

Online Sales Continue to Boom as Digital Shift Continues

By Tim Parry

The times, they are a changin', especially when you look at the U.S. retail landscape.

Brokerage firm Credit Suisse said in an April research report that it's possible more than 8,600 brick-and-mortar stores will close their doors in 2017. If stores do close at the projected pace, Credit Suisse said it could mean the U.S. will lose more than 147 million square feet of retail space this year.

The main reason for the biggest decline in brick-and-mortar locations since 2008 is the seismic shift to digital shopping. Innovations in technology have made it easier for consumers to shop from a number of devices and have their order shipped to their location of choice in their desired timeframe.

Ecommerce Boom

The U.S. Commerce Department reported in May that online retail sales reached \$98.06 billion in the first three months of 2017. That's a 14.8% increase compared with the same quarter a year ago.

Excluding sales of automobiles and gasoline and in restaurants and bars, total retail sales reached \$792.09 billion in the first quarter, up 2.1% from the first quarter of 2017. Based on these figures, this means ecommerce made up 12.4% of all retail sales during the first quarter.

The government ecommerce growth figure is consistent with what retailers have told Multichannel Merchant. According to the 2017 MCM Outlook survey, merchants saw their ecommerce sales grow an average of 12.23% in 2016. And in some cases, it rose well above that average. Twenty percent of respondents said ecommerce sales grew 30% or more in 2016.

Ecommerce, while growing rapidly, makes up about 10% of retail sales, and Amazon remains far and away atop the heap. But lately Walmart, the world's largest brick-and-mortar retailer, has been trying to play catch up with the Seattle behemoth via its massive investments in ecommerce properties and technology.

How did your ecommerce sales grow in 2016?

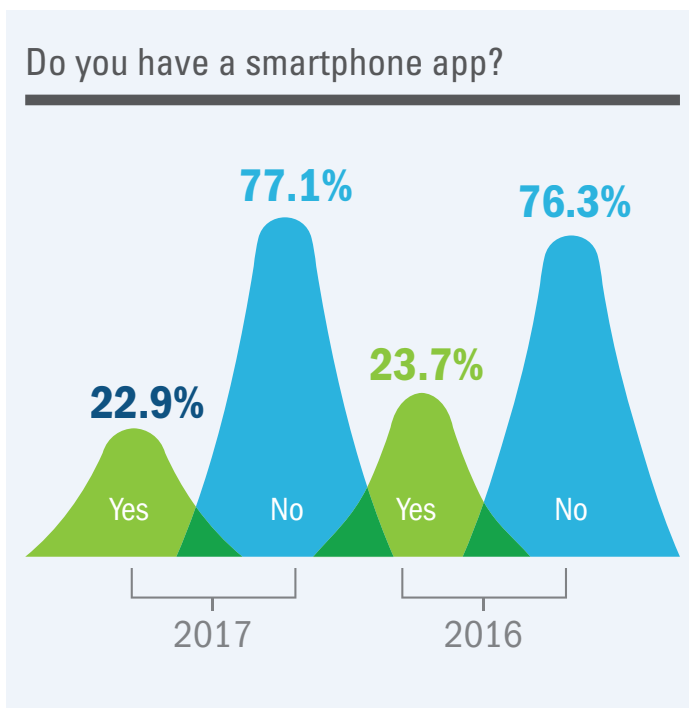


"With all the turmoil going on in retail, you'd think the world of legacy retailers and brands would be experimenting like crazy," says Richard Kestenbaum, a partner with business advisory Triangle Capital. "But the only major retailers we see creating drastic experiments are Amazon and Walmart."

In February, research firm Slice Intelligence found that 43% of all online retail sales in the U.S. went through Amazon in 2016. Amazon also accounted for 53% of all ecommerce growth.

The Elephant in the Room

Amazon has also grown to become the eighth-largest retailer in the U.S. with \$61.6 billion in sales in 2015, according to the National Retail Federation. Amazon's position will only grow. That's because Amazon has brick-and-mortar plans of its own: It has opened six Amazon Books stores in the U.S. with six more planned, and opened its first Amazon Go checkout-less convenience store in Seattle in December 2016. In May 2017 it opened AmazonFresh Pickup, again a Seattle pilot, where customers collect online grocery orders at a drive-through window.



The majority of 2017 MCM Outlook survey respondents (56.6%) said they have an omnichannel strategy in place. Just 16.7% of those respondents said their omnichannel operations were unprofitable.

For ecommerce retailers, Amazon is the elephant in the room, says Matt Grimm, director of ecommerce at outdoor furnishings retailer RST Brands. That's why retailers of all sizes need to create some sort of a selling partnership with Amazon, Grimm says.

Three out of four 2017 MCM Outlook survey respondents said they are marketplace sellers on Amazon.

"Amazon is always ahead of the game because

they've been doing it for so long," Grimm says. "They are far ahead with the convenience of checkout, the convenience of telling customers when orders will arrive, finding items, and finding reviews."

But no two retailers seem to be selling on Amazon's marketplace for the same reason. Grimm said RST Brands would not sell its \$6,000 18-piece estate sets via Amazon, but sees it as a lucrative market to promote its \$129 three-piece bistro sets.

Though it makes up just 5% of its total sales, Ian MacDonald, director and general manager at Silver Star Brands, said selling on Amazon's marketplace does help bring in new customers who haven't shopped with them before.

"If you Google any retail product there is a chance that Amazon will be the top result," MacDonald said. "I think a lot of the larger retailers struggle with that. My take on that is that the customer is going to order from wherever they want to order from. You kind of have to be on Amazon because that's where people are shopping."

Late to the Game

Walmart is on the defensive, even though the discount superstore's 2016 sales dwarfed Amazon, \$482 billion to \$136 billion.

Walmart reacted to Amazon's threat by beefing up its ecommerce opportunities. Last August, Walmart acquired marketplace newcomer Jet.com. Earlier this year it added a few more pieces to its ecommerce puzzle with acquisitions of online women's apparel seller ModCloth, online outdoor retailer Moosejaw and online footwear retailer ShoeBuy. Acquisition discussions are ongoing with trendy online men's fashion seller Bonobos.

"Walmart has come late to the game with radical change but they are hard at it now following the purchase of Jet.com and the multiple acquisitions that have followed," Kestenbaum says. "I think what Walmart wants to be because of these acquisitions is not formed yet and is not apparent."

In its first quarter earnings call in May, Walmart CEO Doug McMillon said the acquisitions have received a lot of attention, but its plan in ecommerce is not to buy its way to success.

"The majority of our growth is and will be organic,"

McMillon said. “The acquisitions are helping us speed some things up. We’re making progress in providing the seamless shopping experience our customer’s desire and we will keep moving along this journey.”

But there’s no doubt Walmart’s ecommerce strategy is working. That proof is with the 63% year-over-year ecommerce growth it reported for the first quarter of 2017.

For example, Walmart lowered its free shipping threshold to compete head-to-head with Amazon. Then it offered customers a discount for picking up online orders in the store, rather than having them shipped.

“I don’t think everything Walmart is doing right now will work,” Kestenbaum said. “But I think they’re recognizing that their existence is in danger and they need to try radical things to maintain their position as a leading retailer of enormous size.”

Walmart has also boosted its marketplace presence, most likely thanks to the Jet.com acquisition. In 2016, 8.8% of respondents to the MCM Outlook survey said they sell on Jet.com, and 8.8% said they sell on Walmart.com. In 2017, those numbers jumped to 9.4% on Jet.com and 21.9% on Walmart.com.

Although Adam & Eve parent company PHE doesn’t currently have plans with Jet.com, PHE Head of Ecommerce and Internet Marketing Director Glenn Mersereau said he continues to monitor it as an opportunity.

“I personally think that Walmart is finally gaining some momentum in this area with all of their past technology investments and recent acquisitions,” Mersereau said.

Pleasant Experiences, Right Prices

Kestenbaum said the world doesn’t need two Amazons. What it needs is different opportunities for consumers to find and buy their products with a pleasant experience at the right price.

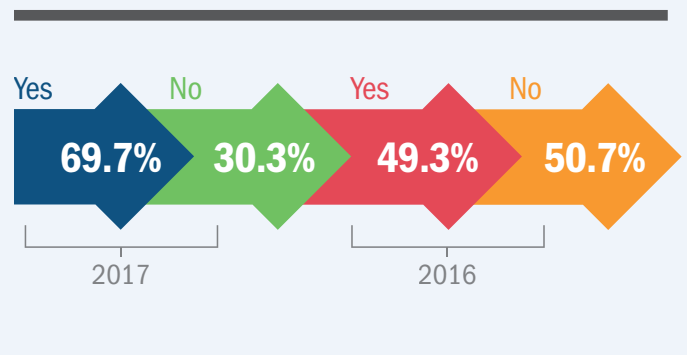
“Walmart has been outstanding at delivering product at the right price to the consumer for many years,” Kestenbaum says. “What they need to do now is develop the experience that customers have with Walmart, and that can take on many forms.”

One way merchants are achieving this is by thinking mobile-first when they redesign their ecommerce sites. More than half of the 2017 MCM Outlook respondents (55.9%) said they have a mobile-optimized site, and 38.2% said they have a separate m-commerce site.

Last year, PHE did a complete site overall. Its two big areas of technical focus are in reducing its mobile site loads times and in reducing friction in the check-out process.

“Mobile is our largest ecommerce channel, in terms of both sales and traffic,” Mersereau says. “In terms of all our internet marketing channels, whether it be search, email or social, we continue to have a mobile-first approach.”

Do you send shopping cart recovery emails?



RST Brands made itself an omnichannel retailer by tying a mobile text campaign to a line of patio furniture it sells in Costco. If a customer texts the word “Portofino” to 63975, he receives a text with a link to the complete collection.

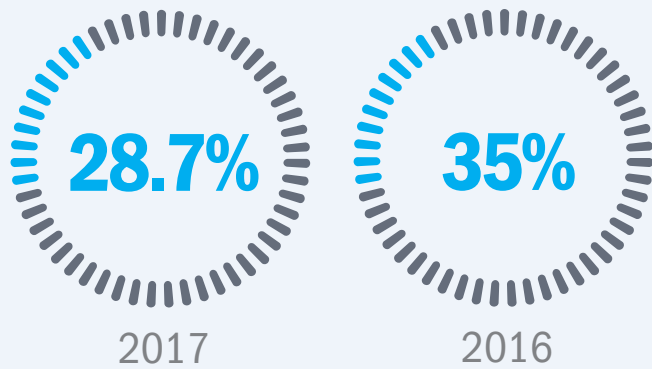
This allows a customer to make a spontaneous purchase when he sees and feels the actual collection.

“I think it’s just evolving to where smart retailers are becoming more educated,” Grimm says. “Understand that big furniture could be a really big inconvenience for somebody to try to figure out on a Saturday. They either have to borrow or rent a truck or rent a trailer to get the furniture set to their house, when they would much rather be able to see it in a Costco location, purchase it online and have it delivered to their house.”

Ryan Holm, marketing manager of backpack and accessories seller Mystery Ranch, says his company’s mobile-first overhaul cut out a lot of complexities and buying friction. In addition to adding videos, more copy and higher-definition images to the site, Holm said the shopping cart was reduced to a single page.

Though the single-page shopping cart is meant to curtail shopping cart abandoners, it is still something the

What percent of shopping cart orders are abandoned?



industry must deal with. Participants in the 2017 MCM Outlook survey ranked marketing to shopping cart abandoners at 6.4 out of 10 in terms of level of importance. More than three-fifth (69.7%) are sending shopping cart recovery emails. Aside from emails, 50% said they are retargeting abandoners with ads.

Holm said Mystery Ranch is using the Google AdWords pixel to recover cart and site abandoners. They will soon work with platform provider Oracle NetSuite to use Facebook's pixel as well.

Grimm said RST Brands sends out a series of three emails when a cart is abandoned. The first email is just a reminder that there is something left in the cart. The second one includes an offer of 10% off, and the third includes an offer of free shipping.

As of now, Grimm said the second email is the one that converts most of RST Brands' customers. But he's sure that will soon change.

"I'm really curious to see what happens over the next year or two because consumers are smart, they figure

things out," Grimm says. "Now they know that there's probably another offer coming, so they're willing to wait another 24 to 48 hours."

PHE gives its mobile shoppers the ability to easily email their cart in order to facilitate a checkout on desktop. "At this point the use is low, but we continue to feel that this is an opportunity," Mersereau says.

The Voice

As soon as merchants get a hang of modern technologies, something else comes along to take its place, or render it obsolete. It seems the Internet of Things has the potential to shake things up, but how soon will that happen?

It could be as early as yesterday, if you ask MacDonald.

"I had shaving cream on my face and I said, 'Alexa, reorder shaving cream,'" MacDonald said, referring to the Amazon Echo Dot virtual assistant he used to make a purchase. "She just looks at your Amazon history and reads back the name of the last one I bought, and asked to confirm it. I said yes, and it shipped."

Between Amazon's offerings, Google Home, Apple's Siri and even Sears's heavily-discounted Alfie by Kenmore, consumers can order by voice without a keyboard or a screen. But will adoption levels be swift, or will these virtual assistants become the next shiny object for ecommerce marketers?

"I think Alexa is a little too cutting edge for a lot of shoppers," Holm says. "The adoption rate is a lot lower than the industry understands. It's like Apple Pay or PayPal One Touch. If people have to use it they will, but if they aren't comfortable using it and they have another option, they won't."

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