



IMRG: ONLINE SHOPPING - £100 BILLION AND COUNTING

IMRG SPECIAL REPORT
- £100 BN SPENT ONLINE SINCE 1995
- APRIL SALES UP 55%
- E-RETAIL RETROSPECTIVE

British shoppers have spent £100 billion online in the 12 years that it has been possible to do so, since April 1995.

Online sales worth £3.465 billion were recorded for April 2007 by the IMRG Index, indicating that the all-time total will reach £100 billion by the time this report is published, in May.

"This is an astonishing landmark," commented Jo Evans, IMRG's MD, who directs the Index programme. "It's been obvious for a couple of decades that a secure, networked consumer marketplace would arrive and be popular, but actually witnessing its profound success and meteoric growth still takes my breath away. April's online sales were worth about the same in one month as London's West End takes in a year."

April saw a massive 55% increase in the IMRG Index, the largest annual rise since December 2003. This is far higher than the average year-on-year growth rate of just 32% recorded during the previous twelve-month period.

David Walmsley, Head of Web Selling for John Lewis Direct, said: "We've seen very good growth through the first quarter of the year, driven by John Lewis' excellent Home ranges. However there have been tougher conditions around some technology categories such as televisions, where the growth bubble from last year is now flattening out. For the year to date we have seen growth of 44.9% compared with the same period last year. The IMRG Index provides us with a great up-to-date view of retail market performance. It's a simple and straightforward way of benchmarking our performance through the year."

Daniel Nabarro, chairman of Figleaves.com, said: "Fagleaves.com experienced strong trading in April which has continued into May. Our spring/summer collections have been well received, as have our community building initiatives such as the introduction of customer reviews, customer makeovers and blog. Our bra centenary celebrations also drove lots of visitors to the website."

Richard Burrell, director of engineering and new media at QVC said: "Having launched our live TV channel in October 1993, and our web site in 1998, QVC's net sales grew to £331 million in 2006, with www.qvcuk.com taking 15.8% of all sales during December 2006. With the internet retail market constantly evolving as broadband penetration increases, we introduced QVC Video Centre in October last year, offering on-demand video clips of product demonstrations, and it is already receiving over 200,000 views a week."

Christian Robinson, MD of Firebox.com said: "We've seen 2007 get off to a cracking start at Firebox.com with first quarter sales up nearly 60% year-on-year. The IMRG Index is a great way for online retailers like Firebox.com to benchmark our own sales results against the industry. It's over seven years since Firebox.com opened its virtual doors and co-founders Michael Smith and Tom Boardman invented their first product - the Shot Glass Chess Set. Fledgling sales were less than £240K during that first year, but since then Firebox has grown into an impressive £10m turnover company - with operations spanning the UK and across the pond in the United States."

Fiona Mulhall, managing director of Ontracks.co.uk, said: "We launched our business in 1999 - as an internet retailer. Our success is down to the amazing growth of the internet and we now rank as one of the top 10 retailers in our market in the UK. We have found that the internet allows us to offer a wide range of competitive products which are not available in our customers' local markets. The internet allows us to export 28% of our turnover - to places such as Australia, Germany, America and many other countries."

James Akin-Smith, CEO for designer lingerie e-retailer, BeCheeky.com, said: "We have seen spectacular growth since our launch in late 2005, and now have more than 5,000 individual visitors to our website each day. Sales are approaching three times the same quarter last year, and we are seeing month on month growth of almost 20%. Online shopping has really come of age and will continue to grow at a terrific rate."

Zak Edwards, managing director of Prezzybox.com, said: "2007 - and particularly April - has seen significant growth for Prezzybox.com with a 29.7% increase on sales YTD and a growth of 43% on April 2006. There are a number of interesting observations to be made, the primary one being that Prezzybox's ABV (Average Basket Value) increased by 25% from March to April. However, we are also finding that we are having to do a great deal more from a marketing perspective to grow - I would suggest this is due to increased competition in our sector from direct and indirect competitors. Our sales have grown exponentially since launch. Initially we were lucky to receive 1 order a day, whereas now we can literally receive 1000s a day at peak times. From an overall perspective a number of observations can be made. Web 2.0 has become all the rage and all manner of web sites are marketing themselves through Blogs, RSS Feeds and Social Networking. We're also noticing that there are a lot more barriers to entry for new businesses within the sector. Google is very often King with regards to 'free traffic' and one of the determining factors of success in Google's natural listing is longevity. Consequently, it will take a substantial marketing budget to enable any company to successfully penetrate any sector - particularly one as aggressive as the gift sector. The IMRG is extremely useful to us as an SME. Not only does it provide credibility, but it also provides a benchmark with similar sized companies and therefore allows us to plot trends and performance against our competitors."

IN THE BEGINNING - APRIL 1995

IMRG believes that a book bought in April 1995 from WH Smith via CompuServe, a forerunner of the internet, was the UK's first secure online shopping transaction.

The WH Smith on CompuServe store was launched in April 1995 with 250 books and CD-ROMs. It was an instant success and the overall bestseller was 'The Joy of Sex'. Judy Conybeare at WH Smith customer information systems, said at the time: "It's early days yet, every month we're learning more about different aspects of retailing on the network. The experience has shown that there's definitely a demand there that we can satisfy. We're hoping to expand the range to 1500 books over the next three months and extend the service beyond the UK. We've had enquiries from as far afield as India so we know there's a market out there."

Dial-up services such as CompuServe and the then brand new Microsoft Network (MSN - launched August 1995) undertook a series of retail trials that year with J Sainsbury, Tesco, Virgin and Dixons, amongst others. Great Universal Stores unveiled its 'Shoppers Universe' global mall of 11 stores on MSN. Barclays Bank launched Barclay Square, an online shopping centre featuring retailers including Argos, Eurostar, Interflora, ToysRUs and Victoria Wine.

1995 saw the internet, online services and cable technology arriving all at once in the UK, creating interest, confusion and a dynamic marketplace for technologists. The internet quickly emerged as the primary catalyst that would both give mass access to a global network and fuse together the many elements of a supply-chain revolution that had been brewing for decades.

The internet's origins go back to the 1960s, but its growth really took off following the development in 1993 of a new graphical user interface - the MOSAIC World Wide Web browser - which made navigating the internet significantly easier. Its success led to the establishment of Netscape Corp. in Mountain View, California, and the creation of Netscape Navigator, which was given away free to anyone who wanted it. By 1995, Navigator had a 75% of a global Web market, estimated at nine million people.

At the end of 1995, about 1.5 million British adults had used the internet at least once. There were two million UK homes with PCs with modems - very, very slow modems, typically running at about 14.4K per second, which not many people knew how to use or bothered to try.

The US was well ahead in the consumer technology stakes at the time. The first ever secure Web transaction took place there on 11th August 1994, when the CD 'Ten Summoner's Tales' by Sting was bought online by credit card for \$12.48, plus shipping costs. That Christmas in America, PC sales exceeded TV sales for the first time, and more PCs were sold to private individuals than to businesses. By May 1995 40% of US homes had a PC.

Amazon.com starting to sell books online on Saturday, 16 July 1995 from Jeff Bezos' two-bedroom house. So WH Smith had beaten them to the online market by four months and, at the time, arguably had the best interactive media team in Europe, led by Allan Mitchell, whose 'Bookfinder' service won the 1994 BT Retail Technology Award. WH Smith's Group Business Development Manager, Terence Cudbird, told IMRG in 1995: "Eighty percent of our product can be digitised, so WH Smith could be threatened by disintermediation by suppliers, new channels of distribution, substitution of products, and new competitors, including international competitors."

WH Smith had planned a WWW launch for January 1996, but in a classic example of retail myopia, instead made their entire interactive media team redundant as part of a cost cutting exercise. Following that move, the business that had thrived since 1792 has had a torrid time, as Trevor Cudbird's observations proved correct, its market share shrank and profits dwindled. When Kate Swann took over as chief executive of WH Smith PLC in 2003, entertainment products represented 25% of WH Smith's sales - these are expected to fall to below 10%. In April 2007, Swann again warned investors not to expect the group to deliver underlying sales growth any time soon. Meanwhile, Amazon.com reported sales of \$10.7 billion for 2006 and expects these to rise to between \$13.40 billion and \$14.00 billion, or to grow between 25% and 31% in 2007.

In 2007, well over a billion people are using the internet worldwide and the global online retail market is estimated to be worth £250 billion.

IMRG INDEX SECTOR CLASSIFICATION

The IMRG Index records UK online retail sales of the products and services listed in the IMRG Index Sector Classification, as set out below:

- Beer / wine / spirits
- Books
- CDs / tapes / records
- Clothing / footwear / accessories
- Computer hardware / peripherals / consumables
- Consumer electronics
- Digital downloads (e.g. music, software)
- Flowers
- Food, beverages and household supplies
- Furniture
- Garden / DIY
- Health and beauty
- Home appliances (e.g. washing machines)
- Household goods (e.g. kitchenware, bedding)
- Jewellery / watches
- Software
- Sporting goods
- Tickets (e.g. cinema, theatre, events)
- Toys
- Travel (e.g. flights, holidays, hotels, car hire)
- Video games
- Videos / DVDs

THE RESEARCH

The 'e-retail sales' data is based on the IMRG Index, which has collected hard UK online shopping sales data since April 2000.

ABOUT IMRG:

IMRG (Interactive Media in Retail Group), founded in 1990, is the industry body serving e-retail:
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