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Five Retail eCommerce Trends To Watch In 2011

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EXECUTIVE SUMMARY

2010 marked a year of significant changes in the Internet landscape (primarily with the growth of social networks and mobile devices); these changes forced retail executives to think hard about the implications for their web businesses. 2011 will be marked by an even more disciplined approach toward multichannel retailing, investments in mobile and tablet presences, and scaled-back expectations for the role of social networks in retail. Retailers will also find opportunities in launching marketplaces (similar to Amazon.com's) and in investing in emerging tactics such as conversion marketing.

2011 WILL BE A YEAR OF MORE MOBILE AND MULTICHANNEL ECOMMERCE

Online retail continues to grow at a healthy double-digit pace, a fact capped by the most successful online holiday season ever in Q4 2010.[1] eCommerce consequently has become a critical component of the strategic plans of the largest retail organizations. It is not uncommon for the eyes of multiple C-level executives (CIOs, CMOs, CFOs, COOs, and, of course, CEOs) to now consistently — and frequently — fall on the web division, which is often the growth driver for the entire organization.

However, retail executives also find themselves in need of guidance with respect to continuing their eCommerce divisions' growth, particularly in a rapidly changing environment. 2010 was marked by significant developments in the web world that raised important questions about how online retail would change. Among the most significant: consumers' continued growing adoption of social media and the introduction of tablet devices like the iPad and Samsung Galaxy Tab. Those changes, as will several others, will certainly continue to be popular topics of discussion through the next several months. We anticipate that the most pressing (and promising) developments to happen to the retail eCommerce landscape in 2011 will be:

- **The growth of the multichannel monster.** A growing number of retailers are becoming increasingly multichannel as more of their sales are coming through their web divisions than ever before. This has been an ongoing trend as the web channel has outpaced the sales of the physical retail channel for years (see Figure 1). But much of that growth is actually coming during critical time periods, like Christmas, explicitly at the expense of physical store sales. In a survey that Forrester conducted with Bizrate Insights in December 2010, 49% of recent online shoppers agreed with the statement "I shopped in stores less because I shopped online instead" when thinking of their Thanksgiving shopping experiences.[2]

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Forrester anticipates that this trend will continue as more consumers are familiar with shopping online, consumers learn to purchase more categories online, and weak retailers are shaken out of the retail environment in categories like books. Furthermore, multichannel will become an even greater imperative as increasingly portable devices enable easy access to connectivity from anywhere.

- **The explosion of tablet commerce.** In spite of the fact that the iPad was only introduced in the spring of 2010, it immediately proved to be a formidable driver of traffic through mobile devices. Many retailers report that already half of what they consider to be mobile traffic is coming through tablet devices (see Figure 2). This is likely to lead to a new subset of mobile commerce: tablet commerce (you read it here first: T-commerce). This new development is due to an inherent weakness of smartphones: Their smaller form factor creates a challenge to buy anything that requires consideration via an app or mobile website.

  So what to make of smartphones and m-commerce? M-commerce will also continue to grow but for different reasons. Though consumers are less likely to use their phones than their laptops or desktops to browse the Internet — for now — they will use their phones to supplement the store shopping experience driving incremental web traffic that did not exist before.[3] Tablet devices on the other hand will grow by capturing share from traditional PC web traffic by untethering shoppers from their desktops, enabling easy browsing in a living room, during a bus commute to work, or at an airport.[4]

- **Investment in online marketplaces by retailers.** One of the most significant facts regarding eCommerce in recent years is how Amazon.com is growing faster than the rest of the eCommerce industry.[5] In spite of Amazon's aggressive pricing and shipping policies, it has been remarkably profitable. The driver of Amazon's profit is its Marketplace, a drop-ship model where Amazon captures orders without holding inventory or incurring any shipping costs (because the order is fulfilled by other merchants); Amazon also takes a revenue share of at least 8% of the price paid by the consumers (see Figure 3).[6] Amazon reports that these products are 34% of all units sold on the website.[7]

  Retailers that compete with Amazon have come to discover that offering marketplaces on their own sites is critical to driving margins and remaining competitive on the prices and the shipping fees of the items they do stock in inventory. Companies such as Buy.com and Walmart have introduced marketplaces, and we anticipate others in verticals such as apparel, toys, and sporting goods will follow suit. This strategy will help them to retain some of the market share they may otherwise lose to Amazon.

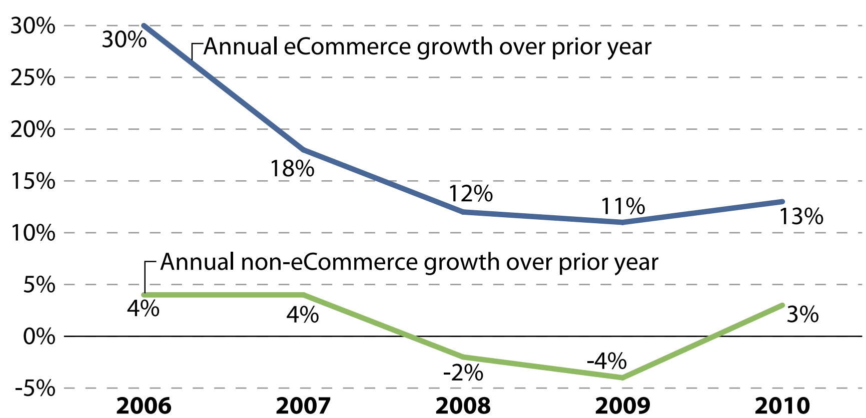
- **The mainstreaming of "conversion marketing."** Conversion marketing tactics are a series of specific actions taken by retailers to drive more customers and sales while shoppers are on their websites. The basis for this activity is rooted in behavioral ad targeting, which over the years has successfully enabled smarter display ads by factoring a shopper's clickstream paths and inferred intent. Innovative vendors and retail marketing executives have taken those insights and applied them to messages presented both in display ads throughout the Internet and specifically to visitors on retail websites.

For retailers looking to grow their conversion rates — which typically hover around 3% — conversion marketing provides opportunities to address the other 97% of visitors. Some examples include startups like Runa, which enable retailers to trigger offers to customers that are only valid for a current session (see Figure 4).

- **An increased level of skepticism around the role of social networks in driving sales.** While the promise of social networks in commerce has created a frenzy around S-commerce" (social commerce) and "F-commerce" (Facebook commerce), the reality is that those buzzwords have been more speculative than proven. For two years running, Forrester's research with Shop.org has shown that retailers have all created presences on social networks, but most have been unable to quantify the return on this investment and even fewer have found that social networks grow their business. Fifty-nine percent of retailers surveyed in Forrester's annual survey with Shop.org said that the returns on social marketing strategies are unclear, while 28% said that social marketing strategies broadly have helped them grow their businesses to date.

  To the degree that retailers find any benefit at all from social strategies, it is most frequently driven by tactics like ratings and reviews on a website rather than activities on social networks.[8] Finally, what may put the nail in the coffin: Social networks in fact ranked dead last on a list of 10 customer acquisition tactics when retailers were surveyed in our 2010 Shop.org survey.[9]

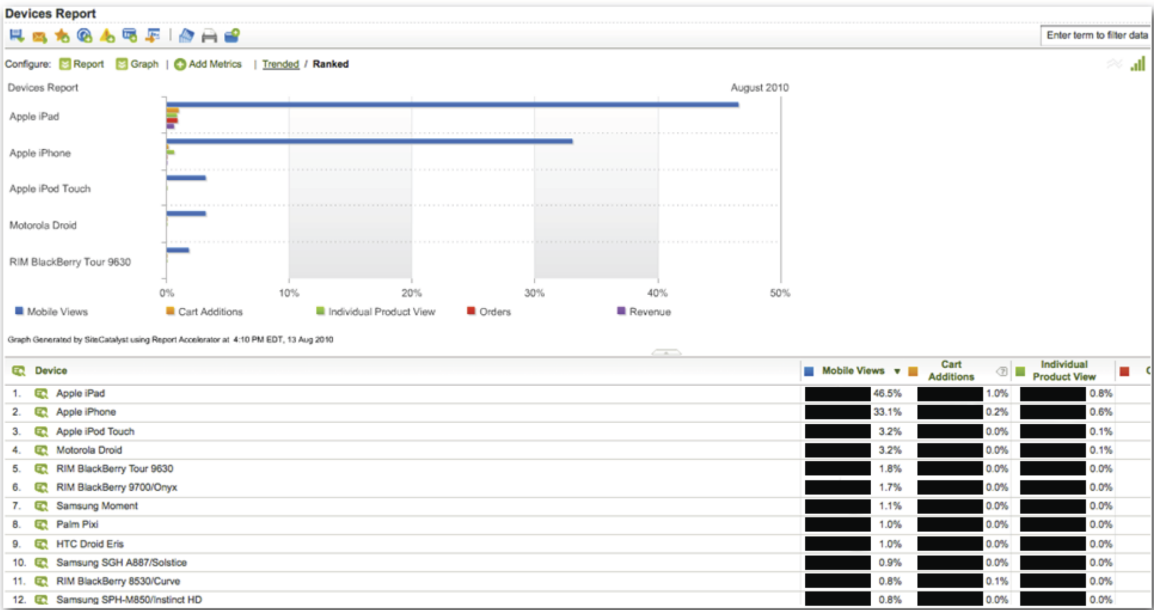
Figure 1 Web Growth Has Outpaced Non-Web Growth For Years



Source: Forrester Research Online Retail Forecast, 2009 To 2014 (US)

58459 Source: Forrester Research, Inc.

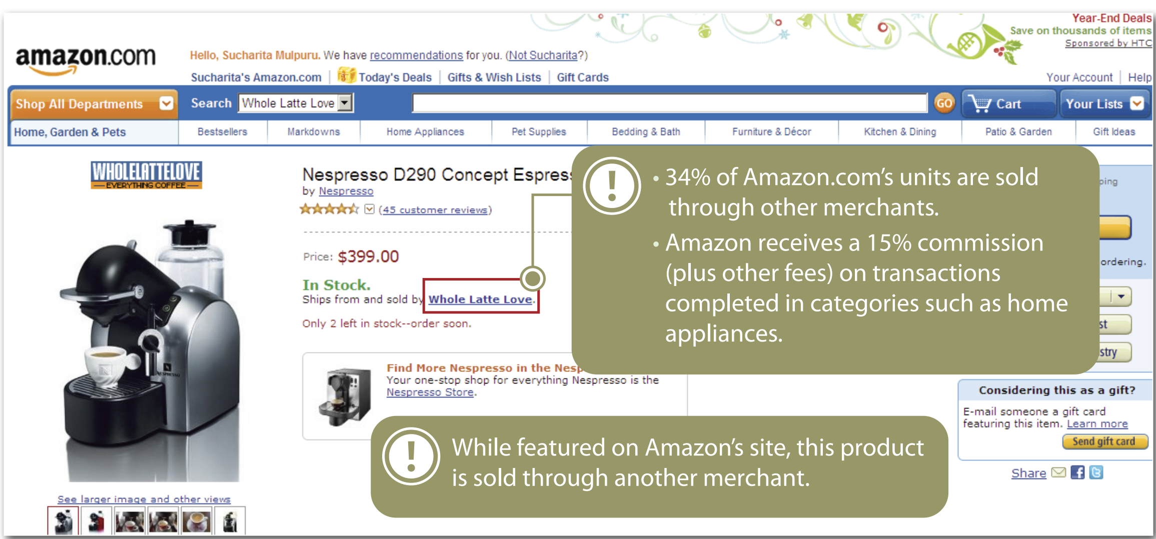
Figure 2 Example Online Retailer Mobile Traffic Report; Nearly Half From iPads



Source: Anonymous retailer data on Site Catalyst

58459 Source: Forrester Research, Inc.

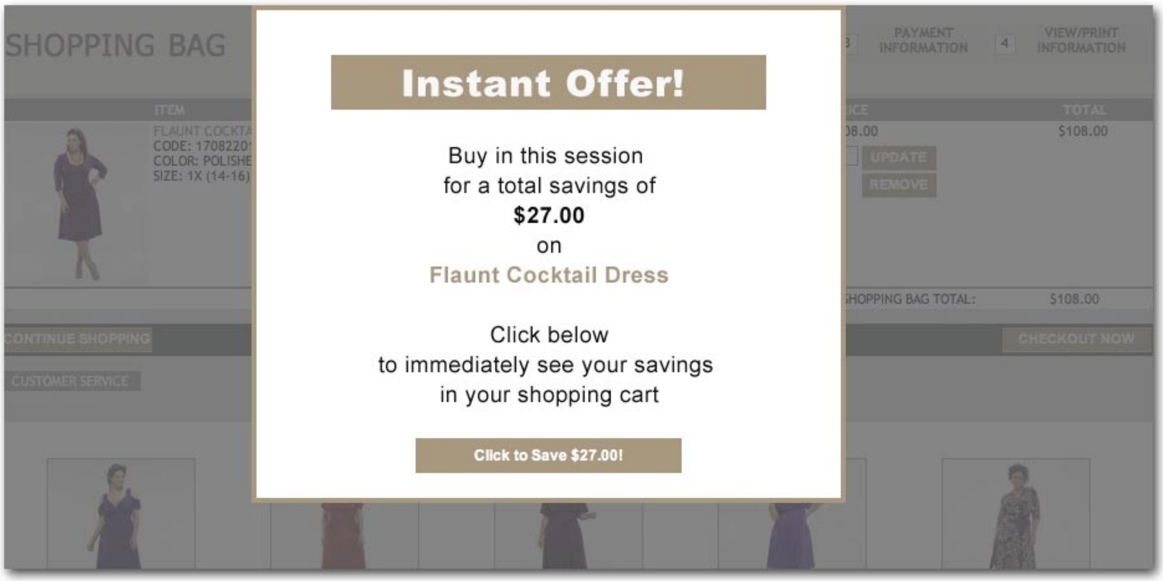
Figure 3 Amazon's Marketplace Has Proven To Be A Successful Profit Driver



Source: Amazon.com website

58459 Source: Forrester Research, Inc.

Figure 4 Conversion Marketing Enables Session-Specific Offers



Source: Runa website

58459 Source: Forrester Research, Inc.

RECOMMENDATIONS

SEPARATE THE HYPE FROM THE NEEDLE-MOVERS IN 2011

While smartphones and social networks may continue to be hyped by media reports and vendors, eCommerce executives will be well served to understand where tactics have been proven to drive sales and where they are speculative. In particular, eBusiness executives in retail should:

- **Ensure that you are set up for multichannel excellence.** Because the shift of sales from physical retail to web channels will continue into the foreseeable future, all retailers need to position themselves for this change. The multichannel shopper experience, however, continues to be lackluster. Best practices from superior multichannel experiences such as web-enabled kiosks or in-store pickup continue to be rare. In 2010, only 12% of retailers Forrester surveyed with Shop.org said they have such kiosks and 10% support same-day in-store pickup. With these modest metrics in mind, audit your store experience and put a road map into place that delivers against best-in-class solutions. Forrester's Cross-Channel Review is one measurement tool that helps to assess where a retailer's strengths and weaknesses in the customer handoff across channels may lie.[10]

- **Ensure that your QA process, especially for tablet devices, is solid.** The tablet trend is here to stay; over time, it will steal from PC-based web traffic. Forrester projects tablets (as a share of total PC sales) to nearly quadruple from 2010 to 2015.[11] To that end, retailers need to ensure that all pages, transaction forms, and form fields render as well from tablet devices as from any other browser. Given the increasing profusion of browsers and closed-end environments across PCs, tablets, and phones (driving what we call the Splinternet), simplicity in web page development is essential in order to help simplify the QA process overall.[12] Before considering — let alone implementing — any radical approach to rendering content, consider the implications for viewing and updating these pages across all the key browsers that shoppers use to access your content.

- **Focus your mobile phone efforts on multichannel and location-based strategies.** Because shoppers who own tablet devices are more likely to use them to surf, but mobile and smartphone owners are more inclined to use these to spearfish for specific content like store locations and hours, ensure that your phone content in particular delivers against location-focused objectives. Simplify those pages that render on smartphones to incorporate mapping and local information and consider partnering with startup firms like shopkick and Aisle411 that can help you reach shoppers when they are already far down the purchase funnel and likely to be looking for offers to supplement their shopping experience.

- **Consider the value of marketplaces.** Amazon has proven that the marketplace model can be highly lucrative and an essential component of one's pricing strategy (in Amazon's case, much of the profit from programs like its marketplace help to subsidize the company's aggressive shipping promotions on its owned inventory). While many companies already have drop-ship programs in place, every retailer — even those that are vertically integrated — should consider partnering with other merchants, distributors, and manufacturers for long-tail items like replacement parts, discontinued items, and difficult-to-find items to drive margins that are ever eroding in an online world of competitive pricing.

- **Invest more in "conversion marketing" tactics.** While retailers invested significantly in improving content in the last few years by investing in tactics like on-site search and rich imaging tools, companies that have mastered those features should think of taking advantage of algorithms that can now help determine who is likely to convert or what offer could be most effective in helping a shopper convert. This can be achieved by smarter offers rendered to customers based on their previous clickstream behavior, very similar to how behavioral targeting renders more relevant offers to customers in online display advertising. A slew of companies ranging from established players like Omniture to smaller companies like TouchCommerce are likely to be the go-to partners for objectives like this in the months to come.

- **Measure social network activity but don't hold your breath for sales.** The likelihood that social networks will drive digital commerce in 2011 when they've yet to exhibit any promise in this arena is limited. Nonetheless, it is still important to measure traffic from links that appear on sites like Facebook and Twitter. eBusiness professionals in retail should also make sure they can capture pass-through traffic — consumers who forward links to others in channels like email — and think about a longer attribution window to see if there is any increased effectiveness from social media marketing. While social networks are unlikely to be "the next Google," they are relatively inexpensive and high-profile. They, therefore, continue to capture mindshare among retail eBusiness professionals, despite not generating significant sales for most businesses.

ENDNOTES

1 Forrester's five-year forecast last published in Q1 2010 predicted a 13% growth rate for online retail in 2010 over 2009; online holiday sales were predicted to grow by 16%. See the November 9, 2010, "US Online Holiday Retail Forecast, 2010" report. Other sources ranging from Chase Paymentech's Pulse Index and MasterCard's Pulse Index also found the Q4 2010 online holiday spending season to be the largest on record.

2 Source: Forrester and Bizrate Insights Holiday Flash Survey.

3 While most consumers have not engaged their phones for any retail/shopping objective, the most cited activities that consumers say they do with their phones are to check store hours and locate a nearby store for a physical purchase. Source: North American Technographics® Retail Online Survey, Q3 2010 (US).

4 Thirty-one percent of US online consumers say that they would use the mobile Internet to purchase products if sites on the mobile Internet had all the same content and features as a standard website; 29% said they would purchase more on their mobile devices if the screens were larger. Source: North American Technographics Retail Online Survey, Q3 2010 (US).

5 Amazon.com's Q3 2010 SEC filing reflected a year-over-year revenue growth rate of 45% for its North America operation compared with Forrester's 11% annual eCommerce growth anticipated from 2009 to 2010.

6 The drop-ship model is where larger, bulky or high-value items are already shipped direct to consumers from manufacturers.

7 Source: Amazon.com's Q3 2010 SEC filing.

8 Social strategies are most frequently driven by tactics like ratings and reviews on a website rather than activities on social networks. See the February 25, 2010, "TechRadar™ For eBusiness And Channel Strategy Professionals: Social Commerce, Q1 2010" report.

9 The top customer acquisition source was search engine marketing, which was one of the top three sources of customer sales for 90% of retailers. See the July 29, 2010, "The State Of Retailing Online 2010: Marketing, Social Commerce, And Mobile" report.

[10] Cross-channel reviews uncover flaws that prevent users from accomplishing goals when their paths take them across multiple channels, like websites and interactive voice response (IVR) systems. See the July 31, 2009, "Executive Q&A: Cross-Channel Reviews" report.

[11] Source: Forrester Research eReader Forecast, 2010 To 2015 (US).

[12] The "Splinternet" is the result of the Internet splintering across proprietary platforms like the Apple iPhone and Google Android and social sites like Facebook that shatter the unity of the web by keeping their content invisible to search engines. See the January 26, 2010, "The Splinternet" report.