

The 2006 Online Holiday Shopping Season: Winners and Losers

December 27, 2006

By Larry Freed, President and CEO of ForeSee Results

Twice a year, ForeSee Results assesses customer satisfaction with the top 40 retail websites (as measured by sales volume). We do it once in June and once in December so that we can evaluate which websites are doing the best job at meeting the needs of online shoppers during the critical holiday season. This is our second year, so we are able to make critical comparisons to these retailers' performance from last year. Not only does the holiday season bring a disproportionate revenue stream in for retailers, it's also an opportunity to establish year-long loyalty and impact sales in other seasons.

The *Top 40 Online Retail Satisfaction Index* is produced by ForeSee Results in partnership with FGI Research, and uses the methodology of the University of Michigan's American Customer Satisfaction Index (ACSI).

OVERALL, SATISFACTION IMPROVES SLIGHTLY FROM LAST YEAR

Online shoppers are slightly more satisfied this holiday season than last, according to the second annual holiday edition of the Top 40 Online Retail Satisfaction Index. Aggregate customer satisfaction with this group of leading retailers rose one point (1.4%) to a score of 75 on a 100-point scale.

The leaders in delivering a satisfying online shopping experience have maintained their positions from last holiday season. Netflix leads the Index again, increasing 2.4% to a score of 86, followed closely by Amazon, also up 2.4% to an 84. Netflix continues to excel in Site Experience, Merchandise, Brand and Price, the four elements rated by online shoppers that drive overall satisfaction and future behaviors such as purchase, return and recommending the site to others. Amazon gets top scores in merchandise and does well in the other satisfaction drivers, too. (See *Figure 1 for a full list of scores*)

Rounding out the top 10% in the Index are QVC.com and LLBean.com, both with scores of 80 that are unchanged from last year. QVC rates well in terms of merchandise and site experience, while LL Bean is rated highly for brand and site experience.

The truly remarkable thing is that the top eight retailers all improved or stayed the same in terms of how well they are satisfying web shoppers from last year to this year. Not only are the very high satisfaction scores impressive, but maintaining or improving already impressive scores in an Internet environment where consumers expect more every year is a great accomplishment. There is a reason these sites are perennial favorites, and it is that they are making constant, continuous improvements, not simply resting on their past success. In order to stay on top requires a discipline of remaining focused on the customer and striving for continuous improvement.

On the other end of the spectrum, laggards this holiday included CDW.com (68, down one point from last year), Costco (69, unchanged) and CompUSA.com (up 3% to a 69.) CDW.com scores low on all satisfaction drivers, especially price and brand. Costco's lowest driver score is for merchandise. And CompUSA's scores are low across the board. That's not a surprise. Not only do those companies trail the pack in satisfaction, they also trail in key future behavior measures, such as likelihood to purchase online and recommend to others. Being one of the largest online retailers is no small feat, but what sits in front of these retailers is the opportunity to make great strides forward in satisfying their customers. This will translate to higher customer retention, stronger customer loyalty and more avid recommenders, all resulting in even better financial performance.

(next page)

FIGURE 1

Retailer	Holiday 2006	Holiday 2005	Year-Over-Year Change	Spring 2006 Sales Ranking*
Netflix.com	86	84	2.4%	19
Amazon.com	84	82	2.4%	1
LLBean.com	80	80	0.0%	21
QVC.com	80	80	0.0%	15
Apple.com	79	76	3.9%	13
OldNavy.com	79	74	6.8%	See Gap
Quixtar.com	79	76	3.9%	18
HPShopping.com	78	74	5.4%	5
Newegg.com	78	79	-1.3%	9
BN.com	77	77	0.0%	28
Dell.com	77	74	4.1%	4
Williams-Sonoma.com	77	77	0.0%	20
Avon.com	76	75	1.3%	24
Chadwicks.com	76	73	4.1%	26
JCPenney.com	76	71	7.0%	12
TigerDirect.com	76	77	-1.3%	31
HSN.com	75	75	0.0%	22
Zappos.com	75	N/A	N/A	32
1800Flowers.com	74	75	-1.3%	34
CircuitCity.com	74	71	4.2%	16
Gap.com	74	73	1.4%	23
Nordstrom.com	74	N/A	N/A	40
Target.com	74	70	5.7%	14
BananaRepublic.com	73	73	0.0%	See Gap
BestBuy.com	73	72	1.4%	10
Drugstore.com	73	76	-3.9%	30
NeimanMarcus.com	73	72	1.4%	37
OfficeDepot.com	73	72	1.4%	2
PotteryBarn.com	73	76	-3.9%	See Williams Sonoma
Sears.com	73	68	7.4%	6
SonyStyle.com	73	69	5.8%	8
Staples.com	73	71	2.8%	3
Walmart.com	73	73	0.0%	11

Buy.com	72	72	0.0%	35
Gateway.com	72	71	1.4%	38
Macys.com	71	N/A	N/A	29
Overstock.com	71	71	0.0%	17
PCConnection.com	71	N/A	N/A	N/A
ToysRUs.com	71	69	2.9%	27
CompUSA.com	69	67	3.0%	39
Costco.com	69	69	0.0%	25
CDW.com	68	69	-1.4%	N/A

* The *Top 40 Online Retail Satisfaction Index* uses the methodology of the American Customer Satisfaction Index to analyze data collected from visitors to the Top 40 retail websites, as defined by sales volume from the *Internet Retailer* Top 500 Guide. There are 40+ companies because some have multiple brands that were measured separately. Holiday sales data was not available at the time of publication of this research.

24 WEBSITES INCREASED IN YEAR-OVER-YEAR COMPARISON

Of the sites that were measured during the holiday season in both 2005 and 2006, an impressive 24 have higher customer satisfaction scores this year than last. Only seven sites saw their scores decline from holiday 2005. Figure 1 shows the 2005 and 2006 holiday satisfaction scores for each retailer and the year-over-year percentage change.

The large number of retailers with increasing online satisfaction scores gives us great confidence that the leading online retailers have great growth prospects in ahead. It also gives us an indication that the smaller retailers have their work cut out for them in the battle for the online customer.

SEARS.COM, JCPENNEY.COM AMONG MOST IMPROVED SITES FROM 2005

Lead by Sears.com with an increase of 7.4%, six retailers had impressive score increases of 5% or higher since the 2005 holiday season.

Figure 2

Retailer	Holiday 2006	Holiday 2005	Year-Over-Year Percent Change
Sears.com	73	68	7.4%
JCPenney.com	76	71	7.0%
OldNavy.com	79	74	6.8%
SonyStyle.com	73	69	5.8%
Target.com	74	70	5.7%
HPShopping.com	78	74	5.4%

Why such high increases for these companies? These retailers saw significant increases in one or many of the key drivers of satisfaction: Site Experience, Price, Merchandise and the Brand Image of the retailer. What is somewhat surprising is that all of these retailers are multi-channel retailers and the majority of them traditional brick and mortar retailers by heritage. In the past we have generally seen the pure play Internet retailers outshine the traditional multi-channel retailers. If these traditional multi-channel retailers can keep focused on the customer and continue to achieve these types of improvements, with the advantage of alternative channel options, they will be a very tough set of competitors for the more internet focused pure play online retailers.

ONLINE SHOPPERS MOST SATISFIED WITH APPAREL SITES

The Top 40 Online Retail Satisfaction Index compares and contrasts customer satisfaction with sites specializing in three broad categories of merchandise:

- **Apparel & Accessories:** BananaRepublic.com, Chadwicks.com, Gap.com, LLBean.com, OldNavy.com and Zappos.com
Category Leader: LLBean.com (80)
- **Mass Merchants:** Amazon.com, Buy.com, Costco.com, HSN.com, JCPenney.com, Macys.com, NeimanMarcus.com, Nordstrom.com, OfficeDepot.com, Overstock.com, QVC.com, Sears.com, Staples.com, Target.com, Walmart.com
Category Leader: Amazon (84)
- **Computer & Electronics:** Apple.com, BestBuy.com, CDW.com, CircuitCity.com, CompUSA.com, Dell.com, Gateway.com, HPShopping.com, Newegg.com, PCConnection.com, SonyStyle.com, TigerDirect.com
Category Leader: Apple (80)

The fact that Apparel leads the other categories is no small feat, considering the challenges that have existed in the minds of consumers in the past, such as the ability to fully understand the look, color and fit of the apparel. Technical and functional advances over the years, such as the ability to zoom and rotate product images, have overcome those challenges.

Figure 3

	Holiday 2006	Holiday 2005	Year-over-Year Percent Change
Overall Satisfaction Top 40 Index	75	74	1.4%
Apparel & Accessories	76	74	2.7%
Mass Merchants	74	72	1.4%
Computers/Electronics	74	73	2.8%



MORE RESEARCH TO COME

This report represents the first wave of analysis of the Top 40 Online Retail Satisfaction Index, which is the scores and ranking for each of the retailers. Our report also asked critical questions about the following issues:

- **Customer reviews:** How much did people rely on customer reviews in making purchase decisions and did retailers who offered customer reviews fare better or worse than those that didn't?
- **Word of Mouth:** How likely are people to communicate about their experience with a retail website? How many people are making purchase decisions based primarily on recommendations?
- **Free Shipping:** Has free shipping become a cost of entry if you want to be a significant online player, or are the frequent rules and restrictions on free shipping actually satisfying people less?
- **Multichannel Impact of Online Shopping:** How well are retailers leveraging their online experience to drive purchases through all channels? How do shopper's channel preferences for research and purchase impact their satisfaction with the online experience

Insights into these and other critical issues will be released in the next few weeks as we analyze the data.

About ForeSee Results

ForeSee Results is the market leader in online customer satisfaction management and 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 scientifically quantifies the elements that drive online customer satisfaction and predicts future behaviors such as purchase, return site visits or referrals. A partial list of retail clients includes Best Buy, Blair, Cabela's, Danskin, Eileen Fisher, Fashion Bug, Gateway, Lane Bryant, Newegg, Overstock, Restoration Hardware and Tower Records. ForeSee Results, a privately held company, is located in Ann Arbor, Michigan and on the web at www.ForeSeeResults.com.

About FGI Research

FGI Research is a leading provider of market research and information solutions that improve the speed, accuracy and impact of business decisions. By combining proven



research methods, trusted online sample, and advanced analytics and communications, FGI delivers to end users and marketing research firms immediate and actionable information to decision makers throughout their respective enterprises. FGI offers a premier suite of online research solutions under the SmartPanel™ family of specialty and proprietary custom research panels. For additional information visit www.fgiresearch.com.

About the Top 40 Online Retail Satisfaction Index

The *Top 40 Online Retail Satisfaction Index* uses the methodology of the American Customer Satisfaction Index to analyze data collected from visitors to the Top 40 retail websites, as defined by sales volume from the *Internet Retailer* Top 500 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.

All respondents visited one of the Top 40 retail websites within the past 14 days. Some went on to complete an online purchase; others didn't, meaning the respondent group is defined as "browsers."

The Holiday 2006 edition of the *Top 40 Online Retail Satisfaction Index* is based on approximately 10,500 responses collected from November 28 – December 19, 2006. This data was compared to results from the Holiday 2005 research.

Research results were analyzed on a company-specific level, as well as for three product categories of specific interest: apparel/accessories, computers/electronics and mass merchants.

In addition to the holiday edition, ForeSee Results produces a yearly spring edition of the *Top 40 Online Retail Satisfaction Index*.