

# The Art And Science Of Retail eCommerce

## Executive Overview: The Retail eCommerce Playbook

by Fiona Swerdlow

December 16, 2016

### Why Read This Report

As retail eCommerce sales continue to climb, eBusiness executives must check all the boxes to ensure that they are not missing either opportunities for direct online sales or ways that this touchpoint affects others, such as stores. This playbook explores the overall state of the industry, best practices, technology partners, benchmarks, and recommendations to continue driving digital commerce growth.

This report is an update to the report of the same name published on September 30, 2015. We've refreshed the data with our latest forecasts.

### Key Takeaways

#### **eCommerce Is Critical To Digital Business Transformation**

US eCommerce continues to grow at a double-digit pace every year, taking share from physical retail stores bit by bit. It is not uncommon for retailers to see 15% to 20% of their sales coming via the web, with significant year-over-year growth. Retailers must embrace digital touchpoints, or they will struggle to adapt and grow their business to meet rising customer expectations.

#### **Companies Need Adequate Resources**

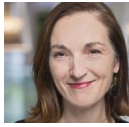
eCommerce teams must secure adequate technology, merchandising, fulfillment, customer service, and marketing support to drive sales efficiently, even with a limited pool of resources.

#### **Strong eCommerce Execution Is Now Table Stakes**

Consumers are now more likely than ever to visit a website prior to transacting in any channel. Retailers that haven't continually been improving and investing in the basics — a comprehensive view of inventory, easy search and navigation functions, and simple checkout — will risk losing their shoppers to competitors that are a more effective go-to destination for web research.

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## eCommerce Drives Growth In Retail

As more consumers gain access to the internet and own a variety of devices (e.g., smartphones and tablets) that enable them to access web content continuously, the steady shift to web-based and web-influenced transactions will continue.<sup>1</sup> In 2016, 98% of US adults with broadband internet access at home reported going online at least daily.<sup>2</sup> Furthermore, three-quarters of US online adults use a smartphone and about half use a tablet, meaning that consumers are accessing the web at home, at work, and on the go; they are no longer tethered to laptop and desktop computers to research and complete purchases.<sup>3</sup>

So what's the impact on retail sales? Forecasts show total retail sales growing 3.5% in 2016, whereas eCommerce is growing at a double-digit clip: By 2016, we expect that 11.6% of total US retail sales will occur online, climbing to 15.4% in 2020.<sup>4</sup> All told, in 2016, digital touchpoints are forecast to influence almost half of this \$3.4 trillion market.<sup>5</sup> With more consumers online and using more devices than ever before, eCommerce is fundamentally reshaping the retail sector:

- › **The web is altering channel preferences.** Consumers increasingly have an “online first” mentality in their shopping journeys: They begin their research online and supplement their search with web resources but may complete transactions either online or in-store. For example, in 2016, 48% of US online consumers reported that they read online product reviews at least weekly, compared with 21% in 2013.<sup>6</sup> Almost two out of three (65%) US online adults purchase physical goods online using a PC, smartphone, or tablet at least once a month.<sup>7</sup> Digital impacts nearly half of total US retail sales in some way: In addition to the 11% of US retail sales that consumers complete directly online in 2016, online research is influencing an estimated 38% of offline sales.<sup>8</sup>
- › **Retailers realize that a powerful transactional presence is a competitive advantage.** Retail has historically been constrained by square footage in stores and inefficient inventory management systems. Effective web tools now enable retailers to pick web orders from stores where inventory may not be moving quickly or save the sale when a shopper may not be able to find the particular item she is looking for in-store. These features boost overall sales, increase margins, and drive customer satisfaction and loyalty.

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- › **New retail forces are shifting industry dynamics.** The continued growth of large pure-play powerhouses such as Amazon has also shifted retailers' focus to the web channel. Not only are companies like Amazon increasingly a gateway to product research, but they have also introduced new ways to think about retail success: providing onsite advertising modules, selling competitive goods through lucrative marketplaces, investing heavily in logistics and operations, and leveraging shipping as a marketing program.<sup>9</sup>

**eBusiness Executives Need To Continue Gathering Resources To Grow**

eCommerce is two decades old, so retailers broadly understand best practices, and a substantial ecosystem of technology partners now exists to support eBusiness executives' merchandising and marketing needs. But to grow effectively, companies need to dedicate the appropriate resources and take additional measures to ensure that they put their best foot forward. They need to secure:

- › **Funding to support site development and marketing.** In a 2016 survey, 54% of US marketing decision-makers noted "limited budget" as a top organizational barrier to achieving their marketing priorities, more so than any other challenge.<sup>10</sup> To run their businesses today, retailers must engage the appropriate technology partners and also ensure that they have hired strong technology talent — and gained budget to secure that talent. In a web world that is far more crowded than any physical retail destination, even the most popular branded retailers need to secure and harness interactive marketing budgets to ensure that their companies are top of mind when consumers are at an early point in the purchase cycle.
- › **Talent to manage an effective eCommerce presence.** eBusiness leaders have grown their headcount on digital teams for years — though this trend appears to be evolving. Digital headcount in 2014 and 2015 plateaued at an average of 94 full-time employees who are dedicated to their online division worldwide.<sup>11</sup> eBusiness pros feel the talent pinch throughout their organization: IT (27%) and business analysis (22%) top the list of areas where they feel understaffed, but marketing (13%) and customer experience (13%) are pain points, too.<sup>12</sup>
- › **Senior-level support to eliminate channel conflict.** Savvy retailers are gradually blending digital and traditional teams in marketing, merchandising, supply chain, and store operations — and tapping their vendor partners to help. Companies with the strongest eCommerce organizations have digitally fluent C-level executives who champion and allocate resources to digital touchpoints, knowing they benefit overall sales. Firms must do more than pay lip service to digital/physical integration: Appointing an innovation officer can be a trendy bolt-on, whereas assigning executive accountability to manage the relationship between digital and physical channels signals a more fundamental change. Today, we see digital leaders taking on broader roles: Walgreens promoted digital head Sona Chawla to CMO before she vaulted to COO at Kohl's, and Sephora promoted Bridget Dolan to VP of its Innovation Lab after she successfully led its interactive marketing team.<sup>13</sup>
- › **Smart cost management.** Shipping costs have compressed margins for many web retailers in recent years, and innovative retailers have resisted passing those costs on to consumers by

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seeking out creative solutions (such as making shipping a marketing expense), allying themselves with retail consortia to drive some economies of scale (such as fee-based shipping clubs), or providing shipping benefits as part of a fee-based loyalty program.

## A Rock-Solid eCommerce Presence Is Now Table Stakes

eBusiness executives must have the appropriate tools and knowledge to execute a strong web presence that showcases their brand, helps shoppers research and buy, and enables store associates to assist those shoppers. As recently as 2015, some retailers that have been busy managing their store hypergrowth have only recently entered the eCommerce fray alongside the many traditional enterprises that are still catching up in digital.<sup>14</sup>

Consumers are constantly connected and research products online before completing purchases more often in every sector. This research often occurs in physical stores: 19% of online adults used smartphones to compare prices while in a physical store in the past three months and 17% to look up product information.<sup>15</sup> We crafted this playbook to address all the key elements of success. This playbook helps you (see Figure 1):

1. **Discover the importance of a best-in-class eCommerce business.** This playbook provides eBusiness executives with insight into the opportunity for eCommerce, its growth trajectory, and the current landscape that retailers face as they continue to navigate this channel.
2. **Plan to deliver retail eCommerce excellence.** We help you determine which features and functionality are critical to success, which metrics are most effective to measure a strong channel presence, and which elements are essential to continue to grow digital touchpoints.
3. **Act effectively to deliver retail eCommerce success.** While getting started is a challenge in itself, it's just as critical to maintain success and continue to execute effectively in a constantly shifting retail landscape. To this end, we provide overviews of the eCommerce technology stack, the vendors that best help support those goals, and the organizational best practices that drive success in best-in-class eCommerce companies.
4. **Optimize for continued eCommerce growth.** For several years, Forrester has collected industry benchmarks to support executives in their road maps. We lay out critical benchmarks as well as how various companies in different sectors should think about interpreting those figures so that they are relevant to their businesses. We also analyze new and emerging components of eCommerce strategies, such as responsive design and mobile-first initiatives that take into account the continually evolving landscape of devices and internet connectivity.

**FIGURE 1** The Retail eCommerce Playbook

DISCOVER	PLAN	ACT	OPTIMIZE
Vision	Assessment	Organization	Performance Management
Landscape	Strategic Plan	Processes	Benchmarks
Business Case	Road Map	Tools And Technology	Continuous Improvement

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## Supplemental Material

### Survey Methodology

Forrester's Consumer Technographics® North American Online Benchmark Survey (Part 1), 2016, was fielded in February and March 2016. This online survey included 60,049 respondents in the US and 6,284 respondents in Canada between the ages of 18 and 88. For results based on a randomly chosen sample of this size, there is 95% confidence that the results have a statistical precision of plus or minus 0.4% of what they would be if the entire population of US online adults (defined as those online weekly or more often) had been surveyed and plus or minus 1.2% of what they would be if the entire population of Canadian online adults had been surveyed.

Forrester weighted the data by age, gender, income, region, and broadband adoption to demographically represent the US and Canadian online adult populations. The survey sample size, when weighted, was 60,049 in the US and 6,276 in Canada. (Note: Weighted sample sizes can be different from the actual number of respondents to account for individuals generally underrepresented in online panels.) Lightspeed GMI fielded this survey on behalf of Forrester. Survey respondent incentives included points redeemable for gift certificates.

## Endnotes

- <sup>1</sup> Consumers sport personal networks of connected devices and live among a plethora of home technologies. They have more choices, richer resources, and higher demands than in the past. These empowered consumers fuel the age of the customer. We explored decades of data analysis to reveal five key forces for change in customer behaviors, attitudes, and expectations that lead to customer empowerment. See the Forrester report "[The Rise Of The Empowered Customer](#)."
- <sup>2</sup> Source: Forrester's Consumer Technographics North American Online Benchmark Survey (Part 1), 2016.
- <sup>3</sup> Source: Forrester's Consumer Technographics North American Online Benchmark Survey (Part 1), 2016.
- <sup>4</sup> Source: Forrester Data Online Retail Forecast, 2016 To 2021 (US).
- <sup>5</sup> Source: Forrester Data Online Retail Forecast, 2016 To 2021 (US).
- <sup>6</sup> With streams of information at her fingertips, the average adult consumes five times more content than she did 30 years ago. However, empowered customers are not only exposed to more information than before, they are also referencing more resources and developing greater finesse when navigating, evaluating, and discerning the value of that information. See the Forrester report "[The Rise Of The Empowered Customer](#)."  
  
Source: Forrester's North American Technographics Online Benchmark Survey (Part 1), 2013 and Forrester's Consumer Technographics North American Online Benchmark Survey (Part 1), 2016.
- <sup>7</sup> Source: Forrester's Consumer Technographics North American Online Benchmark Survey (Part 1), 2016.
- <sup>8</sup> Source: Forrester Research Web-Influenced Retail Sales Forecast, 2015 To 2020 (US).
- <sup>9</sup> For more information on the drivers of Amazon's top- and bottom-line growth to date, how it has managed to achieve success and what that success means for retailers and eBusiness execs, where the firm is vulnerable, how other retailers can effectively coexist in this new retail environment, and the strategic lessons other businesses can learn from Amazon, see the Forrester report "[Why Amazon Matters Now More Than Ever](#)."

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<sup>10</sup> Source: Forrester's Global Business Technographics Marketing Survey, 2016.

<sup>11</sup> The meteoric growth in digital team sizes has plateaued, and as line-of-business teams take on responsibility for digital execution and technology management teams step up to manage digital development, the nature, makeup, and role of the digital team is shifting. For more on how digital teams are changing, see the Forrester report "[Trends 2016: Staffing And Hiring For Digital Business.](#)"

<sup>12</sup> Source: Forrester's Q4 2015 Global eBusiness And Channel Strategy Professional Online Survey.

<sup>13</sup> Source: "Kohl's Announces Sona Chawla as Chief Operating Officer," Kohl's press release, November 17, 2015 (<https://corporate.kohls.com/content/dam/kohlscorp/pdfs/2015/SonaChawlaRelease.pdf>).

Source: "Sephora Announces Innovation Lab to Usher in the Future of Retail," Sephora press release, March 5, 2015 (<http://www.prnewswire.com/news-releases/sephora-announces-innovation-lab-to-usher-in-the-future-of-retail-300046332.html>).

<sup>14</sup> H&M, for example, launched its first US store in 2000; since then, it has opened over 500 stores in North America (as of November 2015), though it only rolled out its eCommerce site in 2013. Source: "Our History," H&M (<http://about.hm.com/en/About/facts-about-hm/people-and-history/history.html>) and "H&M worldwide," H&M (<http://about.hm.com/en/About/facts-about-hm/fashion-for-all/sales-markets/hm-worldwide.html>).

<sup>15</sup> Source: Forrester's Consumer Technographics North American Retail And Travel Online Benchmark Recontact Survey 1, Q3 2016 (US).

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