RETAIL E-COMMERCE: LAYING THE FOUNDATIONS FOR GROWTH

A BJSS White Paper

About the Author

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1 WHY E-COMMERCE IS SHAKING UP RETAIL

The growth of e-commerce and home delivery is nothing new in retail. It's been around longer than you might think. Back in 1984, 72-year-old Jane Snowball ordered the first-ever home delivery via her television's Ceefax page. This is thanks to the work of Michael Aldrich. The practise was then adopted online with the advent of the public internet in 1993.

Ever since, many retailers have considered online retail to be the ghost at the feast, tempting shoppers away from what retailers consider the core of 'proper' brick-and-mortar retail. In the UK, **e-commerce as a percentage of total retail was only 3.4% in 2007, and still only 19.2% in 2019.** Its growth was even slower in the USA, **from 0.9% in 2000 to only 9.9% in 2019.**

However, the pandemic took a slow but unstoppable trend and strapped a jet engine to it. **According to Visa, 89% of UK consumers have shopped online since Covid restrictions first came into place. Of those, nearly a third (31%) were doing so for the first time.**

There is a clear trend towards a consolidated virtual online high-street where customer friction is removed by satisfying multiple needs in one place. This trend has been exemplified by Amazon, Etsy, Next, M&S, and the recent acquisitions of Debenhams and various Arcadia brands by Boohoo and Asos.

With 86% of British shoppers using Amazon, other retailers are naturally playing catch up. They are looking to strengthen their existing platforms, build new ones, adapt to Direct-to-Consumer (DTC) and social commerce, and find their place in the new normal of an online browsing and purchasing culture.

In this white paper, we explore two core challenges for retailers. We look at how you can lay the right foundations for a stable and compelling e-commerce proposition. We then explore how you can harness innovation to differentiate from the competition to deliver a first-class online experience for customers. What is most applicable to you depends on where your retail brand is in its journey, so feel free to use the contents to skip to the most relevant parts for your situation.

2 LAYING THE RIGHT FOUNDATIONS

The value of cloud, Headless and open-source e-commerce platforms

Choosing the right platform for hosting a retail e-commerce site is critical. Whichever option you choose, modern cloud-based solutions can enable retailers to scale to millions of transactions. They also provide you with a simple, low maintenance e-commerce offering that minimises supply chain disruption - keeping both customers and your internal IT teams happy.

Gartner projects that "by 2023, 80% of digital commerce implementations will be hosted on public cloud infrastructure." Consequently, retailers are advised to be first movers rather than laggards if they are to build and maintain a competitive advantage.

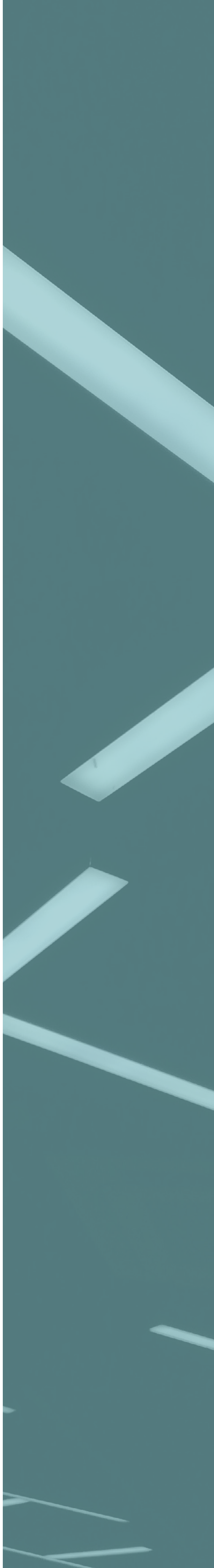
Today, there are many market options to enable the build of supple, secure and scalable e-commerce offerings without being locked into restrictive features and capabilities. The rise of 'off the shelf' Headless platforms that can be easily integrated into existing product information management systems gives retailers more choice to have it all. This includes the use of certain pre-packaged native features whilst developing their code on top as needed. However, the popularity of e-commerce has seen the market flooded with vendors, which means an educated purchasing decision is an absolute must. You also need to have strong foresight on future trends and the likely requirements of your business if you are to maximise return on investment.

Brands like Helly Hansen, Barbour, Paul Smith, Nespresso, Christian Louboutin and Brewdog have all used open-source e-commerce for years due to the flexibility of having full control over their code and the scalability of the platform.

In the long run, open-source e-commerce has an allure for retailers due to the flexibility of adapting code to suit specific needs. However, this is a labour-intensive route and not to be ventured into without having the necessary team in place to build, run and fix your platform. Suppose your business is complex and you are operating at a significant scale. In that case, an open-source solution may well be right for you. Otherwise, increasingly retailers favour Headless SaaS solutions, especially given the rise of highly capable platforms such as Commercetools and Shopify Plus. The features of these solutions are rapidly growing, and integrations are becoming easier.

Retail Story 1: Net-a-Porter and Headless Commerce

Net-a-Porter, a pioneer of online fashion retail, has a platform that continues to be the envy of competitors. It realised its existing e-commerce platform had serious issues back in 2016. Under the weight of their 29 million monthly unique users, their existing monolithic Java platform was struggling to perform as needed: their delivery rate was too slow, and the structure also made testing difficult, leading to extensive release cycles and no test automation. With two significant spikes in summer and winter sales, their choice to move to a Headless cloud platform enabled both cost efficiencies through reduced physical server space. It also gave the ability to move to continuous integration and multiple release cycles each day. These changes naturally improved both the scalability and reactivity of the site, enabling it to rapidly adapt to market changes and ensure the money keeps rolling in during critical sales periods such as Black Friday.



Retail Story 2: Osprey and Open-source

Osprey, London's high-end fashion brand, had ambitious sales targets. It wanted to double its sales figures every year, but it was restricted by its existing platform that was inflexible and difficult to maintain. Osprey's Head of Brand, Axia Gaitskell-Kendrick, selected an open-source platform to enable Osprey's website relaunch, having stated that the technology was "top of the list" of priorities. This provided both flexibility and ease of use, enabling Osprey to add video capabilities to product pages, remerchandise products daily, and integrate customer support and inventory management into the web operation. This switch was a key driver in helping Osprey triple its sales while increasing customer sessions and conversion rates.

Conclusion

When selecting a platform, retailers must be mindful of their IT teams' structure and skillset and support capabilities. The right choice will depend on how well your teams can react to changing market trends, embed continuous integration, and adapt features incrementally. Additionally, the platform's scalability and the ability to repurpose it for new markets and new business models should be as easy as possible.

Social commerce is a further consideration. Retailers need to integrate with social media platforms such as Instagram, Facebook and TikTok, as the online shopping journey becomes increasingly intertwined with social media.

In a rapidly changing technological landscape, with many vendors to consider, an impartial view from a third party can help you to make an educated decision to avoid or anticipate costly complications further down the line.

Unified commerce for a seamless experience

The current rise in e-commerce is increasing the expectation that online channels and brick-and-mortar should be seamlessly connected. Digital store experiences and mobile are playing increasingly prominent roles in all aspects of the shopper journey. Shoppers expect a joined-up experience in the two worlds.

Even when broken down by age bracket, **under half of the over 65s in the UK only shop in-store, dropping to just 23% for 18-24-year-olds.** The days of sticking rigidly to a 'bricks only' strategy are over, and this is why embracing unified commerce is something every retailer in the world should be doing right now.

Combining e-commerce with brick-and-mortar has been a challenge that retailers have struggled with for years. Yet, despite its challenges, customers simply demand and expect a joined-up experience across all sales channels. With a rise in e-commerce, mobile commerce, and social and live commerce, retailers need to ensure they have the tools in-place to meet the customer in every scenario and create a seamless link between them all. In doing so, they will meet customer expectations and deliver the kind of experience consumers of all age brackets and levels of tech-savviness expect as standard.

Many retailers cannot deliver a truly unified experience to their customers because their stores and e-commerce are not connected in real-time. This is highlighted by the fact that in 2018 only **43% of omnichannel retailers could provide any visibility of stock levels**. The typical retailer has a disconnected journey due to a reliance on legacy systems, tech debt and unresponsive architecture. The fact remains that consumers have endless choices of where (and how) to shop. If you don't meet their expectations and offer convenient solutions, they will find one of your competitors who will. This is why even back in 2018, **Statista found that the highest priority focus for UK retailers in omnichannel was developing a "Single View of the Customer".**

By unifying the in-store and online sales channels, retailers can sell and fulfil everything and handle returns everywhere. Unified commerce is enabled by the use of real-time product inventory alongside order and customer. This helps to ensure a seamless customer experience and, most importantly, means sales are never missed.

A 'true view' of inventory is a problem store associates face every day. Whilst they can check stock levels in another store, store associates often have well-founded doubts over the file accuracy, which leads to distrust in the system as a whole. The same applies to customers. By eliminating the role of enterprise resource planning (ERP - and instead using a cloud-based POS platform) as the master of stock in inventory management – where constraints are put on the 'omni-flow' – retailers can take a giant leap forward in delivering true real-time retail. With a unified view of omni data in one single place, it makes it easier to manage inventory, orders and replenishment.

By giving stores back their autonomy, they will have full control over their store stock and, more importantly, the customer experience. By supporting all omnichannel scenarios across stock, purchase, payment and return, retailers can give their customers what they want, when they want it. With an improved service and seamless experience across all channels, customer expectations are exceeded, which ultimately builds trust and loyalty.

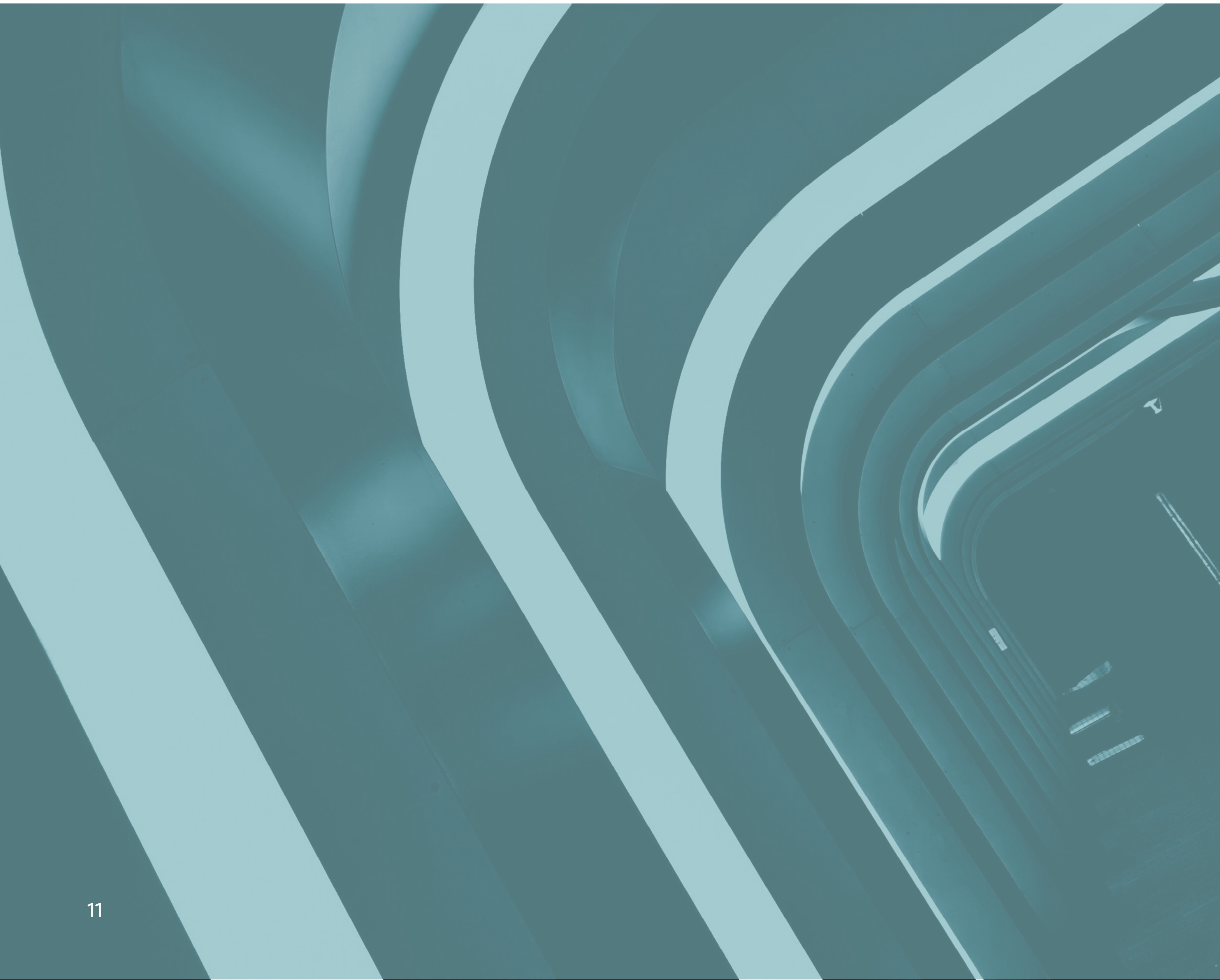
Retail Story: Allbirds and Shopify

Canadian company Shopify has become a popular option for retailers looking for e-commerce platforms and point-of-sale systems. Shopify provides its clients with the ability to sell to customers anywhere: in-store, through websites, social media and online marketplaces. Retailers are then able to access a single dashboard that displays information around orders, delivery and payments. Since being founded in 2006, Shopify has helped over a million businesses worldwide generate sales of over $200bn, highlighting the power of unified commerce.

DTC brand Allbirds used Shopify POS as it transitioned from e-commerce only to omnichannel, testing out the in-store experience through retail pop-ups. Store associates were trained in the software, providing the ability to process purchases at any store location, speeding up checkouts and mitigating issues associated with a lack of store space. Allbirds has also used Shopify POS to enable buy in-store and ship-to-customer technology. This gives store associates the ability to process orders and send information to warehouses immediately. As a result, conversion rates have increased compared to sending shoppers home to order the product online themselves, which adds friction and increases the risk of lost sales. Through the implementation of Shopify POS, Allbirds has gathered more in-depth inventory insights, improved inventory management, and reduced the need to dedicate large, valuable proportions of store space to stock.

Conclusion

When it comes to implementing unified commerce, the primary consideration should be around how your customers want to experience shopping rather than on the restrictions you face due to your legacy systems. For brands that can start from scratch, many modern e-commerce platforms such as Commercetools and Shopify are already designed with unified commerce in mind and have pre-existing tools and structures to support it. For brands looking to change incrementally, we recommend the highly effective 'design thinking' approach to map out a service blueprint for all the technologies your shoppers' experience when interacting with your brand. They enable your team to create a common understanding of the customer journey, which accelerates debates on which digital touchpoints to address first. They also help to improve understanding of how they interconnect. Putting innovation principles in-place, harnessing a culture of innovation, and empowering staff to rapidly prototype, test, and productionise new ideas can be the key to joining up blockers in the user experience and taking the first steps towards unified commerce.



Why retail needs to automate e-commerce operations

We all know e-commerce volumes are going through the roof. The pandemic has only boosted these volumes. In the UK alone, internet retail sales value grew by 53% from July 2019 to July 2020. However, with every additional click, purchase and delivery, the need for automation becomes more apparent. Retailers who fail to automate quickly experience the diseconomies of scale brought on by high volume e-commerce. Therefore a targeted and pragmatic automation of activities is required across the full value chain to maintain margins and sustainable, long-term competitiveness.

While most retailers focus heavily on automating the picking, packing and delivery processes, there are many inefficiencies to be eliminated across the full value chain involved in e-commerce. This includes website management, order management, customer management, inventory management and aftersales support, to name a few.

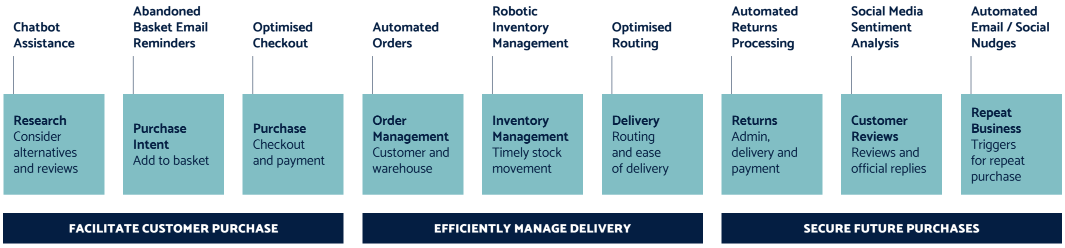
Amongst management, terms like Intelligent Automation (IA), Business Process Automation (BPA), Robotic Process Automation (RPA) and Process mining can sometimes cause confusion or fear of job losses and resulting union intervention. However, the ambition for retailers should not be to automate to replace humans. Instead the focus should be on eradicating low value-add activities to allow humans to focus on what they do best – interacting, understanding and managing the needs of other humans. Indeed, automation cannot succeed in isolation in its current form. In most scenarios, it is most effective as a means to augment the capability and capacity of workers rather than replacing them entirely. Additionally, successful outcomes have almost universally included increased employee job satisfaction and retention due to the removal of mundane and repetitive activity.

The e-commerce journey touches many parts of retailers' operations. To simplify this, we have divided automation opportunities into three broad areas:

- Facilitating the customer purchase journey
- Managing inventory and delivery effectively
- Securing future purchases.

Note this is above and beyond the myriad of automation possibilities in back-office functions such as finance and human resources.

BJSS E-commerce Automation Journey Analysis



In the first instance, the key to facilitate the customer purchase journey, is to make it as smooth, quick and effective as possible. Automated technologies such as chatbots (provided they are intelligent enough to prevent frustration), can be an effective tool to assist in website navigation, and the research of alternative products and services. Automated prompts can be built to remind customers of baskets they haven't checked out or suggest additional purchases. Automations can also link disparate software together behind the scenes to give customers a seamless checkout experience. In turn, this will increase the likelihood of adding items to the basket, completing the checkout process, or even enabling one-click purchases to bypass the checkout experience altogether.

Intelligent Automation (RPA + extension attributes such as AI) can then be an invaluable tool in combining the myriad of systems needed to manage the movement of stocks across the warehouse. From optimising the goods in process to managing the order creation, fulfilment and reporting, through to improving efficiencies through automated order consignment, palletisation, reordering, and task list creation.

For one global retailer, the use of Robotic Process Automation (RPA) in e-commerce means that the menial tasks, once carried out by 400 employees, are now carried out by 50 virtual assistant 'robots'. This frees up staff time to focus on value-adding activities such as dealing with exceptions, monitoring and maintaining stock levels, and focusing on continuous improvement.

Finally, before the goods leave the warehouse, Intelligent Automation can combine data sources from stock management systems, weather sites, traffic data and other sources to organise deliveries in the most efficient way. This helps to minimise the cost to the retailers whilst ensuring the service-level agreement (SLA) to the customer is met. It also minimises margins through poorly allocated stock. Automated delivery management can even be a means to optimise carbon emissions, providing retailers with a welcome good news story. Yet, the automation journey doesn't end with the delivery to the customer. The cost of managing returns can be prohibitive, with return rates sometimes eroding margins by 50%. Indeed it is cited as one of the reasons fashion giant Primark has never ventured online. Yet automation can connect even the most archaic of software systems by removing the human element, which reduces the risk of error, increases speed and reduces the debilitating cost of returns.

At the final stage of the sales cycle, whether positive or negative, customers often share their shopping experiences via social media. More often than not, these comments, criticisms or recommendations go seemingly unnoticed and unanswered by retailers due to the sheer volume of comments and sources.

For example, for one retailer, our study of one year's worth of Instagram comments addressed to them found over 20% had a negative tone, with the vast majority left unanswered. Therefore, sentiment analysis in the cloud can be an effective tool. It automates the sorting of reviews requiring action, enabling service management professionals to focus their efforts on the extremes: supporting vocal, frustrated customers, or spreading the words of jubilant ones.

The automation of social media analytics and issuing automated social posts and follow up emails after the purchase, is one of the most untapped opportunities available for today's retailers and should be explored at the earliest convenience.

Retail Story 1: John Lewis RPA for Price Matching

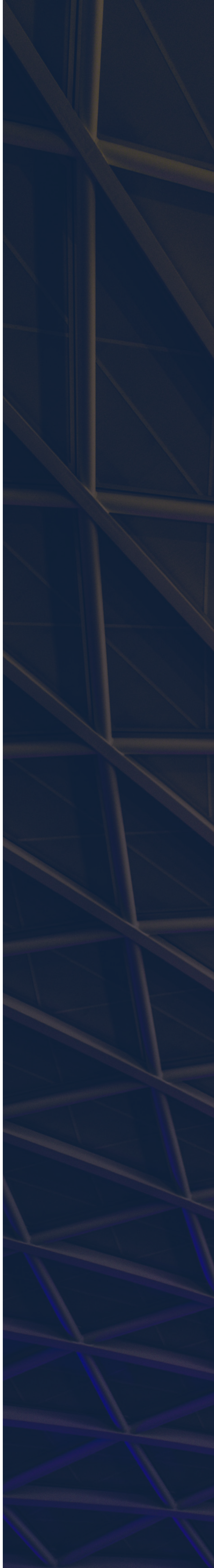
John Lewis' "never knowingly undersold" promise to its customers is both a bold and onerous pledge. However, it remains a continued risk to their business model, especially during peak discount season. It requires its partners to scan the market each week, to benchmark their prices against competitors, to ensure their customers pay a fair price for a comparable quality. Customers can also submit 'price match requests' if they find the same product at a lower price in a mainland UK high street competitor. Naturally, the processing of these requests is both time consuming and tedious. It's a reasonably unskilled task requiring admin-heavy activities to check prices online, verify them, and then issue or reject a price match request. This, therefore, is the perfect candidate for RPA. Robots on your computer screen engage with websites and multiple software suites on the user's behalf, automatically checking prices and making decisions based on predetermined rules and actions. Using this RPA, a team of five at John Lewis processed 15,000 price match queries, saving a total of 62 days' labour.

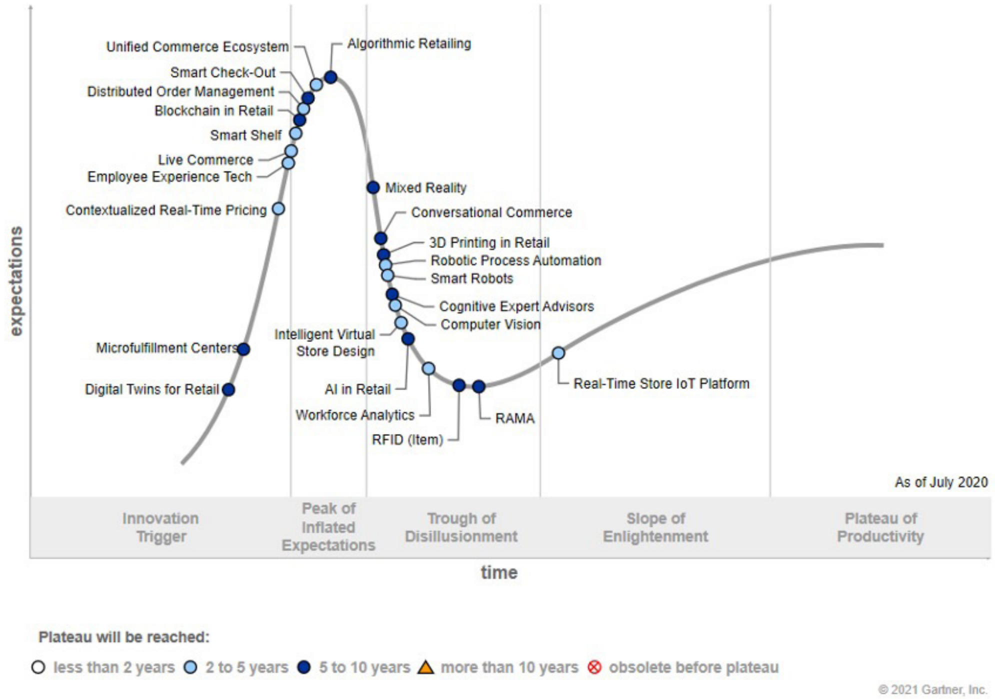
Retail Story 2: Good American - Automations for Inventory Management

Khloe Kardashian's Good American fashion brand is best known for having the most successful denim launch in history, earning over $1 million in sales on their first day of business. It has used Headless commerce and its associated automation since its inception. Within this platform, they take full advantage of the automation capabilities, including nine workflow automations across inventory management areas to incentivise customers to purchase low stock items.

Mehmet Dokumcu, Good American's executive vice president of digital and commerce, says: "It's an extra incentive or nudge to buy when customers see we're running low on a product. If we're out of stock, it also allows shoppers to sign up to be notified when the product is back in stock, which results in future sales we otherwise might miss."

By taking previously manual inventory management tasks, the Good American team was able to automate stock labels on the website. It achieves this by automatically tagging products as 'out of stock' or even 'low stock' to nudge customers over the threshold into a purchase. They also used automation workflows to standardise and automate the product tagging process, reducing the effort needed to ensure an accurate customer browsing experience.





Source

Conclusion

Due to high rates of returns and increased competition levels, retailers must take every step possible to minimise costs at every stage of the e-commerce journey. Whilst a handful of tasks require either physical intervention or a level of flexibility which only humans can provide; many steps can be replaced using Intelligent Automation, which, once set up, is significantly more efficient, reliable and cheaper than human labour. The retail industry is still early in its adoption of technologies like RPA and Intelligent Automation but the above examples from John Lewis and Good American shine two small spotlights on the art of the possible. **Gartner predicts that RPA will reach its plateau in retail within 2-5 years.** As such, retailers not already scaling up their usage of the technology are advised to begin quickly. Leveraging support from third parties such as BJSS, RPA proof of concepts can be spun up in a handful of days. This is thanks to the technology's low code configuration environment, which we can use to rapidly prove the potential benefits of using real-world processes and data to start the journey towards automating further steps in the e-commerce value chain.

3 INNOVATING FOR FUTURE GROWTH

Harnessing the power of e-commerce customer data analytics

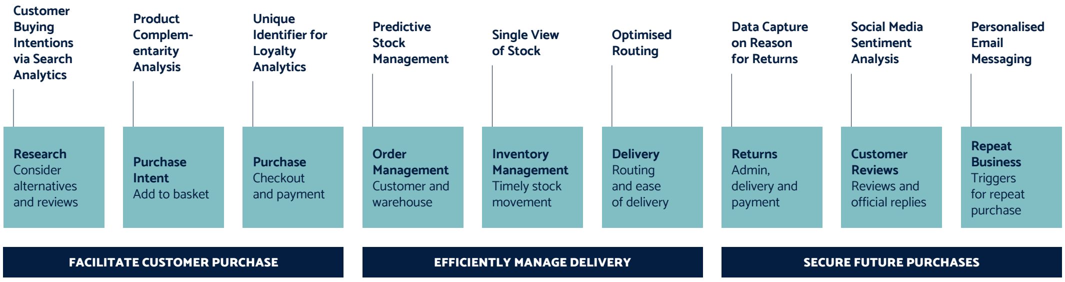
According to Gartner, "1.3 billion people, or a quarter of the world's population, are now online shoppers, yet only 2.72% of e-commerce website visits convert into an actual purchase."

There are many potential reasons for a customer not converting into a purchase - from incorrect sizing recommendations to poor delivery options. But without effective data analytics, retailers will be shooting in the dark with the solutions they deploy, rolling out initiatives in the hope rather than the expectation that they drive conversion rates. To use a fishing analogy, there is an ocean of potential buyers out there. Yet, only a handful are taking the bait and converting it into an actual sale.

In this section, we will explore two core opportunities for retailers to improve their 'bait': firstly, better understanding customer behaviour, and secondly, adapting the user experience to increase spend. In doing so, we aim to show how data and analytics can turn the equivalent of an unreliable old fishing rod into an efficient trawling net for acquiring customers online.

The below map outlines the elements of the online journey where valuable data can be analysed to improve the shopping experience and maximise the efficiency of stock management.

BJSS E-commerce Data & Analytics Opportunities Map



Understanding customers better through e-commerce analytics

For most of its history, retail has been a relatively simple concept: find products people want to buy, put them on shelves at a price they are willing to pay and make sure the shelves stay full. However, in the hypercompetitive 1990s market landscape, retailers realised that data analytics could drive incremental sales. It allowed retailers to understand their customers' in-store behaviour. The insight gained could then be used to adapt the in-store experience, which resulted in increased store visits, bigger baskets and less customer attrition. These analytics completely changed the way retailers personalised offers, developed assortments, and priced and promoted products in brick-and-mortar stores. However, even the most advanced loyalty data from stores pales compared to the data available to anyone with a retail e-commerce site. This advantage is driven by one key thing – a widely available 'unique identifier'.

A unique identifier is the holy grail of effective customer analytics. In retail stores, this is typically a loyalty card, which allows the retailer to identify the same shopper's receipt over multiple shopping trips. However, this brings many challenges: the sample is biased towards loyal shoppers, the data sample rate is low (especially in convenience stores), and shoppers tend only to bother to use it on larger baskets. This is not the case online, where IP addresses or log in details generate a plethora of data. Even after the purchase is complete, there is an abundance of valuable data available to retailers through social media analytics.

For example, simple sentiment analysis can easily be leveraged in the cloud to provide insight on the positivity or negativity of reactions to product launches and posts. It can also identify common themes and segment users based on their attitude towards the brand.

This approach enabled us to identify that for one retailer, customer frustration was boiling over in the pandemic, with 21% of customers addressing the brand with negative sentiment on one particular social media platform. Furthermore, keyword analysis on these posts highlighted common frustrations about errors both online and in-store, which were within the retailer's abilities to fix with relative ease. The retailer in question was completely unaware that its customers were raising these issues. Its social media taskforce was swamped with a manual approach to reviewing social media comments. As such the team was unable to see the wood for the trees.

The ability to track the same shopper over multiple trips enables retailers to optimise their physical and online range, space, pricing, offers or even the in-app experience to suit individuals or customer segments. As an example, by evaluating substitutable products (e.g. private brand frozen peas with Birds Eye peas), retailers can assess millions of individual customer transactions over time to build up a view of what they consider a genuine alternative to the same need. This data can be used to improve substitutions for products out of stock in an online shop. It provides a detailed decision tree of the customer buying process. For some customer segments and categories, flavour is the first choice, then brand, then pack size. Simultaneously, other segments' decision trees may vary depending on regional, cultural, or other personal variables. Using these detailed and data-driven decision trees, retailers can make educated choices on product range by store or channel depending on the target consumers' demographics and the space available. This type of data-driven approach can be applied online or in physical stores. It provides a rich and highly versatile data set, applicable to a host of personalisation challenges at the individual or segment level.

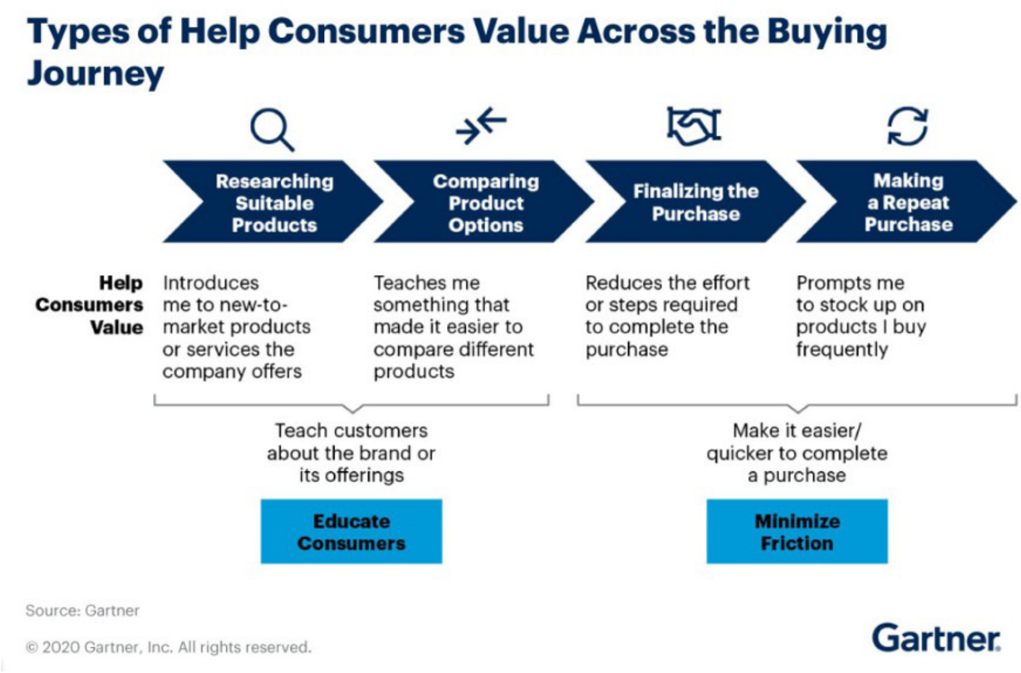
Personalising the online shopping experience to increase spend

Think back to the last time you went into a shop to make a significant purchase. Most likely, at some point in the transaction, you spoke to a staff member, or someone approached you to ask how they could help. Now think of the same thing online. Beyond chatbots, how often have you had a personalised online experience based on the retailer getting to know you as an individual? Personalisation of the shopping experience in brick-and-mortar stores comes as second nature to experienced store advisors. In contrast, it is a much-underutilised tool in online retail.

One of the core benefits and most effective means to increase spending is by personalising the user experience by helping educate and inspire customers and remove friction in the shopping experience.

It's no surprise, therefore, that **Statista finds that 78% of e-commerce businesses plan to invest in personalisation in 2020, with only 3% actively choosing not to personalise the experience. Gartner also listed e-commerce personalisation as its #2 trend in its 2020 retail trend predictions.** However, Covid was yet to impact retail spending at this stage.

In this digital age, customers understand the quid pro quo of sharing data. They are willing to share data with retailers whom they trust to safeguard and respect their privacy. They want to provide their data to those retailers who can offer a compelling and valuable service. From a customer perspective, **52% are likely to share their data with retailers if they receive financial reward. Furthermore, 48% of consumers will share their data to receive free products and services, 45% for discounted products or loyalty points, and 32% for exclusive deals.** However, when asked explicitly, only 25% stated they would feel incentivised to share data for 'personalised services'. This suggests that focusing on the specific benefits listed above is more likely to attract shoppers to share their data rather than personalisation alone.



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Once retailers have a better understanding of customer behaviour on their site, they can use these insights in real-time (hyper-personalisation) or otherwise to personalise the shopping experience. For example, website tracking data can enable intelligent search. This significantly outperforms traditional search functionality in supporting the user journey and increasing basket size. It achieves this using machine learning to improve search result relevance. It can even personalise them to the individual shopper. Recommendation engines using personal data (whether at individual or customer segment level) significantly outperform those that provide generic recommendations. Even site navigation bars and sorting criteria can be tailored to the user. Today, however, personalisation can extend beyond browsing and purchase behaviour to consider contextual factors such as weather, location or local events. This can provide the customer with an experience that adds value to their day rather than a user journey filled with friction points such as ineffective search results or checkout flows.

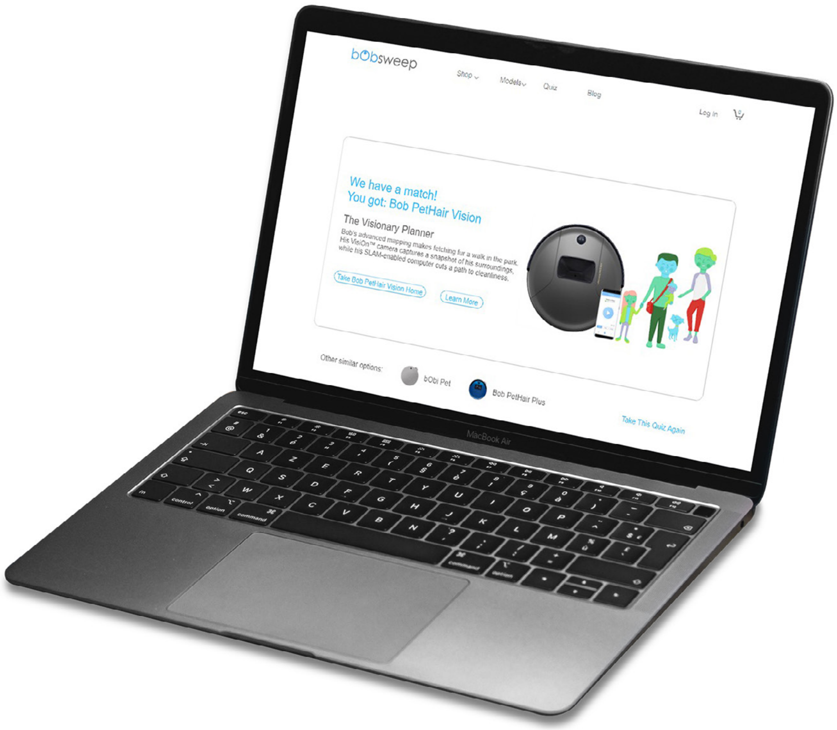
Retail Story 1: Very Homepage Personalisation

In 2015 Very claimed a 'retail first' by offering a fully personalised homepage experience to its customers. **It provided 1.2m different versions of its homepage, depending on the customer's purchase history and even the local weather.** Very managed to leverage 200 million different affinity scores in its personalisation algorithm, which was reported to generate £5m in additional sales. While this homepage has now been succeeded, Very continues to leverage personalisation to drive online sales, citing in 2020 that personalisation was one of the key drivers of their 2019 sales growth.

Source

Retail Story 2: Bobsweep Quiz and Personalised Site

A simpler example is the Bobsweep quiz. The vacuum retailer uses a quiz to provide its customers with tailored recommendations on which vacuum suits their lifestyle. Though, we feel there's still room for some more sophistication, Bobsweep could look to integrate its existing quiz data and use it to personalise the web experience further. However, it's still a great way to recreate what a store associate would do when selling face to face.



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Conclusion

Whether leveraging the in-built capabilities of a modern e-commerce platform or developing in-house e-commerce customer data analytics, online customer analytics are crucial in maintaining long-term loyalty. This, in turn, will maximise revenues by helping you to understand and adapt to your customers' individual needs. E-commerce hyper-personalisation is still in its infancy. But compared to the highly personalised experience of other industries such as social media, music, or video streaming, it's clearly a tool that will spread into retail. Effective analytics requires a clear understanding of data privacy laws like GDPR, a well-engineered data platform, and the skillset to accurately analyse and interpret the data. All this needs to be in place before building algorithms to adapt the experience to maximise sales.

How Direct-to-Consumer is changing the face of retail

Direct-to-Consumer (DTC) brands have experienced a surge in popularity in the last few years, with eMarketer estimating that DTC sales accounted for over $17bn of total US e-commerce sales in 2020, an increase of nearly 25% from 2019.

Historically, retailers were the gatekeepers to consumers' wallets. Still, online retail and social commerce have shifted the power balance in favour of the manufacturers themselves. Whilst giants like Amazon still have significant allure to customers and manufacturers alike, many brands, whether start-up or established, have successfully grown sales and profits by leveraging the power of DTC, cutting out the middleman associated with being on a marketplace. Furthermore, DTC brands can control the entire end-to-end experience. This allows them to build stronger relationships with their customers, gaining a better understanding of their needs and providing a more personalised offer. Finally, they have a better opportunity to capture valuable market research data from the source, allowing them to improve their marketing mix and take steps towards a more personalised experience. This provides brands with the opportunity to offer a stronger omnichannel experience, with consistency across platforms, which will increase the likelihood of customers returning.

Despite the clear benefits of a DTC model, there are clear challenges to be overcome to compete with Amazon. **The retail giant represents over 50% of the US retail e-commerce market.** In many industries, it is fast becoming the first port of call for e-commerce product search. Thus, educating prospects of a new yet unknown DTC website and then engaging and converting them can be both costly and slow. As such, for many brands, especially emerging ones, the speed and simplicity of selling through Amazon's existing platform and distribution networks has an understandable allure.

Retail Story 1: Dollar Shave Club

Dollar Shave Club has become the poster child for DTC success from humble beginnings as a start-up to a billion-dollar Unilever acquisition. It is capitalising on the growing popularity of subscription services and spotting a gap in the male grooming market. Dollar Shave Club found success by providing consumers with high quality razors delivered to their door, on a monthly or more frequent basis depending on each customer's shaving habits, at a cheaper rate than key market players such as Gillette.

By going direct to consumer, the brand was able to reduce costs, ensure a recurring profit and generate greater customer lifetime value. It has also been able to control up-selling and cross-selling within its website. This approach allowed it to successfully compete in a market dominated by brands owned by multi-national corporations. **In 2017 it was reported that 23% of Dollar Shave Club subscribers were still subscribed 4 years after their initial purchase.** This reinforces the benefits of the direct-to-consumer model in terms of creating brand loyalty and recurring revenues.

Dollar Shave Club quickly became a disruptive force in the male grooming market, with subscribers praising its affordable price point, convenience and unique customer experience. **Annual sales were in the region of $200m in 2016, when Unilever swooped in with a $1bn acquisition offer.**

Retail Story 2: The role of online marketplaces

Despite the success of DTC brands such as Dollar Shave Club, the momentum is slowing due to market saturation and high acquisition costs, raising the question of whether marketplaces are the better option. In 2019, the top online marketplaces (including global giants Alibaba and Amazon) **sold over $2 trillion worth of product, with marketplace sales accounting for a massive 57% of global e-commerce sales.**

Online marketplaces provide retailers with access to a much broader consumer base who may otherwise be slow and expensive to acquire through DTC channels. Being present on an online marketplace also takes pressure away from the brands, who are provided with access to back-end support, a more sophisticated supply chain and reduced marketing costs. However, listing on leading sites such as eBay and Amazon can be an extremely competitive environment. It can be hard to stand out from the crowd and convince consumers to buy your product over the 1000s of similar items available. An obvious con is that marketplaces take a fee from sales – for example sellers on Amazon pay a referral fee on each item sold, **ranging from 7.14% for categories such as Computers and up to 45.9% for Amazon Device Accessories.**

Conclusion

Whilst there are cons of being on a marketplace, there are benefits to having the load taken off the brand, allowing a leaner organisation that keeps the heavy lifting with the third-party marketplace. Alternatively, some may prefer to have full visibility of the end-to-end process and will not feel comfortable handing any of this over to a third party. The third option is a hybrid strategy adopted by the snacking brand Grenade, which lists both on marketplaces and its website.

It is essential to assess what is right for your brand by developing a clear, well-articulated and comprehensive strategy, identifying the most beneficial route, and ensuring all investments in innovation and technology are in-line with your strategic goals.

Leveraging strategic partnerships

Recent years have seen the evolution of strategic retail partnerships, with retailers using them as a method to expand their offering and raise brand awareness. These have ranged from retailers partnering with technology providers to separate brands coming together to provide consumers with a joint offering.

Partnerships with payment solution providers have proven particularly popular amongst younger consumers who enjoy the flexibility of spreading payments over time. Klarna has found great success in this space. It offers a range of payment solutions that have **garnered them over 50,000 users a week** and the **title of Europe's biggest fintech unicorn** following a $10bn valuation. Several online retailers, such as PrettyLittleThing and GymShark, have partnered with Klarna reaping benefits such as a **68% increase in average order value** when offering instalments. The ease of spreading payments over time attracts new, younger shoppers, increasing conversion rates and the likelihood of repeat purchases. However, the risks of these solutions, such as long term debt and credit rating risks, are yet to come to the fore due to the payment options' relative newness.

Retail Story 1: Harrods and Farfetch

Also announced in 2019, Harrods selected Farfetch as their exclusive global e-commerce partner. This partnership involves Farfetch Black & White creating an online platform where consumers can purchase Harrods products and benefit from the operational and technical support provided by Farfetch. Following the announcement, Farfetch stock traded at its highest level since December 2018. The partnership delivers strong business benefits for both parties, providing a younger customer base to Harrods and providing a state-of-the-art e-commerce platform in-line with the luxury customer service Harrods customers know and love. This example highlights how partnerships should be leveraged to mitigate weaknesses; Harrods has the strong product offering and brand reputation but lacked the back-office capability Farfetch Black & White can offer it.

Retail Story 2: M&S and Ocado

In March 2019, Marks & Spencer and Ocado announced they would be partnering up on a £750m 50/50 UK joint venture. The deal offers great benefits to both parties; M&S can leverage Ocado's online platform and technology infrastructure, whilst in return Ocado has access to the loyal M&S customer base. While there were some initial technical issues, Ocado has seen a positive response to the new M&S range, **increasing the average basket size**. This partnership is an excellent example of improving the customer experience by capitalising on each other's strengths.

Conclusion

In the future, we expect to see more successful e-commerce partnerships, with retailers coming together to provide a combined yet unique offering. As consumers continue to get comfortable with the convenience of e-commerce, it is only a matter of time before they start to expect a completely joined-up offer. Taking the M&S/Ocado example, whilst consumers can shop for their M&S groceries online, they are currently unable to pick up their clothing or homeware in the same way they could in-store. Is this where the industry is heading – towards the online department store of the future, where Ocado becomes a one-stop-shop for all M&S products? This proposition would significantly enhance the customer experience. It would work to improve the all-important e-commerce KPIs of bounce rate and time spent on site.

For retailers, innovation is critical when designing lean business strategies which allow them to remain competitive in a rapidly changing landscape, such as e-commerce. However, innovation is of no benefit if it can't be implemented effectively. As such, feasibility needs to be built into innovation frameworks from day one without stifling creativity. Partnership strategies require a deep understanding of your own business and that of the potential partner. This is often best achieved through an external perspective where impartial benchmarks and assessment frameworks can be called upon along with prioritised recommendations and implementation roadmaps.

4 CONCLUSION

The pandemic has only highlighted the importance of e-commerce in retail. It has taken UK e-commerce sales as a percentage of total sales from 19% in May 2019 to a peak of 33% in May 2020.

However, laying the foundations for an effective e-commerce platform requires strong foresight and investment. It requires the leveraging of cloud and open-source technology whilst building with unified commerce in mind. This is to ensure that tasks are automated wherever possible. By doing so retailers can develop a platform that can scale even with huge spikes in demand. It will allow them to put the customer experience at its heart, facilitating a unified shopping experience, and one which can be profitable even in the face of high levels of returns, fluctuations in shipping rates or the aftershocks of macro events like Brexit. Once the right foundations are laid, retailers can take advantage of one of the few benefits many have cited of the Covid period, namely the ability to break away from internal bureaucracies and embrace shorter innovation cycles. For the challenger brands of 2021, this provides opportunities to harness data and analytics's true power to experiment with hyper-personalisation. Brands are no longer restricted by traditional retail outlets either. We expect to see many more DTC e-commerce options emerging, including collaborations and partnerships where brands focus on packaging up a combined retail experience using their strengths partnered with those brands which provide a strong synergy.

At BJSS, we have supported retailers in adopting modern e-commerce practices across the six pillars outlined in this white paper. We combine both strategic advisory capability with 28 years of enterprise-level digital delivery experience. We would be delighted to have an obligation-free chat with you about your e-commerce ambitions.