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2021: More of the same or new beginnings for eRetail?

A review of demand and performance, 12 months into the pandemic

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Introduction

To borrow from the beautiful game's vernacular, 2021 looks like it will be a game of four quarters. Perhaps this is a distortion, but the basic tenant is correct and more about that later. Retail, like much of the economy, has faced a tumultuous 12 months. Online channels have benefitted massively but there are question marks over whether this trend will continue once the stores reopen. The 'high street' has also seen long established names disappearing, some to be saved as online brands, others disappearing completely. Much of this change is far more complicated than 'just' the rise of online. Retail is constantly changing as customers behaviours change. The task for retailers is to plot a way forward, allowing for these changes and predicting the near future. Obviously, the subtext for this seismic shift has been lockdown. Hopefully, we are now coming out of that cycle and this was the focus for a recent IMRG debate with senior retailers.

2020 in review

This latest retailer 'roundtable', supported by our friends at **Adobe**, started off with IMRG's data and retail director Mathew Walsh giving us a quick overview of the key inflection points of online growth in 2020. Data from the IMRG Capgemini Online Sales Index ('the index') showed growth ballooning in March as the first lockdown bit. Growth online then tracked key political actions.

The summer saw 'Eat out to help out', the government scheme to support the hospitality industry. This, and the associated easing that allowed non-essential retail to open, resulted in a reduction in growth of online. However, even at the lowest level of +35%, the acceleration of online continued at pace. Yes, the closing of physical outlets will have helped, but the change in associated consumer behaviour also played a part. A key question though is whether this change will stick. With our customers working from home, online shopping and delivery just got easier.

Building on this insight, it is interesting to look at the differences in growth rates between multichannel (MC) and pureplay retailers. Matthew presented data to show that pureplay have not had it all their own way. Twice in the last 12 months they have seen declining demand. The first was when lockdown first hit. Panic buying and pent-up demand from high street shoppers saw them go to the online outlets of their favourite high street brands. As a consequence, MC retailers saw over +100% growth at times and, even when the market started stabilising, their growth as a category only dropped to +40%.

The second reduction in growth for the pureplays was around Black Friday. Multichannel retailers also saw a fall in the rate of growth around the same period, though it is still very strong growth against such high volumes. Across the year though, the trend has been for multichannel retail online growth outpacing pureplays. Some of this is down to more focus being placed internally on digital whilst new online shoppers will have also added fuel to this growth.

Perhaps pureplays will benefit from this in the longer term as those new online shoppers start exploring more widely.

When the growth data around different value points is reviewed, it would appear that not all online retail is created equal, especially around promotion time and Black Friday. Of course, everything is relative and the overall growth trend was strong across the year. However, it would appear that mid-market buyers traded up during Black Friday as premium brands saw nearly +160% growth over that promotion period. Perhaps price points swayed buyers, as premium brand growth fell off the proverbial cliff afterwards and only managed to match growth at the same comparative levels as seen 12 months earlier.

Key Figures

+35%
online lowest growth point YOY since lockdown started

+40%
2020 lowest growth YOY for multichannel retailers.

+160%
for premium brands over the Black Friday period.

Retailer viewpoints

Following Mathew's data insights, the conversation moved to the changing landscape and how this might manifest itself over 2021.

For MC retailers, there has long been a tension between store and ecommerce teams. Competition over budgets, investment and sales attribution often led to a disjointed customer experience. However, one retailer noted that the lockdown has been a catalyst for change. Customers still want to *'touch and feel'* products but are happy to do so virtually. This oxymoron is facilitated by store staff going onto live video chat with customers, showing them around the shop, sharing knowledge and inspiration. In furniture stores this involves close-ups of product, mixing and matching different items and discussing choices with the shop team. The staff get a boost by helping customers and the customers feel closer to the purchase.

Of course, there is a question mark as to how this will evolve once stores open again, but budgets are being prepared which allow for dedicated in-store staff who will continue to offer this live video chat feature for digital customers. Another retailer agreed, adding that their instore teams have a high level of training and instinctively know how to cross sell and upsell. Linking them into this MC journey makes a lot of sense commercially and from a customer service perspective.

A pureplay retailer noted that they have been engaging shop staff into their processes to improve product placement, copy, Q&A, photography, and merchandising. Again, a key reason being the face-2-face experience these store staff had with being at the sharp end with customers going through the product selection process.

Participants also noted a change in the competitive landscape. Enforced entrepreneurship has seen a big increase in the number of small businesses trading online. These hobbyists have gained traction through the increase in online retail, and having experienced phenomenal growth, are now chipping away at the dominance of big brands. Often being flexible and able to introduce innovative ideas and technology, they are now in a position to compete. Whilst individually they don't pose a threat to the big brands, as a group they certainly represent a source of competition. Matching the pace of innovation might be a non-starter due to the costs of implementing over a legacy system but change should certainly be on the roadmap.

A final point of note was a question about the effectiveness of AI and bots vs colleagues. In general, it was felt that bots were great at relieving customer service of the *'where's my stuff?'* type queries. Where it struggled was around deeper product queries and more complex situations where colleagues could add value. This included defusing a customer complaint that can often be exacerbated by an uncompromising bot answer. Including bots as part of the customer service proposition enabled one attendant to meet their SLAs.

Adobe Insight

Adobe provided some useful insight from their recent comprehensive retail survey. Whilst many will recognise the themes discussed, there were some great data points that reinforced our understanding.

Marketplaces offer a route to market that is often met with some trepidation by some brands. However, the **Adobe** insight values global sales through this channel at over $2trn! Consumers are also expecting a much more consolidated experience. 60% of consumers expect a level of personalisation but often would not recognise themselves if they saw their profile. This provides brands with a challenge. Retailer user insight groups need to be structured in such a way to ensure valid data points are gained. For example, customers perceive price sensitivity differently to their actual behaviour.

40% of millennials also stated that they have used voice to make purchases. This presents brands with a communications and discovery challenge, particularly when you consider the interlocutors in that discussion might have other commercial objectives.

Adobe data also triangulates with IMRG's reporting from the index, with ecommerce expenditure up +32% year-on-year. This acceleration of growth has bought forward many of the challenges that were on retailers' roadmaps for future years.

Many of these requirements are well known but the pandemic should focus minds on the delivery of some of these. Elastic walls where stores hold a small number of SKUs but online provides customers with access to more choice with the brand, frictionless transactions between channels and relevant personalisation should all be raised up the priority list.

Find more insight with the '**Consumer preferences report**' and the '**2021 Retail Trends Report**' from **Adobe**.

57%

Marketplaces accounted for **57%** of global online sales, **$2.03** trillion, in 2019.

60%

>60% of consumers don't feel like they "see themselves" in the websites of the brands they engage with.

40%

40% of millennials have used voice to make purchases

Onwards to 2021

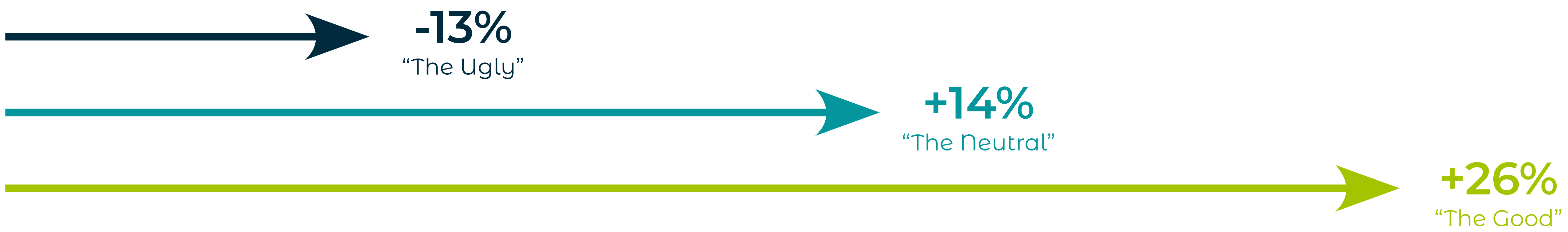
This provided a great segue to discussion around the future. As always, Matthew kicked things off with some data points from the Index. The premise chosen was to look at growth for 2021 and to work out what was going to happen. A key objective being to provide retailers with some perspective and background to help with their own budgeting process.

Whilst IMRG usually publishes growth forecast for the coming year, Matthew explained that 2021 was going to be such a strange year to predict because the traditional baseline, the previous year, was so out of kilter. The resulting prediction would be meaningless. So, three scenarios were mapped out. The good, bad and the ugly; although, in this case, for 'bad' read neutral. Taking the first quarter of 2021 out of play, partly to fit with typical budget/accounting periods but also to remove the 'skew' that lockdown has forced on the industry, a number of key assumptions were mapped and the trajectory of growth tracked against these.

Key question marks include how many shoppers will revert to shopping in stores and will that leech spend completely away from online. Or will they become hybrid shoppers with a proportion of their spend in each channel. Likewise, the timetable around opening-up is still flexible, and will a rush to spend on travel draw revenue away from retail.

After these assumptions, the neutral expectation was for growth to be around 14% for the year (although note: this is not a forecast, but a potential outcome should things develop in a certain way throughout 2021). This reflects pre-pandemic growth trends. Many participants to the discussion suggested they were looking at budgeting for flat performance over the 2021/22 period, with close to 0% growth. This might be overly cautious but there are so many different factors at play it is probably the safest place to be and, given the growth in 2020, will actually be good performance for 2021.

Adobe then contributed some insights that helped to flesh out these discussions. If we are looking at limited budgets over the coming year, some of the bedrock of retail should be addressed. This isn't about "ripping up the rule book" but rather understanding and delivering on customer needs. For example, certain products lend themselves to a subscription model. Lines where certain assumptions around product life, growth stages and price points can lead to a commercial model where regular and predictable demand can be satisfied, automatically. However, there are some drawbacks. One attendee suggested that subscriptions can make it hard to cross sell and upsell without upsetting the regular buying pattern. Lifetime value needs to be balanced against opportunistic sales e.g., shifting old stock at lower margin. Several retailers also observed that CS support of subscription sales can be much higher so be aware of the impact on margin.



Adobe also discussed the idea of a "personalisation gap" where customer expectations aren't met by the appropriate level of investment by the merchant to deliver on this. This also came up in a later conversation around fulfilment. As consumers we like and expect regular updates as to where our parcel is. However, if this messaging isn't connected to the fulfilment system you run the risk of a disconnect which upsets the customer. For example, the 'it's been delivered' message is delivered before the parcel.

Frictionless commerce was also a topic raised by **Adobe**. Increasingly we are seeing the transaction disappear into the experience. Whether shopping across channels, be they store, web, mobile, app, social media or IOT, the point of payment is already making the shopping basket obsolete.

This is leading to a change in that content is becoming 'shoppable'. Utilising AI to make a customers' house a virtual 'showroom', introducing products during content and having seamless buying opportunities, builds brand affiliation and reduces the chances of the consumer shopping around.

Customer retention then becomes the key factor.

Delivering this is a major challenge. A retailer asked, "how do you connect an offline and online customer and view their onsite behaviours?" While there is no easy answer, responses from attendees included segmentation of marketing, utilising campaign-specific content and campaign-specific QR codes. Many of the existing tools can then be used to identify online customers.

Hold on. QR codes? Yes. It would appear that one of the beneficiaries of the pandemic has been QR codes. High profile use by the NHS has promoted this technology so citizens are now much more used to using them. Marketing teams have also got much more aware of how they can be used. For example, one retailer includes them on smart delivery notes, providing a level of personalisation that helps to continue and enhance the post-purchase conversation. This was just one point on a broader theme of increasing the emotional connection with customers through the multitude of contact points.

Some conclusions

So, returning to where we started. A game of four quarters. IMRG data suggests that Q1 2021 is going to be the anomaly. The rest of the year could see some level of growth but the extent of which is still unclear. Some key areas requiring further consideration include:

- As a focus, the acquisition and retention of customers is always important. However, retention isn't always best. How sensitive are existing customers to pricing and how much margin are they worth? Sometimes it is cheaper to acquire new business
- Email is still a strong driver for revenue. Some brands are now looking much more closely at push notifications from apps as a retention tool. In the right circumstances SMS, with simple offers, can prompt a customer to reengage
- Will customers gained in 2020 behave in the same way after lockdown. For example, will those that came on board for stylish face coverings upsell to a £90 coat?
- Use data to help you to decide. Always an obvious one to say but try to understand if your KPIs are actually helping the business. Is revenue the right measure of success? What data points do you have to measure promotions, value of channels, the importance of different touchpoints and can you choose the right targets to help the business grow?
- Fulfilment is often an area where cost savings are made with little thought to the customer experience and this may, in itself, limit the opportunities for the doorstep representation of the brand

2021 is going to be a strange year in many ways and trying to chart a course will be more difficult than usual. However, flexibility in planning is going to be key. There is an expectation that many of those customers shopping online for the first time in 2020 will remain doing so. The economic environment may dampen consumer spending but, broadly, the outlook for online is promising, even if the growth numbers this year might look a bit odd.

As always, there was more discussed than can be documented here. If you are a retailer and want to be involved in future roundtable sessions, then please let us know.