

EPIC REPORT

E-commerce Performance Indicators
and Confidence Report

2017 | Q2



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E-COMMERCE PERFORMANCE INDICATORS AND CONFIDENCE REPORT

2017 | Q2

Online retailer performance continues to be strong this quarter. However, various expansion plans seem to be slowing.

While improving the customer experience remains crucial, there is a renewed focus on platforms that will bolster great experiences. In addition, preparation for the holiday season is in full swing.

In this second quarterly EPIC Report, SLI Systems provides e-commerce industry survey findings from more than 200 e-commerce professionals.

As a global leader and provider of cloud-based e-commerce solutions and services for mid- to enterprise-size Internet retailers and B2B sites, SLI Systems is able to query a broad audience of online retailers and offer perspective about their responses.

The SLI Systems Q2 2017 EPIC Report includes:

- 1. Respondent Overview:** Company, level, role, regions, channels, sales and SKUs
- 2. Confidence and Performance Indicators:** Quarterly and annual growth strategies, year-over-year comparisons of common e-commerce KPIs and top priorities
- 3. Top of Mind:**
 - Amazon – A look at the reasons retailers add the e-commerce giant as a sales channel and the extent of retailer concern about Amazon using their sales data to compete against them
 - Holiday 2017 Planning – A timeline for when retailers start to plan, implement new technology and order inventory for the peak shopping season.

EXECUTIVES & DIRECTORS WEIGH IN

Respondents Represent a Mix of Channels

SLI Systems received qualified (online merchant / non-vendor or consultant), complete responses to the Q2 EPIC survey from 213 retail-industry professionals worldwide. Nearly 60% of respondents are with companies headquartered in the United States, followed by the UK, Australia / New Zealand, as well as other countries in Europe.

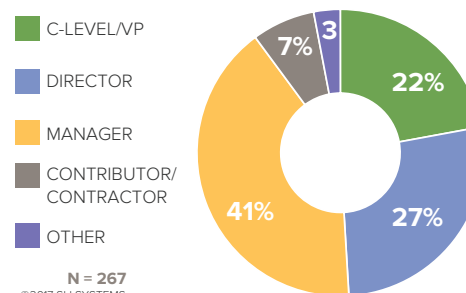
All of the respondents sell goods and services through at least one online channel, with 66% selling in brick-and-mortar stores and 44% selling on Amazon – providing a deep representation of omnichannel business models in this quarter's report.

Respondents work at organizations spanning dozens of retail sectors. Apparel, which includes fashion, accessories and shoes, was most represented (18%), followed by food and beverage (10%) and housewares/home furnishings (9%). Six percent of respondents identified their company's main industry as industrial. Computers/electronics/cameras, hardware/home improvement and health/pharmaceuticals were also prevalent with 5% each.

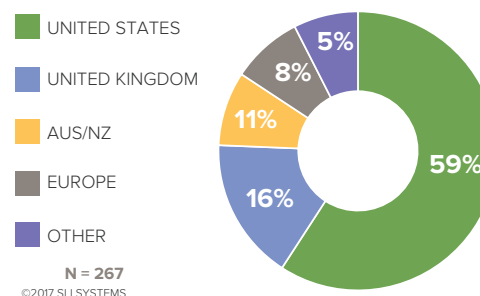
The Q2 2017 survey saw the most representation from retail professionals in e-commerce roles (39%), followed by marketing with 22%. Ninety percent of respondents work in a manager position or above, with 22% representing VP- or C-level positions.

More than half (54%) of respondents reported their company's total annual sales to be above \$50 million (U.S.) with 24% generating above \$500 million. Thirty-nine percent of respondent businesses sell 1,000 to 10,000 SKUs, with 35% selling 10,001 to 500,000 and 9% selling more than half a million SKUs.

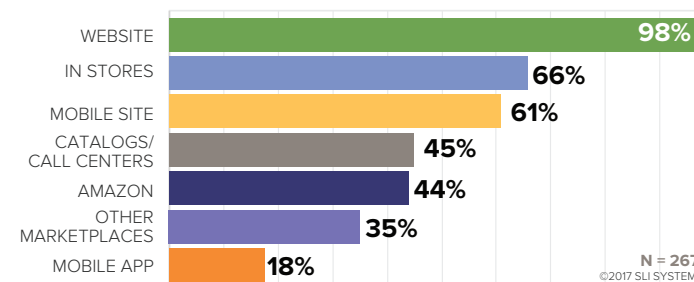
What is your role?



Where is your company headquartered?

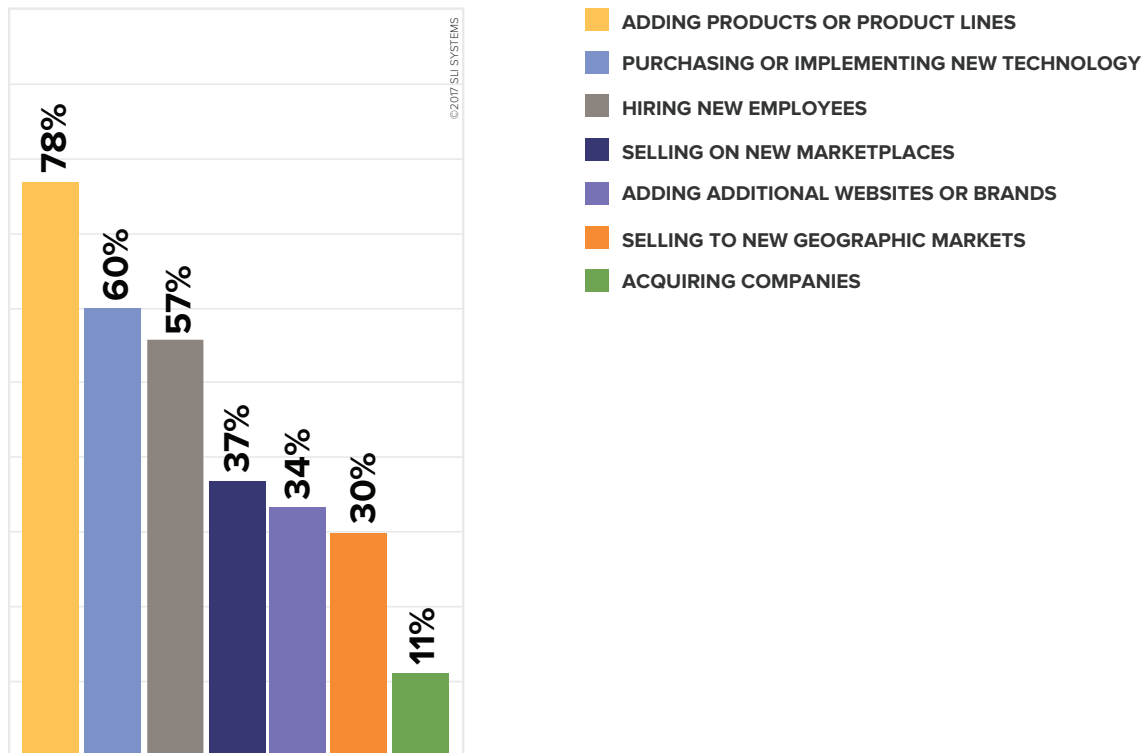


Which channels do you use to sell your products?



PLANS SLOW FOR ADDING WEBSITES, BRANDS AND NEW PRODUCTS

Is your company expanding in any of the following ways this quarter?



Is your company expanding in any of the following ways this quarter? Select all that apply. Leave blank if you are not expanding this quarter. N = 194

91% plan to grow this quarter vs 94% in Q1

Confidence Dips in Q2

With the exception of hiring and geographic market expansion, which increased by 1% and remained flat respectively, online retailers worldwide appear less confident about growing their businesses this quarter.

Fewer retailers (11% in Q2 compared to 14% in Q1) plan to acquire companies this quarter, perhaps indicating Q1 is a more active time of year for company expansion. In the United States alone, that number slipped to 14%, down from 25%. Also notable were declines in the number of retailers planning to add additional websites or brands (34% in Q2 compared to 40% in Q1), as well as the number of merchants planning to expand the number of products or product lines they offer (78% in Q2 compared to 84% in Q1).

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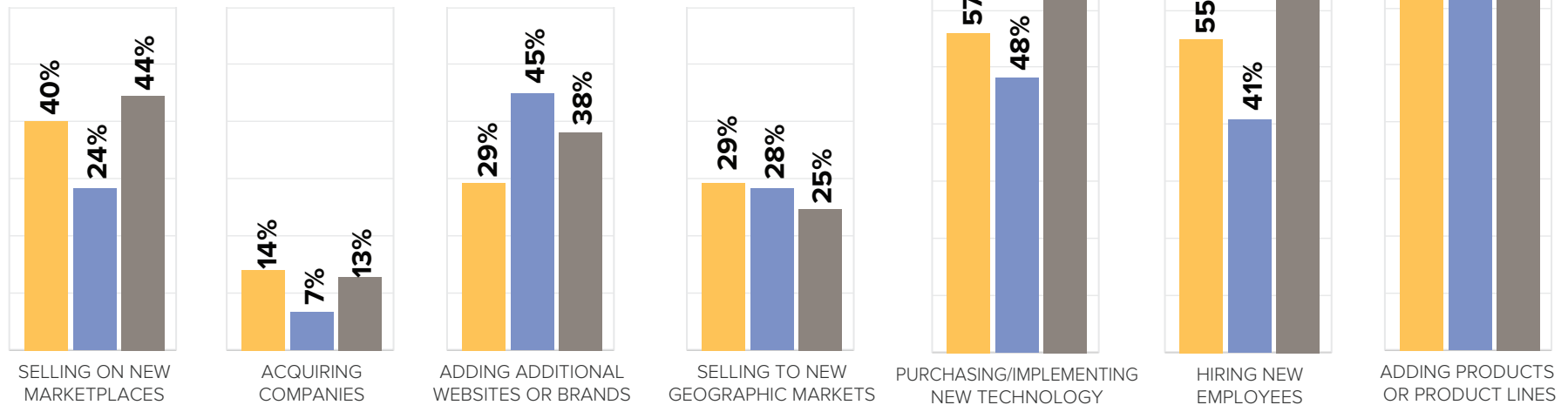
Comparison of the data by region indicates a boom in one area while others simmer down a bit this quarter. In Q1, hiring plans were relatively in sync, averaging 61% across the United States, UK, Australia and New Zealand. In Q2, however, 81% of retailers in Australia **plan to hire**, compared with 55% in the United States and 41% in the UK.

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Australia's plans for **purchasing or implementing new technology** also stood out with a jump to 81% in Q2 from 62% in Q1. In comparison, the number of respondents planning to purchase or implement new technology this quarter dropped to 57% in the United States and 48% in the UK from 63% and 64% in Q1 respectively.

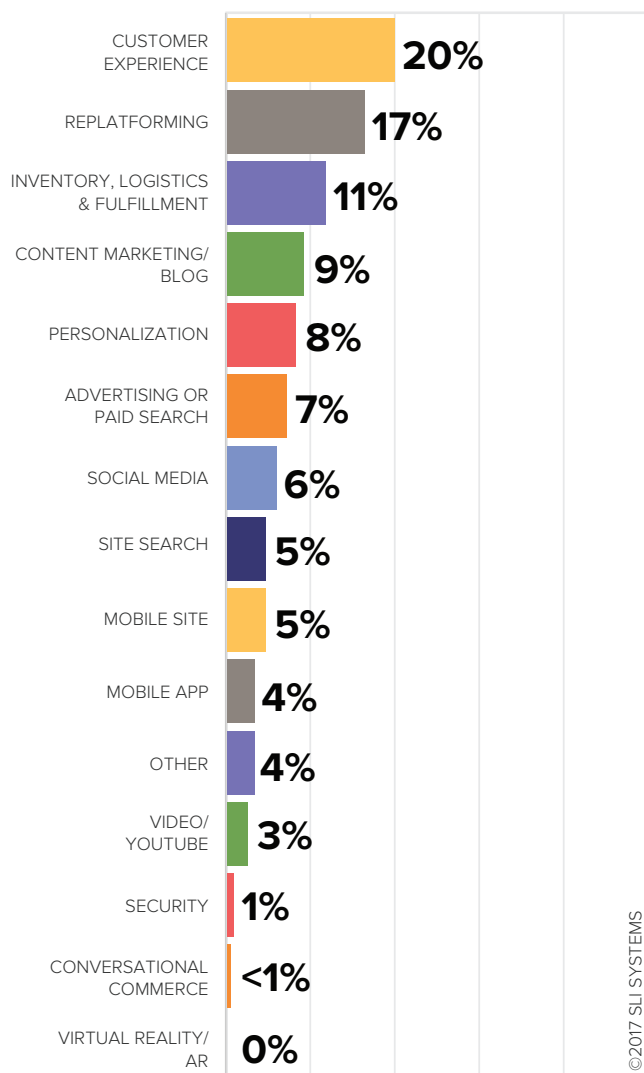
When looking at **expansion to new geographic markets**, the responses from U.S. retailers were in line with last quarter. Twenty-nine percent said they plan to sell to new geographic markets during Q2 compared to 28% in Q1. For the UK that number was down to 28% from 40%, and in Australia it was up to 25% this quarter from 8% last quarter.

In addition, 37% of all respondents said they would be **expanding to new marketplaces** in Q2, indicating these new channels are a significant source of sales in the evolving retail landscape. That number was higher for retailers in Australia (44%) and the United States (40%) and lower for those in the UK, which garnered 24%.



Is your company expanding in any of the following ways this quarter? Select all that apply. Leave blank if you are not expanding this quarter. N = 166

MORE RETAILERS TACKLE REPLATFORMING IN Q2



What is your most important initiative this quarter for online retail business in 2017? Choose one. N = 213

Customer Experience Remains King

A look at the most important e-commerce initiatives for Q2 shows **Customer Experience** (CX) remains king even though it declined as the top choice.

Big shifts included a jump in priority for **Replatforming** and a de-emphasis on **Mobile Site**.

Replatforming climbed up to second place in Q2 with 17% from a 3-way tie for fourth place (11%) in Q1. This could mean retailers are tackling a move to a new e-commerce platform between April and June to ensure their systems are in full swing well before the 2017 holiday season.

Mobile Site fell to eighth place in Q2 from third. In Q1, focus on mobile sites was six times that of mobile apps. However, this quarter only 5% of retailers surveyed chose **Mobile Site** as their top initiative (compared to 12% in Q1), while 4%

are most focused on delivery or improvement of a **Mobile App** – double that of Q1.

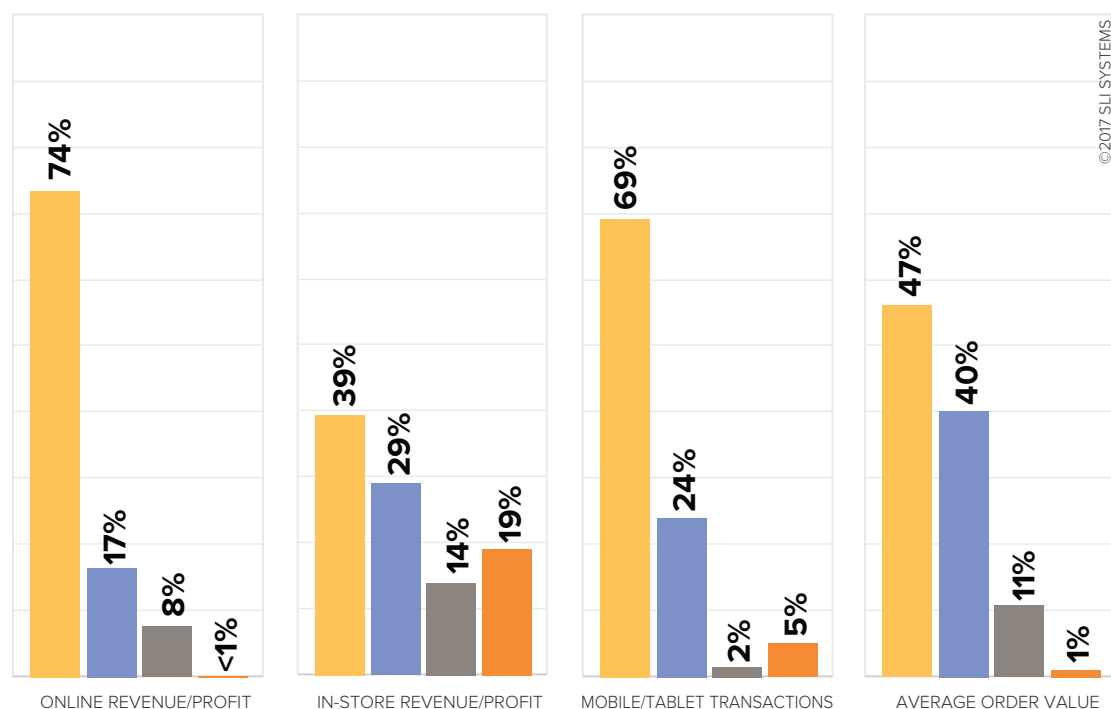
New to the list of most important e-commerce initiatives offered this quarter are **Content Marketing / Blog**, **Social Media**, and **Video / YouTube** – which garnered the top Q2 priority selection from 9%, 6% and 3% of respondents respectively. In turn, the percent of people selecting “Other” declined to 4% in Q2 from 6% in Q1.

For the second quarter in a row, **Security**, **Conversational Commerce** and **Virtual Reality / AR** proved to be lower e-commerce priorities, maintaining the bottom three spots on the list.

**FOCUS ON
MOBILE SITES
AND APPS
LEVELS OUT**

74% EXPECT ONLINE REVENUE AND PROFIT INCREASE

Compared to the same quarter last year, what results do you expect for the following key benchmarks this quarter?



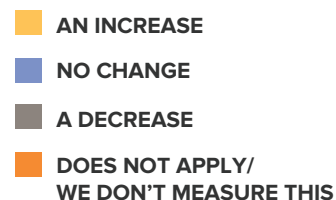
Compared to the same quarter last year, what results do you expect for the following key benchmarks this quarter? N = 213

69% expect mobile transactions to increase vs 73% in Q1

Mobile Isn't Just for Browsing Anymore

Online retailers are confident they will outperform key benchmarks compared to the same quarter last year. But they are *slightly less* confident compared to the Q1 EPIC survey results. For example, 47% of respondents expect their **average order value** to increase in Q2, but 53% expected an increase in Q1. Results show a similar dip in expectations across all nine benchmarks, which range from **site conversion** to **customer satisfaction (NPS)**.

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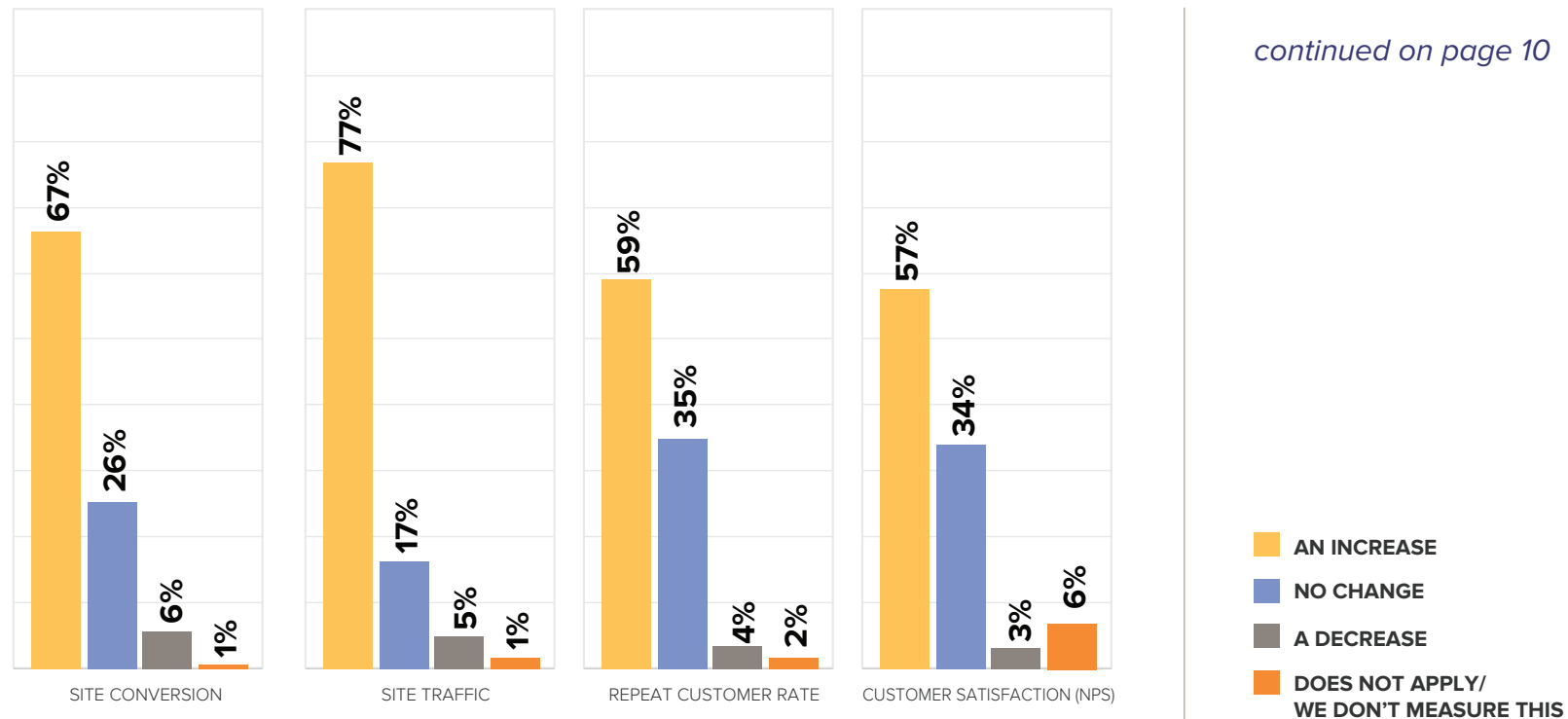


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For Q2, retailers are *most bullish* about **site traffic** and **online revenue / profit**, which earned the confidence of an increase by 77% and 74% of respondents, respectively. Clearly, a majority of retailers feel the performance of their online businesses will continue to improve compared to the same quarter last year. However, these numbers are lower than in Q1 when 82% of respondents expected an increase in site traffic and 80% expected an increase in online revenue / profit.

Despite news of brick-and-mortar struggles, 39% of retailers expect their **in-store revenue / profit** to increase, with 14% expecting a decrease. Worth noting, in Q1 2017, 46% of respondents expected an increase in in-store revenue / profit and only 5% expected a decrease compared to Q1 2016.

Forecasts remain strong on the **mobile / tablet transactions** front with 69% of e-commerce pros expecting an increase this quarter over Q2 2016. Again, this is a slight decline from Q1 when 73% of survey respondents expected an increase in revenues

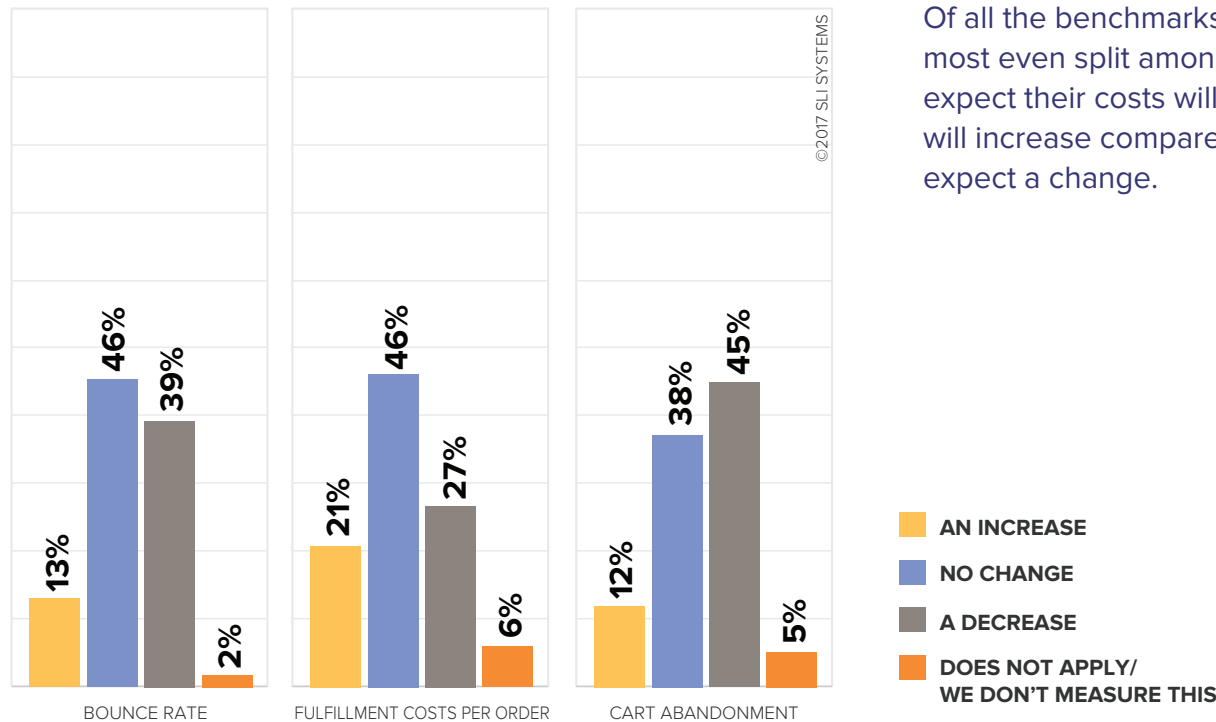


Compared to the same quarter last year, what results do you expect for the following key benchmarks this quarter? N = 213

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from shoppers using smartphones or tablets. A cross tabulation by region shows respondents from European countries outside of the UK edged out those in Australia and the UK as the most confident about mobile transactions with 83% expecting a boost. In Australia, 81% are expecting an increase, and in the UK it's 79%. By comparison, 62% of U.S.-based retailers expect an increase in mobile transactions this quarter over Q2 2016.

Expectations around bounce rate and cart abandonment show it's hard to get online shoppers to start – let alone finish – the buying journey. Almost half (46%) expect no change in their **bounce rates** this quarter compared to the same quarter last year. While 39% expect a decrease in bounce rate, 13% fear an uptick. When it comes to **cart abandonment**, nearly 45% of retailers – about the same as in Q1 2017 – expect a decrease in the number of shoppers who ditch their carts before buying. But there is still room for improvement with more than a third (38%) not expecting a change in cart abandonment.



Of all the benchmarks, **fulfillment costs per order** shows the most even split among respondents. Twenty-seven percent expect their costs will decrease, and 21% expect their costs will increase compared to Q2 last year. Forty-six percent don't expect a change.

Compared to the same quarter last year, what results do you expect for the following key benchmarks this quarter? N = 213

86% EXPECT AN INCREASE IN E-COMMERCE REVENUE

More Than 1/3 Predict Big Mobile Increase

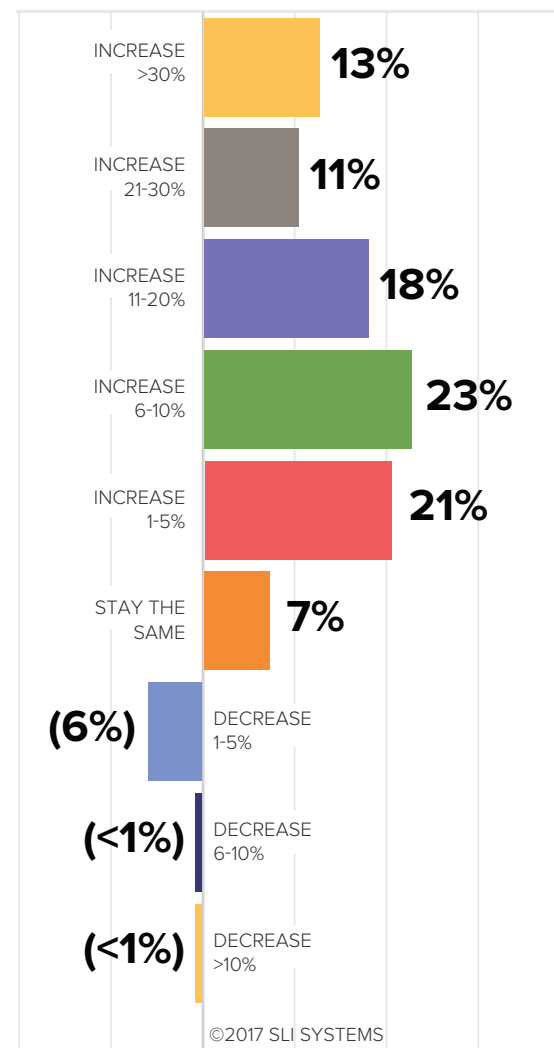
This quarter we set out to gauge revenue growth for overall e-commerce and mobile sites and apps. We asked participants how much they expected revenue in each category to change compared to the same quarter last year. The answers were wildly impressive.

A whopping 86% of respondents expect their **e-commerce revenue** to increase this quarter compared to the same quarter in 2016. While 44% of retailers expect to see more modest improvements of 1-10%, 29% expect increases of 11-30% and 13% forecast their e-commerce revenue will rise more than 30%.

Geographically, UK respondents appear the most optimistic with a third (33%) predicting e-commerce revenue growth at 21% or more this quarter compared to the same timeframe last year. Respondents in other regions forecast this level of growth too, but not as aggressively — other countries in Europe 28%, Australia 25% and the United States 21%.

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By how much do you expect your **e-commerce revenue** to change this quarter compared to the same quarter in 2016?



By how much do you expect your e-commerce revenue to change this quarter compared to the same quarter in 2016?
N = 213

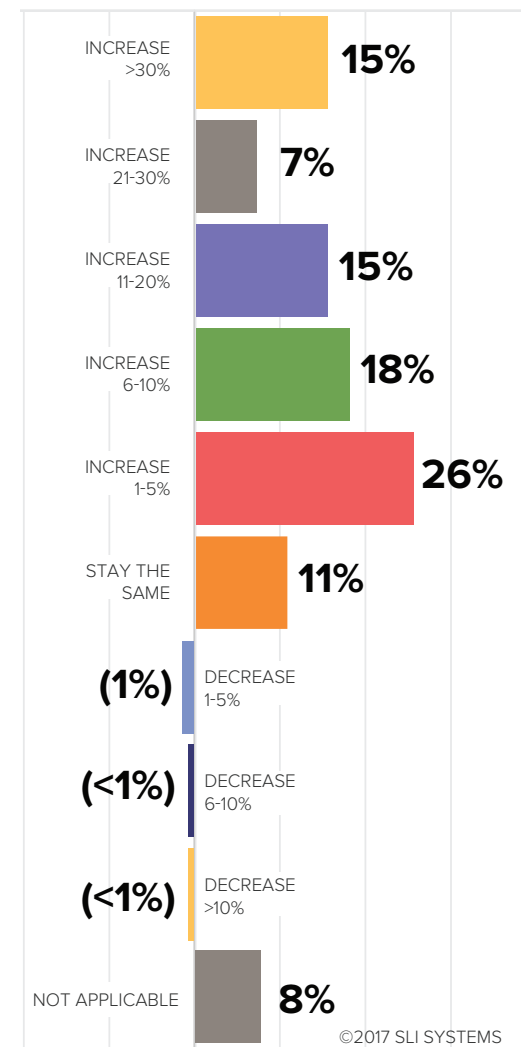
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When it comes to small-screen transactions, 81% of retailers surveyed expect revenue from **mobile sites and apps** to increase during Q2 2017 compared to the same quarter in 2016, with 22% expecting a boost of 21% or more. Only 2% expect revenues from mobile to decrease.

A look at the most represented industries shows the apparel industry, which includes fashion, accessories and shoes, expects the most mobile growth with 28% expecting a revenue increase of more than 30%. Conversely, the industrial industry is expecting the highest level of modest mobile growth with 46% predicting revenue increases of 1-5%.

All survey respondents sell online, but 8% said they don't sell via mobile.

By how much do you expect revenue from mobile sites and apps to change this quarter compared to the same quarter in 2016?



By how much do you expect revenue from mobile sites and apps to change this quarter compared to the same quarter in 2016? N = 213

2017 MORE UP THAN DOWN FOR BRICK-AND-MORTAR

Almost 1/4 of U.S. respondents plan to open stores this year

In the United States, 2017 retail news has been heavy with high-profile brick-and-mortar store closures. But the story doesn't seem so bleak for Q2 survey participants. Twenty-two percent said they expect to increase their number of stores by 1-10% this year. Another 5% said they would grow their brick-and-mortar presence by 11-20%.

More than a quarter of retailers (27%) will hold steady with the same number of stores. Nine percent of respondents plan on to close stores this year, but for the vast majority the decrease will be between 1-10%.

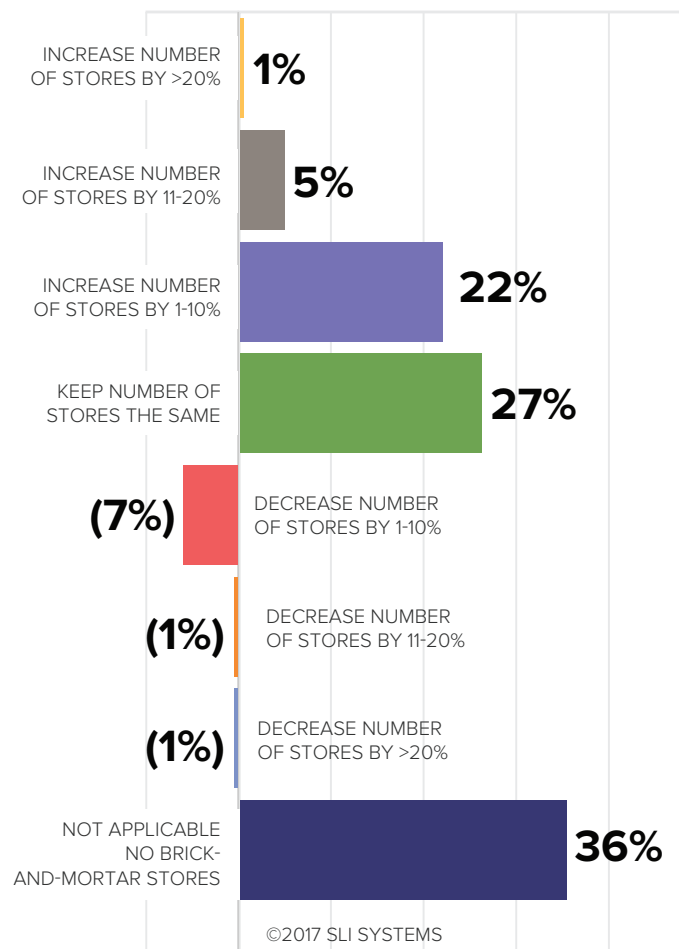
A look at the data from a geographic perspective sheds light on how each region is poised for storefront expansion, as well as trimming.

Retailers in Australia are expecting big shifts on both sides of the equation with 44% gearing up to increase their number of stores and 13% bracing for a decrease.

In the UK, 24% plan to open new storefronts. In European countries outside of the UK, growth is expected by a full 50%. Across both the UK and Europe, only 6% expect to shrink their brick-and-mortar presence.

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How much do you expect to grow or downsize your brick-and-mortar business in 2017?

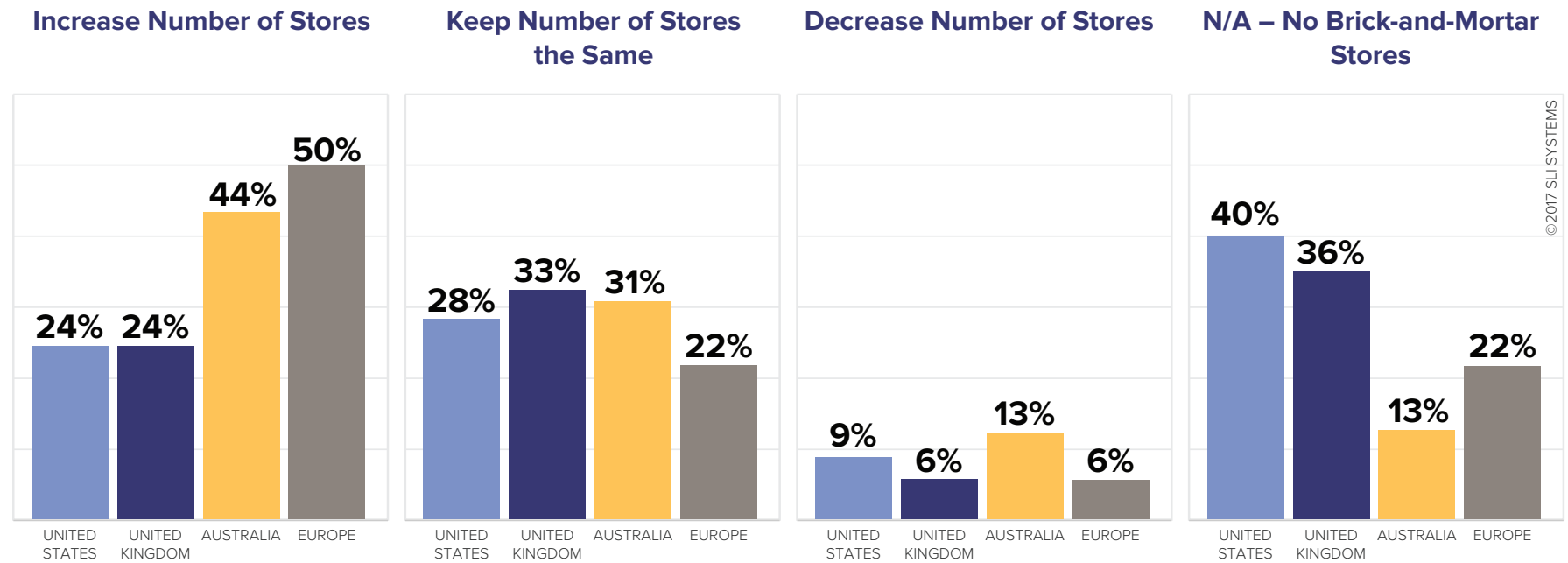


How much do you expect to grow or downsize your brick-and-mortar business in 2017? N = 213

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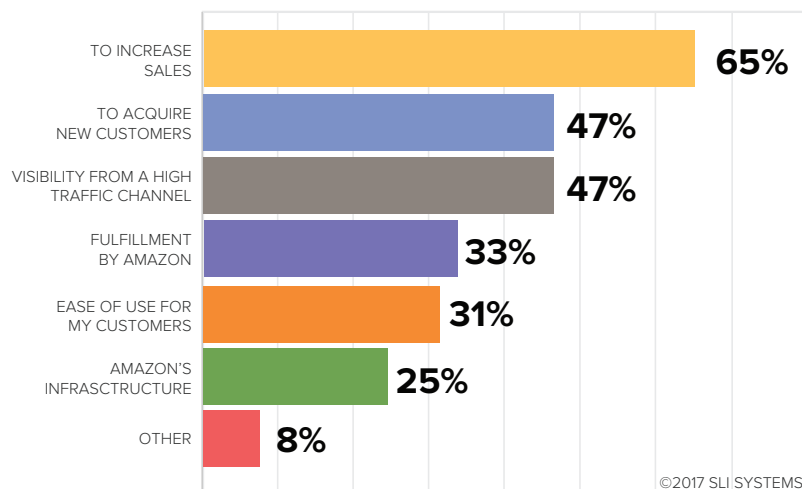
In the United States, 24% of respondents expect to increase their number of storefronts while 9% expect a decrease.

Even though two-thirds of all respondents (66%) identified in-store as one of their channels, more than a third (36%) said they do not operate their own storefronts, indicating many online retailers avoid the headache of store ownership while still benefiting from traditional retail.

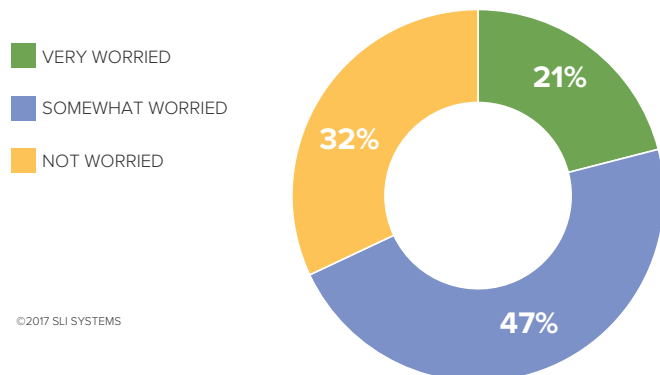


How much do you expect to grow or downsize your brick-and-mortar business in 2017? N = 199

RETAILERS' RELATIONSHIP WITH AMAZON — "IT'S COMPLICATED"



If Amazon is one of your sales channels, what compelled you to add that marketplace to your e-commerce strategy? Select all that apply. Leave blank if you don't sell on Amazon. N = 118



If Amazon is one of your sales channels, are you worried Amazon will use your sales data to compete with you? N = 115

Frenemy to Merchants

Is Amazon a “frenemy” to e-commerce merchants? The relationship between the e-commerce giant and online retailers is definitely tricky.

In the Q1 EPIC Report, we learned only 6% of all respondents felt Amazon posed *less* of a competitive threat to their online businesses compared to the same quarter the year before. Thirty-six percent felt the online titan was more of a competitive threat, including 32% of respondents in the United States, 38% in the UK and 47% in Australia.

This quarter we took a different look at the relationship between Amazon and online retailers, asking those who sell via Amazon why they do so.

The reasons are many. Nearly two-thirds (65%) said they added Amazon as a channel to their e-commerce strategy **to increase sales**. The second-highest reason for selling via Amazon was tied between **new customer acquisition** and **visibility from a high traffic channel** (47% each). The third most common reason retailers added Amazon as a channel was **fulfillment by Amazon** with 33%.

But the perks of leveraging the giant come with some concern. Sixty-eight percent of those that sell on Amazon are *somewhat* or *very worried* Amazon will use their sales data to compete with them, highlighting the complicated relationship retailers have with the mammoth online marketplace.

SUMMERTIME IS PRIME TIME

Many Start Planning in June

Retailers often quip that the next holiday season starts on December 26. Based on the answers we received about holiday prep, a lot of work begins about six months in advance.

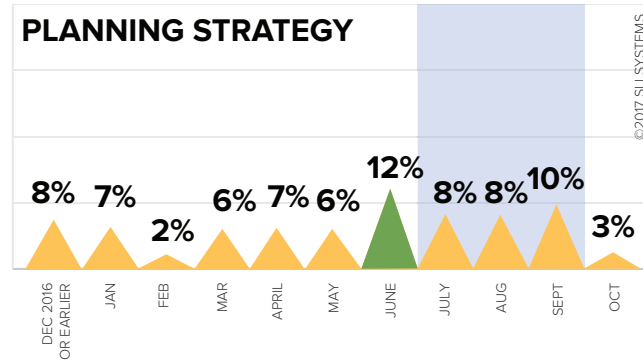
This year, **June**, chosen by 12% of respondents, is the most popular month to start **planning for the holiday season**.

June and **January** tied with 10% each as the most popular month to start **purchasing inventory**.

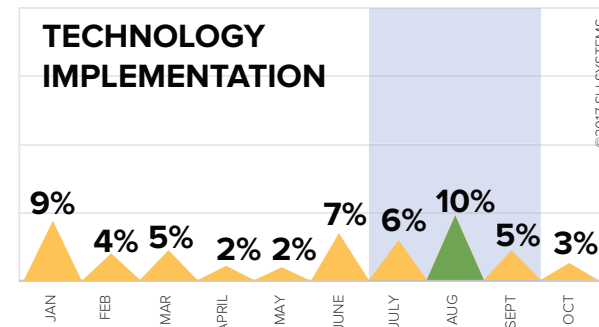
And **August**, also chosen by 10% of respondents, is the most popular month to start **implementing new technology** for the holiday season. January, a close second, was chosen by 9% of respondents – indicating some merchants are more cautious and start implementing new technology a whole year in advance.

Collectively, **July, August and September** are poised to be the busiest time for holiday prep with more merchants preparing to plan, implement technology and purchase inventory during Q3 than Q1 and Q2.

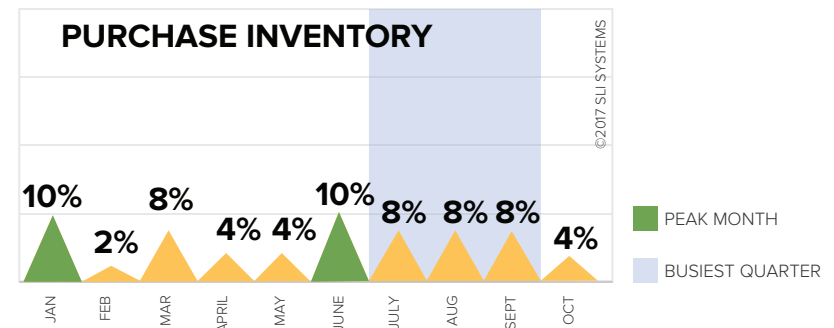
Every month showed some level of activity, signifying that preparing for the holiday season can and does occur throughout the year. In fact, 8% of respondents said planning for Holiday 2017 began in **December 2016 or earlier**.



During what month does your business start planning for the Holiday 2017 shopping season? N = 213



During what month does your business start implementing new technology for the Holiday 2017 shopping season? N = 213



During what month does your business start purchasing inventory for the Holiday 2017 shopping season? N = 213

Methodology

Results in this report are from an electronic survey conducted between May 4, 2017 to June 2, 2017. Percentages cited from the survey reflect rounding, up or down, to whole numbers. Findings in this report represent the opinions of the survey respondents only and are not intended to represent the opinions of SLI Systems or its employees.

SLI Systems requested survey responses from the same lists of retailers during Q2 as in Q1 2017, with a varying set of actual respondents. SLI Systems received qualified (online merchant / non-vendor or consultant) complete responses to the Q2 survey from 213 retail industry professionals worldwide.

A copy of the Q1 2017 EPIC Report is available for download at www.sli-systems.com/e-commerce-research.

About SLI Systems

SLI Systems (SLI.NZ) accelerates e-commerce for the world's top retailers by generating more traffic, converting shoppers into buyers and maximizing order values through solutions that improve site search, navigation, mobile, merchandising, personalization, recommendations and SEO. SLI is the most chosen SaaS-based site search provider to Internet Retailer Top 1,000 retailers.

The SLI Buyer Engine™ is a cloud-based, machine-learning platform that predicts what your shopper is most likely to buy, shortening the path to purchase. The SLI Commerce Console™ organizes key sales insight and tuning capabilities into one easy-to-use cloud-based console. SLI Systems operates on five continents, powering hundreds of websites and offering solutions in 20 languages. For more information, visit www.sli-systems.com. © 2017 SLI SYSTEMS

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