RETAILERS BRACING FOR REAL CHANGE

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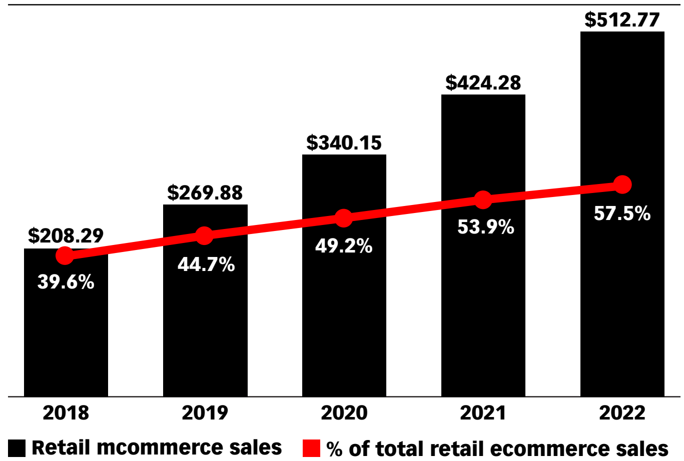
For all the change ecommerce has brought, its share of total retail sales is still just 10% in the US—which means much if its disruption of retailing is still to come. There is plenty of disruption within ecommerce itself as its revenues swing increasingly to mcommerce. New developments within brick-and-mortar retailing mean there is not a simple duality of "new" ecommerce vs. "old" physical stores.

- Ecommerce in the US is expected to account for $526.09 billion in retail sales this year, out of $5.266 trillion for total retail.
- Mcommerce's share of ecommerce sales is forecast to jump from 39.6% this year to 57.5% in 2022.
- The rise of smart speakers is giving the human voice at home a new role as shopping tool—just one aspect of a proliferation of retail touchpoints.
- With ecommerce penetration already high, gains in sales are likely to come more from higher spending per user than from growth in the proportion of people who are online buyers.
- Some categories (like apparel) have been quicker than others to gain traction in ecommerce. While ecommerce's share of grocery sales has been small, Amazon is poised to change that.
- The emergence of new kinds of physical stores (like Amazon Go and Nordstrom's Local) will mean brick-and-mortar can feel as new to consumers as anything in ecommerce.

WHAT'S IN THIS REPORT? This report gauges how much transformation has already occurred in retailing and looks toward the disruptions that still lie ahead as ecommerce expands its presence—and as brick-and-mortar retailing makes changes to remain relevant.

US Retail Mcommerce Sales, 2018-2022
billions and % of total retail ecommerce sales



Note: includes products or services ordered using the internet via mobile devices, regardless of the method of payment or fulfillment; includes sales on tablets; excludes travel and event tickets
Source: eMarketer, Feb 2018
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KEY STAT: Mobile commerce's share of ecommerce is rising steeply and is expected to account for more than half of ecommerce retail sales by 2021.

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INTRODUCTION

Discussions of retailing often seem eager to sell us the notion that ecommerce has already pushed brick-and-mortar stores far down the road to obsolescence. After all, hasn't Amazon taken over the world? Tune out the buzz, though, and the reality doesn't fit this simplistic formula. There is a transformation underway in retailing, but it is in an early phase. Peddling an exaggerated view of how much change we've already seen can lead to downplaying the change that has yet to occur. Sifting through the pertinent data, it's clear that the biggest disruptions still lie ahead—which also means opportunities are there for companies prepared to seize them.

Any thorough reality check should start by noting ecommerce's proportion of total retail sales. Though growing robustly, it is a relatively small fraction thus far. A January 2017 report by Accenture, "Shaping the Future of Retail for Consumer Industries," (in collaboration with the World Economic Forum) said ecommerce accounted for about 10% of global retail sales, though it was expected to surpass 40% in 2026. Focusing on the US, eMarketer expects ecommerce will garner 10.0% of total retail sales this year and 15.1% in 2022.

Walking past defunct physical stores, one can imagine that this retail channel is suffering a decline in revenues. In fact, while ecommerce's share of total retail sales is rising, its gains will not account for all of retail's revenue increases.

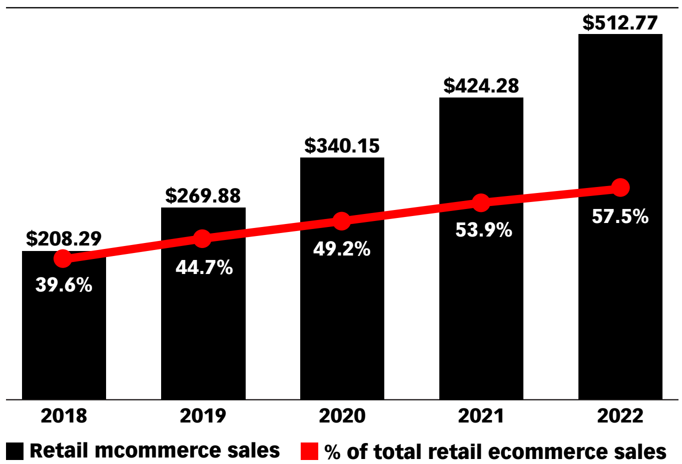
US ecommerce sales will grow from $526.09 billion in 2018 to $891.77 billion in 2022, eMarketer estimates—an increase of nearly $366 billion. Sizable as that is, it is considerably smaller than the $655 billion gain expected in total US retail sales, which will climb from $5.266 trillion in 2018 to $5.921 trillion in 2022. Thus, while ecommerce's share of the pie is expanding, the pie itself is expanding even more—meaning there is potential growth for online and offline retailers alike. As Accenture's report puts it, "Despite growth in ecommerce, the physical store will continue to be the channel that contributes the most revenue for the majority of large multichannel retailers until at least 2026."

In any case, it's not as though disruption in retailing consists solely of digital commerce taking business away from physical stores. Flux within ecommerce is as lively as the competition between it and brick-and-mortar retailing. This is most obvious in the shift of consumers' digital shopping activity away from desktop/laptop computers to mobile devices. Retailers who congratulate themselves on having created ecommerce sites that look lovely on full-size computer screens are apt to have found that they must alter their priorities (and budgets) to connect with shoppers who have developed a mobile-first mindset.

Already, a majority of US consumers ages 14 and older who shop digitally do so via mobile devices. eMarketer estimates that 84.9% of digital shoppers use their smartphones for this purpose, and 59.8% use their tablets. The proportions who use those devices to actually buy things are lower but still substantial, as just over half of digital buyers will make purchases via smartphone this year. A similar proportion will do so via tablet. More than eight in 10 digital buyers will make purchases on one or the other of those devices.

As this large constituency of shoppers becomes comfortable with making mobile purchases, the share of total retail ecommerce going to mcommerce is surging. This year, mcommerce will account for 39.6% of total retail ecommerce sales, at $208.29 billion. By 2022, the dollar figure will have more than doubled (to $512.77 billion), and mcommerce's share of ecommerce will be well over half, at 57.5%. A simple way of looking at this: While ecommerce is grabbing share of sales from physical stores, mcommerce is grabbing a large share from desktop and laptop computers.

US Retail Mcommerce Sales, 2018-2022
billions and % of total retail ecommerce sales



Note: includes products or services ordered using the internet via mobile devices, regardless of the method of payment or fulfillment; includes sales on tablets; excludes travel and event tickets
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While the rise of mcommerce is emblematic of the disruption within ecommerce, there is even disruption within mcommerce itself, as the smartphone expands its share of retail dollars at the expense of tablets. eMarketer forecasts that the tablet's share of retail mcommerce sales will be cut almost in half between 2018 and 2022, falling from 27.7% to 14.6%. As retailers have rolled out mobile apps that make shopping and buying easier, the tablet's larger screen likely becomes less of an advantage over the smartphone's—especially as the average size of smartphone screens has been getting bigger.

LET A THOUSAND TOUCHPOINTS BLOOM

One clear lesson to draw from consumers' migration among digital options for shopping is that they do not have a stable attachment to any particular retail channel. What they want is the benefit of owning a given product or service, and they will take the path to it that suits them best. One consequence of this in the digital age is a proliferation of retail touchpoints, providing more chances than ever for retailers to connect with customers.

As Accenture remarked in its 2018 report titled "Retail with Purpose—Powering Future Growth," "Technology innovation and the internet of things will exponentially increase the number of points of purchase." This is illustrated by the emergence of the human voice at home as an important shopping tool. For example, Accenture's 2017 annual holiday shopping survey found seven in 10 respondents agreeing they were either currently using or would like to use Amazon's Alexa or Google Home for that season's shopping.

This is one reason why, according to Accenture's "Retail with Purpose" report, "The home will be the fastest growing retail real estate format," becoming an important complement to existing stores.

Points of purchase are proliferating in part because consumers are apt to use more than one to accomplish a single purchase, with ecommerce and brick-and-mortar points on a spectrum for many shoppers. Such distinctions will mean even less in years ahead as stores like Amazon Go catch on—physical stores that could not exist without adoption of digital technology by consumers and retailers alike.

This blurring of lines currently manifests itself via showrooming and webrooming, as consumers mix and match the online and offline to get the most for their money. Accenture's holiday shopping survey gives a sense of how common these practices have become among US shoppers. Asked how they would go about their holiday shopping, 79% of respondents said they planned to showroom—i.e., look at products in-store before buying online. Nearly as many, 76%, said they planned to webroom—i.e., look at products online before buying in-store. A visit to Amazon.com—now a major source of information on products and prices, and not just a major retailer—is often a part of the research process, with 84% of respondents reporting that "they check Amazon.com before looking or buying elsewhere," whether that "elsewhere" is online or off.

Consumers' usage of coupons is another area where they break down simple online-vs.-offline equations. eMarketer estimates six in 10 US adult internet users will employ digital coupons or coupon codes at least once this year, online or in-store, with similar proportions of adult smartphone users using mobile coupons/coupon codes via their devices.

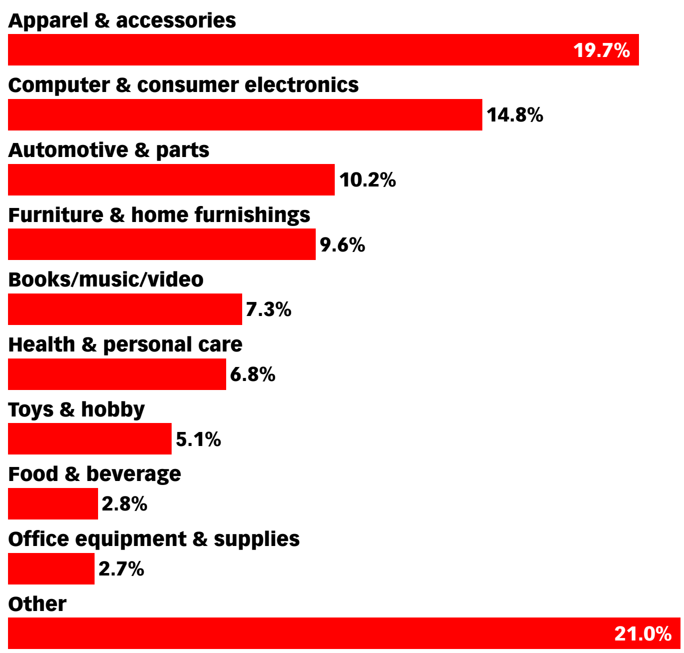
The old practice of getting a coupon from a manufacturer, perhaps in an insert, and taking it to a retailer certainly has not gone away. However, technology is now facilitating direct-to-consumer transactions, cutting out the retail middleman altogether, according to a January 2018 report by Accenture titled "Operating Models for the Future of Consumption." Consumers in the US who buy eyeglasses from Warby Parker or clothes from Everlane are responding to the appeal of this approach, and it's not a change that any company can afford to ignore. The initial enticement for consumers is likely to be price. But beyond that, there is potential for the manufacturers to cultivate a closer relationship with customers than is possible when selling through a conventional retailer.

DIFFERENT CATEGORIES, DIFFERENT OUTCOMES (SO FAR)

Of course, some product categories lend themselves more readily than others to untraditional ways of shopping. A look at ecommerce revenues by category reveals vast disparities in the degree to which consumers have embraced online buying, depending on the sector. Globally, ecommerce accounts for at least half of sales in some categories, "whereas others may not grow beyond 20%," according to Accenture's 2017 report with the World Economic Forum.

This dovetails with eMarketer's analysis of the share of US ecommerce sales that various product categories will command in 2018. Two categories—"apparel and accessories" at 19.7% of ecommerce sales and "computers and consumer electronics" at 14.8%—account for about one-third of the total.

US Retail Ecommerce Sales Share, by Product Category, 2018
% of total



Note: includes products or services ordered using the internet, regardless of the method of payment or fulfillment; excludes travel and event tickets
Source: eMarketer, Feb 2018
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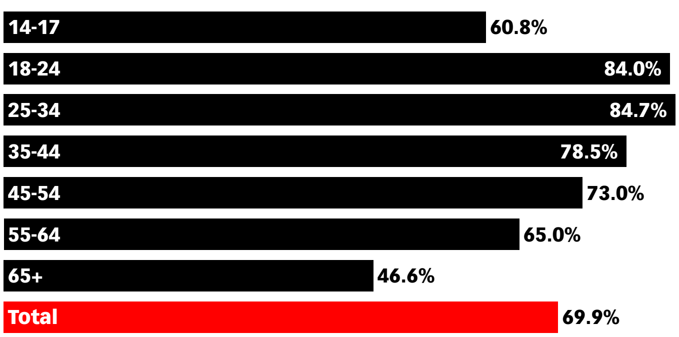
Looking into the next decade, "food and beverage" is among categories with the strongest expected growth rates in ecommerce sales—although from a relatively small base. eMarketer predicts ecommerce sales in this category will nearly double between 2018 and 2022, rising from $14.96 billion to $28.04 billion.

"From my perspective, I do expect Amazon to move the needle on grocery," said Johanna Masket, thought leadership senior principal global retail research lead at Accenture. "The reason we have seen such growth in the US is due to Amazon. With the acquisition of Whole Foods, they will only expand. In fact, Amazon is already rolling out Prime Now at Whole Foods and has offered Prime exclusive discounts at Whole Foods. Most grocery players are starting to accelerate online plans to compete."

In the US, gains in spending via ecommerce in the foreseeable future are likely to come largely from increased spending by people who are already digital buyers. The reason is simple: The number of people who are digital buyers has already grown so much that there is little additional room for growth. eMarketer estimates seven in 10 residents in the US ages 14 and older will be digital buyers this year—that is, making at least one purchase through any digital channel during the calendar year. Nor is there much room for converting digital shoppers (i.e., people who use digital devices to gather information about possible purchases) into digital buyers, since most of the former have already been converted. eMarketer expects nearly nine out of 10 digital shoppers to make purchases that way in 2018.

US Digital Buyer Penetration, by Age, 2018
% of population



Note: digital buyers are internet users who have made at least one purchase via any digital channel during the calendar year, including online, mobile and tablet purchases
Source: eMarketer, Feb 2018

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But while the number of digital buyers is comparatively stable, the yearly amount of spending per digital buyer is climbing. eMarketer's estimate pegs the average ecommerce expenditure per online buyer at $2,765 in 2018, with the figure jumping to $4,274 in 2022. That rise will itself be a disruptive force in the retail marketplace as ecommerce captures some spending that could otherwise have gone to physical stores.

Consumers may be getting more comfortable with buying bigger-ticket items online, and that would contribute to this increase. But it will also be a matter of people buying online more frequently. For example, consumers who now dodge the in-store melee during the holiday shopping season will do more of their year-round buying online—assuming their holiday ecommerce experience has been a positive one. For ecommerce retailers, this means the holiday season is an auspicious time not just for making holiday sales but potentially for turning occasional buyers into more frequent buyers.

Steve Osburn, managing director of Accenture Strategy's Kurt Salmon unit, remarked on this in a February 2018 interview with eMarketer. "During the holidays, there are a lot of first-time buyers to websites. And some of those are 'one and done,'" he said. But there are opportunities to change the behavior of people who have been "casual" consumers: "If you can wow them even during the holiday season, [you can] turn them into a much more loyal customer."

In the long run, spending per online buyer will also increase as consumers become more willing to transact purchases on their smartphones, thus making ecommerce more of an anytime-and-anywhere activity. As things stand, though there is just a modest gap between digital shoppers and digital buyers overall, there is a big gap when it comes to smartphone usage. eMarketer estimates that just over half (53.7%) of US smartphone shoppers ages 14 and older will make at least one purchase through that device in 2018.

DATA'S A TWO-WAY STREET

Aside from generating added revenues, more frequent online purchasing will provide another crucial benefit: added data about the consumers. And that is just what retailers need in order to connect with consumers who expect a greater degree of relevance and personalization than in the past. "Gaining such insight requires frequency of interaction," said Accenture's "Retail with Purpose" report. "However, some retailers have one interaction per customer, per year." Frequent visits from shoppers are an important advantage for the "Amazons and Alibabas of the world," as the report put it.

But consumers are often wary of companies collecting data about them, even if that is what is needed to make relevance and personalization possible. That concern was evident in results of Accenture Strategy's "Global Consumer Pulse Research" polling in June and July 2017. Among US respondents, 44% described themselves as "frustrated when companies fail to deliver relevant, personalized shopping experiences." But an even larger proportion, 49%, said they are "concerned about personal data privacy as they subscribe to intelligent services designed to understand and anticipate their needs." And 40% said "it can feel slightly creepy when technology starts to correctly interpret and anticipate their needs." These are the sorts of attitudes retailers will need to balance as they work to be more customer-centric—catering to consumers on a more relevant, personal level.

One wild card in this is the European Union's new General Data Protection Regulation, with limits on how companies that do business in the EU can collect information about consumers. Becoming enforceable this May, the GDPR will put new constraints on data collection likely to disrupt the very disruptors who have been using masses of data to turn the retail marketplace upside down. Requirements for getting consumer consent mean companies will not be able to scoop up as much data as they currently do. Moreover, the "right to be forgotten" means that deletion of data could in itself be a large undertaking for many companies—which may in turn make some of them more circumspect about what they gather in the first place.

Meanwhile, consumers themselves are very much in the data-collection business as they consider their purchases. Webrooming and showrooming, as noted above, are already common parts of that process. And such data collection will only become more pervasive in the years ahead as intelligent assistants and as-yet-unknown technologies become standard tools for mainstream consumers. In discussing trends that are driving the future of retail, Accenture's 2017 report with the World Economic Forum pointed to "the unprecedented level of data that connected consumers will use to compare prices across products and retailers." It would be a mistake, though, to suppose that consumers' information-gathering is focused exclusively on price. Accenture's 2018 report with the World Economic Forum cited an analysis of Google search data showing that "consumers are increasingly seeking the 'best' vs. the 'cheapest,'" whether for high-touch products like makeup or utilitarian goods like paper towels.

This sort of data also provides a useful reminder that consumers are not passive objects amid the disruption rippling through retailing. Empowered with increasing amounts of information, they will impose their own disruptions on retailers, whether online or offline. And while retailers may have carefully thought-out, rational plans for how to proceed, they will have to deal with consumers who simply want what they want and feel no obligation to behave in consistent ways. Sometimes consumers will make convenience their top priority, at other times personal service, at other times price, and so on. They will want highly personal service, but without surrendering too much personal data. With so many retail options now available to consumers, marketers will need to cater to all of these disparate impulses. And they will need to do more than pay lip service to the realization that these information-empowered consumers make the retail world more customer-centric than ever. While the challenge will prove too much for some retailers, it will give others new opportunities to create competitive advantage for themselves.

Physical stores are not going away—not least because consumers often enjoy the opportunities they provide for pawing over the merchandise, interacting with their friends and taking selfies while clad in clothes they might buy. It will hardly be surprising, then, to see ecommerce players opening physical stores that keep them within consumers' line of sight. This will further erode any simple dualism of ecommerce as "new" and brick-and-mortar commerce as "old." Indeed, some physical stores—like Amazon Go and Nordstrom's new Local model, the latter with lots of service but virtually no in-store inventory—will feel at least as fresh to consumers as anything that online retailing has to offer. In this volatile, exciting environment, nothing is going to feel new (let alone stable) for very long.

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