



5 Ways Holiday Ecommerce is Changing

Lessons learned from the Chase Paymentech Cyber Holiday Pulse Index

Expectations ran high for the 2011 holiday shopping season. Statistics from the U.S. Department of Commerce showed ecommerce sales for the first three quarters were up over 17 percent versus 2010. Forrester Research issued a forecast predicting 15 percent growth for ecommerce during the holiday season. Federal Express announced plans to hire 20,000 seasonal workers to handle an anticipated 10 percent increase in package volume.

These trends were not lost on merchants. It was clear that online merchants were looking forward to the prospect of a successful holiday season, with some home pages showing holiday gift guides and early season deals. Based on the analysis of data from the Chase Paymentech Pulse Index, it appears those ecommerce retailers made wise choices, capitalizing on what turned out to be a very successful extended holiday shopping season.

For the merchants included in the Pulse Index, customers turned to ecommerce in record numbers for their holiday shopping, with year-over-year growth rates far outpacing forecasts. **For the full 2011 holiday shopping season, online sales grew 25 percent, and transaction volume increased a staggering 37 percent.**

Looking at growth rates by themselves, however, only scratches the surface when it comes to understanding how ecommerce is changing. By digging into the Pulse Index data, we can identify some clear trends and develop strategies to leverage the changes.



1 Ecommerce is now mainstream

Ecommerce has joined the mainstream as a holiday shopping option, and we can no longer think of ecommerce as an 'emerging' channel. Online merchants now compete head-to-head with brick and mortar merchants across sectors. For multi-channel merchants, who do business both online and in physical stores, the lines between online and offline are blurring with improved integration, promotion, and logistics.

Over the past several years, the online share of retail sales has risen steadily, and has increased sharply in the critical 4th quarter.

This is not surprising, as consumers focus their online purchases toward discretionary goods, rather than on non-discretionary products, like food and fuel, which are not as easily sold over the web. What is surprising is the growing difference in share between the 4th quarter and the rest of the year. This phenomenon demonstrates that consumers are shifting their gift buying to the web at growing rates, driven by price, selection, convenience, and their own positive experiences. (See Figure 1.0)

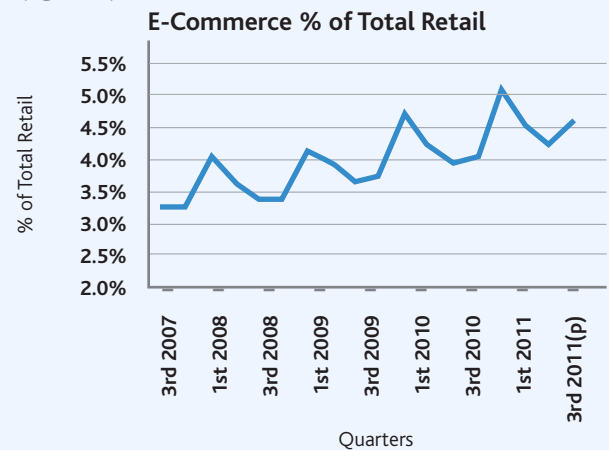
2 Every Monday is Cyber Monday

Cyber Monday is clearly not a myth. Encouraged by strong retail promotions, Cyber Monday was once again the biggest single online shopping day of the year for the Pulse Index in 2011. But the fact remains that every Monday during the holidays is almost as important. Whether you call it "Cyber Monday" or "Green Monday," consumers have consistently made Monday the day they are most likely to do their e-commerce holiday shopping.

Year after year, it's increasingly clear that well planned merchant promotional activity is a critical factor. The Cyber Monday phenomenon was originally about consumers having access to the internet from work. With the advent of ubiquitous consumer broadband (not to mention mobile), it's clear that limited access is no longer the driving force.

While every Monday is important, every week is not the same. Monday may be the peak day, but online shopping does not stop for the rest of the week. In fact, after Cyber Week, the Pulse Index has consistently shown that, throughout December, Tuesday, Wednesday and Thursday can have sales volume that rival Monday. This is especially true as the end of the season approaches. (See Figure 2.0)

(Figure 1.0)



Source: Census Bureau

(Figure 2.0)

WEEK ENDING	PULSE TRANSACTIONS	PULSE SALES (\$M)
November 12	30,391,778	10,552
November 19	34,402,701	13,325
December 3	48,490,387	23,740
December 10	48,662,224	21,836
December 17	52,706,031	23,485
December 24	45,719,014	18,503

Source: Pulse Index

3 The online shopping season starts early, and ends late

Just as stores seem to begin preparing for the holiday season earlier and earlier, consumers are doing some of their online shopping earlier as well. This has been a trend for several years, but was more evident than ever in 2011. Early season sales growth rates ramped up quickly in November, and outpaced growth in December. (See Figure 3.0)

Ecommerce merchants began heavy promotional activity well before Black Friday. Consumers responded, driving rapid double digit growth rates throughout November. Early season growth rates were surprising, but not as surprising as the momentum they created to generate the season-long demand. Following a better than predicted November, with Pulse merchants online holiday sales growing 26 percent and transactions up 40 percent, many industry watchers wondered if the momentum could be sustained. By early December, it was clear that the early season momentum was not going away. Stores lured customers with heavy promotions focused on 'Green Monday' and 'Free Shipping Friday'. These incentives, combined with the overall strength of the sector, kept growth rates high and sales in record territory.

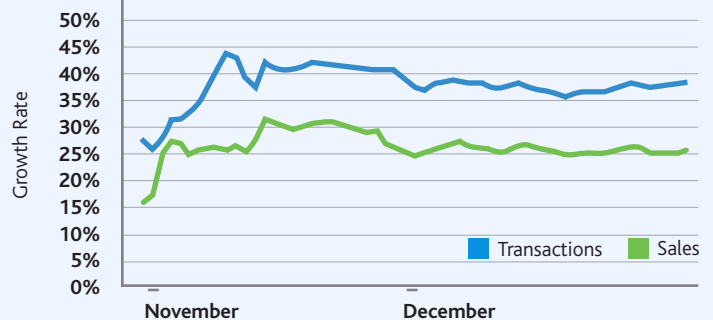
4 Black Friday has become an important ecommerce event

The Pulse Index has shown the growing importance of Black Friday for online shoppers. Multi channel retailers increasingly make deals available on their websites. Furthermore, some quick thinking consumers have been taking advantage of Black Friday promotions on Thanksgiving Day, while the brick and mortar stores are still closed. Whether the customers are web-savvy or just crowd-averse, this activity can represent a significant head start on the peak season for merchants.

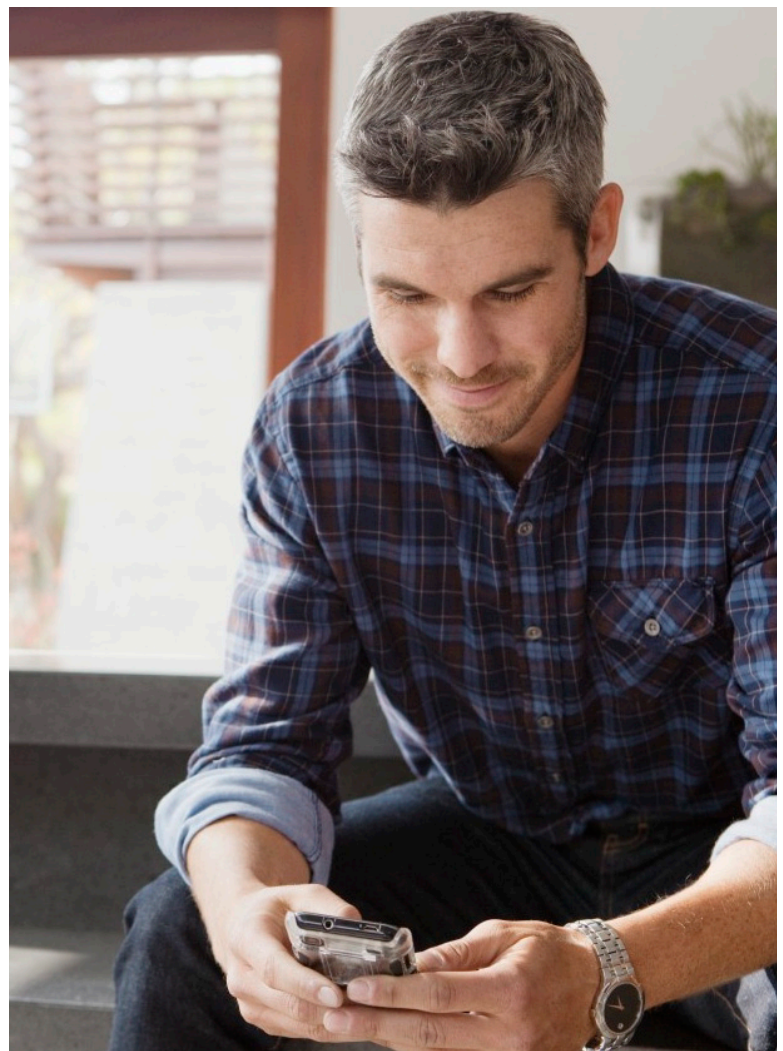
Stores with a brick and mortar presence may have led the way in leveraging ecommerce for Black Friday, but online-only retailers have not ceded the market. Black Friday promotions have become increasingly common for online stores, and the data confirms that consumers are responding.

(Figure 3.0)

Pulse Transactions and Sales Growth 2011 vs. 2010



Source: Chase Paymentech Cyber Holiday Pulse Index



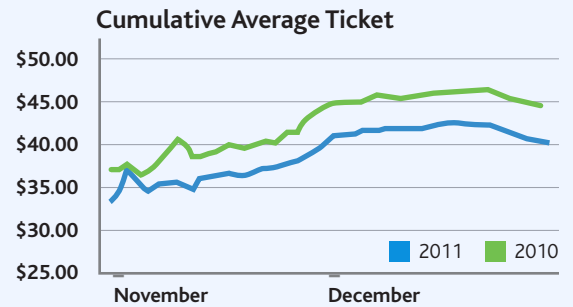
5 Lower average tickets are a consistent trend

The 'mainstreaming' of ecommerce is not only seen in how much we spend, but in what we buy. Consumers are spending more of their gift dollars online, but spreading their spending across more, lower priced transactions. This lower ticket behavior is being driven by several forces:

- The secular shift to digital media is pushing up the number of low-dollar transactions. MP3s cost less than CDs; ebooks cost less than paper books; game apps cost less than game cartridges or disks.
- The cost of many high ticket items is coming down. Prices for popular electronic items such as tablet computers, ebook readers, televisions and GPS units have all fallen dramatically in recent years.
- The increasing use of free shipping as a promotion reduces average ticket by eliminating not only the cost of shipping, but also the incentive for consumers to fill carts in order to reach a free shipping threshold. (See Figure 4.0)

It is important to note, however, that the declining ticket trend is not true across all segments. Apparel and Footwear tickets rose 6 percent, and Toys rose 10 percent. (See Figure 5.0)

(Figure 4.0)



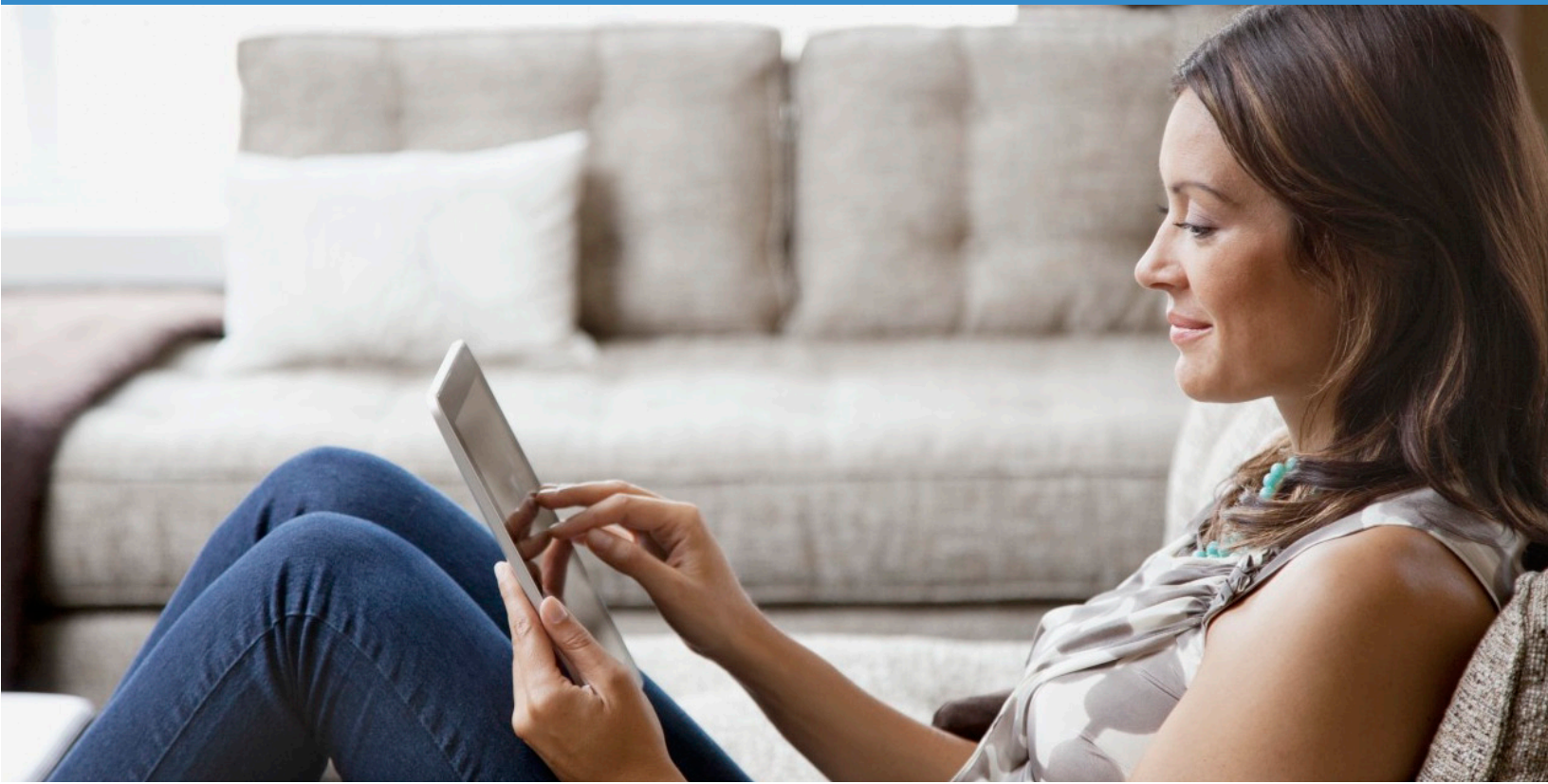
Source: Chase Paymentech Cyber Holiday Pulse Index

(Figure 5.0)

VERTICAL	TRANSACTIONS	SALES	AVERAGE TICKET
Apparel/Shoes	22.9%	29.9%	5.7%
Computers and Cons. Elec.	28.6%	16.9%	-9.1%
Health & Beauty	10.7%	5.9%	-4.4%
Home	17.8%	13.0%	-4.1%
Mass Market / Variety	42.4%	29.7%	-8.9%
Toys	-2.3%	7.7%	10.2%

Source: Chase Paymentech Cyber Holiday Pulse Index





THE COMMON THREAD

There is no question that ecommerce is changing. Evidence continues to support the assertion that ecommerce has reached mainstream status, as consumers are spending more time and money online, and retailers are making the investments necessary to drive online sales. Online buying is quickly transitioning from a convenient alternative shopping option to a solution that competes directly with brick and mortar stores.

While merchants make adjustments to respond to the shifts, it's clear that consumer behavior is the common thread. Consumers have embraced the internet as a shopping channel, and are widening their embrace to include an increasing range of products and services. They have developed patterns and habits that influence how and when they buy, and have changed the way they access information and use data to make purchasing decisions.


Armed with an understanding of how the industry has changed and where it is headed, merchants can begin thinking about the 2012 holiday season and leverage lessons learned.

1 Start early, finish late. Ramp up early to capture the early shoppers, and keep up the intensity to win sales from procrastinators.

2 Promote hard. Getting the attention of online consumers with promotional activity is difficult in an increasingly competitive environment.

3 Get ready for a marathon. 2012 is going to be an even longer season – next year will be the longest peak season possible with Thanksgiving falling on the 22nd.

4 Watch for more changes. Developments such as social media, improved mobile technology, new promotional channels, and integrated payment methods all have the potential to drive shifts in consumer behavior.

As ecommerce continues to develop as a mainstream retail channel, Chase Paymentech will continue to support the growth of the channel and to help merchants keep a finger on the pulse of ecommerce. 

For more information, contact: publicrelations@chasepaymentech.com, or visit www.chasepaymentech.com.

