Deloitte.

# Fifth annual eCommerce assessment

## Digital in the age of the connected consumer

# eCommerce assessment

The U.S. retail industry is experiencing unprecedented change as stagnant growth, coupled with advances in digital technology, continue to shape the way consumers shop. As a result, retailers are increasingly challenged to develop an eCommerce experience that will win customer wallet share. However, in a channel-agnostic world, winning online is not just about getting eCommerce right — it is about building a cohesive, consistent, and compelling experience across all touch points in the customer journey, both online and offline: from mobile and social to in-store and beyond.

In a channel-agnostic world, winning online is not just about getting eCommerce right — it is about building a cohesive, consistent, and compelling experience across all touch points in the customer journey, both online and offline.

Given the disruption in the industry and the growth of online sales, the opportunity and the challenge lie in the fact that the connection between the customer and the retailer has evolved into a much more complex relationship. Smartphone-equipped consumers are more informed and savvy than ever before — making it more complicated for retailers to attract, convert, and retain new and existing customers. Further, the rise in mobile connectivity means that consumers are no longer either online or in the store, but increasingly in both channels at the same time.

Forrester predicts that 60 percent of U.S. retail sales will involve digital by 2017, either as a direct digital transaction or as part of a shopper's research.[1] To that end, leading retailers are focusing on creating unique customer experiences, investing in the ability to intimately know their customers, and innovating throughout the customer journey using breakthrough digital capabilities that transform the experience.

To keep a close watch on what and who is shaping the eCommerce environment, Deloitte conducts an annual survey that looks at the eCommerce capabilities of the Top 100 online retailers in terms of revenue as defined by *Internet Retailer*'s "Top 500 Guide." For the fifth year in a row, Deloitte evaluated 140 features and functions across 18 capability groups against a defined five-point maturity scale. This research yielded 70,000 specific data points to draw insights on the new and existing muscles that retailers are building to supercharge their eCommerce presence.

To help retailers navigate the evolving eCommerce landscape, Deloitte categorizes the trends uncovered in the analysis into three categories and highlights key competitive building blocks that retailers should consider as they determine their digital commerce strategy:

1. Critical Mass: mature capabilities that the 'critical mass' of top retailers has adopted. These 'core' capabilities are table stakes today and typically won't differentiate a retailer's strategy, but are crucial to eCommerce success.

2. On the Verge: developing capabilities that online retailers have an opportunity to improve. Leading retailers are paving the way with these 'emerging' capabilities, and others are sure to follow in their footsteps shortly.

3. The Next Wave: visionary capabilities that are leading the market. These have the potential to shape the retail landscape in years to come. Retailers will need to consider how to address these trends and play in these spaces in order to stay relevant.

# Critical mass

Last year's eCommerce assessment highlighted product search, site performance, and social presence as 'critical mass' capabilities imperative to a retailer's success. This year Deloitte recognizes that as eCommerce continues to mature, most have nailed the operational basics. Now the critical mass has shifted the focus to driving traffic and conversion by leveraging social integration, mobile, and advanced online tools. As customers have come to expect robust functionality, retailers should think beyond the fundamentals of these capabilities to compete in the eCommerce market.

### Social integration

More than ever, shoppers are reaching out to their social networks to validate their buying decisions. A recent study by Deloitte reports that 84 percent of consumers' purchasing decisions are influenced by recommendations from someone they know. Further, 63 percent report that online reviews by someone they know have an influence on what they buy.[2] These figures rank much higher than the influence of newspaper, magazine, radio, and billboard ads, recognizing that consumers are increasingly dismissing traditional advertising and instead favoring recommendations and reviews from their social networks.

Retailers are responding to this consumer behavior by integrating social network links into their sites. Our assessment found that 86 percent of the Top 100 retailers allow online visitors to directly connect from the retailer's site to Facebook to share or 'like' product information. Other popular social sites for integration include Twitter and Pinterest. This integration provides opportunities to engage and interact with the customers as well as reach their network.

Capitalizing on this trend, Pinterest recently launched a new application programming interface (API) that allows retailers to showcase which items are most often pinned.

Some retailers have taken it a step further, with 24 percent of those we assessed using Facebook Connect for easy registration on their sites. Considering Facebook reported an average of 728 million daily users in Q3 2013[3] and the fact that more than 10 percent of consumers abandon shopping carts due to registration issues, a Forrester report suggests that social integration may actually help to save the sale.[4]

While social integration is a good first step, retailers should leverage the customer insights that can be uncovered in the complex data that social creates. To this end, retailers should build a social intelligence function that captures and analyzes data generated in social channels to gain valuable insight into their customers' profiles and preferences and ultimately increases sales.

### Mobile commerce

It is no secret — we are experiencing a mobile shopping revolution as many retailers are integrating mobile into the customer's path to purchase. Mobile commerce is redefining the interaction between retailers and consumers. Savvy shoppers are turning into smartphone shoppers even faster than anybody expected, and consumers' expectations of mobile functionality continue to increase. The percent of smartphone users among U.S. adults grew to 56 percent in 2013 and tablet owernship increased to 34 percent, up from 46 percent and 19 percent, respectively, just a year prior.[5]

In a nod to the importance of mobile in the shopping journey, we found that 94 percent of the Top 100 retailers provide mobile-optimized sites and 78 percent offer dedicated mobile apps. Considering a recent Shop.org study reporting that 55 percent of all retail-related Internet time occurred on smartphones or tablets,[6] retailers should be proactively investing in mobile. Mobile remains a high-priority investment for most retailers, as a recent Forrester report found that 43 percent of retailers are focusing on mobile as a top three digital initiative.[7]

Despite the mobile buzz and the uptick in consumer activity on smartphones, mobile commerce conversion rates remain low. Focusing solely on conversion in the mobile commerce channel however may be a flawed strategy. Instead, the real value of mobile is using it as a vehicle to influence sales in other channels. While eMarketer projects that mobile commerce sales will reach $41.7 billion in 2013,[8] a recent Deloitte study concluded that mobile influenced $593B (19 percent) of all in-store retail sales in the United States, evidence that the real value of mobile is in influencing in-store transactions.[9] Yet we found little evidence in our assessment for broad adoption of features aimed at facilitating cross-channel interactions, such as barcode scanning or in-store way finding.

By thinking of mobile as the digital doors to the brand, retailers should consider developing mobile apps with a focus on in-store shopping tools to better enable and meet the needs of smartphone-toting consumers.

### Decision tools

Decision tools, those online features that provide relevant information to improve purchase decision-making, boost customers' confidence for buying online, leading to increased conversion rates and decreased shopping cart abandonment and returns. Most retailers recognize the value of decision tools: of the Top 100 retailers considered in the assessment, 75 percent have ratings and reviews for their products and 51 percent provide multiple images with the ability to zoom.

Retailers are innovating in this area by further enhancing the site experience with advanced tools, such as 360-degree product views, side-by-side product comparisons, customer reviews, videos of the product in use, and virtual dressing rooms. Results of our annual survey show home improvement and office supply retailers are leading the pack with the most advanced decision tools. Their best-in-class features include 360-degree product views, the ability to view a product in use, and detailed product descriptions that include information on how to sample a product if applicable.

As a testament to the need for better eCommerce decision tools, the market for third-party providers of fit prediction technology has recently heated up. These companies offer online widgets that can be imbedded in the retailer's site and are aimed at recreating an in-store experience. Traditionally, retailers have offered size charts to help guide shoppers, but these new widgets take advantage of technologies like predictive analytics and 3D scanning to help customers choose the right size on the first try.

As digital technology advances, retailers will want to invest in the right decision tools for their business model, enabling customers to make more informed purchase decisions. These tools will help to recreate an environment that more closely mirrors the in-store experience.

# On the verge

As the eCommerce landscape continues to mature, Deloitte recognizes several capabilities as 'on the verge.' These are features and functions that leading retailers are focusing on in an effort to differentite themselves from the critical mass and develop a more personal relationship with the customer across channels.

### Personalization

Retailers are increasingly challenged to deliver relevant, personalized customer experiences online, so it is no surprise that Deloitte has recognized personalization as an evolving eCommerce trend since 2009. While retailers have made progress since last year, it is again 'on the verge,' as few have truly mastered personalization and the bar for what is possible continues to be raised.

Last year, Deloitte saw that while the vast majority of retailers surveyed (73 percent) offered basic personalization, such as a personalized home page greeting, they struggled to deliver a truly personalized experience online. This year, retailers are further investing in personalization and leveraging their data to provide targeted recommendations. Nearly 60 percent of the Top 100 retailers in our survey leverage customer location data and shopping preferences to deliver personalized experiences with specialized catalog views and targeted promotions.

Despite advances in this capability, retailers have just hit the tip of the iceberg. Sophisticated personalization is gaining increasing traction as retailers make big investments in this space. Among the top technology investments planned by retailers for 2014, personalization is the fastest-growing category.[10] In an increasingly competitive market, the future of personalization entails a race to get to know customers faster, provide relevant and enticing deals, and create a personalized shopping experience. As such, leveraging data analytics to enable personalization will be of critical importance.

### Cross-channel inventory

As customers are increasingly shopping cross-channel, enabling cross-channel inventory is critical to retailer success. Customers are demanding omnichannel capabilities to view inventory and shop anytime, anywhere. Retailers are acutely aware of the need to provide inventory visibility and accessibility across channels, with 84 percent of retailers recently surveyed citing technology to support enterprise-wide inventory visibility “as very valuable.”[11]

We see evidence of leading retailers continuing to invest in inventory visibility and flexible fulfillment. Of the Top 100 retailers, 44 percent of those that have a physical presence allow online customers to check product availability in stores (up from 32 percent last year) and 38 percent allow customers to buy online and pick up in-store (up from 25 percent last year). Furthermore, research suggests a correlation between omnichannel capabilities and growth, with 65 percent of high-growth retailers (companies with annual sales growth of 3 percent above the industry average) operating with visibility to cross-company inventory.[12]

### Mobile business-to-business commerce

Last year, Deloitte highlighted business-to-business (B2B) consumerization as a 'next wave' trend, pointing to leading B2B retailers that were moving toward offering popular business-to-consumer (B2C) functionality on their sites, including personalized product recommendations and targeted content. This year, the trend of B2B consumerization continues, with an added focus on mobile commerce, as B2B retailers are starting to fundamentally rethink their digital presence.

With smartphone penetration on the rise, it is no surprise that mobile commerce is the next logical step for B2C retailers. In our annual survey, we found that 77 percent of the top B2B retailers service their customers through mobile, but only 18 percent have built dedicated mobile apps for B2B customers. However, an Oracle research study determined that 31 percent of B2B players are planning to invest in mobile this year and 91 percent have future plans for mobile,[13] predicting a sharp increase in B2B dedicated apps.

B2B retailers are innovating in this area by introducing barcode scan-to-order features to replenish inventory and one-click reordering. However, mobile B2B solutions are more complex than B2C versions. B2B retailers face added challenges when contracts, products, and/or pricing need to be customized for each sale. A leading office supply retailer has recently added a barcode scan-to-order feature to allow B2B customers to replenish inventory. B2B retailers who can harness mobile technology to deliver on-the-go functionality to their customers can differentiate themselves in the market.

# Next wave

In order for retailers to anticipate and plan for new trends gaining traction in the marketplace, Deloitte identifies forward-looking capabilities as the 'next wave.' These capabilities are currently being built and refined by leading retailers who are innovating in the market, blazing their own trail, and disrupting the industry norms. In turn, next wave capabilities may change consumer expectations and alter the customer relationship. For retailers that want to continue to stay relevant, it is important to consider where and how to play in the game in light of these developments.

### Same-day delivery

Offering free shipping is no longer bleeding edge, as leading retailers up the shipping game by offering same-day delivery. Deloitte found that 7 percent of retailers surveyed are making waves on this front by providing same-day delivery in select markets and another 12 percent are piloting or planning to rollout same-day delivery soon. This capability can allow retailers to overcome one of the most important advantages of brick-and-mortar stores — instant gratification.

There are two models emerging for providing same-day delivery. With over 50 warehouses across the country and more planned, online-only retailer Amazon has steadily built up the infrastructure to house inventory in distribution centers within close proximity of urban centers. On the other hand, Macy's has started to use its network of 800 stores as fulfillment centers, enabling the retailer to improve assortment in the store and get the product to customers faster.

Not every retailer can afford the level of investment needed to make such a dramatic shift in logistics. Fortunately, several third-party companies have sprung up that provide outsourced solutions to even the playing field. In a nod to the potential value of this business model to the retail industry, eBay recently acquired UK-based same-day delivery solutions provider Shutl.

Retailers should keep in mind that customers will likely be price conscious when it comes to selecting same-day delivery service, as they have become accustomed to free shipping for slower deliveries. EBay's same-day delivery pilot program charges customers $5 per order[14], while Amazon has figured out how to offer it for as low as $4 per delivery for Amazon Prime users.[15]

### Globalization

As growth slows in mature markets, retailers are looking beyond borders to meet growth targets and deliver shareholder value. Traditionally, retailers expanded into new countries with a physical presence, but now more and more retailers are leading with a digital presence as a low-risk, low-cost strategy to test new markets and learn about customer preferences.

Currently, the majority (59 percent) of the Top 100 retailers in our survey offer international shipping on their sites, showing an appetite to reach new markets. That said, 41 percent are not taking advantage of international shipping, presenting an untapped opportunity to grow sales abroad.

While the majority have built the ability to ship internationally, there is still much to be done to attract and convert new customers around the world. Only 31 percent support multiple currencies, 14 percent have regional sites, and a mere 6 percent include regionalized sizing for apparel, indicating an opportunity to further localize the site experience based on local language, payment methods, and country-specific requirements to further serve the global market.

Entering new markets is not a one-size-fits-all solution, with some retailers opting to outsource fulfillment, some taking the indirect route by entering through strategic partnerships, and others choosing to build capabilities in-house to support global sales. In choosing the best go-to-market approach, consider the amount of brand control needed as well as the impact and disruption to core operations for both short-term goals and long-term expansion plans.

# Conclusion

Note the aforementioned capabilities should not simply serve as a checklist, as implementing a prescribed set of functionalities will not define or predict future success. Instead, Deloitte challenges retailers to consider the business impact and implications of each trend, which may require a shift in thinking, a change in strategy, or in some cases, a new operating model. By carefully considering how to leverage each opportunity and by building key elements into the strategy, retailers can unleash new sources of differentiation and keep pace with changing consumer expectations — ultimately enabling retailers to win in an increasingly competitive market.

# Appendix: Assessment methodology

Deloitte's eCommerce Assessment benchmarks the Top 100 online retailers in terms of revenue as defined by *Internet Retailer's* 'Top 500 Guide.' Deloitte's methodology utilizes an internally developed assessment framework, which consists of 140 measurable, consumer-facing features and functions across 18 business capability groups. The assessment includes a deep dive analysis of each of the Top 100 retailers' websites where maturity scores are assigned for each key capability. The list of capabilities to be assessed and their maturity definitions are refreshed every year based on business knowledge about leading market practices and customer expectations.

**References**


1. Forrester, "U.S. Cross-Channel Retail Forecast, 2012 To 2017"
2. Deloitte, "State of the Media Democracy: A multi-generational View of Customer Technology, Media, and Telecom Trends," Seventh Edition, 2012
3. Facebook. Q3 2012 Earnings Call, Oct 30, 2013
4. Forrester, "Using Facebook Login to your Advantage," February 17, 2012
5. Pew Internet & American Life Project, "Smartphone Ownership 2013," June 2013
6. Shop.org, "Mobile Commerce Continues to Build Momentum," 2013
7. Forrester, "The State of Retailing Online 2013: Key Metrics and Initiatives," January 25, 2013
8. eMarketer, "U.S. Retail MCommerce Sales, 2011–2017," September 2013
9. Deloitte, "The New Digital Divide: Retailers, Shoppers, and the Digital Influence Factor," 2014
10. Internet Retailer, "Know the Customer: Internet Retailers New Top Tech 2014," October 28, 2013
11. Retail Systems Research, "Omni-Channel 2013: The Long Road to Adoption," 2013 Benchmark Report, June 2013
12. Internet Retailer, "Inventory Insights." August 1, 2013
13. Oracle, "2013 B2B Commerce Trends Survey," April 2013
14. eBay website, http://www.ebay.com/now/faq.html
15. Amazon website, http://www.amazon.com/gp/help/customer/display.html?nodeId=200105970

## Authors

**Kasey Lobaugh**
Principal
Deloitte Consulting LLP
Phone: +1.816.802.7463
klobaugh@deloitte.com

**Belinda McConnell**
Principal
Deloitte Consulting LLP
Phone: +1.312.486.4470
bmcconnell@deloitte.com

**Calvin Cheng**
Specialist Leader
Deloitte Consulting LLP
Phone: +1.312.486.4247
calcheng@deloitte.com

**Laura Bailey**
Senior Consultant
Deloitte Consulting LLP
Phone: +1.212.313.1503
laurabailey@deloitte.com

The authors wish to acknowledge the contributions of **Niladri Gupta**, **Jennifer Li**, and **Angad Chowdhury** of Deloitte Consulting LLP

**Visit Deloitte.com**

To learn more about our services, visit us online at **www.deloitte.com/us/retail-distribution.** Here you can access our complimentary Dbriefs webcast series, innovative and practical industry research, and a lot more about the issues facing retailers and distributors from some of the industry's leading minds.