site visitors who look at a retailer's website but do not necessarily make a purchase during that visit. Browsers may include past customers as well as visitors researching purchases, those who plan to purchase offline or from a competitor and even those who are just stopping through the website to see what's offered. Knowing why a browser does or does not purchase during the visit is one of the keys to understanding the degree to which even these top e-retailers are fulfilling their potential.



For more information about this syndicated research report, call 1-734-205-2570 or email: Top40OnlineRetailSatisfactionIndex@ForeSeeResults.com

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Our research sheds insights on the following issues of pivotal importance to retailers:

- What are the key factors that determine whether site visitors are satisfied with their online experience?
- What most influences whether people make a purchase? For example, the relative impacts of price, overall experience, and product selection are frequently areas of speculation by retailers but few really know the answer to their impact on satisfaction and, in turn, on purchase behavior.
- Does the website play a role in whether people shop offline? Does it have a negative or positive impact?
- Are current revenues of the top-40 e-retailers representative of potential being fully realized or is there a lot of money being left on the table?

Customer satisfaction offers a treasure trove of information on a retailer's target audience. And analyzing customer satisfaction can help us understand what works, what doesn't, who will do well in the future and grab tomorrow's headlines.

This report represents an overview of some of the key findings on e-retail in general, and looks at some representative companies that illustrate important points and areas of consideration.

All companies' customers are different, and there is no standardized, cookie-cutter approach to e-commerce. The days when there was a checklist of what constitutes the "best" website, business model, or e-commerce solution should be well behind us by now—and the data in our report suggest that those who have not yet learned that lesson will be doomed to under-performance. Different companies have different kinds of relationships with their customers, different kinds of pre-existing images, different sets of expectations, and so on. There is no single answer as to how to make sure you leverage what you have and be careful not to cannibalize what you don't have, especially in the multi-channel space.

This report is only a partial summary of findings. Detailed data on general findings and specific companies are available for a fee. But we hope these general findings will help e-retailers get an improved sense of how to approach their e-business development in ways that will allow them to realize their full potential—which is fundamentally determined by delivering on the things that convert browsers into buyers. It is not something that any click-stream analysis can tell you. The only way to know is to get hard data from a scientific sample of customers.



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Satisfaction Scores for the Top 40 E-Retailers

Website	Company Name	Internet Retailer Rank (Online Sales)	Browser Satisfaction Score
Netflix.com	Netflix Inc.	17	85
Amazon.com	<u>Amazon.com Inc.</u>	1	84
QVC.com	QVC Inc.	28	84
Newegg.com	Newegg.com	9	82
LLBean.com	L.L. Bean Inc.	38	82
OldNavy.com	Old Navy	21	81
TigerDirect.com	TigerDirect Inc.	32	81
Apple.com	Apple Computer Inc.	16	80
Avon.com	Avon Products Inc.	19	80
BN.com	Barnes & Noble Inc.	20	80
Williams-Sonoma.com	Williams-Sonoma Inc.	22	80
HarryandDavid.com	Bear Creek Corp.	34	80
HSN.com	HSN (Home Shopping Network)	31	79
Gap.com	Gap Inc.	21	78
Drugstore.com	Drugstore.com Inc.	27	78
EddieBauer.com	Eddie Bauer Holdings	29	78
PotteryBarn.com	Williams Sonoma (corporate)	27	77
Dell.com	Dell Inc.	2	77
HPShopping.com	Hewlett-Packard Co.	5	77
JCPenney.com	J.C. Penney Co. Inc.	11	77
Quixtar.com	Quixtar Inc.	14	77
ToysRUs.com	Toys "R" Us Inc.	23	77
OfficeDepot.com	Office Depot Inc.	3	75
Staples.com	Staples Inc.	4	75
BestBuy.com	Best Buy Co. Inc.	10	75
Walmart.com	Wal-Mart Stores Inc.	12	75
Overstock.com	Overstock.com Inc.	18	75
1800Flowers.com	<u>1-800-Flowers.com Inc.</u>	30	75
NeimanMarcus.com	Neiman Marcus Group Inc.	40	75

Website	Company Name	Internet Retailer Rank (Online Sales)	Browser Satisfaction Score
Sears.com	Sears, Roebuck and Co.	6	74
SonyStyle.com	SonyStyle.com	7	74
Target.com	Target Corp.	13	74
CircuitCity.com	Circuit City Stores Inc.	15	74
FTD.com	FTD Inc.	39	74
BananaRepublic.com	Gap Inc. (corporate)	21	73
CDW.com	CDW Corp.	8	73
Gateway.com	Gateway Inc.	24	73
Chadwicks.com	Redcats USA	25	73
Buy.com	Buy.com Inc.	33	71
CompUSA.com	CompUSA Inc.	35	71
Costco.com	Costco Wholesale Corp.	26	70
Kmart.com	Kmart Corp.	36	69
Smith + Noble, Territory Ahead, TravelSmith, etc.	Cornerstone Brands	37	n/a

KEY FINDINGS

Among the key findings are:

- **There is significant untapped opportunity to improve conversion rates by making changes to customer-identified aspects of the online shopping experience.** For the top five-scoring online retailers in satisfaction, the likelihood to purchase online is 36 percent higher than those at the bottom of the list. What defines customer satisfaction varies depending on type of company, site, previous experience with the brand and other things.
- **Among online shoppers, the Internet has not become as price-sensitive a channel as expected, and is not being driven primarily by price competition.** Logically, one might expect otherwise, considering that the Internet provides unrivaled convenience for comparing prices. While price can have a positive effect on satisfaction, loyalty, and buying behavior, it is seldom the key determinant of how satisfied a site visitor is, and never appears as the determining factor [this doesn't make sense] in whether a purchase is actually made. Consumers have a nuanced view of the online experience that many e-retailers do not have a full grasp of. Various elements of the "site experience" are the key determinant of satisfaction, loyalty, and future behaviors (like the likelihood to return, recommend, and buy)

100 percent of the time—and are as distinct from other elements of satisfaction such as product selection, and price.

- **Traditional retailers, in general, have dramatically under-utilized the opportunity to increase their sales both online and off using the web channel.** Most brick and mortar players—with the very noteworthy exception of Barnes & Noble—have a huge gap between likelihood to purchase online and offline, with customers still preferring the offline channel by a wide margin for these players. Barnes & Noble, by contrast, has an identical likelihood to purchase online or off, indicating it is maximizing the value of the web to all customers and doing an exemplary job of right-channeling. In some cases, brick and mortar retailers appear to be undermining their brand with their online presence and are under-performing in terms of how much they sell there. It is worth remembering that this report covers the top-performing retailers in terms of revenue—but even they are leaving money on the table, indicating there is far more revenue potential than the dollar figures show.
- **In general, high satisfaction scores—how happy people are with all aspects of the online experience when they visit a site—correlate directly and tightly to likelihood to return, recommend, and buy.** Getting loyalty from browsers involves several key factors, and all of these must be addressed—and each factor must be understood in terms of its relative impact in order to know what is producing loyalty. One function of loyalty is likelihood to purchase.
- **Not all of the lowest-scoring websites are undermining offline sales.** Costco and Target are exceptions to the loyalty rule in that their site satisfaction is extremely low, but their visitors’ likelihood to purchase offline is exceedingly high. For these companies, there is a significant “cross-channel satisfaction gap” that suggests their offline brands are strong enough that their websites do not undermine the purchase process—but their sites, which could be augmenting sales—are not doing so to their full potential
- **“Non-bricks and mortar dominant” multi-channel players are very strong.** When retailers think multi-channel, they usually think of companies with stores. But the top multi-channel performers, apart from Barnes & Noble, are QVC (television) and LL Bean (catalog). Both are proving to be extraordinarily good at not only retaining high levels of satisfaction in all channels, but attracting new customers who do not identify with their more traditional channel. For example, 72 percent of LL Bean’s site visitors prefer to shop online—and LL Bean’s satisfaction levels are equally high among online and offline shoppers, an indication of right channeling, whereas other multi-channel players typically have a channel gap.
- **High satisfaction scores translate to a strong web channel.** Among the top five retailers with high satisfaction scores, the likelihood to purchase online is 36 percent higher than the rest of the pack, and the difference in satisfaction is 19 percent.

- **Don't waste time and money driving people to your website if you haven't maximized the browser experience.** Some companies are doing an excellent job of driving people to their websites through promotions, price, and other factors—but then dramatically undermining their marketing efforts by delivering a poor site experience once people arrive. Simply having good promotions or price do not offset online experience issues in the minds of consumers, and can end up undermining loyalty and purchase intent. Though there is no clear category winner, satisfied customers of Internet Pure Plays are more likely to recommend than their satisfied multi-channel and manufacturer direct counterparts.

Satisfaction Scores by Channel

	Average Satisfaction for Category	Highest in Category	Lowest in Category
Internet pure play	79	Netflix.com	Buy.com
Manufacturer Direct	77	Apple.com Avon.com	Gateway.com
Multi-channel	76	QVC.com Amazon.com	Kmart.com
<i>Brick and mortar</i>	76	<i>OldNavy.com</i>	<i>Kmart.com</i>
<i>Not brick and mortar dominant</i>	77	<i>QVC.com Amazon.com</i>	<i>Gateway.com</i>

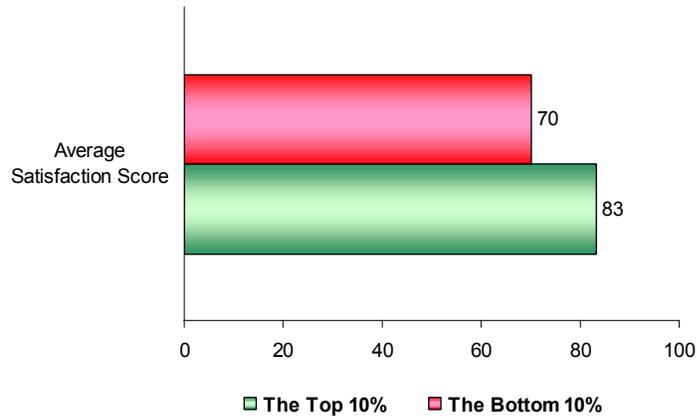
Satisfaction Scores by Category

	Average Satisfaction for Category	Highest in Category	Lowest in Category
Books / CDs / Videos / DVDs / Toys / Hobbies	81	Netflix.com	ToysRUs.com
Drug/ Health & Beauty	78	Avon.com	Quixtar.com
Apparel & Accessories	78	LLBean.com	BananaRepublic.com Chadwicks.com
Flowers / Gifts / Jewelry / Food	76	HarryandDavid.com	FTD.com
Computers / Electronics	76	Newegg.com	CompUSA.com
Mass Merchants / Office Supplies	76	Amazon.com	Kmart.com

LEADERS AND LAGGERS: ANALYSIS

Looking at the top and bottom performing companies can tell us a lot about what works and what doesn't work in the online retail world. For example, the top five performing retailers in customer satisfaction have better scores on average for likelihood to purchase next time, likelihood to return, and likelihood to recommend than the bottom five retailers. Improving customer satisfaction improves the bottom line.

The Leaders in Satisfaction versus the Laggards



The Leaders: Netflix.com, Amazon.com, QVC.com, LLBean.com, Newegg.com

The Laggards: Buy.com, CompUSA.com, Costco.com, Kmart.com

NetFlix.com

NetFlix is the cream of the crop in customer satisfaction. It created the market it dominates and it's focused on providing a positive customer experience to keep new entrant behemoth Blockbuster at bay. It doesn't have the lowest price among online DVD movie rental services, but strong customer satisfaction scores bode well for its continued success.

Netflix's strong score of 85 is 10% higher than the index average. It is the leader in Likelihood to Return scores (92) for both the Internet Pure-Play category and the Books/CDs/DVDs/Toys sector, so look for NetFlix customers to keep coming back despite efforts by new competitors to take some market share. Normally their high satisfaction scores would indicate continued loyalty, but the competitive landscape is changing rapidly, so we can't be sure.

QVC.com

A big surprise among the top five e-retailers in customer satisfaction is QVC.com. This multi-channel retailer got its start as a TV shopping network, and it has successfully translated its brand into a superb online experience. It is the one retailer that scored in the top five of every category. It was the top scorer in image and likelihood to purchase next time, and it was in the top three for recommend and for return. Part of QVC's success in customer satisfaction is that there is a strong perception of the brand from its customers, and it continues to deliver on that expectation in the online channel. QVC is the perfect example of a retailer that successfully leverages a strong offline brand by meeting and exceeding customer expectations.

Newegg.com

If Newegg strives to be the Nordstrom of online computer stores, a satisfaction score of 82 suggests they're doing a good job. Newegg has made it easy for customers to get to a live customer service

representative. A new entrant to the Top 40, Newegg demonstrates that you don't have to be first to market to set the standard. Price may be the draw to the website, but Newegg delivers, meeting and exceeding expectations. Newegg trails the top six revenue online retailers in likelihood to purchase again, so customers are comparison shopping.

LLBean.com

This storied brand has been selling its wares since 1912 and its image scores help explain why it has been around so long. LL Bean is #5 in satisfaction, keeping its customers happy without having to drop prices. Originally a catalogue company, LL Bean's success on the web has surpassed its original channel in satisfaction. It maintains the right mix of merchandise across channels and uses the web effectively as an extension of its brand.

Barnes & Noble.com

Barnes & Noble is the poster child for right-channeling. The likelihood of shoppers to purchase again offline or online is nearly identical, with scores of 82 and 83 respectively. Both scores are in the top 10%.

Costco.com

Costco built its business on having everything under the sun under one roof. Push a shopping cart through the myriad aisles of products and surprise yourself with what you'll find. That concept doesn't translate into the online world. Costco has a great image among its customers and will keep coming back, but they are 29% more likely to purchase offline. Closing this gap could translate to big revenue for Costco, but it's got its work cut out. Costco is the worst scorer among the top 40 retailers in website functionality, navigation, product information and search.

Kmart.com

Image can play a positive or negative role in customer satisfaction, and these perceptions can skew a shoppers experience before they even open up a web page. Kmart scored 69 in satisfaction, the lowest score of the top 40 e-retailers. The score is lower than the average of its other scores across the board, suggesting that a negative perception of the brand hurt its satisfaction potential. Advertising is driving browsers to the Kmart web site, but poor execution is leaving them frustrated.

CompUSA.com

Another brick and mortar retailer experiencing difficulty executing the web channel is CompUSA. Browsers don't like their online experience at CompUSA.com, and they are 18% more likely to purchase offline than on the web. This represents a huge opportunity for CompUSA to increase online revenues. For CompUSA, price seems to have a higher impact on satisfaction than other retailers, yet for Internet Pure Play retailer Newegg, price is less of a factor.



CONCLUSION

The Top 40 Online Retail Satisfaction Index identifies stand-out performers that can serve as models for improving online performance and as benchmarks for achieving high levels of customer satisfaction. By measuring satisfaction among both browsers and customers on their own websites, online retailers can fully leverage the marketing resources expended to drive traffic to their websites.

For more information about the full report, visit www.ForeSeeResults.com.

About the Author

Larry Freed is an expert on web effectiveness and web customer satisfaction. He is also President and CEO of ForeSee Results, a market leader in customer satisfaction measurement on the web, which utilizes the methodology of the American Customer Satisfaction Index (ACSI).

About the Methodology

As part of the Internet Retailer report, the Top 40 Online Retail Satisfaction Index measures the satisfaction of browsers of the top 40 online retailers by sales volume from the June 2005 Internet Retailer Top 400 guide. Data was collected through FGI Research's SmartPanel™, a nationwide panel of approximately 1.6 million consumer households who have agreed to participate in opt-in surveys.

Data was analyzed using the methodology of the University of Michigan's American Customer Satisfaction Index (ACSI), the most reliable, precise, accurate and credible way to assess customer satisfaction. Backed by more than a decade of empirical evidence quantifying the link between customer satisfaction and financial performance, the ACSI is the standard for measuring customer satisfaction and forecasting future customer behaviors. In fact, research has shown the ACSI to be predictive of corporate financial returns and stock market performance.

The ACSI is a cross-industry benchmark of customer satisfaction for 7 economic sectors, more than 35 industries and nearly 200 major companies in the United States, measuring approximately 45% of the U.S. GDP and including both online and multi-channel retail segments.

Using the ACSI methodology, ForeSee Results collected data from 11,000 respondents between March and April of 2005 who had visited the top 40 online retail sites within the last two weeks, but did not necessarily make a purchase. The questions measured overall satisfaction with the online browsing experience for companies in six retail categories representing a mix of internet-only, manufacturer-direct and multi-channel organizations. Additional questions probed into satisfaction with website elements that drive satisfaction, such as merchandise, price and site experience, as well as multi-channel purchase intent.

Satisfaction, as measured by the ACSI, is rated on a 100-point scale.



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About ForeSee Results

ForeSee Results is the market leader in online customer satisfaction management and specializes in converting satisfaction data into user-driven web development strategies. Using the methodology of the University of Michigan's American Customer Satisfaction Index (ACSI), ForeSee Results has created a model that scientifically quantifies the elements that drive online customer satisfaction and predicts future behaviors, including the likelihood to purchase online or offline, return to the site or recommend the site to others. ForeSee Results, a privately held company located in Ann Arbor, Michigan and can be found online at www.ForeSeeResults.com.

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