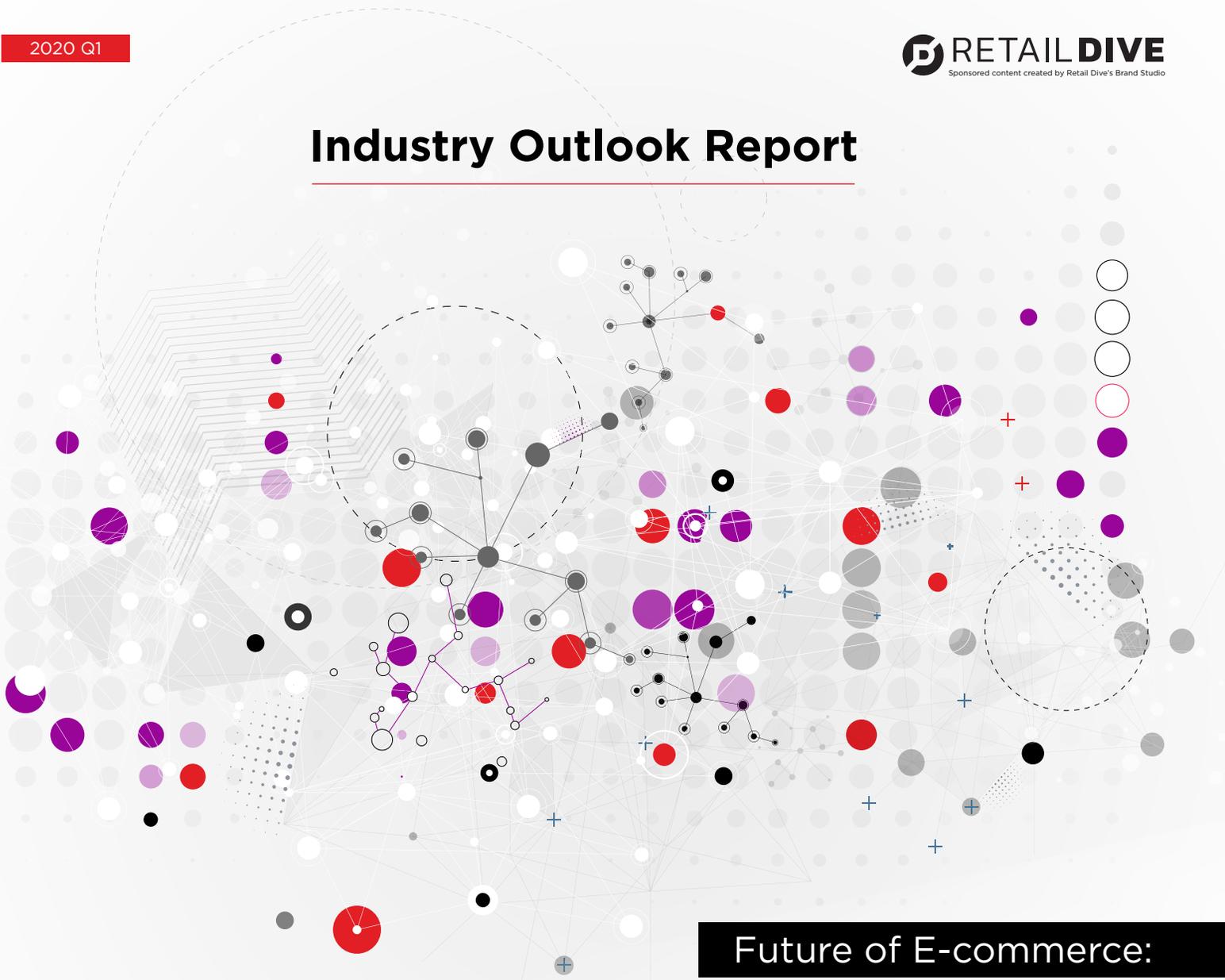


Industry Outlook Report



Future of E-commerce:

New Technology, Behavior and Markets Lead to New Investment Blueprints

Sponsored by:



Contents

Executive Summary.....	02
Introduction.....	03
2020 Focus: New Technology, Behavior and Markets.....	04
Future Growth Opportunities.....	08
Conclusion.....	14
Endnotes.....	15



Executive Summary:

Successful e-commerce retailers have always looked to their customer journey as a source of inspiration for business investment decisions. But in today's technology-based e-commerce ecosystem, retailers have access to more data, more potential customers and more opportunity – which puts more pressure on those decisions than ever before.

Of course, information can be a competitive advantage. But only when it informs your strategy and allows you to take action. For e-commerce retailers in 2020, more information leads to awareness of new threats, limitations and challenges – including the ultimate challenge of figuring out the best way to proceed in the face of:

- New technology that puts pressure on e-commerce retailers to deliver unique experiences
- New customer behaviors that demand creative and well-crafted product offerings
- New markets that represent potential opportunities for growth and expansion

As retailers continue to dissect and analyze how the different stages of their customer experience are evolving, new investment blueprints emerge with the potential to deliver rapid growth and success.

But only e-commerce retailers that act quickly and decisively can make the most of these opportunities.

This report explores the customer experience themes influencing e-commerce businesses in 2020, and how those themes can guide retailers in uncovering new investment blueprints, such as:

1. E-commerce metrics that drive the most revenue
2. Striking the right balance of acquiring new customers and re-activating existing ones
3. Tactics for driving more sales from an existing audience
4. Opening a brick-and-mortar location
5. Prioritizing sustainable and eco-friendly initiatives

With the appropriate context for each investment strategy, e-commerce executives can identify the parts of their customer experience that will yield the highest ROI and, ultimately, be empowered to achieve their full potential.

Introduction

From fragile startups to the highest-earning online stores, today's e-commerce businesses are quick to recognize the connection between customer experience and success.

Online shoppers have high expectations. They want a great product at a low price, and they don't want to wait.² Fortunately, e-commerce retailers have everything they need to meet those expectations. They have access to unprecedented amounts of information about the customer experience they're delivering. And unlike competing traditional retailers, e-commerce retailers can quickly pivot and fine-tune their offerings at scale.

Digitally native vertical brands may not have legacy real estate footprints, but they do have hard data on click paths and customer lifetime value. They can't rely on years of brand affinity, but they can quickly get access to millions of potential customers with a few keystrokes on Google or Facebook ads.

This experimental-but-easy-to-test environment has allowed digital startups to design their customer experience around modern "pirate metrics" of acquisition, activation, retention, referral and revenue (AARRR).

It's not all good news, though. As this approach breaks down the customer lifecycle and brings clarity to potential business strategy investments, it also provides an overwhelming number of options for investing in the customer journey.

This report explores the new opportunities presented to e-commerce retailers by new technology, customer behaviors, and markets in 2020 – and also the new questions uncovered by these changes which must be answered in order to grow in 2021.

McKinsey & Company reports that a holistic approach to focusing on the customer, along with operational and IT improvements, can generate powerful returns¹



20-30%
uplift in
customer
satisfaction



10-20%
improvement
in employee
satisfaction



20-50%
cost base
economic gains

2020 Focus: New Technology, Behavior and Markets

One of the biggest challenges to scaling success in any business model is a constantly changing operating environment. This is exponentially true in e-commerce, where every change that impacts traditional retail is multiplied by the Internet, the digital consumer and technology itself.

For direct-to-consumer (DTC) retailers looking to ride the valuation bubble, grow their product and exit with an acquisition, changes in consumer demographics are a short-term problem. But the majority of e-commerce disruptors are profitable and more focused on expanding their businesses than getting flipped by an incumbent brand: only 15% of DTC brands surveyed by the International Advertising Bureau (IAB) indicated that being acquired is a long-term goal and 34% are making global expansion a top priority.³

According to IAB research, **most e-commerce retailers plan to grow, not sell**⁴



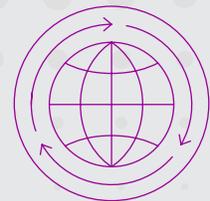
90%

of DTC brands surveyed are profitable



22%

of DTC brands have a long-term goal of acquiring another company



34%

of DTC brands are making global expansion a top priority

When a retailer is in it for the long haul, industry influences become a lot more interesting. This explains why e-commerce retailers are adapting so quickly to new technology, new customer behaviors and new markets in 2020:

1. ***New technology that enables e-commerce retailers to deliver unique experiences***

Named for the original e-commerce retailer, the “Amazon Effect” naturally affects digital retailers as much as brick-and-mortar retailers.⁵ Thanks to innovative customer- and design-focused online retailers like Amazon, Zappos and Apple.com, customers have high standards for online purchases. They expect unified, cost-effective and personalized experiences that make it easy to buy what they want, when they want.⁶

Retailers that don’t meet those requirements leave an opportunity for customers to hit the back button and return to the research stage of their buyer’s journey.

“Many e-commerce brands are migrating from platforms they have outgrown to provide a better customer experience,” says Jacklyn Deans, e-commerce consultant at Flash + Color. “The benefits of moving from dated or proprietary e-commerce systems cannot be overstated. Migrating to a speedier platform with apps and plugins, that streamline and enhance the experience, makes it easier for

your customer to buy. Migration helps the company reduce expensive bills and reduce the need to bring in developers to make a small change.”

Access to new technology and the freedom to adopt it quickly allows e-commerce retailers to pivot with customers as they raise that bar of expectations.

For example, e-commerce stores increasingly have access to detailed metrics like patterns in the average order value or time in store, so they are able to test and adapt their investment ideas at a small scale to see what level of success they can achieve. They can also investigate new optimization tools like heat-mapping, which records and analyzes onsite customer behavior, to identify and remove points of friction in the customer shopping experience.

2. ***New customer behaviors that inspires creative and well-crafted product offerings***

Access to detailed customer data allows e-commerce retailers to create and sell products with unprecedented insight into customer preferences and behavior. Online retailers can craft their websites, product offerings, prices, and return policies based on cold, hard data, which makes it easier to remove obstacles to purchase and drive sales.



For example, e-commerce retailers know that 81% of shoppers trust their friends' and family's advice over advice from a business,⁷ which has led to a proliferation of social proof, reviews, and consumer referral programs.⁸ They also know that, during the holiday shopping season, free shipping is more important than fast shipping, so they can make informed decisions about those promotions.⁹

One example of this increased awareness of customer behavior can be seen in the viral adoption of a niche e-commerce product like Feals' CBD for anxiety.¹⁰ The founders poured through research on American anxiety and sleeping issues and made connections to the modern-day consumer's constant awareness of what they're putting in their bodies. The brand then acted on the opportunity to unite a fragmented industry behind one trustworthy, human-support heavy brand.¹¹

"The democratization of commerce technology has given people the ability to come up with a product idea and get it to market very quickly, something that was exponentially more difficult to do even five years ago," says Laura Tisot, merchant success manager at Shopify Plus. "This creates a huge market of sellers who can quickly set up their product and brand and get it to their customers directly via social media and paid ad placement."

As e-commerce retailers perfect the way they sell to their customers and benchmark changes in those behaviors over time, they're able to uncover nuanced opportunities for experimentation and targeted growth, such as:

- Building strategic holiday shopping offers during peak sales seasons like Black Friday and Cyber Monday¹²
- Offering subscription buying options to meet consumer demand for convenience like Equal Part's¹³ product bundles and Drink Haus' monthly membership¹⁴
- Crafting cart abandonment email sequences targeted to customers who have visited your store but not made a purchase, which drive as much as 2.4 times more completed purchases for brands like BOOM! Cosmetics and Buck Mason¹⁵

3. *New markets jump out as potential opportunities for growth and expansion*

For a traditional brick-and-mortar retailer, expanding into a global market only happens as the result of intentional strategy and enormous investments in supply chain and real estate. But most e-commerce retailers became global businesses the moment they opened their online stores – their technology made it possible to accept purchases from customers in any location.

In 2020, e-commerce retailers are looking at existing customer data to identify high-potential global expansion opportunities, then intentionally pursuing them, like 100% Pure¹⁶ and Drunk Elephant¹⁷ building on their existing fan bases in China.

Because of advancements in technology and changes in consumer behavior, the tools they need are already in place to make it easier to set up shop in new local markets and comply with international and local regulations. Further tweaks to a location-specific offering, such as providing multiple currency payment options and including the cost of taxes in the price of the product, can remove friction from the purchase process for global customers.

“Going global can be very difficult,” says Stacy Kemp, principal at Deloitte Consulting LLP. “Selling to very different customers, understanding the regulations of operating in a global market, geographic and regional nuances have left the road littered with failed global expansion attempts. E-commerce retailers can have an advantage of using their digital platforms to access those customers and service their needs from their domestic operations without making heavy investments in supply chain or stores to test it out.”



85% of the world's purchasing power resides outside the U.S.¹⁸

Ongoing changes to technology, customer behaviors and global markets explain many of the customer experience trends in 2020. But understanding the present is only helpful insofar as it provides a key to anticipating the future. With a better perspective of how customer experience is being shaped by new technologies, markets, and consumer behaviors in 2020, we can look ahead to how e-commerce brands will make similarly-motivated business investment decisions in 2021.

Future Growth Opportunities

E-commerce retailers invest time, resources and often sweat equity in building a successful brand. The only thing worse than not succeeding is doing so well that there's no clear path forward. Every stage of the customer journey could be maximized to capture value, so where should retailers start?

There's no one correct answer to the most pressing questions about driving growth in online retail. But by exploring these opportunities one by one, retailers can narrow down the most promising potential investment opportunities for their unique businesses.

1. *E-commerce metrics that drive the most revenue*

There's no one metric any company could focus on to guarantee success now and in 2021 because every retailer's success will be unique to their company. The individual paths a retailer takes to drive revenue will be dependent on factors like customers, vertical and product.

The only universally helpful approach to building a high-performing customer experience is to pay attention to the customer journey. For e-commerce retailers, that includes the six pirate metrics:

Awareness



Acquisition



Activation



Revenue



Retention



Referral



Pirate Metric	Opportunity to Optimize Customer Journey
Awareness	What sources drive traffic to our store and how has that changed over time?
Acquisition	What is our customer acquisition cost (CAC) and how has it changed over time? How quickly is our email list growing? Who stands out as potential partners or complementary brands to collaborate with?
Activation	What is our cart abandonment rate and how has it changed over time? How long does it take a website visitor or newly acquired customer to make a purchase? What customer outreach tactics do we have in place as far as direct mail and email marketing?
Revenue	How has our revenue changed Y-O-Y? Which products drive the most revenue, and which drive the least?
Retention	What is our Customer Lifetime Value (CLV) and how has it changed over time? What kind of post-purchase outreach do we have in place as far as direct mail and email marketing?
Referral	What are we doing to encourage customers to share us with their personal networks? Which brands and influencers send us the most traffic or customers?

The above chart provides a sample of strategy defining questions that retailers can use to analyze their customer journey and identify opportunities to optimize it.

2. *Striking the right balance of acquiring new customers and re-activating existing ones*

The customer acquisition cost (CAC) verses lifetime value (LTV) debate has raged on for years, but 2021 will see it come down stronger on the LTV side.

Today, depending on the stage of business funding, established e-commerce brands can see as much as 3x more value from returning customers than from first-time customers.¹⁹

“When someone engages with your brand online, they create a digital fingerprint that gives you an opportunity to further engage,” says Paul Goldston, merchant success manager at Shopify Plus. “Getting customers in the door is an important first step, but the brands seeing four to five times the ROI on their

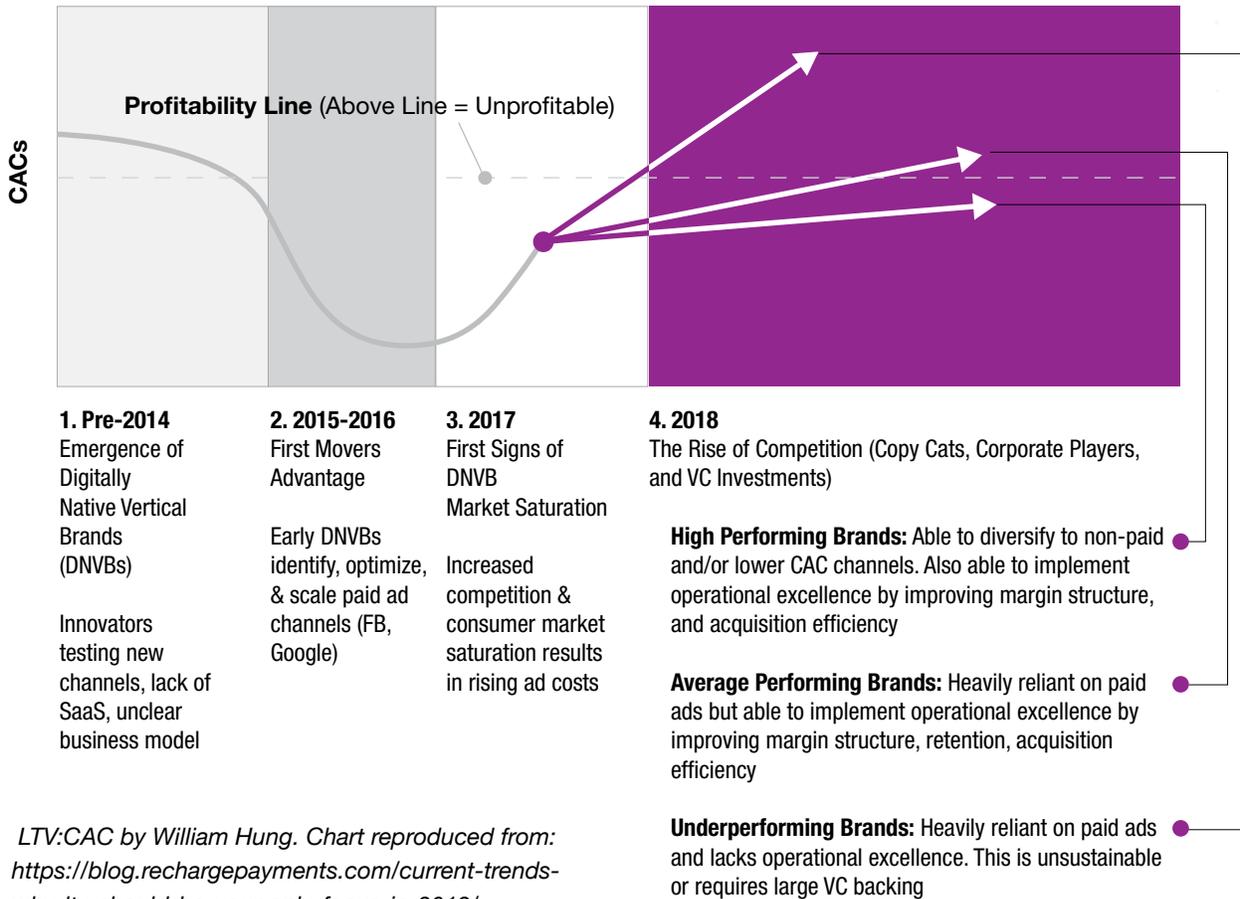
investment are the ones focused on retaining and growing those existing customers.”

Why? William Hung, director of growth at Kettle & Fire and co-founder of GetARPU.com, points out that the ease of launching a new business increasingly saturates the online marketplace with e-commerce brands seeking new customers.

This influx drives up paid ad usage, and the costs of those ads, while increasing consumer ad fatigue. And since there’s no longer any first-mover advantage, where e-commerce brands can command a market because little competition exists, brands will have to focus on sustaining growth through strong LTV:CAC ratios.

Survival of the LTV:CAC

the “easy” golden days are over & the bar has risen



Tips for improving LTV:CAC ratio

- Calculate both CAC and LTV and monitor how these numbers change each quarter
- Segment by notable customer types, such as one-time customers, recurring customers, or BFCM acquisitions
- Monitor CAC for these segments to avoid investing too much on the front end
- Invest in customer activation, retention, and referral strategies to increase purchase activity and drive a higher LTV





While LTV should drive retailer’s overall investment blueprint, there are points throughout the year when customer acquisition should remain a top priority. For example, right after a funding round, a retailer may need to invest in customer acquisition to show investors immediate results. Or 6-9 months before a traditionally high-traffic season like holiday shopping, it may make sense to invest in growing your consumer base so that customers move through your sales funnel by the time your holiday promotions take place.

3. Tactics for driving more sales from an existing audience

E-commerce retailers that have already invested in growing their audience through email marketing sometimes struggle to capture the maximum value from existing customers and activate customers who have visited their store but have not yet made a purchase.

Often this is the result of not fully optimizing two key points of the consumer journey: removing obstacles on the path to purchase and maintaining contact with interested potential customers based on their unique interactions with a store.

Remove Obstacles to Purchase

Everything about an online store impacts how customers experience a brand's products. When a brand sends a promotional email to existing and potential customers, it must be sure that the landing page it leads to will answer questions instead of raising them.

Establishing trust in digital commerce is a significant roadblock for many brands, according to Dr. Mahdi Roghanizad, adjunct professor at Ivey Business School and Harvard Business Review contributor. And it often comes down to a potential customer's intuition about the color, font, and design of the site. Anything brands can do to optimize their site design and include trust indicators that align with the customer demographic's age, gender, and location will help overcome those barriers.

For example: clothing retailers increasingly find that offering only a product photo with sizing details is leading to high return rates and doesn't deliver enough information to convert customers. By adding photos of models at every size, details about clothing texture, and even augmented reality and 3-D modeling options, retailers are reducing returns, removing lingering doubts, and giving customers the confidence to buy.²⁰

Optimize Outreach

When a customer gives permission for email communication, brands have an enormous opportunity to influence their behavior. But there's also an incredibly high bar for retaining permission to use their data and show up in their inbox.

Seasonal promotions and brand-driven campaigns have their place. But it's more effective when brands send personalized and well-crafted campaigns that upsell, cross-sell, and reactivate customers based on their unique purchase history. And then layer those efforts with conversion rate optimization techniques like A/B email headline and landing page copy, user testing, heat- and click-mapping, and more.

For example: a well-timed repurchase email for consumable products can increase customer repurchase frequency and drive higher revenues, all while making it more convenient for the customer. Or, in the case of not yet activated customers, a cart reminder email or product suggestion based on what's left in their cart will be much more relevant and compelling than a batch-and-blast coupon promotion.

Tactics for engaging an audience via email



- Share founder's story
- Elaborate on company values
- Share things the company loves
- Feature existing customers or creative product uses
- Explore the company's manufacturing process

4. Opening a brick-and-mortar location

It seems like all of the big DTC brands are opening permanent or pop-up brick-and-mortar stores, from Allbirds and Glossier to Modcloth and Universal Standard. And it's a significant benefit of modern e-commerce technology that when an online retailer does opt to open a brick-and-mortar location, they are often already set up to smoothly manage their omnichannel inventory and logistics.

As Flash + Color e-commerce consultant Jacklyn Deans says, "When you sell high-end products in a carefully crafted digital store, your in-store experience has to meet that bar and raise it. Your technology stack has to seamlessly connect a customer's brick-and-mortar experience with their past purchases."

But is it inevitable that every online retailer is going to turn to brick-and-mortar, and are these stores revenue-boosters? Not at all.

While 30% of DTC founders surveyed by IAB have a long-term goal of opening a brick-and-mortar location,²¹ it's not the right growth strategy for every online retailer. Physical locations often aren't worth the expense just to capture transactional relationships like increased foot traffic²² or the halo-effect of boosting online sales.²³ They're most effective for online retailers if they serve alternative customer-experience focused goals such the following:²⁴

- Educate and create connections with customers
- Build confidence and trust in products
- Inform customer service and product development

If these purposes resonate with a brand's priorities, a brick-and-mortar location might be a worthwhile investment. The brand can then analyze the data they've already collected about where their strongest customer bases are located and test a small investment in a pop-shop – independently or in collaboration with a complementary brand.

When does it make sense to try brick-and-mortar?

- The brand's intention is to educate and create connections with customers, build confidence and trust in products, inform customer service and product development, or capture other customer experience-focused information
- The brand has tested its larger markets with pop-up locations independently or in collaboration with a complementary brand, or it has existing data that suggests a loyal customer base in a potential location
- The brand can invest in an impressive and effective experiential store design



5. *Prioritizing sustainable and eco-friendly initiatives*

Unique online clothing retailers like U.S.-based Pact²⁵ and Australia-based Nimble Activewear²⁶ are capitalizing on customer demand for eco-friendly and sustainable products. One Nielsen study reveals 81% of consumers across gender, age, and location think it's extremely or very important for a company to implement programs to improve the environment.²⁷ Furthermore, products that include claims about sustainability in their description or packaging grew twice as fast as the rest of their category's dollar growth.²⁸

This is great news for retailers that baked sustainability into their company from the ground up. But even if a brand is just beginning to explore what its eco-friendly options are, there are ways it

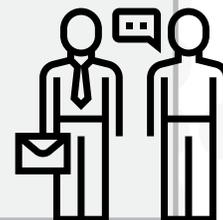
can give customers a more sustainable shopping experience, such as:

- Analyzing source materials and partners to identify more sustainable and eco-conscious options
- Providing sustainable shipping choices, such as slower shipping, recyclable packaging, or shipping multiple orders in one package
- Helping customers recycle or repurpose used products, such as Patagonia's digital Worn Wear collection²⁹
- Offsetting manufacturing and shipping carbon footprint through programs like the Rainforest Trust³⁰ or My Climate³¹



When should a brand prioritize sustainability?

- Category-specific statistics indicate there's growing consumer demand
- Customers are requesting sustainable and eco-friendly options
- Customer surveys or small-scale tests of these options receive positive feedback
- The brand's mission statement or brand purpose relates to sustainability or nature
- The brand can commit to these efforts for the long-term



Conclusion

E-commerce retailers at the height of their success have first-hand experience of the relationship between customer experience and growth. But achieving that success has taken place in an environment that's rapidly changing. What comes next?

Thanks to the unlimited creativity of the marketplace, there's no one metric, strategy, or investment that will answer these big questions or solve these challenges.

But e-commerce retailers have everything they need to make the right decisions for themselves: the data to build an accurate view of their customers, the technology to create a compelling and seamless experience, and the agility to test and respond to the outcome of their experiments. Online retailers that deploy these advantages to the best of their ability will naturally identify opportunities to optimize each stage of their customer journey for customer experience.

- ¹ [“What matters in customer-experience transformations,”](#) McKinsey & Company
- ² [“Now or never: Immediacy and customer experience in fashion retail,”](#) McKinsey & Company
- ³ [“IAB Research Busts Myth That Direct-To-Consumer Brands Are Looking To ‘Sell-Out’ To Incumbents, Finding Overwhelming Majority Are Already Profitable,”](#) IAB
- ⁴ [“IAB Research Busts Myth That Direct-To-Consumer Brands Are Looking To ‘Sell-Out’ To Incumbents, Finding Overwhelming Majority Are Already Profitable,”](#) IAB
- ⁵ [“How retailers can keep up with consumers,”](#) McKinsey & Company
- ⁶ [“How to capture what the customer wants,”](#) McKinsey & Company
- ⁷ [“The Hard Truth About Acquisition Costs \(and How Your Customers Can Save You\),”](#) HubSpot
- ⁸ [“Social Proof: Your Most Influential Marketing Asset and How to Use It,”](#) Shopify
- ⁹ [“2019 Holiday Survey of Consumers Keeping the good times rolling,”](#) Deloitte
- ¹⁰ [“Helping people manage anxiety, pain, and sleeplessness,”](#) Feals
- ¹¹ [“Interview: DTC Cannabis Brand Feals On Making CBD Approachable For All Consumers,”](#) PSFK
- ¹² [“Holiday Pre-Season Playbook,”](#) Shopify Plus
- ¹³ <https://equalparts.com/shop/>
- ¹⁴ <https://drink.haus/products/membership>
- ¹⁵ [“How to Build an Abandoned Cart Email Sequence,”](#) Shopify
- ¹⁶ [“How is 100% Pure selling in China without testing on animals?,”](#) 100% Pure
- ¹⁷ [“Drunk Elephant’s Founder Shares Expansion Details And Why The Wildly Popular Skincare Brand Is Not Simply ‘Clean’”](#) Forbes
- ¹⁸ [“The Global E-commerce Playbook,”](#) Shopify Plus
- ¹⁹ [“How to Increase Customer Lifetime Value \(CLV\): Pay More Now, Get More Later,”](#) Shopify Plus
- ²⁰ [“Why the Marriage of AI and AR Can Help Reduce Product Returns,”](#) My Total Retail
- ²¹ [“IAB Research Busts Myth That Direct-To-Consumer Brands Are Looking To ‘Sell-Out’ To Incumbents, Finding Overwhelming Majority Are Already Profitable,”](#) IAB
- ²² [“‘Customers aren’t going there to shop’: How DTC retailers are prioritizing foot traffic and in-store sales,”](#) Glossy
- ²³ [“Retail stores get a bad rap, as closures pile up. But here’s how stores boost online sales,”](#) Forbes
- ²⁴ [“How DTC Brands See the Purpose of Stores,”](#) Retail Dive
- ²⁵ <https://wearpact.com>
- ²⁶ <https://us.nimbleactivewear.com>
- ²⁷ [“Global Consumers Seek Companies That Care About Environmental Issues,”](#) Nielsen
- ²⁸ [“What’s Sustainability Got To Do With It?,”](#) Nielsen
- ²⁹ <https://wornwear.patagonia.com>
- ³⁰ <https://www.rainforesttrust.org/get-involved/corporate-sponsors>
- ³¹ https://co2.myclimate.org/en/flight_calculators/new



Shopify is a leading global commerce company, powering over one million merchants in 175 countries. Shopify provides trusted tools to start, grow, market, and manage a retail business of any size.

Shopify Plus, Shopify's full-service commerce offering, is empowering a diverse set of merchants (Allbirds, Gymshark, PepsiCo, Staples, and many more) to build their businesses, instead of focusing on technology implementation. Shopify Plus is the commerce platform for The New Enterprise: high-growth, high-volume merchants who want to manage and scale their entire businesses, not just their storefronts, from a central location.

LEARN MORE



Custom Content. Targeted Results.

Industry Dive's Brand Studio collaborates with clients to create impactful and insightful custom content. Our clients benefit from aligning with the highly-regarded editorial voice of our industry expert writers coupled with the credibility our editorial brands deliver. When we connect your brand to our sophisticated and engaged audience while associating them with the leading trends and respected editorial experts, **we get results.**

[LEARN MORE](#)



Get Retail Dive in Your Inbox

From e-commerce to store closings, Retail Dive provides in-depth journalism and insight into the most impactful news and trends shaping retail.

Sign up for the daily email newsletter that top retail executives are reading. It's free!

[SIGN UP](#)