



The Mid-Year E-Commerce Outlook

How Brands See Success with Mobile, Social, and Site Optimization

LARGE ENTERPRISES
With Annual Revenues Above \$500 Million



A WBR Digital Whitepaper
Presented in Conjunction with
Akamai, ChannelAdvisor, and Criteo
Spring 2016

Introduction

So what's keeping marketers up at night? ROI. It keeps me up at night, too. However, marketers find it difficult to communicate the effectiveness of their campaigns to the C-suite.

One of the factors that impacts ROI, perhaps more than others is cart abandonment, and the success we're having with cart-abandonment emails shows the value of time and effort spent by us on deep in the funnel activity. We're getting better at it.

I'm also excited to see brands thinking of social as both a brand engagement tool and direct response tool. If ROI is keeping us up at night, it has to be both. We have to tie back our investments, whether individually or collectively to the returns they generate.

When I worked at State Farm selling insurance, establishing faith, confidence and trust was critical in making the sale. If we can't establish faith, confidence and trust, we can't make sales. That was 1996. So what's changed? With online retailers, faith, confidence and trust seems to be defined by the speed and reliability of both sites and apps.

Protection is also critical. Concerns around cyber-security and preventing data theft are quite high, yet only 2% are prioritizing spend in 2016 on these measures?

With 47% are considering 'doing it themselves'? Makes me wonder. Security and data theft may just be "the kind of thing you don't think you need until you need it" as my old State Farm boss used to say about our insurance products.

Some thought-provoking findings. Take a look inside and see for yourself!

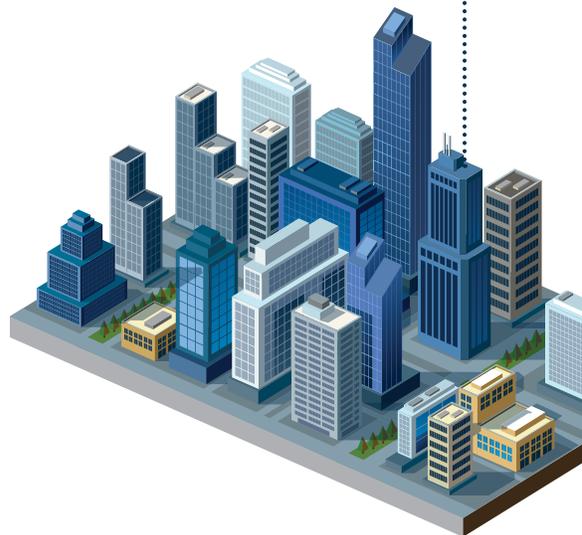
Amol Tembe

Marketing Director
Worldwide Business Research

This report covers mid-year trends for retail organizations with annual revenues of more than \$500 million.

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Key Findings

Marketers relied on search, email, and social media for customer acquisition.

While email and search were once again the top drivers of customer acquisition and retention, social media marketing became one of the five most important acquisition and retention drivers retailers are using. Together, these marketing programs helped brands achieve solid growth in KPIs ranging from website traffic and conversion rates to repeat purchases and average order value.

Despite gains, there is still room for improvement in mobile as a sales and marketing channel.

As a distinct purchasing channel and the central cog of omnichannel shopping, mobile is a critical asset to retailers. However, most brands can still do more with mobile to improve conversion rates, drive customer loyalty, and push offline sales.

Marketers added direct response initiatives to their brand's social marketing.

Many brands are expanding their investment in social channels, with many of those investments aimed at increasing conversions, not just engagement. Attribution models that can more accurately track revenue coming from social will be the next step in the ascendance of social media marketing.

New features and the evolution of the digital shopping experience force retailers to rethink their websites.

Retailers are increasingly relying on media-rich, interactive website features and personalized messages to draw consumers in. Those features certainly improve the digital shopping experience, but they can also slow down the digital experience. Rich, personalized experiences are important, but they must be balanced with site performance.



Research Findings

Changing Marketing Tactics & KPIs

Thanks largely to the proliferation of digital commerce channels and new-age technologies, the retail landscape is more competitive than ever. Large retailers with global footprints are under siege by smaller, more agile brands that are seizing competitive advantages wherever they can find them – from more engaging shopping experiences to smoother fulfillment. However, competition is not the only concern weighing on the minds of retail executives. In 2015, retail sales posted an annual gain of just 2.1%, the worst performance since 2009 according to the U.S. Commerce Department. That slowdown was headlined by an unimpressive holiday season, perhaps the most important time of the year for retailers. The recovery of the American labor market, it appears, has not had a corresponding effect on household spending.

To overcome these challenges, retailers are turning to technologies that can unlock new ways to engage with consumers, drive sales, and cultivate a community of loyal brand advocates. However, retail brands have a dizzying array of technologies and services to choose from – capabilities that can amplify their messaging, streamline their operations, and improve the reliability of their digital channels. It is not always clear which capabilities are worthy of investment, and the pressure to make those investments count can be tremendous.

In 2015, retailers devoted much of their marketing budgets to tried-and-true programs such as email and search. The focus on those capabilities paid dividends, as email and search were the top drivers of customer acquisition and retention. Marketers also invested in mobile and referral marketing, although those programs were generally lower priorities. Taken together, these investments yielded returns: retailers reported solid growth across a wide range of digital KPIs, including conversion rates, web traffic, and average order value. However, most of those KPIs showed more modest growth than last year, mirroring the retail sector's overall revenue gains.

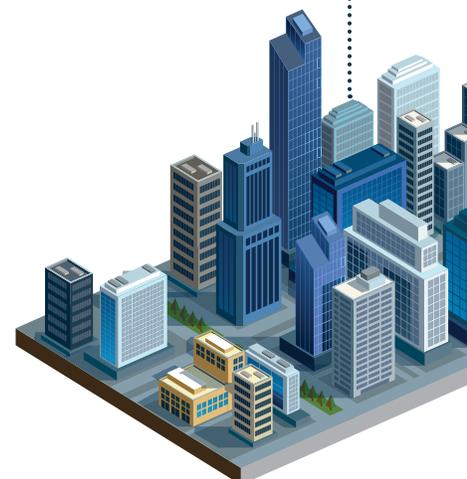
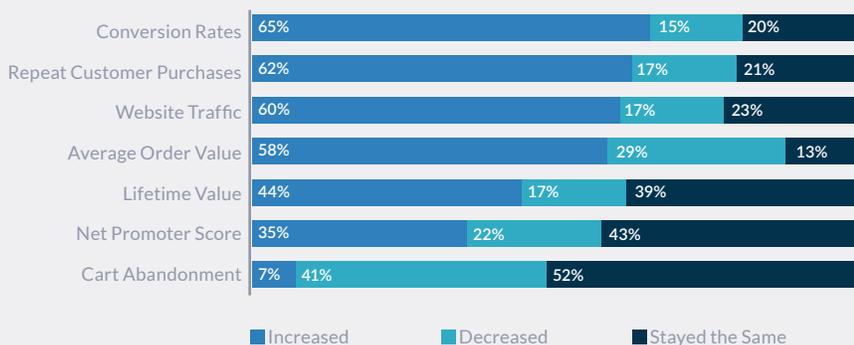
Finally, it should be noted that retail marketers are not just looking to improve their digital marketing initiatives – they need to show the return on their investments, too. Unfortunately, respondents in the current study are more concerned about their ability to show ROI than they are about consumer engagement or their ability to create innovative campaigns.

As retailers, we're constantly giving customers the ability to go to their cart and get through check out as quickly as possible. But we may be artificially pushing them to a purchase decision when they add something to their cart, when in fact they are not at that point. Some people use carts as wishlists or as comparison functions – especially if a site does not have those built in. So it is possible that by pushing users to move quicker into check out, we encourage them to add items to their carts prematurely. The concern is that you are allowing for an alternate path that does not lead to conversion.

- Chris Vitale,
VP Digital Operations &
eCommerce,
Pep Boys

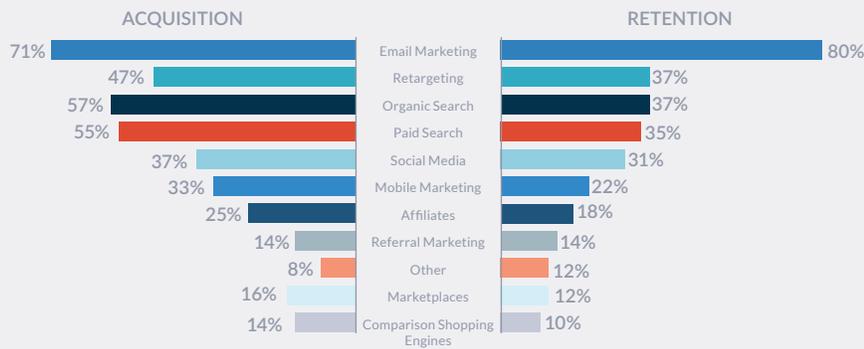
Respondents reported strong growth across most KPIs, including traffic, conversion rates, average order value, and repeat customer purchases. The areas that didn't improve as much were cart abandonment and NPS.

Looking at your online business in 2015, indicate how the following KPIs changed:



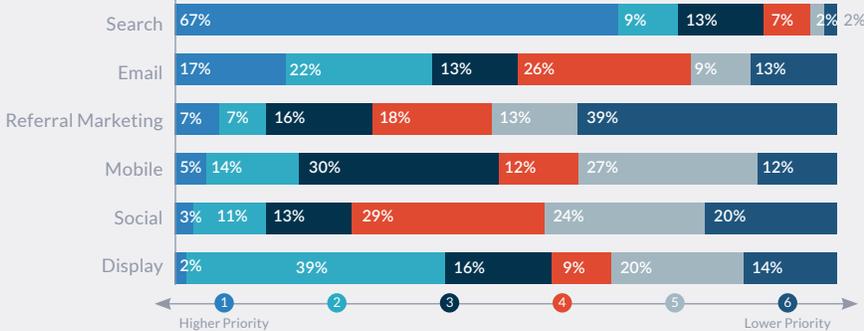
While search and email marketing remain by far the top acquisition and retention tools, social media is gaining ground.

Which online activities primarily drive customer acquisition and retention for your organization?



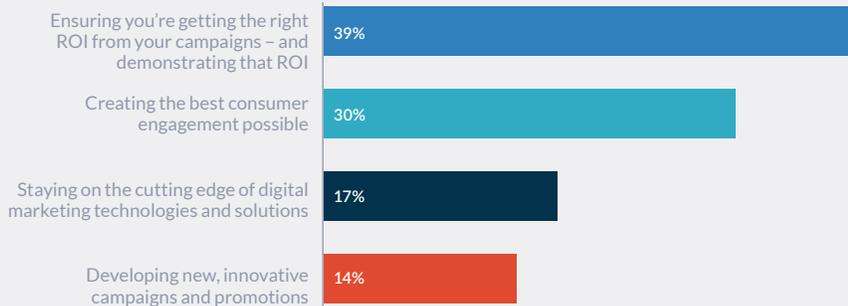
As the best acquisition and retention drivers, search and email are receiving the greatest share of marketing budgets.

Please rank your marketing spend in the following areas:



Respondents are concerned about their efforts to tie real value to their marketing programs.

Which marketing issue is most likely to keep you up at night?



2015 was the year that email marketing overtook search as the top driver of customer acquisition

Especially for omnichannel retailers, part of the reality with interpreting cart abandonment rates is accepting that sometimes it can be faster and easier for customers to buy a product in-store than order it online. As a result, you can't isolate cart abandonment to mean a failed customer conversion but you should extend that analysis to determine if those digital carts converted to in-store purchases. Put simply, customers may be adding items to a cart online only to eventually buy those products in-store. The goal for omnichannel retailers is making the online cart a customer shopping empowerment tool to facilitate a seamless channel-agnostic purchase.

- Wayne Duan
Director of Digital Commerce
Walgreens



Mobile Is a Key Sales & Marketing Channel

Best-in-class mobile capabilities help retail brands serve numerous critical goals throughout the customer lifecycle. Perhaps the starkest example of mobile's value to retail brands can be seen in the rise in sales from mobile browsers and apps. Retail revenue from mobile devices has been climbing rapidly, as evidenced by the fact that 77% of respondents saw an increase in sales from mobile browsers, while 53% saw a jump in sales from mobile apps. Although the proportion of sales coming from mobile sources is still relatively modest, Forrester Research forecasts that mobile-based sales will make up 49% of all e-commerce revenue by 2020 (US Mobile Commerce Forecast, 2015 to 2020, Forrester Research). Their ubiquity has opened up a wealth of new opportunities for retailers to market to and engage with consumers, helping to deeply embed brands into consumers' daily lives.

The value of mobile devices is much broader than direct revenue generation, as important as that is. Customers are no longer following a singular path to purchase, but rather have become part of a ubiquitous shopping ecosystem. That diffuse shopping experience can undermine customer loyalty by giving them endless opportunities to get diverted to a different product or brand. Mobile apps can help counteract this phenomenon through in-app retargeting, push notifications, and opt-ins (like location opt-ins) that can be used to improve loyalty. Unfortunately, many brands have not implemented these strategies, leaving plenty of room for improved customer loyalty.

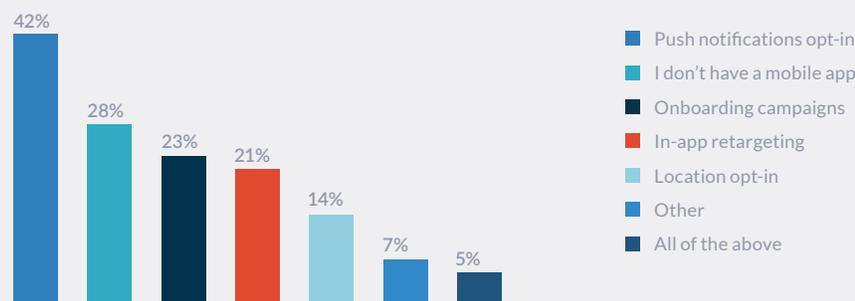
Mobile is also a central component of effective omnichannel commerce. Brands seek to provide consistently exceptional experiences across all shopping channels and mobile emerged as the glue holding those experiences together. They are also a rich source of information on customer behavior and shopping patterns. Customer data gained through mobile apps and websites can become the lynchpin of crucial omnichannel strategies such as dynamic, personalized product recommendations and the formation of a 360-degree customer view. However many retailers are still implementing these cutting edge capabilities; just over half of respondents track sales across platforms, with fewer than half of all respondents currently taking advantage of dynamic product recommendations.

It should come as no surprise to retailers that mobile conversion is lower than desktop conversion. The mobile experience is not the same as desktop: smaller screen size, limited functionality and typically less customer patience. However, you shouldn't panic. Many customers are simply using their mobile devices as part of the journey to purchase in-store. For example, a customer's mobile journey could include checking her local store inventory before heading to the store or comparing product reviews for two similar products while in the aisle. What's more important is distinguishing what portion of the lower mobile conversion can be attributed to in-store conversion (and thus isn't a negative outcome) and what portion is really the opportunity to improve one's mobile experience.

- Wayne Duan
Director of Digital Commerce
Walgreens

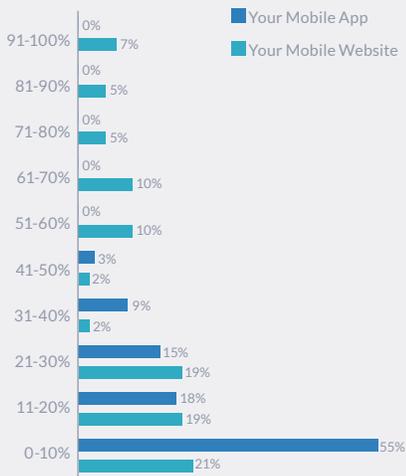
Push notifications are by far the most widely used mobile app capability that drives loyalty.

Which of the following tactics do you use to turn app downloads into loyal users?

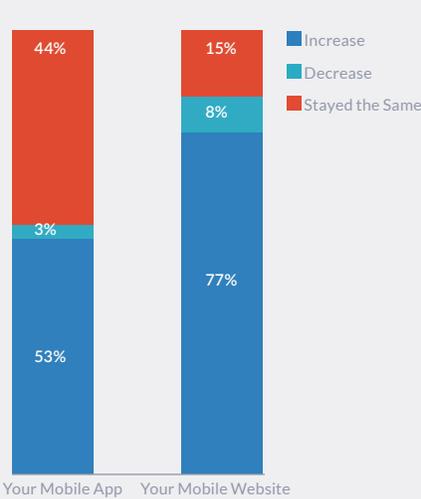


Mobile websites account for the greater share of mobile revenue, by a wide margin.

What percentage of your mobile sales in 2016 are expected to come from:



Both saw a considerable increase in revenue:



Unfortunately, brands are not close at all to solving their cart abandonment issues. There are two recognizable issues: first is data darkness, which can cause problems with cross-device attribution; and second, the rising cost of retargeting.

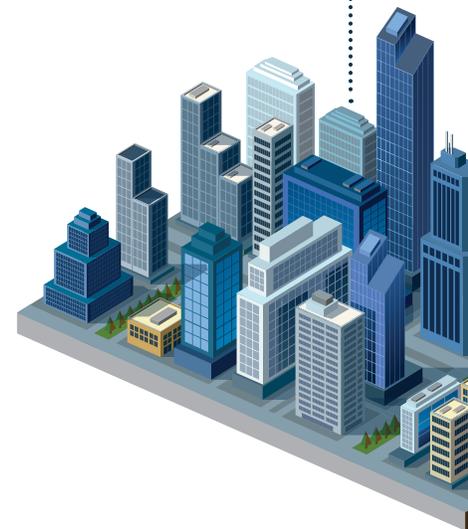
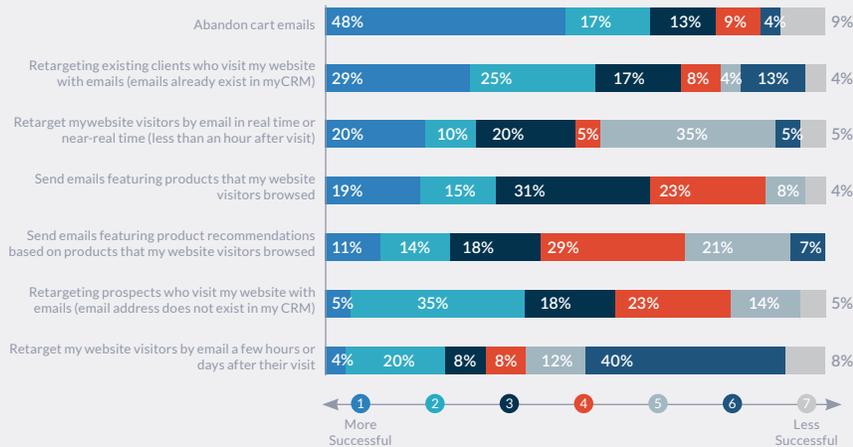
- Amit Shah
SVP Online Marketing
1-800-Flowers

Without loyalty programs, retailers are definitely missing out on a variety of opportunities to increase sales, improve retention, and better track customer shopping patterns.

- Amit Shah, SVP Online Marketing, 1-800-Flowers

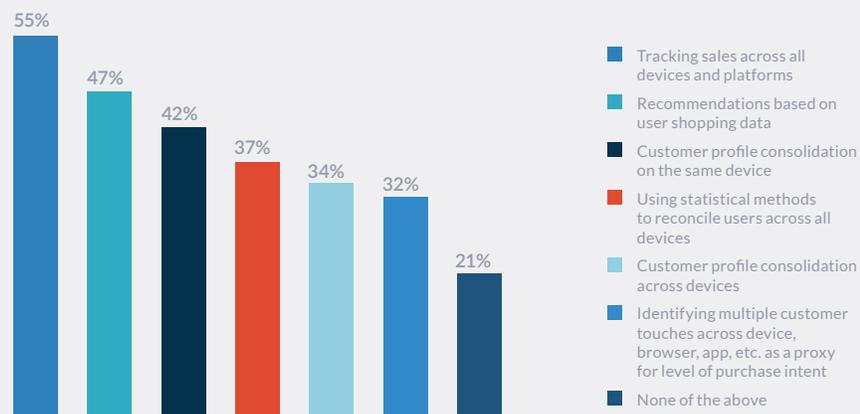
Retailers top email marketing tactics in 2015 were abandoned cart reminders and retargeting existing clients who visited their websites.

In terms of highest revenue drivers, rate the success rates of the below tactics



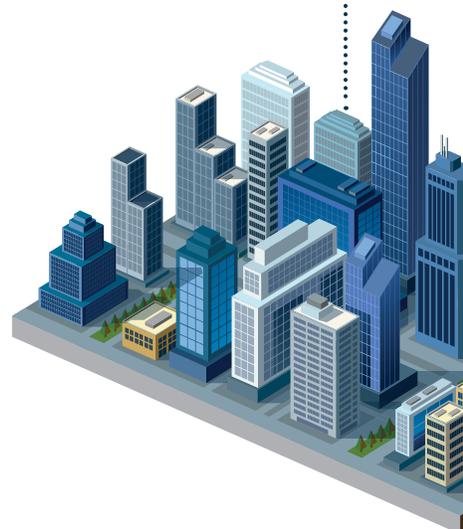
Most retailers are now able to track sales across devices and platforms, although two-thirds still struggle to identify multiple customer touches across devices.

Which of the following capabilities is your company able to provide to customers today based on data from your customer touchpoints?



The next step for omnichannel marketing will be to create and test models that provide better insights into cross-device, cross-channel, and cross-media marketing efforts.

- Amit Shah, SVP Online Marketing, 1-800-Flowers



Social Media Marketing for Engagement & Conversion

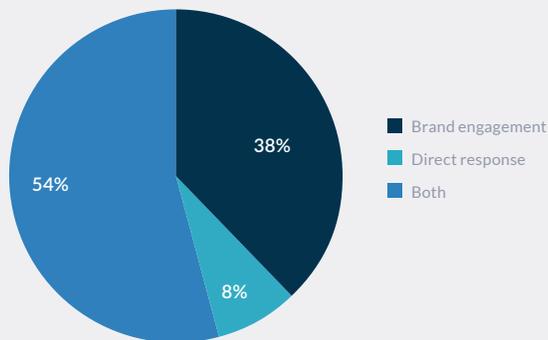
Retail brands understand that social media has become a key weapon in the battle for consumer engagement. In fact, brand engagement was a reported priority in 92% of social media campaigns (and the sole priority in 38%). Engagement is important, helping to build brand equity and extend a brand's reach, but it is not the only goal of social media marketing. 62% of respondents reported that their campaigns drove a sale, indicating that many organizations are more aware of the revenue coming from social campaigns.

In order to activate social media as an engagement and revenue driver, 82% of brands are managing their social ad budget in-house. Facebook has long been the most prominent social marketing channel, and while it now only makes up less than 10% of ad spend for most retailers, three-quarters of respondents are seeing their Facebook budgets increase.

Social media is yet another marketing discipline benefiting from the march of technological innovation. Built-in analytics are making social media much more measurable, showing marketers how much they are spending, what audiences they are reaching, and what results those campaigns are having. Social media is also a tremendous data center, enabling marketers to drill down into the audiences that are responding to their messaging and to optimize their creative.

Most retailers see social media marketing as a brand engagement driver, as well as a revenue driver.

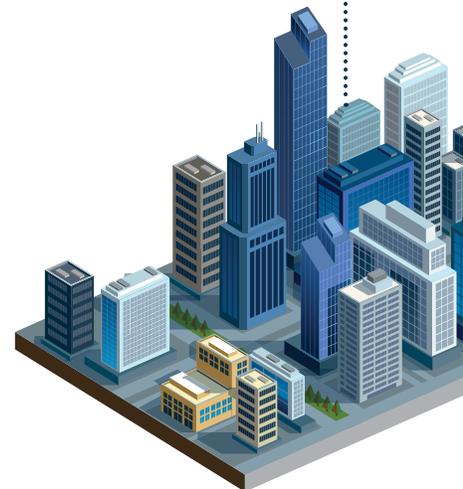
Is social considered brand engagement, direct response or both in your organization?



54%
of respondents plan on implementing buy buttons on various social sites

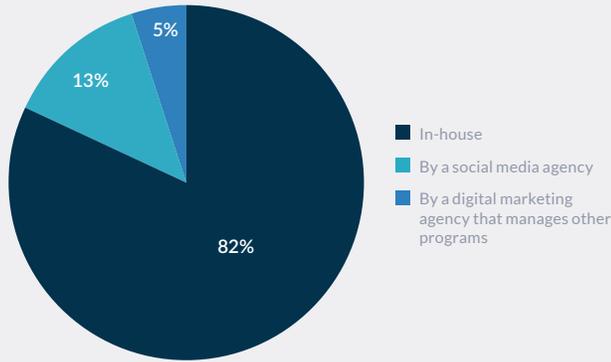
The understanding of the customer through social media is terrific if you can pull through all the immense amounts of data available from those platforms. But it's really important not to draw improper conclusions via social channels, because it can set off a "creep alarm" and has a higher likelihood of being viewed as negative. We do not have that same risk for interactions initiated via contact info gathered during an in-store or online purchase, because there consumers seem to be a bit more forgiving.

- Chris Vitale
VP Digital Operations & eCommerce
Pep Boys



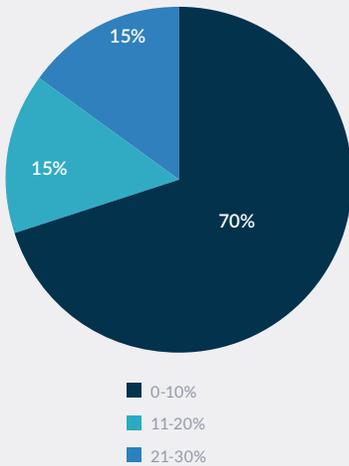
The vast majority of respondents manage their social budgets in-house.

How is your social advertising budget managed?

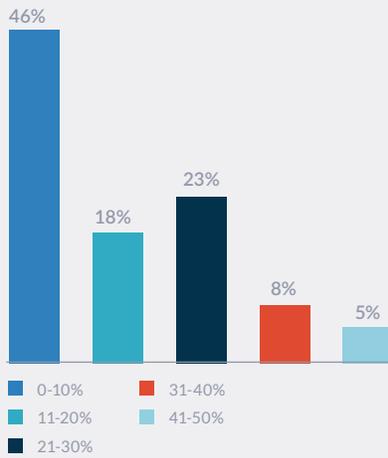


Ad Budget Spend

What percentage of your advertising budget do you spend on Facebook?



What percentage of your advertising budget is spent on Google Product Listing Ads?



Less than 10% of most retailers' ad budgets is devoted to product listing ads (PLAs) and Facebook ads, although large retailers are more likely to spend more on PLAs than on social media like Facebook. In addition, approximately 13% of brands see PLAs as significant opportunities that warrant between 31 and 50% of their ad budget.

If companies are trying to classify social as a sales channel I think that they will not see the value yet. It is moving in that direction, but it is not there yet. But there is still marketing value. A popular mantra is that customers define brands and that is very clear on social media. I would hope that companies are not still debating whether being involved in social media is a must.

- Chris Vitale
VP Digital Operations & eCommerce
Pep Boys

75%

of respondents are seeing an increase in the percentage of their ad budget devoted to Facebook

From a marketing standpoint, social will soon become more integrated with paid efforts with an increased focus on content generation.

- Amit Shah
SVP Online Marketing
1-800-Flowers



Website Performance, Security, and Personalization

As consumers have flocked to online channels to do their shopping, brands have sought to constantly improve their digital experiences. In order to emulate the visual and interactive components of in-person shopping, retailers rely on media-rich, interactive features. While these features may improve the digital shopping experience, they can also increase page load times and deeply frustrate users. Media-rich product displays are important, but so is site performance. Respondents understand this, with 93% agreeing that a fast user experience is the single most important element of Internet sites and applications, even trumping security.

However, security has not gone unaddressed. Retail brands understand that transaction security does not just protect customers, but also preserves brand integrity. For these reasons, at least half of those surveyed have contracted third party security providers or implemented cloud-based web application firewalls.

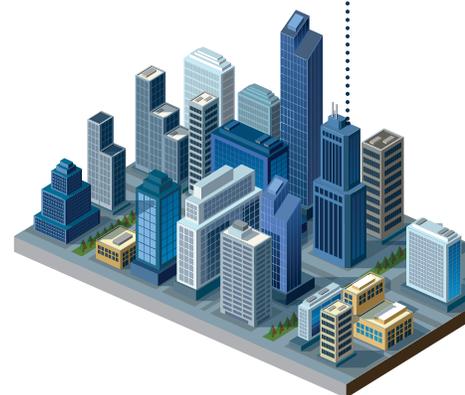
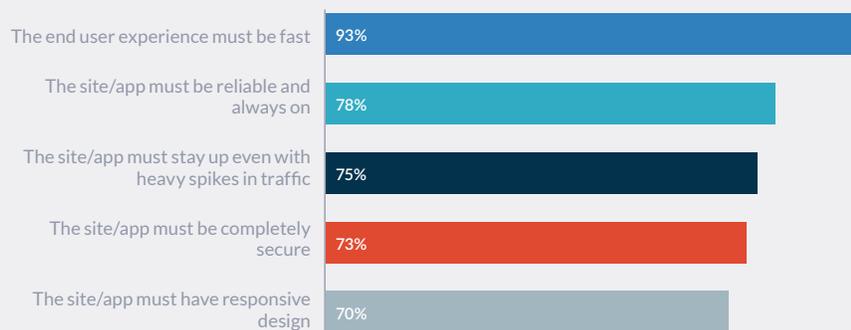
Although retailers have a wide range of technology needs, they are prioritizing personalization and omnichannel capabilities in 2016. When it comes to omnichannel, retailers are looking to do more than simply increase the number of revenue-generating channels they have available; they want to strengthen the ties between those channels in order to create connected, overlapping experiences in which each channel influences purchasing decisions everywhere else. That requires robust investment in technologies to connect online and offline buying paths. In many cases, the largest hurdle in converting online traffic to offline sales is operational, because there is a disconnect between the technologies available online and those available in stores. Technology in digital commercial channels allows marketers to better understand what the consumer is asking for, and to help them down the path to purchase through rich content. However, those capabilities are a step ahead of what is available to store associates, who do not have a full view of a customer's history and behavior.

We spend a lot of time putting systems and displays and interfaces in place for the consumer, but we have not done the same thing for associates. We have taken the time to figure out what the value to the customer is, but we have not spent the time to find the value to the associate. That limits associates' access to information and prevents them from seeing a fuller view of the customer. We need to catch up there.

- Chris Vitale
VP Digital Operations & eCommerce
Pep Boys

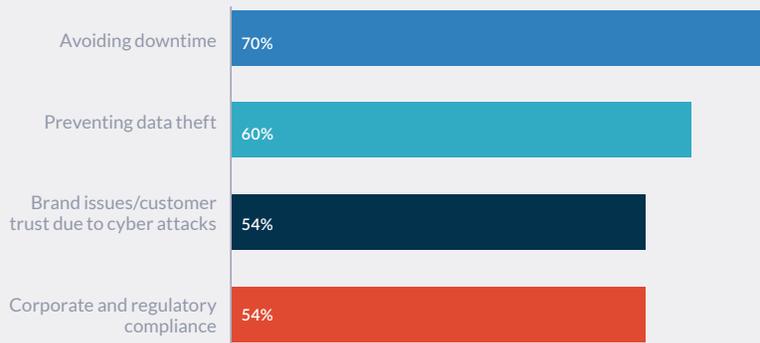
The speed of the digital experience is considered the most important part of the user interaction.

Which of the following are critical to the Internet sites and applications you use to run your business?



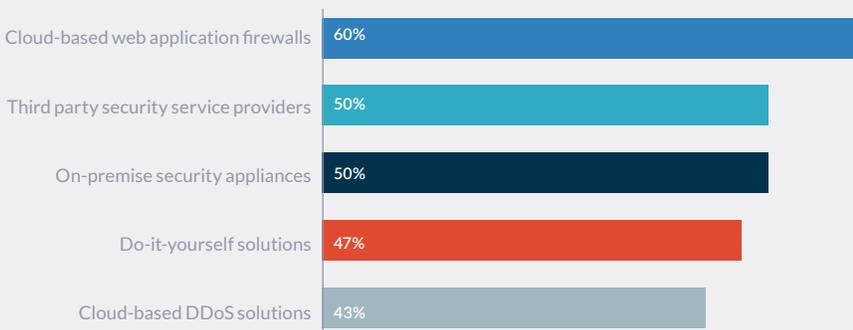
Downtime and data theft are seen as the most essential issues to avoid.

Which of the following business challenges are most important to your online retail business?



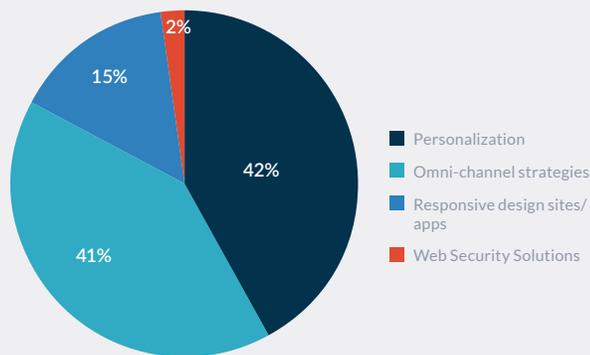
Cloud-based firewalls are a top security priority.

What security measures does your organization currently have or are considering?



Respondents see personalization and omnichannel capabilities as the biggest tech priorities of 2016.

What technology investments are you prioritizing in 2016?



Omnichannel and personalization are the 2 top investment, because retailers are really looking to improve customer experience. These improvements are realistic in terms of spend, but not timing.

- Amit Shah
SVP Online Marketing
1-800-Flowers

Personalization gives retailers the opportunity to deliver more targeted and relevant messages to consumers, which improves engagement and enhances the customer experience. However, personalization comes with its own costs; it requires organized, actionable data for customer segmentation and dynamic creative to tie in the right messaging. Marketing automation technologies can help by collecting and sorting data from multiple channels and using that data to deliver the right information to the right contact at the right time.



Key Recommendations

Continued investment in digital capabilities is necessary for retailers to jump start their growth in 2016 – but those investments must also flow toward newer capabilities.

Search and email will continue to dominate retail marketing for the foreseeable future, but brands must also build out strategies such as referral marketing, retargeting, and Comparison Shopping Engines. These capabilities must also be tied to robust attribution models to ensure that marketers can justify their investments.

Brands must build up mobile to create smooth omnichannel experiences and improve understanding of their customers' behaviors and needs.

Mobile brings marketing, commercial, and engagement opportunities together all in one place. However, mobile does more than engage and convert: it enables retailers to learn more about the omnichannel customer experience. Brands must use mobile as a full-funnel marketing tool and create attribution models that accurately demonstrate its value. Above all, these mobile offerings must be user-centric, giving consumers seamless access to the information they want, when and where they want it

Brands should continue to invest in the development of their social media marketing in order to build brand equity and drive conversions.

Brand engagement is still the centerpiece of most social media campaigns, but retailers are also seeing success driving sales through social. Unfortunately, in many cases, investment in social remains limited. Retail brands must get comfortable expanding their investments if they want to tap into the two-fold benefits of social media.

Site performance and security should remain top priorities.

Rich, personalized digital experiences improve engagement and conversions, but they cannot come at the cost of site speed, reliability, and safety.

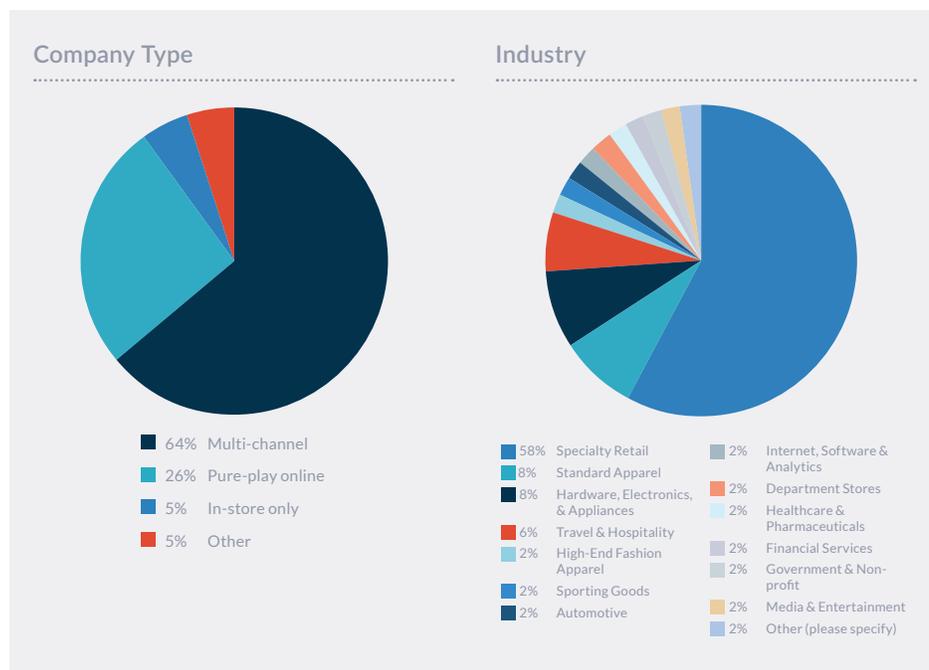


Appendices

Appendix A: Methodology

For this report, the eTail team conducted in-person and online surveys of 107 retail professionals from a variety of industries, including apparel, beauty, consumer electronics, hard and soft goods, home furnishings, books, music, and department stores. Survey participants included decision-makers and executives with responsibility for their firms' marketing, e-commerce, sales, and operations capabilities and strategies. In-person surveys and interviews were conducted on-site at the 2016 eTail West conference. Responses were collected in February and March of 2016.

Appendix B: Demographic Information



Appendix C: Related Research

“Evaluating The Changing Landscape of Retail Marketing”, WBR Digital, January 2016

“Mobile Innovation & The Next Step in Omnichannel Commerce”, WBR Digital, October 2015

“Holiday Retail Readiness”, WBR Digital, December 2015

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A special thank you to our research partners, whose vision and expertise helped make this report possible.



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Criteo

Criteo delivers personalized performance marketing at an extensive scale. Measuring return on post-click sales, Criteo makes ROI transparent and easy to measure. Criteo has over 1,800 employees in 27 offices across the Americas, EMEA and Asia-Pacific, serving over 10,000 advertisers worldwide with direct relationships with close to 14,000 publishers. Criteo ads reach over 1.1 billion unique Internet users (comScore, September 2015). For more information, please visit www.criteo.com.

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