

EPIC REPORT

E-commerce Performance Indicators
and Confidence Report

2017 | Q3



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E-COMMERCE PERFORMANCE INDICATORS AND CONFIDENCE REPORT

2017 | Q3

While e-commerce confidence remains strong, increasing variations in expansion plans demonstrate how different regions are tackling e-commerce growth. In addition, although Customer Experience is still one of the top retail initiatives selected by respondents for Q3, it continued its gradual decline from Q1 and Q2 slipping into second place, below Replatforming, which moved into first place.

Predictions for increases related to e-commerce revenue and mobile sites and apps remain optimistic, though retailers are somewhat less aggressive in their predictions of large gains this quarter compared to the Q2 survey results. Variation in expectations between industries highlights where mobile is positioned for the most growth and where it's cooling off.

In this third quarterly EPIC Report, SLI Systems provides e-commerce industry survey findings from more than 200 e-commerce professionals. In addition, we look specifically at how e-commerce retailers and B2B sites are using Artificial Intelligence as well as how AI use might change in the near future. Finally, we provide a sneak peek at holiday sales and revenue predictions as retailers gear up for 2017 Holiday Season.

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 Q3 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:**
 - **Artificial Intelligence** – With Artificial Intelligence (AI) making headlines worldwide, we take a look at retailers' plans for AI and its applications in e-commerce.
 - **Holiday 2017 Forecast** – As retailers gear up for the holiday season, we report on when holiday sales will begin and revenue forecasts for the peak shopping season.

HIGH-LEVEL EXPERTS WEIGH IN

Respondents Represent a Variety of Industries

SLI Systems received qualified (online merchant / non-vendor or consultant), complete responses to the Q3 EPIC survey from 234 retail industry professionals worldwide. Over 60% of respondents are with companies headquartered in the United States, followed by the UK, the Australia-New Zealand region and other countries in Europe.

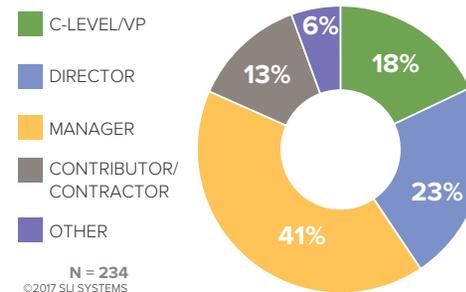
All respondents sell goods and services through at least one online channel, with 57% selling in brick-and-mortar stores and 47% selling on Amazon, providing a deep representation of omnichannel business models in this quarter's report.

Surveyed respondents work at numerous organizations spanning a variety of retail sectors. The three most represented in Q3 are **Apparel** (18%), which includes fashion, accessories and shoes, **Housewares / Home Furnishings** (9%) and **Hardware / Home Improvement** (8%). **Computers / Electronics / Cameras** and **Health / Pharmaceuticals** represented 7% and 5% respectively, while **Food and Beverage** and **Sporting Goods** were also prevalent, with 4% each.

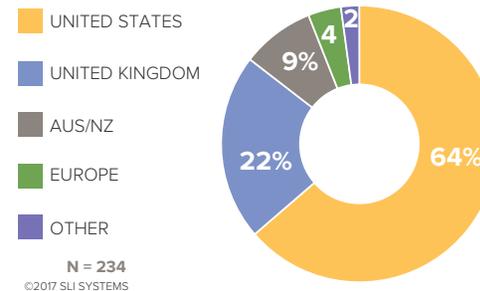
The Q3 2017 survey saw the most representation from retail professionals in e-commerce roles (40%), followed by marketing with 26%. Eighty-two percent of respondents work in a manager position or above, with 18% representing VP- or C-level positions.

Just under half (48%) of respondents reported their company's total annual sales to be above \$50 million (U.S.), with 15% generating above \$500 million. Thirty-seven percent of respondent businesses sell 1,000 to 10,000 SKUs, with 25% selling 10,001 to 500,000 and 6% selling more than half a million SKUs.

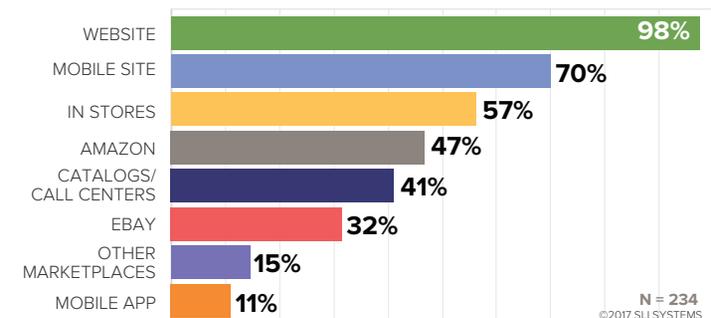
What is your role?



Where is your company headquartered?

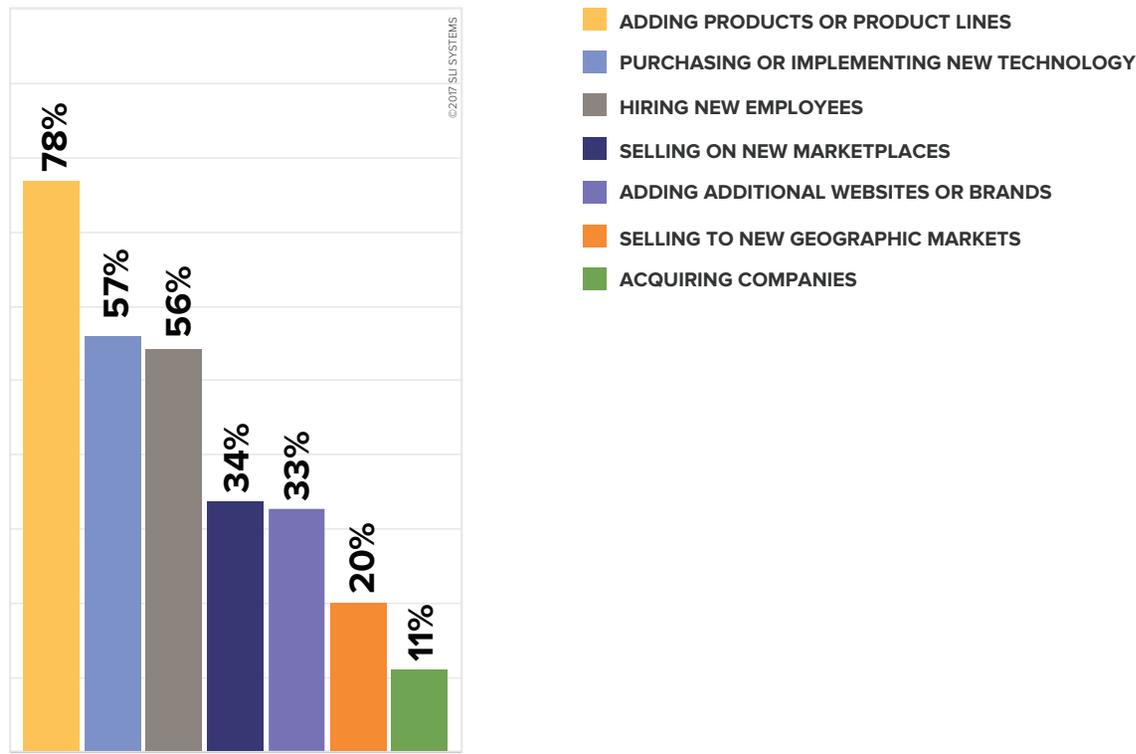


Which channels do you use to sell your products?



ONLINE RETAILERS REMAIN CONFIDENT

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 = 215

92% plan to grow in third quarter

Growth Remains Strong Quarter After Quarter

Overall confidence remains robust for the third quarter in a row with 92% of retailers surveyed planning growth in Q3. This is closely aligned to results from Q1 (94%) and Q2 (91%), showcasing planned growth stays relatively stable as the market prepares for the 2017 holiday season. **Adding Products or Product Lines** keeps its place as the top choice for growth with 78% of respondents reporting plans to add to the number of products or product lines they offer, while **Acquiring Companies** continues to receive the lowest priority, remaining at 11% in Q3.

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Plans to Sell to New Geographic Markets Drops to 20% from 30%

Globally, other areas of expansion also hover close to second-quarter forecasts with a few notable exceptions. **Selling to New Geographic Markets** experienced the largest drop moving to 20% in Q3 from a stable 30% in the first and second quarters. **Purchasing or Implementing New Technology** (57%) and **Selling on New Marketplaces** (34%) both dipped from 60% and 37% respectively.

Geographic comparison of the data highlights the diverse ways online retailers are achieving growth. One exception to regional variation involves plans for **Adding Additional Websites or Brands**, in which most sectors moved closer to the global average. This quarter U.S.- and UK-based respondents closed the gap between them with respect to adding additional websites or brands. More specifically, in Q3 only a modest difference of 5 percentage points remained, with 34% and 29% of U.S. and UK respondents, respectively, reporting plans to expand via this avenue. This marks a significant change compared to Q2 when respondents from these regions were 16 percentage points apart. Retailers

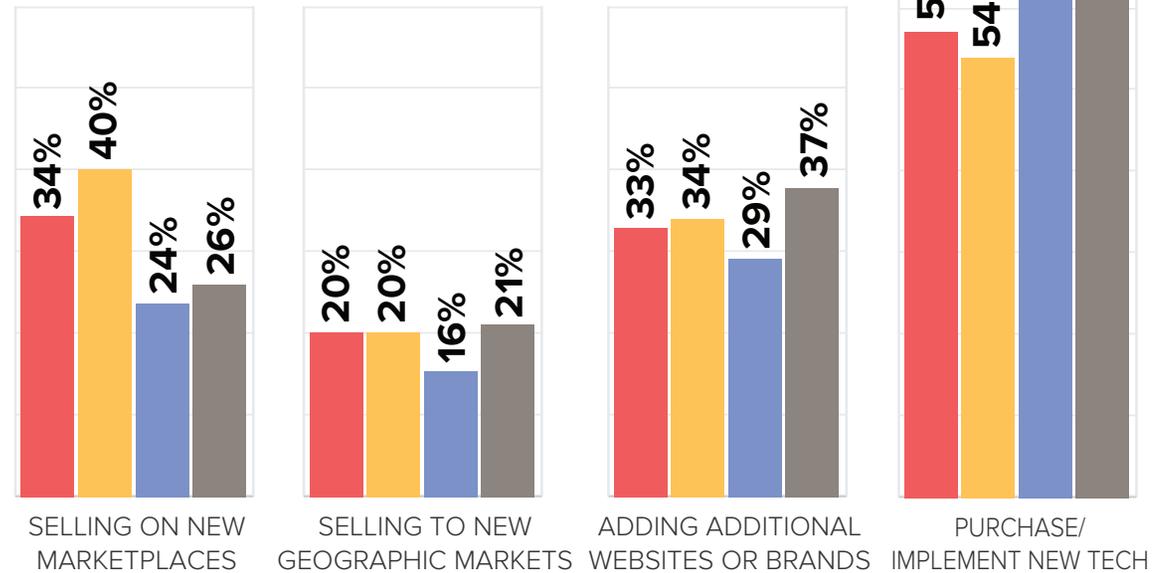
from the Australia-New Zealand (AU-NZ) region, on the other hand, are slightly more aggressive regarding this area of expansion with 37% of respondents planning to add additional websites or brands in Q3.

Selling to New Geographic Markets was another area that showed regional alignment. That's where regional similarities end, however.

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- GLOBAL
- UNITED STATES
- UNITED KINGDOM
- AUSTRALIA/NZ



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. Global N = 234; Top 3 Regions N = 202

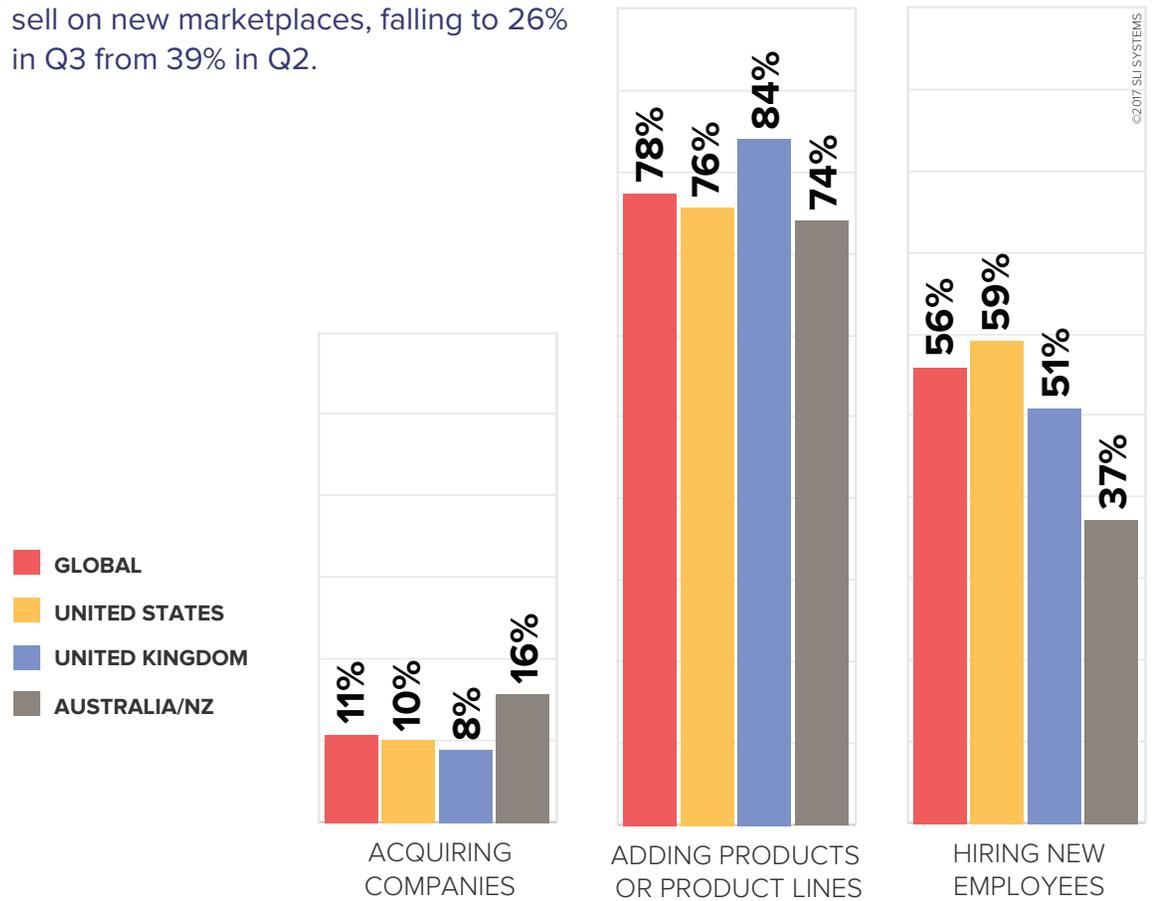
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U.S. responses reflect stability in **Purchasing or Implementing New Technologies** dipping only 3 percentage points in Q3 to 54%. By contrast, 67% of UK-based respondents plan to purchase or implement new technologies in Q3 compared to 48% in Q2, reflecting a near twenty-point increase for UK-based companies. In the AU-NZ region, however, focus on expansion in this area dropped significantly to 63% in Q3 from 83% in Q2.

A similar pattern surfaced for **Hiring New Employees**, with U.S. responses staying close to the Q2 EPIC survey results (59% in Q3 vs. 55% in Q2). However, the number of UK-based respondents noting plans to hire new employees rose to 51% in Q3 from 41% in Q2. And in the AU-NZ region, expansion plans once again cooled off. Only 37% of AU-NZ-based respondents expressed plans for hiring new employees in Q3 compared to 78% in Q2.

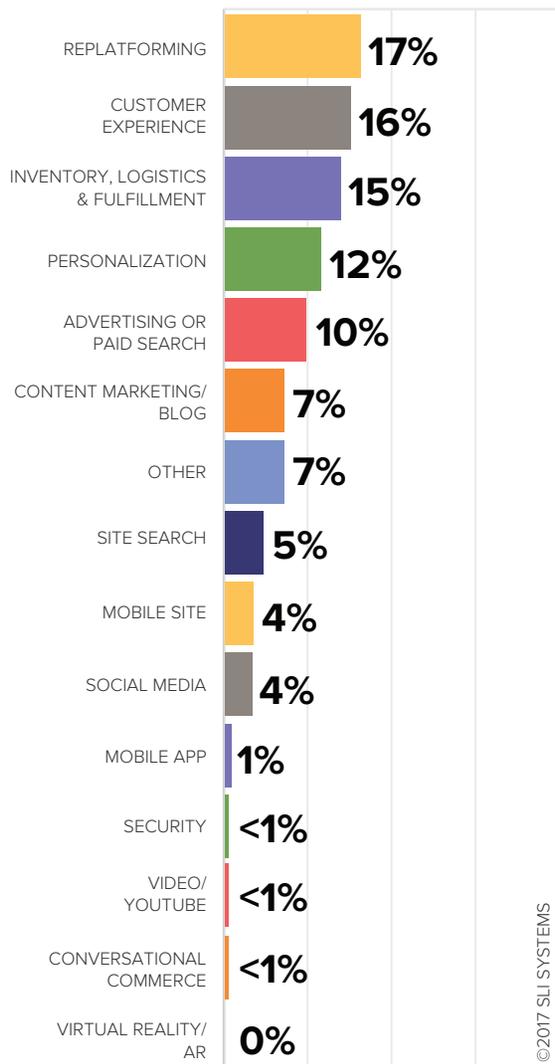
More regional differences occurred in **Selling on New Marketplaces** with U.S.- and UK-based retailers reporting no

change to Q3 from Q2 plans, staying at 40% and 24%, respectively. But the AU-NZ region experienced a dramatic drop in those expecting their companies to sell on new marketplaces, falling to 26% in Q3 from 39% in Q2.



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. Global N = 234; Top 3 Regions N = 202

CUSTOMER EXPERIENCE EDGED OUT OF TOP SPOT



What is your most important e-commerce initiative this quarter? Choose one. N = 234

Replatforming Replaces CX as No. 1 Initiative

While **Customer Experience (CX)** remains near the top of most-important initiatives selected by respondents, it declined for the third quarter from 26% in Q1 and 20% in Q2. This quarter, CX slid into second place with 16% of respondents choosing it as their number one initiative. This shift places it just below **Replatforming**, which received votes from 17% of those surveyed for the second quarter in a row. Combined with a steady hold on third place by **Inventory, Logistics and Fulfillment**, up to 15% in Q3 from 11% in Q2, these numbers could indicate online retailers are preparing for the 2017 holiday season by focusing on the things that matter most to their customers and their shopping experiences.

Personalization jumped to 12% in Q3 from 8% in Q2 and **Advertising or Paid Search** increased to 10% in Q3 from 7% in Q2, supporting the idea

that while CX may have dropped slightly in the rankings, online retailers know the customer is still king.

Mobile Site also continued to drop in the rankings slipping to ninth place in Q3, with only 4% of respondents selecting it as their top initiative this quarter. This move from eighth place in Q2 and third in Q1 signifies a steady change for Mobile Site over the course of the year. And for mobile, the news doesn't end there. **Mobile App** fell closer to the bottom as well, with only 1% of respondents most focused on it in Q3 compared to 4% in Q2. This drop from last quarter placed Mobile App in eleventh place, down from its steady hold on the ninth-place slot in both Q1 and Q2.

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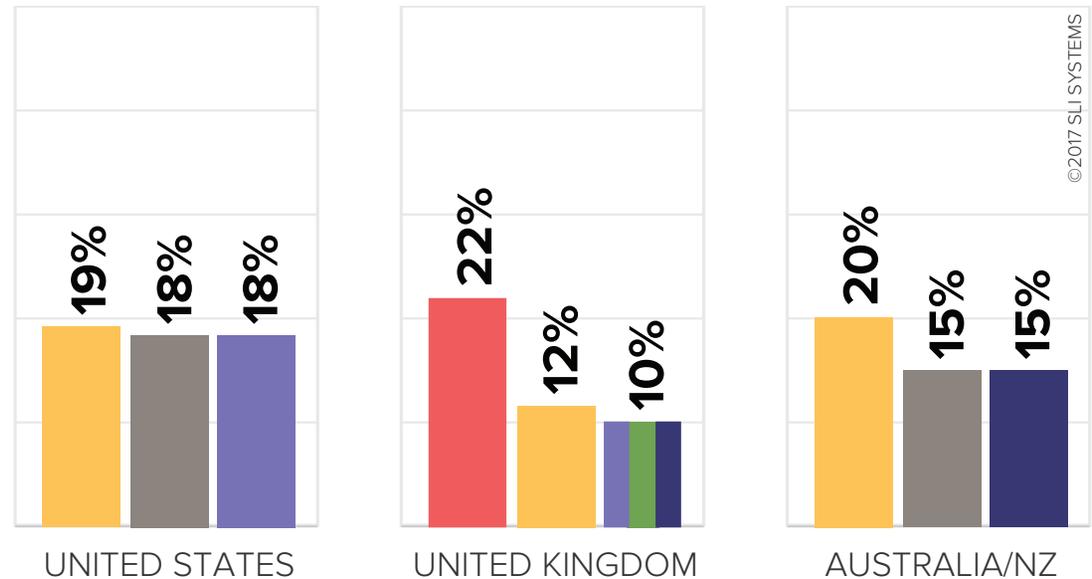
Notably, with fewer than 1% of respondents selecting them as priorities, **Video / YouTube** and **Security** both maintained spots near the bottom of the list, while for the third quarter in a row **Conversational Commerce** (<1%) and **Virtual Reality / AR** (0%) remained the lowest priorities for e-commerce professionals.

UK Focuses on Personalization

Cross analysis by region depicts clear distinctions in what surveyed retailers selected as their top initiative for Q3. While respondents in both the U.S. and AU-NZ regions ranked **Replatforming** as their top initiative with 19% and 20% of responses, respectively, UK-based respondents chose **Personalization** (22%) as their number one goal, with Replatforming coming in a distant second (12%). For respondents in the U.S., votes for their top three initiatives (Replatforming, Customer Experience and Inventory, Logistics & Fulfillment) were fairly evenly split while UK and AU-NZ respondents have clear favorites with their top choices standing out.

TOP PRIORITIES VARY REGIONALLY

What is your most important e-commerce initiative this quarter?



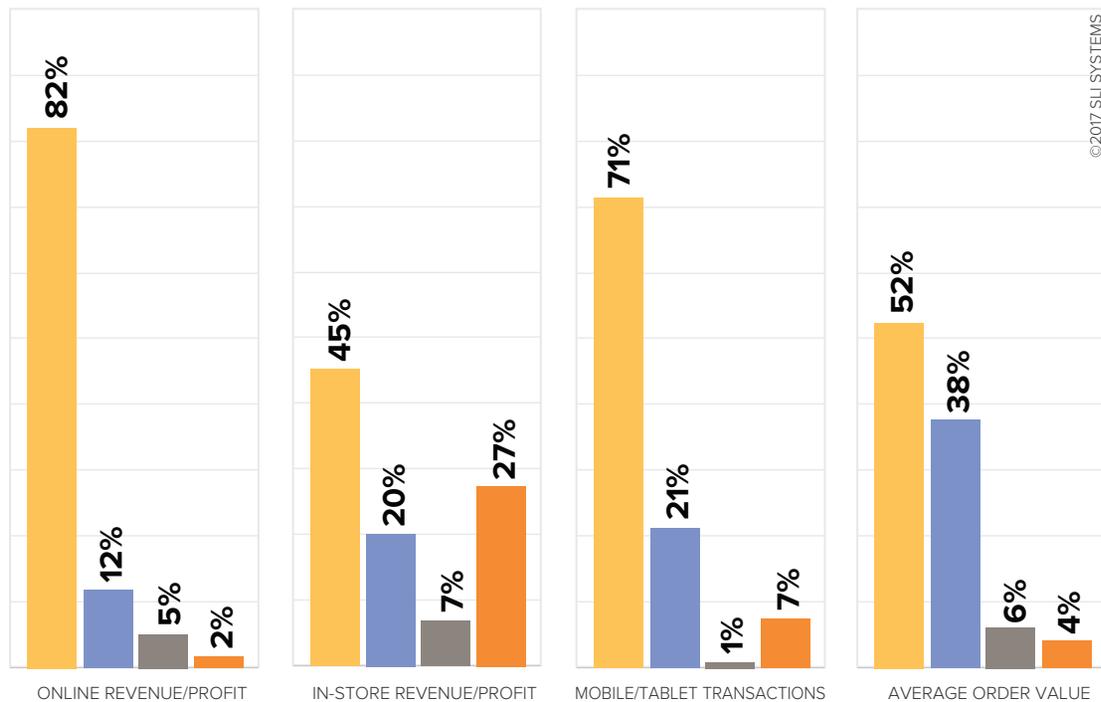
What is your most important e-commerce initiative this quarter? Choose one. N = 220

- REPLATFORMING
- CUSTOMER EXPERIENCE
- INVENTORY, LOGISTICS & FULLFILLMENT
- PERSONALIZATION
- ADVERTISING OR PAID SEARCH
- SITE SEARCH

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RISING EXPECTATIONS FOR ONLINE REVENUE AND PROFITS

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 = 234

82% expect online revenue/profit to increase vs 74% in Q2

UK Respondents Reveal Positive KPI Forecast

As in the Q1 and Q2 EPIC survey results, retailers are confident they will outperform themselves in Q3 2017 compared to the same quarter last year. Confidence rose or remained the same for most of the key benchmarks. Retailers expressed the most confidence in **Online Revenue / Profit**, with 82% expecting an increase in Q3. This reflects a solid increase from Q2 when 74% of those surveyed asserted they expected an improvement for this benchmark.

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- AN INCREASE
- NO CHANGE
- A DECREASE
- DOES NOT APPLY/ WE DON'T MEASURE THIS

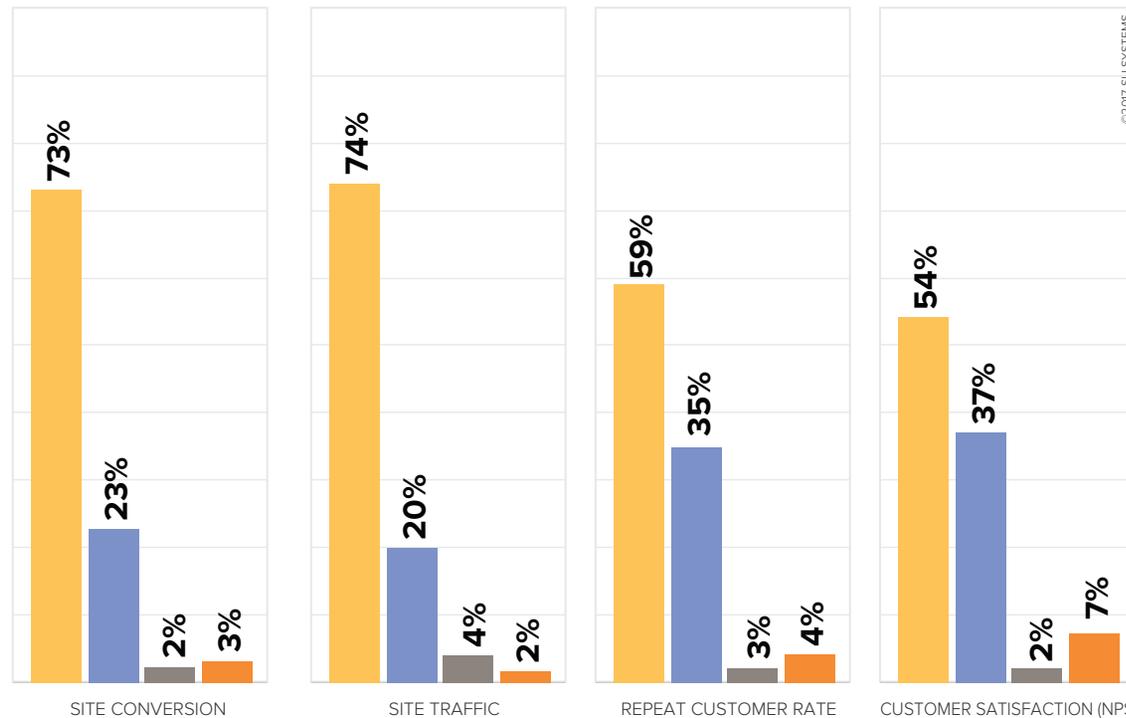
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While U.S. respondents exhibited more caution (77%), the predictions for Online Revenue / Profit were most bullish in the UK (96%) and the AU-NZ region (85%).

Site Traffic dropped to second place with 74% of retailers anticipating increases in this area, a slight dip from 77% in Q2. For the United States, the drop was more pronounced with only 67% of U.S.-based e-commerce respondents anticipating Site Traffic to increase, down from 75% in Q2. Once more, the news from respondents in both the UK (84%) and the AU-NZ region (85%) is more optimistic than responses from their U.S. counterparts.

Global expectations for **Customer Satisfaction (NPS)** experienced a similar dip, dropping for the second quarter in a row to 54%, down from both Q1 (59%) and Q2 (57%) survey results. However, predictions for increases rose for both **Site Conversion** (up six points to 73% in Q3) and **Mobile / Tablet Transactions** (rising to 71% from 69% in Q2), reflecting a possible belief by survey

participants in their customers' growing comfort with mobile transactions. Comparison of the data by region shows yet again UK-confidence trumps, with 84% of UK-based respondents anticipating an increase in Site Conversion and 86% an increase in Mobile / Tablet Transactions.



Compared to the same quarter last year, what results do you expect for the following key benchmarks this quarter? N = 234

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- AN INCREASE
- NO CHANGE
- A DECREASE
- DOES NOT APPLY/ WE DON'T MEASURE THIS

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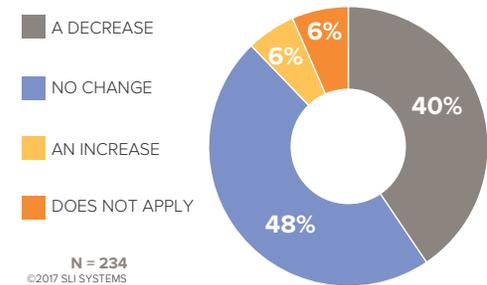
Brick-and-Mortar Confidence Rises Near Holiday Season

Expectations around **In-store Revenue / Profit** improved 6 percentage points from Q2, with 45% of respondents estimating a rise in Q3 profits compared to the same quarter last year. At the same time, only 7% of respondents noted an expected decrease in brick-and-mortar revenue / profit. This is a noteworthy change from Q2 when 14% of retailers anticipated an in-store revenue decrease. Regionally, the shift was even larger in the AU-NZ region where 65% of those surveyed anticipated in-store revenue/profit increases, up from 53% in Q2.

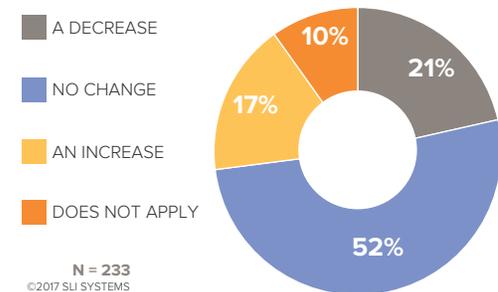
Overall expectations in Q3 around Bounce Rates, Cart Abandonment and Fulfillment Costs per Order illustrate the challenges e-commerce merchants face moving these metrics. More than half (52%) of Q3 respondents anticipate no change when it comes to **Fulfillment Costs per Order**, and 17% of those surveyed expect an increase. By comparison, 21% forecast these costs will decrease. Though fewer retailers expect an uptick in their **Bounce Rate** this quarter (6% in Q3 compared to 13% in Q2), almost half (48%) expect no change as compared to Q3 last year. The good news is 40% of respondents expect a decrease in Q3 2017 Bounce Rates compared to the same quarter last year.

Responses were similarly mixed for **Cart Abandonment**, with fewer respondents predicting a decrease (44%) and more expecting no change (42%) in Q3 than in Q2. Respondents anticipating an increase in Cart Abandonment dropped by half, with 6% of those surveyed this quarter predicting higher rates of cart abandonment compared to 12% in Q2.

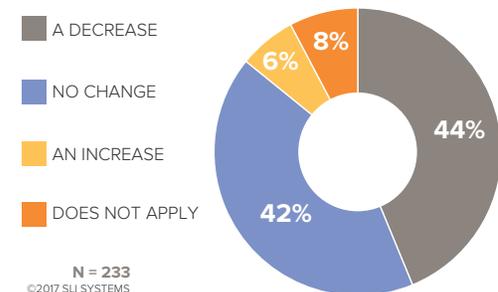
Cross tabulation by region shows a slightly different story. While globally respondents anticipated a 17% increase in Fulfillment Costs per Order as compared to the same quarter last year, UK- and AU-NZ-based respondents noted an expected 26% and 25% increase, respectively. When it comes to Cart Abandonment, more UK respondents expect a decrease (50%) than their U.S. and AU-NZ e-commerce counterparts, who forecast 41% and 40% respectively.



BOUNCE RATE



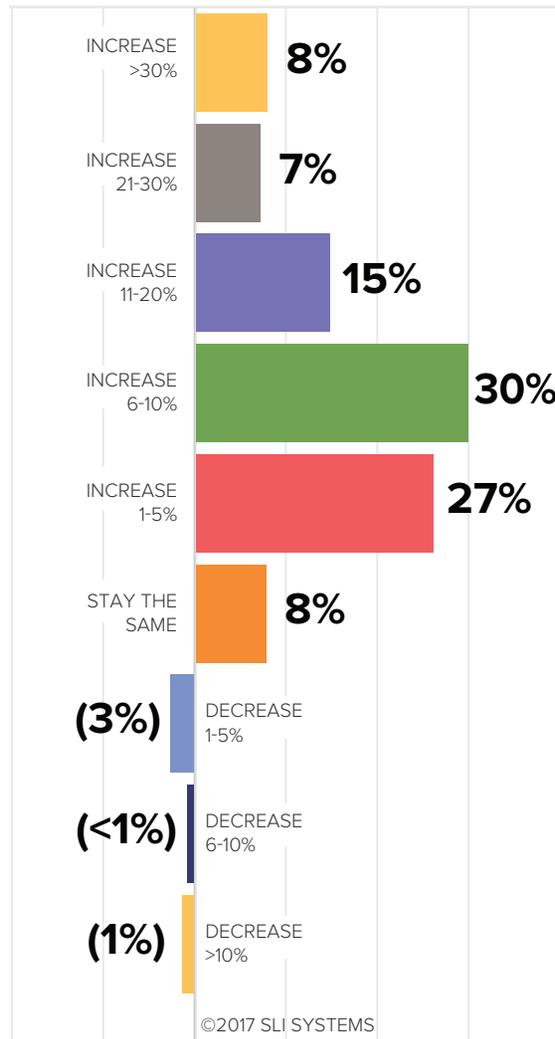
FULFILLMENT COSTS PER ORDER



CART ABANDONMENT

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

87% PREDICT E-COMMERCE REVENUE INCREASES



By how much do you expect your e-commerce revenue to change this quarter compared to the same quarter in 2016? N = 234

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

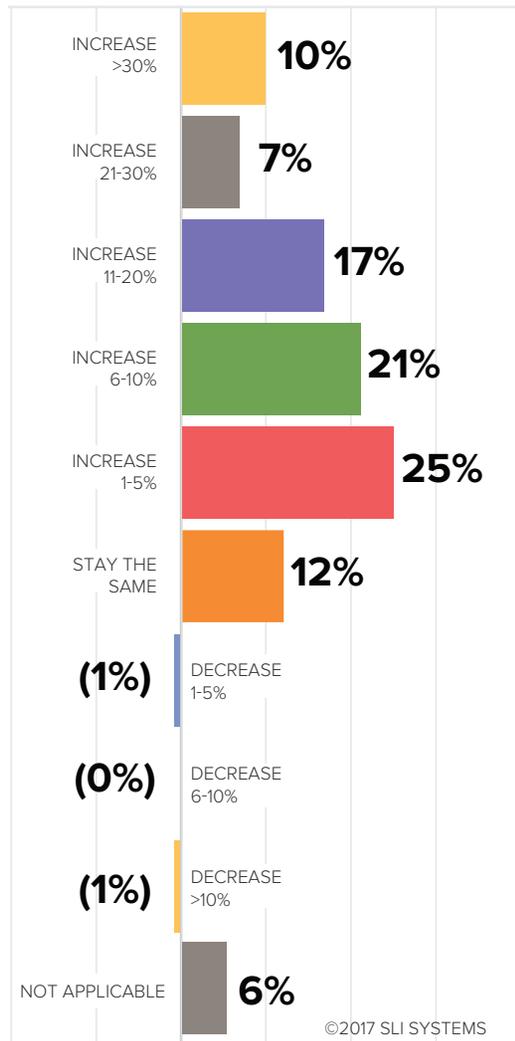
Once again, SLI asked survey participants how much they expected revenue to change in both e-commerce and mobiles sites and apps compared to the same quarter last year. We then gauged how these numbers compared with the Q2 EPIC survey results.

An impressive 87% of respondents expect their **E-commerce Revenue** to increase this quarter compared to the same quarter in 2016, comparable to Q2 responses. However, a breakdown by expectation level reveals an **increasing number** of respondents – 57% in Q3 compared to 44% in Q2 – favor modest improvements in revenue of 1-10%, while 22% expect increases of 11-30% (compared to 29% in Q2) and only 8% forecast their e-commerce revenue will rise aggressively (more than 30%), down from 13% in Q2.

Geographically, the UK remains the most optimistic regarding e-commerce revenue growth for the second quarter in a row, with 94% of UK respondents confident revenue will increase. Significantly, nearly one-quarter (24%) of UK respondents predicted growth to rise 21% or more. While still noteworthy, this is less aggressive than UK-based predictions in Q2 when a third (33%) of those surveyed expected this level of growth compared to the same quarter last year. Respondents in other regions were even less sure about growth at this level – 20% in the Australia-New Zealand region and 11% in the United States.

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MODEST GROWTH FORECAST FOR MOBILE



By how much do you expect revenue from mobile sites and apps to change this quarter compared to the same quarter in 2016? N = 234

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

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Predictions of growth related to small-screen transactions remain strong in Q3, with 80% of retailers surveyed reporting expected revenue from **Mobile Sites and Apps** to increase compared to the same quarter in 2016. While fewer retailers expect moderately aggressive growth (over 21%) of revenue — 17% in Q3 compared to 22% in Q2 — only 2% of respondents foresee a drop in mobile revenue, an indication retailers anticipate consumer confidence in mobile site and app transactions to grow.

A look at the most-represented industries this quarter shows all five expect mobile revenue growth (87%). **Hardware / Home Improvement**, the third most-represented industry, anticipates the most mobile revenue growth, with all of the respondents

from the industry predicting an increase. **Apparel**, which includes fashion, accessories and shoes, remained the most-represented industry, and its constituents also predicted a substantial boost in mobile revenue, with 93% anticipating some increase and almost one-quarter (22%) predicting a revenue boost of 21% or more.

All survey respondents sell online, but 6% said they don't sell via mobile.

MORE THAN HALF OF ONLINE RETAILERS ALREADY USE OR PLAN TO ADD AI

Everywhere you look, advancements in artificial intelligence and related applications are making headlines. So how does this affect e-commerce businesses? SLI Systems set out to answer this question by exploring how e-commerce merchants are using or plan to use **Artificial Intelligence (AI)** in the near future. To find out how the AI phenomenon is impacting online merchants, we also queried retailers about their understanding of how AI can be applied to both e-commerce in general and their business specifically.

Their answers were revealing.

While many online retailers have already implemented or plan to embrace AI applications to enhance customer experience, there exist substantial opportunities for growth and education in the AI e-commerce arena.

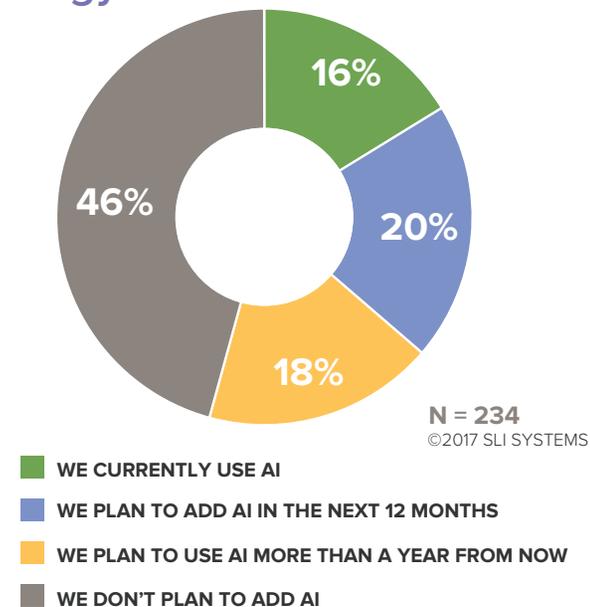
More than half surveyed (54%) reported their company either uses or plans to add AI in the future, with the largest group of these respondents (20%) expecting to add AI within the next 12 months. Of those planning to implement AI, only 13% anticipate building their own technology. Sixty percent plan to buy existing technology, and 27% expect to use a combination of the two.

Online retailers proved to be an AI-savvy group, with 76% of respondents saying they understand how AI can be applied to e-commerce in some way. However, there is still room in the e-commerce space for AI to grow — about a quarter (24%) reported not understanding how AI can be applied to e-commerce at all, and more than one-third (39%) said that while they understand AI's e-commerce applications, they weren't sure how it applied to their specific business.

These responses reveal an opportunity for online retailers to learn about and implement emerging and existing AI applications to improve CX *and* the bottom line.

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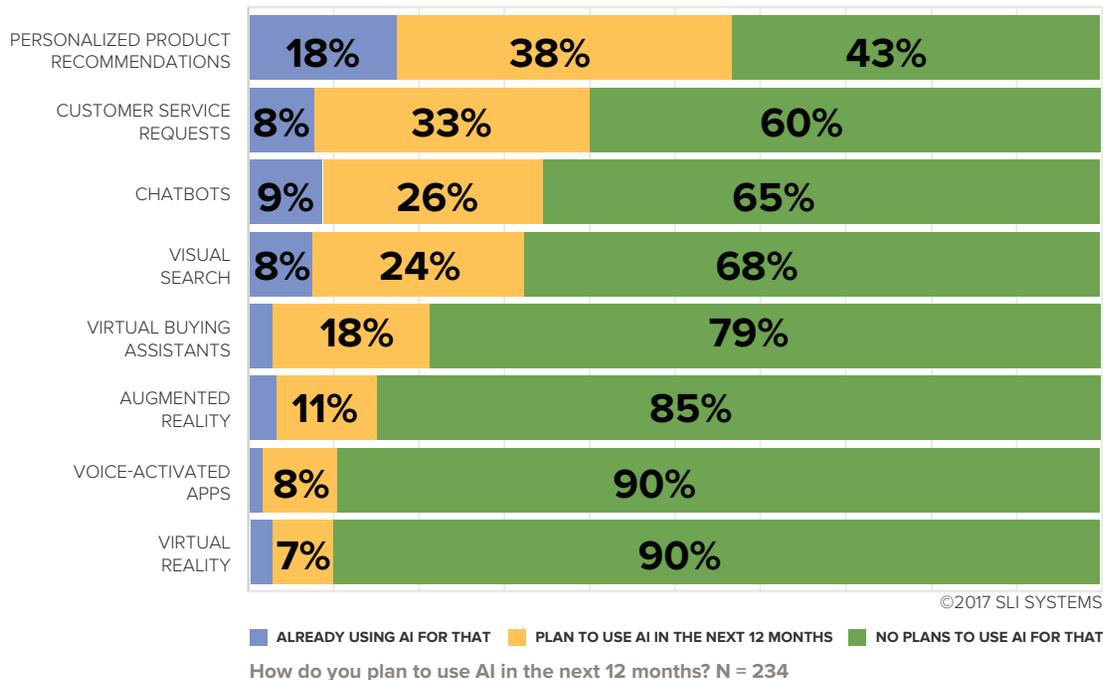
Do you plan to add AI (artificial intelligence) to your e-commerce strategy?



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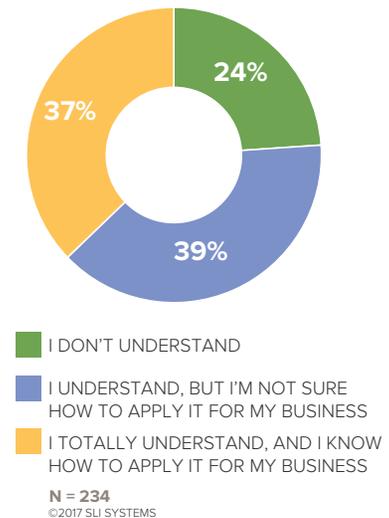
When asked about their plans for AI, retailers reported the most-popular applications — ones they were already using or planned to use in the next 12 months — were **Personalized Product Recommendations** (56%), **Customer Service Requests** (41%) and **Chatbots** (35%). However, not all AI apps are popular on the e-commerce front. A large percentage of respondents expressed no plans to use AI, now or in the future, for **Virtual Reality** and **Voice-Activated Apps** (90% each), **Augmented Reality** (85%) and **Virtual Buying Assistants** (79%).

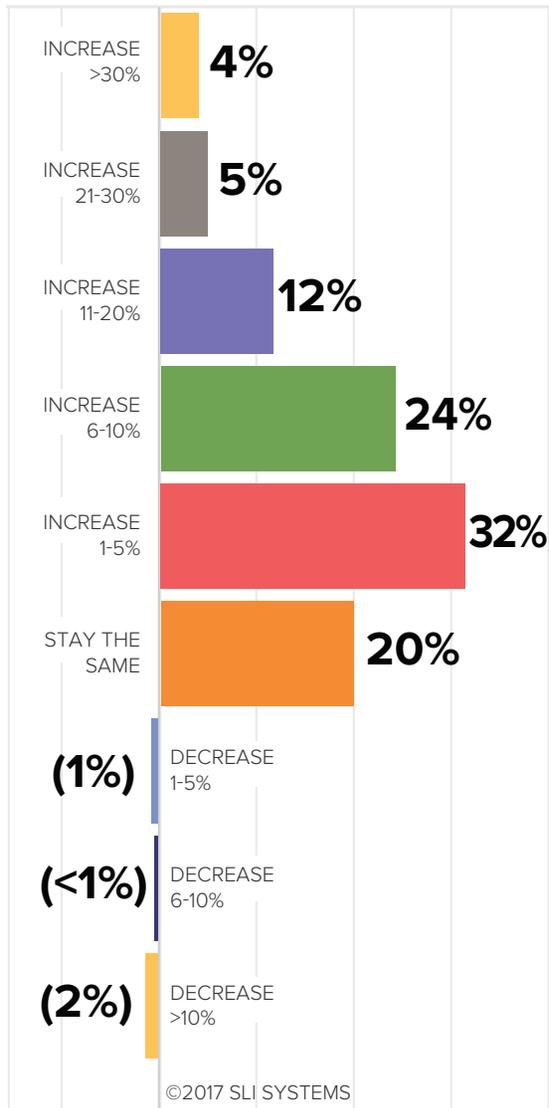
FAVORITE AI APP IN E-COMMERCE? PERSONALIZED PRODUCT RECOMMENDATIONS



Cross analysis by geographical region exposes where AI is hot and where it's been placed on the back burner. In the top three regions surveyed, current AI use is most prevalent in the U.S., with 17% of U.S.-based respondents reporting it is already in use. This is closely followed by the AU-NZ region (15%) and the UK (14%). Retailers in the UK, however, report the most aggressive plans for implementing AI with one-third (33%) expecting to leverage it within the next year, followed by the U.S. (17%) and the AU-NZ regions (15%).

Rate your own understanding of how AI can be applied to e-commerce.





By how much do you expect your holiday season revenue to change in 2017 compared to 2016? N = 234

OCTOBER IS THE NEW BLACK FRIDAY

Of the retailers surveyed who participate in holiday sales, 69% said their holiday sales will not begin earlier in 2017 than in 2016. However, nearly a third (31%) of those who participate in holiday sales said the 2017 holiday season will begin earlier than last year. This number is slightly higher in the U.S. (32%) and lower in the AU-NZ region (21%), indicating subtle market differences based on geography.

Twelve percent of retailers with a holiday sales season say their 2017 holiday season will kick off on **Black Friday**. But the traditional sales day falls short of when nearly a third (31%) report the 2017 holiday season will officially begin — the month of **October**. The **first week in November** is the single-most popular week to kick off the holiday season, with 19% stating that's when holiday sales will begin. And 13% say their holiday season begins **before October**. It's clear holiday sales are in full swing before **Cyber Monday** arrives with fewer than 1% of respondents

reporting it as the start of their 2017 holiday season.

Tis the Season to be Jolly: 77% Expect a Boost in Revenue

With only about 3% of respondents forecasting a decrease in holiday season revenue this year, 2017 is poised to ring many online merchants' bells. Collectively, 77% of those surveyed expect an increase in holiday season revenue this year. Most retailers are forecasting modest rises of up to 10% in holiday revenue, with only 4% of those surveyed anticipating aggressive revenue increases over 30%. In the UK, however, that number is 1.5 times higher (6%). In fact, UK respondents are the most jolly about revenue increases in the holiday 2017 season, with 82% forecasting increases compared to 80% of AU-NZ and 76% of U.S. respondents.

Methodology

Results in this report are from an electronic survey conducted between July 25, 2017 to August 23, 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 Q3 as in Q1 2017 and Q2 2017, with a varying set of actual respondents. SLI Systems received complete, qualified (online merchant / non-vendor or consultant) responses to the Q3 survey from 234 retail industry professionals worldwide.

Copies of the Q1 and Q2 2017 EPIC Reports are available for download at www.sli-systems.com/ecommerce-research.

The next EPIC survey will take place in Q1 2018. If you are an e-commerce professional and wish to participate, please sign up at www.sli-systems.com/ecommerce-survey. All survey participants receive a complimentary copy of the report.

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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