

**MULTICHANNEL
MERCHANT**

**2015
FORECAST:
ECOMMERCE**

Customers Demand a More Satisfying Omnichannel Experience in 2015

BY BRIAN KELLY



Today's customers expect an omnichannel experience, whether it's buy online/pick up in store, ship to store, or just checking out a store's inventory before getting in the car to go shopping. Customers are demanding the ability to purchase products when, how and where they choose. While this can cause issues for unprepared merchants, successful businesses will utilize an omnichannel approach backed by carefully chosen technology solutions that can help merchant's link customer-facing processes with back-office functionality, shipping and supply chain optimization.

The message in 2015 for merchants is simple: if you haven't developed an omnichannel strategy, develop one now. And if you have an omnichannel strategy

in place, continue to refine it. The e-commerce numbers alone show that such actions will bring ROI, as industry analysts are consistently projecting double-digit growth rates: for example, Forrester predicted a 12% increase year over year, jumping from \$263 billion in 2013 to \$294 billion for 2014.ⁱ Currently, nearly 69% of the U.S. population—178 million consumers—are online shoppers.

However, as ecommerce continues to make waves and garner deserved attention, the volume of cross-channel sales in brick-and-mortar locations driven by web research is significantly greater, according to Forrester. In fact, Forrester forecasts that by 2017, cross-channel sales will account for \$1.8 trillion, or 50% of total U.S. retail sales; with ecommerce added in,

these sales will account for 60% of total U.S. retail.ⁱⁱ

What this means for ecommerce merchants operating in an omnichannel world is that 2015 must be focused on creating a uniform customer experience across all channels, and if your company is not doing that currently, it's time for new technology or new technology integrations or upgrades. Omnichannel companies with ecommerce sites report that their website is the largest point of contact with consumers and an increasingly significant part of their overall sales. Most ecommerce sites account for 15% to 50% of a merchant's total revenues; for pure plays, that figure is, of course, nearly 100%.ⁱⁱⁱ

It's a given that the omnichannel consumer expects everything to be readily



available and expects the overall brand experience to be similarly accessible, whether online or at retail. According to an MIT report, *Beyond the Checkout Cart*, 80% of brick-and-mortar store shoppers check prices online, with one-third accessing the information on their mobile device while inside the actual store.

This all points to a glaring and growing need for ecommerce solutions that unite ecommerce and brick-and-mortar sites, including seamless and transparent inventory management, coupled with capabilities such as drop shipping from manufacturers or ship-to-store options for online consumers. Ship to store allows the customer to order online and pick up merchandise that's already to go (theoretically) in the store, saving on shipping charges and sometimes having access to more inventory than what's available just online.

The bottom line is that customers expect convenience, channel flexibility and a variety of shipping options. Merchants that are not offering customers the option to purchase in their channel of choice, and have packages delivered to their preferred destination, will soon find that they are losing customers.

Enabling Omnichannel Experiences with End-to-End Integrated Solutions

With the increased synergy between online and brick and mortar, more and more technology providers will be involved in creating a seamless omnichannel experience for customers. Companies will use these technologies to offer customers an omnichannel view of inventory and up-to-the-minute, cost-effective sales and fulfillment from the best distribution point available for a given product.

Toby Owen, VP of product for Peer 1 Hosting, writes: "The bar for online ecommerce sites continues to rise, a result of growing demand among consumers for better, faster, more intuitive websites. As many e-merchants have learned—perhaps the hard way—they may face declining revenues and lower customer loyalty if those demands aren't met. To protect their revenue streams and bolster the online customer experience, many merchants are now investigating new ways to improve the speed and performance of their websites. With the proliferation of technology solutions and tailored cloud platforms, e-merchants are finding countless variations of back-end solutions to help meet these goals, namely

with hosted ecommerce platforms."^{iv}

Merchants, in answer to consumer demand, will be seeking solutions that offer easier integration of their various sales channels and back-office functions in 2015. While merchants can still derive benefits from legacy point solutions, merchants will seek products that integrate solutions and improve back-office functionality easier. In response, provider partnerships will continue to proliferate in 2015, as vendors realize that technologies that integrate seamlessly will catch the attention of online merchants.

With integrated solutions, sharing customer information across channels will become easier, as will better targeting of consumers. Multichannel Merchant expects this to be a big trend in 2015, and some merchants feel they are already there. Speaking at last year's Data Driven Marketing conference, Julie Bernard of Macy's said, "We can now measure success in terms of the response of real people over time, in addition to measuring individual campaigns. We have enough data at the customer level to see how she interacts both online and in the store, so we can tailor messaging and offers to her appropriately by channel. We strive to balance the use of customer data to inform content relevancy with the use of consumer insights to ensure that the relevancy is coupled with a sense of discovery and inspiration."

Supply Chain Optimization for Faster, Cheaper and More Reliable Delivery

UPS forecasts it will deliver more than 585 million packages in December 2014, up 11% from 2013, when weather and last-minute online orders overwhelmed UPS's capacity and forced it to miss some Christmas deliveries in 2013. However, UPS and FedEx are both better prepared for a crush of ecommerce orders this year. The National Retail Federation predicts 44% of the average consumer's holiday shopping will be online. FedEx forecast its total shipments during the 2014 holiday season would rise 8.8 percent from last year.^v



The big shipping companies expect ecommerce to increase, and yet shipping remains one of the most challenging elements of ecommerce for most merchants. One solution to that problem may be to provide shipping policies and estimations as early as possible in the checkout process. Another solution may be to offer free shipping at a pre-determined price threshold; 58% have added items to their shopping carts to qualify for free shipping and 83% are willing to wait an additional two days for delivery if shipping is free, according to a comScore report.^{vi}

More efficient packaging is one trend Multichannel Merchant sees for 2015; most ecommerce orders involve small items that take up a fraction of the box they're shipped in. So, merchants will reduce the void space or get hit with significant cost increases. This is being driven by the fact that both UPS and FedEx will move to new dimensional weight price models for 2015. Known as DIM, dimensional weight pricing sets the shipping price based on package volume, which is the amount of space a package occupies in relation to its actual weight. So, simply put, big boxes will cost increasingly more to ship than little packages.

While DIM is fairly widespread, Multichannel Merchant expects the growth rates for the more efficient among regional carriers to continue to cut into the market share of the larger carriers, as merchants continue to seek their most viable shipping options.

Whether retailers choose to offer free shipping, or redesign shipping packaging to achieve reduced costs, more visibility into the supply chain and a transparent drop shipping option will become increasingly important in 2015. Drop shipping will become ubiquitous as it offers several benefits for merchants: No up-front costs to acquire and warehouse inventory, lower volume niche products can be offered alongside popular best sellers, reduction in packing and shipping costs, and many drop shippers allow merchants to supply labels so that the process is entirely transparent to customers.

The Amazon Effect on Ecommerce

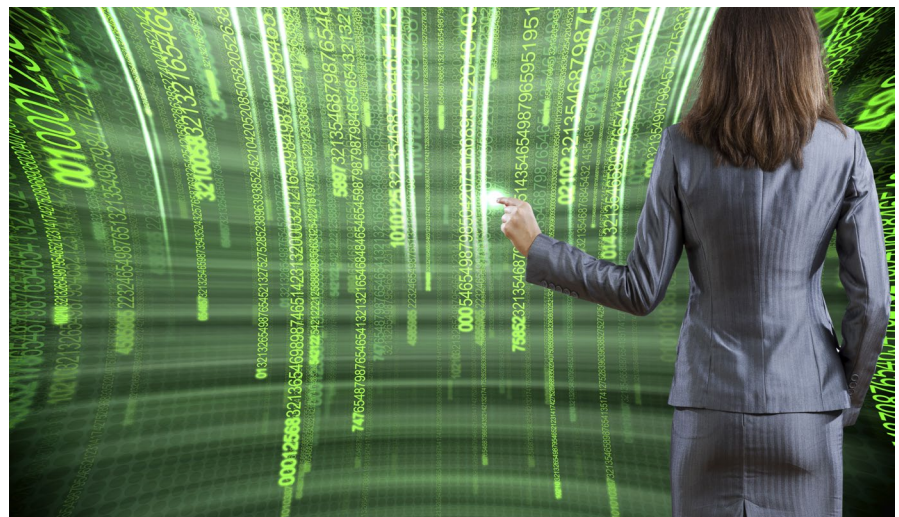
Amazon and Google can afford same-day shipping in large cities, but it just doesn't make economic sense for more merchants. Amazon, Alibaba and eBay have resources not available to the majority of merchants, and that's fine. Because Amazon is primarily a third-party marketplace, it is able to carry products for its vendors and distribute them at a price that

is reduced from what the vendor would be able to offer. Merchants and manufacturers can choose to sell in the marketplaces offered by these giants, trading margin for volume, or they can choose to capitalize on the data they have gathered on their customers and offer a more personalized experience than a monolithic distributor such as Amazon or Alibaba can.

"As Amazon continues to expand, they remain true to their roots as a high-quality distribution service. By expanding distribution hubs, working to maintain quick deliveries, and developing technologies to create even better, more accurate distribution, they're setting new trends. But all of this doesn't mean that Amazon has made the competition obsolete. As they grow, they risk losing customers to longer delivery times, or inaccurate deliveries, to smaller distributors who have the capacity and flexibility to handle more difficult distribution. Look toward these smaller distributors to find niches in the market that Amazon won't be able to," explains Kristen Melendez, director, sales and marketing, MKM Distribution Services.^{vii}

Big Data to Make a Bigger Splash in 2015

One undeniable fact about omnichannel retail efforts is that it requires effort across multiple channels. Another undeniable fact is that each of these channels



becomes a new opportunity to collect data about customers, and that data can help merchants do everything from predicting behaviors to personalizing offers. The use of big data is set to explode in 2015, as merchants begin to capitalize more fully on the data they have already collected. The barrier to entry is either developing the capacity to manipulate data in house, or finding the right partner.

Forward-thinking merchants are fixated on using data to understand their customer's purchase path cross device and cross channel. Today's customer is increasingly becoming efficient, and device and channel ambivalent, as they switch channels and devices for personal convenience when evaluating and purchasing products. And while merchants understanding of cross-channel purchasing have improved greatly, Multichannel Merchant believes that the understanding of cross-device usage still has a long way to go, and will be a major focus for merchants in 2015.

The need to understand what devices customers use at what point of the path to purchase is clear, as the game is changing rapidly. For instance, mobile or mcommerce is growing and now accounts for 11% of retail ecommerce as of the first quarter 2104.^{viii}

Jerry Jao, CEO of Retention Science, explains: "The biggest challenge for most ecommerce businesses is to collect, store and organize data from multiple data sources. There's certainly a lot of data waiting to be analyzed and it is a daunting task for some ecommerce businesses to make sense of it all. Big data paves the way for more organized data and enables business owners or marketing managers to track and better understand a variety of information from many different sources (i.e., inventory management system, CRM, AdWord/AdSense analytics, email service provider statistics, etc.). Perhaps the most powerful impact that big data has on businesses is that it allows merchants to make more informed decisions. Since these choices are based on data insights, as opposed to mere hunches or incomplete in-



formation, business owners can take the guessing out of these decisions and prevent unnecessary spending, expensive trials or even mistakes.^{ix}

Global Ecommerce Is the Next Logical Step

WWW: We've been using the acronym so much—and almost unconsciously—every day for more than 20 years now that it's almost lost its meaning. Global ecommerce reminds us all that WWW stands for the World Wide Web. The opportunity is there: The Chinese ecommerce market is already bigger than that of the United States, and by 2020 is projected to be the size of those of the United States, Britain, Germany, Japan and France combined, according to a KPMG report.^x

As new electronic payment methods have been developed, traditional payment channels have adapted to online shopping across the globe. Alternative payment methods such as e-wallets are on the rise, outpacing growth of credit card use. Vendors such as Adyen, CyberSource, Digital River World Payments, GlobalCollect and WorldPay are helping merchants streamline the addition of a wide variety of new payment types. Additionally, services like PayPal, Pacnet, Amazon Payments and Apple Pay try to bring all global curren-

cies, exchange rates and consumer information available into one easily accessible service.

Merchants are recognizing the huge opportunity of going global with their business. In fact, global ecommerce sales are expected to reach \$1.4 trillion by 2016, an increase of 14% since 2012, according to a report from Deloitte Digital.^{xi}

According to Deloitte, emerging markets are expected to see faster growth in ecommerce than the U.S., leading to an overall lower share figure domestically. The U.S. share of global ecommerce sales is expected to decrease from 30% in 2011 to 24% in 2016. Online payments other than debit or credit cards are expected to represent 30% of purchase volume by the end of 2014.

Brazil is leading the global ecommerce trend—81% of its consumers are willing to order from international websites—followed by Indonesia at 77%, Thailand at 74%, China at 69% and Spain at 66%. In China, consumers look to established international brands, including many U.S. merchants, for quality, secure online transactions and an enhanced online experience.^{xii}

International shipping is seeing its growth driven primarily through flexible shipping options and fulfillment services



that provide merchants low-cost/low-risk options for gaining exposure in new areas. With the ability to outsource fulfillment, merchants can reach customers beyond their domestic market without having to invest in building a global infrastructure.

The Mobile Factor

Forrester expects mobile phone and tablet commerce to reach \$114 billion in 2014 and \$293 billion by 2018, in the U.S. alone. This growth is driven by nearly

200 million smartphone subscribers and nearly 100 million regular tablet users. Merchants surveyed in a recent Shop.org/Forrester study said that mobile was in fact their most important initiative for 2014.^{xiii} Multichannel Merchant believes that mobile initiatives will remain top of mind for merchants in 2015, and continue to grow in importance.

Tied into global ecommerce expansion, a focus on mobile usage makes sense as well. The Deloitte study previously ref-

erenced found that Brazil is the highest ranking country in retail sales influenced by mobile devices, which drive 40% of its ecommerce site traffic. Other markets show a growing mobility trend, especially China, where 75% of its residents own smartphones and 46% make purchases on them. India showed 72% of residents owning a smartphone and 40% of them using them for purchases.

So, What Does It All Mean?

In 2015, the successful omnichannel merchant will be seeking to unite all consumer-facing functionality and back office in an end-to-end fully integrated technology solution. Merchants will seek to unify and utilize all the data they have gathered on their customers, and use that unified customer data to create a more customized, personalized omnichannel experience. Merchants' operations will continue to innovate in ways that will accelerate shipping and delivery times, while cutting costs, and improving the omnichannel customer experience. Additionally, that merchant will be looking overseas for expansion opportunities, and continually optimizing its sites for mobile usage. ■

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