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The State of Retailing Online 2018:
Store Investments, Business Objectives, and Mobile

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The State Of Retailing Online 2018: Store Investments, Business Objectives, And Mobile

Benchmarks: The Retail eCommerce Playbook

by Sucharita Kodali
March 26, 2018

Why Read This Report

The annual "The State Of Retailing Online" study by Shop.org, the digital division of the National Retail Federation (NRF), conducted by Forrester, is a summary of attitudes and investments that retailers are making for both their store and their online businesses. The 2018 report has notable new additions, particularly around investments in digital store initiatives.

Key Takeaways

Net-Net, Stores Are Growing
More retailers we surveyed say they will be opening stores in 2018 versus closing them. This outlook contrasts with claims that the physical retail world is being displaced by eCommerce and is therefore doomed.

Omnichannel Is Yet Again A Key Store Investment Area
Efforts like in-store pickup and endless-aisle investments have been a recurring theme for digital retailers for years. This theme continues in 2018 as retailers recognize that these initiatives are often multiyear endeavors.

Digital Retail Continues To Be The Bright Spot It's Been For Years
Retailers continue to experience success in their eCommerce businesses, which have been buoyed by strong mobile commerce performance and improvements in key metrics like conversion rates.

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Benchmarks: The Retail eCommerce Playbook

by Sucharita Kodali
with Fiona Swerdlow and Sam Wolken
March 26, 2018

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Retailers Are Optimistic About Stores

"The State Of Retailing Online" is an annual survey conducted by Shop.org, the digital division of the National Retail Federation, and Forrester. The survey examines retailer attitudes and investment levels for critical digital commerce issues. Some notable additions to this year's survey are several questions related to digital store investments. The survey for the 2018 study was conducted in Q4 2017, and it received 77 complete and partial responses from retailers. Survey respondents in this annual survey were (see Figure 1):

› **Multichannel companies.** Thirty-two percent of the survey respondents were pure plays or primarily online retailers, whereas 57% were traditional brick-and-mortar retailers with web divisions or branded manufacturers with largely wholesale businesses.

› **Large retailers.** Many of the survey respondents were relatively large retail companies. Fifty-six percent of respondents worked at companies that generate more than $500 million in revenue annually, and 39% of the respondents' companies make over $1 billion in revenue.

› **Senior executives.** Sixty-four percent of respondents said that they were at the VP level or above in their organization. Twenty-three percent of total respondents described themselves as C-suite leaders.

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FIGURE 1 Respondent Profile

1-1   Type of retailer

Branded
manufacturer
11%

Other
11%

Primarily
stores
46%

Pure play or
primarily online
32%

1-2   Company size by total 2017 revenue

No response
8%

Less than
$50M
20%

$1B+
40%

$50M to
less than
$500M
16%

$500M
to less than $1B
16%

1-3   Level of respondent

C-suite
23%

EVP, SVP, and VP
41%

Other
36%
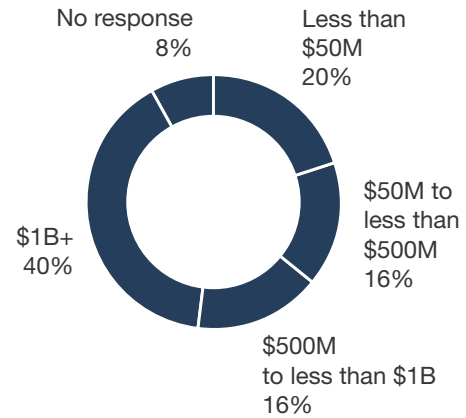
Base: 44 to 76 retailers
Note: Percentages may not total 100 because of rounding.
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

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Total Investment In Stores Is Growing
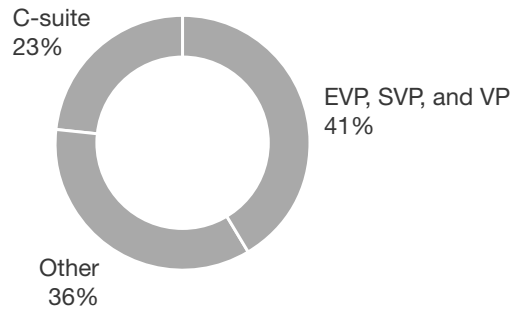
So many retail industry observers have questioned the health and vitality of the retail industry in the last year, but our survey results suggest that retailers are optimistic about the future of their sector. Moreover, they are continuing to invest in it, with the hope of tangible payoff in the future. Overall, 43% of retailers surveyed expect to see more stores in their chain in 2018 than in 2017 (see Figure 2). This data is reinforced by a Forrester audit of publicly traded companies in which 71% reported growth.[1] And while 31% of retailers do acknowledge they will close some stores in 2018, 24% say they will open some type of pop-up and 12% say they will open a distribution center (DC) or warehouse. Even aside from pop-ups and DCs, retailers are investing in several areas to support their store businesses. Specifically, they are focusing on:
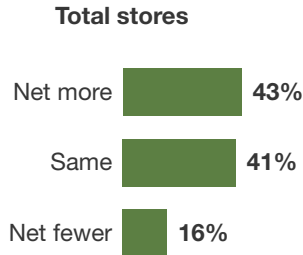
› **Omnichannel efforts.** Retailers continue to catch up to industry standards with respect to synchronizing their stores. When asked about their top customer-facing digital priority within stores, more retailers noted efforts like in-store pickup and endless aisle than anything else. In fact, 21% of retailers said that their top customer-facing in-store priority for 2018 was omnichannel efforts (see Figure 3-1). Retailers are focusing on improved shipping time and pricing, but few are investing in same-day delivery, both because it is difficult to make the economics of same-day delivery work and because few customers are asking for that service (see Figure 3-2).

› **Improved, if not new, POS systems.** The retailers we surveyed mentioned their point-of-sale (POS) systems more than any other in-store operational digital business priority. We don't believe many retailers will completely overhaul their current POS systems, but several will enhance what they currently have, enabling self-checkout or mobile commerce connectivity for store associates. The majority of retailers surveyed (58%) say that they don't currently have mobile point of service (mPOS) in place. Overall, mPOS helps to increase the number of payment options that customers can use in a store and enables store associates to better help shoppers where they are.

› **Product assortment.** Making inventory work harder is task No. 1 for retailers in 2018, as cost of goods sold (i.e., inventory) is the single largest line item for retailers. Retailers are looking to invest more in changes to their retail assortments than just about any other area (see Figure 4). We expect this focus will translate into retailers refreshing current assortments and adding new or unique brands and categories.

› **Automating store associates' tasks.** Aside from inventory, associate labor is one of the largest expenses that physical stores incur. Retailers recognize that they can automate a number of associate tasks and improve store productivity while lowering operational costs. While the total number of associates will grow as retailers add stores, stores nonetheless reported that they have fewer associates per store than in the past (see Figure 5). We expect this trend to continue: Retailers cited workforce management as the second most common back-end priority they plan to invest in this year, second only to their POS system.

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FIGURE 2 Surveyed Retailers Said They Will Increase The Number Of Stores In 2018

"By the end of 2018, which of the following do you most expect for your company?"

Total stores

Net more	43%
Same	41%
Net fewer	16%

"Which of the following, if any, does your company plan to do in 2018? Please select all that apply."

Open new stores	55%
Open pop-up stores	24%
Open warehouse/distribution centers	12%
Close stores	31%
None of the above	29%
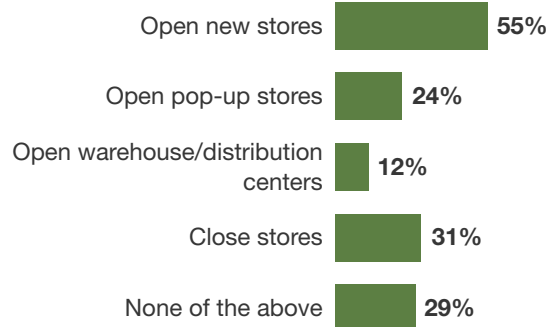
Base: 39 to 49 retailers
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

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FIGURE 3 Omnichannel And Faster Shipping Are Retailers' Top Consumer-Facing Priorities For 2018

3-1   Retailers are evolving their stores to deliver personalized, omnichannel experiences

"What are your top consumer-facing initiatives and priorities for your digital business in 2018?"
In-store

Initiative	Percentage
Omnichannel (BOPIS, endless aisle)	21%
Clienteling and personalization	15%
Associate enablement	12%
Store experience (new shopping formats, layouts)	12%
Email capture	6%
Promote app	6%
Driving more shoppers in-store through digital marketing	6%
Loyalty	6%
Beacons	3%
mPOS	3%
Digital receipts	3%
Cross-sell and upsell	3%
Reverse logistics (returns, exchanges)	3%

Base: 33 retailers
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

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FIGURE 3 Omnichannel And Faster Shipping Are Retailers' Top Consumer-Facing Priorities For 2018 (Cont.)

3-2   Retailers are prioritizing shipping speed, but not necessarily next-day or two-day shipping

"What are your top consumer-facing initiatives and priorities for your digital business in 2018?"
Fulfillment

Generally faster shipping	**42%**
Ship from store	**15%**
Omnichannel fulfillment	**12%**
Same-day delivery	**9%**
Lower shipping costs	**9%**
Two-day shipping	**6%**
Order management	**6%**
Customer communication	**6%**
Inventory optimization	**6%**
Next-day delivery	**3%**
Ship to store	**3%**
International shipping	**3%**

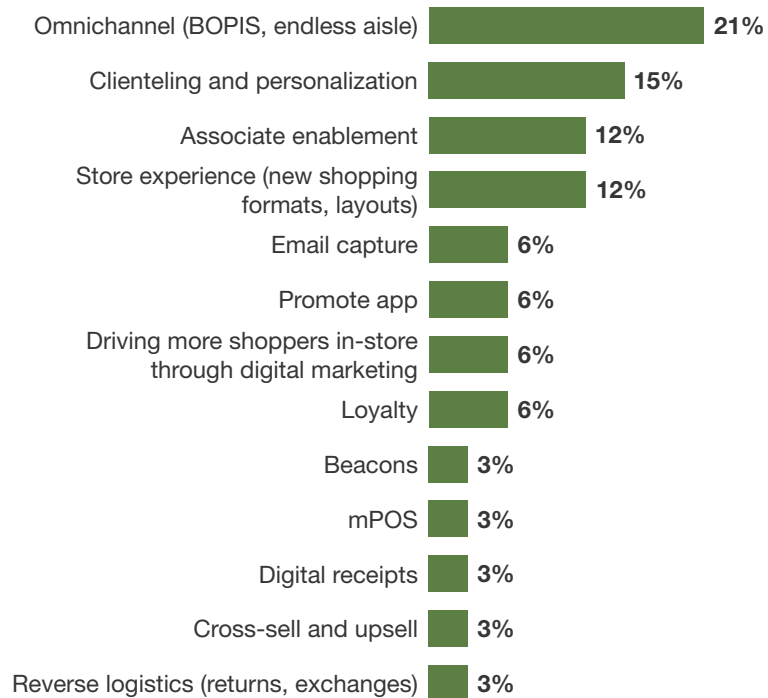Base: 33 retailers
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

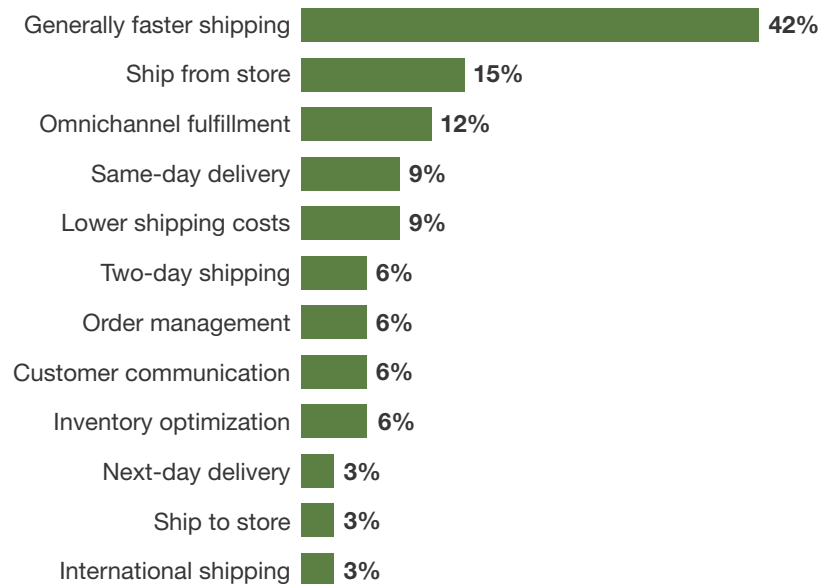FOR EBUSINESS & CHANNEL STRATEGY PROFESSIONALS

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FIGURE 4 Stores Are Investing In Tried-And-True Approaches To Improve CX And Profitability

"In the next year, which of these areas, if any, do you plan to invest in for your stores?"

Legend:
- Increase investment (dark green)
- Invest for the first time (medium green)
- Invest in nonmonetary means only (light green)
- No investment (light gray)
- Decreased investment (dark gray)

Area	Increase investment	Invest for the first time	Invest in nonmonetary means only	No investment	Decreased investment
New product assortments	65%	2%	7%	26%	
Store associate training and development	61%	2%	18%	18%	
Store design for increased engagement	53%	5%	10%	28%	5%
Store design for showcasing products	51%	2%	17%	29%	
Store design for easier location of products	48%		10%	43%	
Providing self-service technologies for shoppers	45%	2%	10%	43%	
Additional customer services (e.g., food, personal shopping assistants, and product installation)	42%	5%	7%	44%	2%
Convenient-to-purchase options (short checkout lines, curbside pickup, buy online and pick up in-store)	37%	15%	15%	34%	
Providing store-specific offers or discounts	33%	9%	7%	49%	2%
Cutting prices to be competitive	24%	2%	2%	69%	2%

Base: 40 to 43 retailers
Note: Percentages may not total 100 because of rounding.
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

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FIGURE 5 Total Number Of Store Associates Increased In 2017

"In the last year, how has the total number of store associates employed at your company changed, if at all (excluding temporary and seasonal hires)?"
Compared to 2016, in 2017 there were:

Total store associates

Significantly fewer
3%

Significantly more
3%

Somewhat fewer
18%

Somewhat more
39%

Same
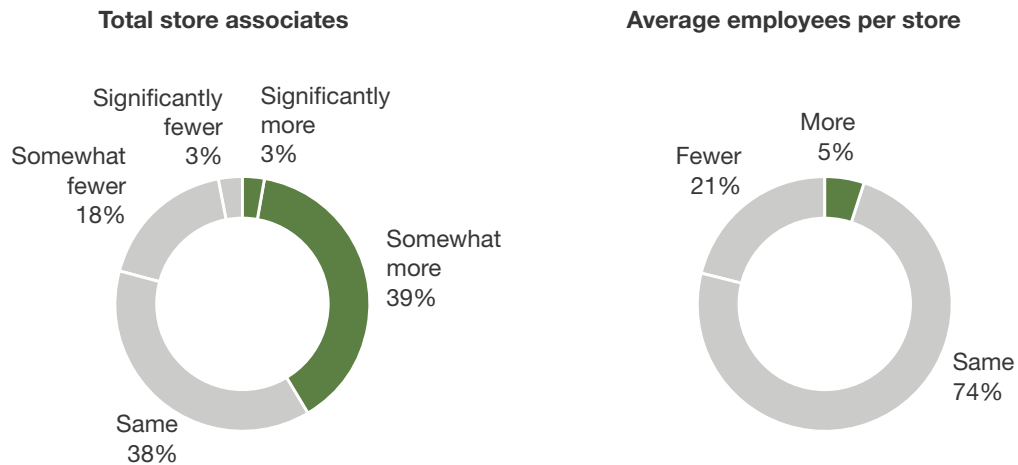38%

Average employees per store

Fewer
21%

More
5%

Same
74%

Base: 39 retailers
Note: Percentages may not total 100 because of rounding.
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

Retailers Are Headed In The Right Direction But Must Still Overcome Big Obstacles

Retailers continue to gradually improve their stores, but in 2018 they have their work cut out for them. Some of the most pressing challenges that stores will need to overcome in the future are:

› **Big gaps in automation.** Retailers are reducing the number of associates per store and investing in workforce automation, but they have a long way to go. Retailers today have little in place in terms of associate automation capabilities, and they may be risking a diminished customer experience if they reduce the number of store associates too quickly without implementing the appropriate technology to augment store associates' work. Many retailers still do not inform their store associates on what tasks are the highest priority or even provide them with access to their own web content (see Figure 6).

› **Minimal focus on essential shopper levers like pricing.** Few retailers have defined omnichannel as a pricing issue — a big miss, as price is the single biggest reason shoppers give for purchasing from Amazon.[2] Retailers have numerous opportunities to be more competitive with pricing, to better test pricing, and even to vary pricing by time of day or in different channels to best drive conversion and margins. Yet few retailers are investing in core tactics like pricing, and the majority said they had no plans to invest in being more price competitive in 2018.
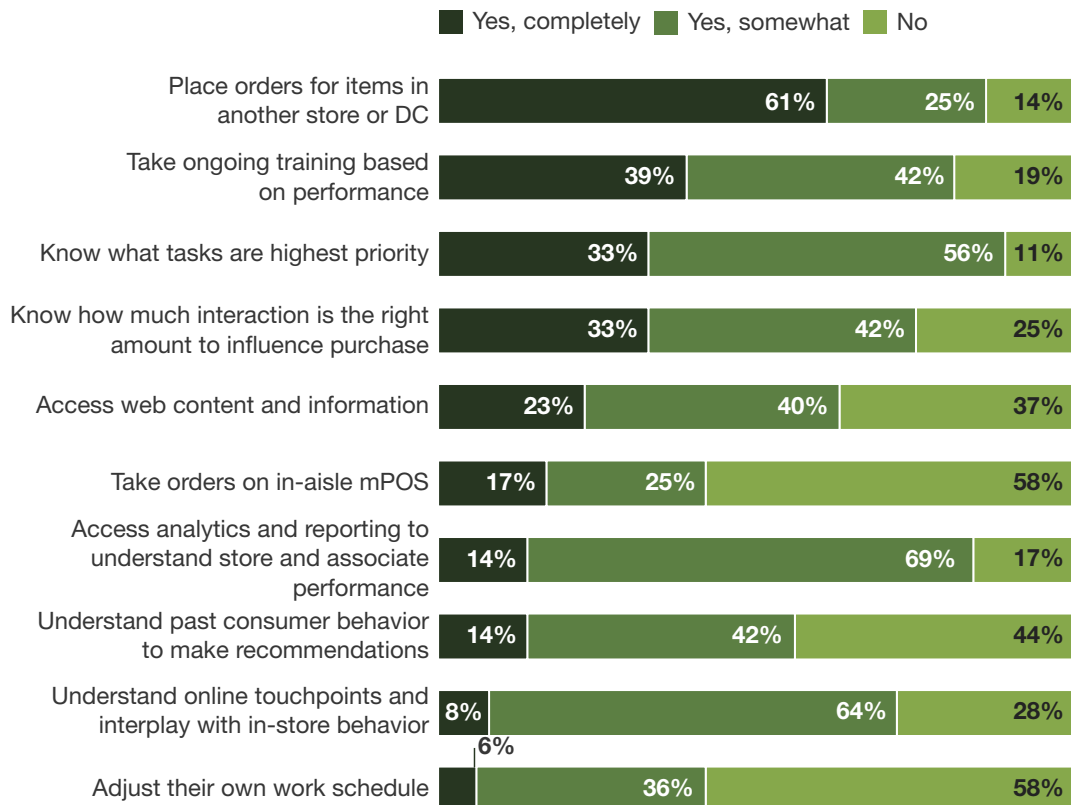
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› **Chasing innovation when retail fundamentals are still a work in progress.** A few retailers say they are investing in technologies like voice commerce and augmented reality in 2018. These are speculative commerce investments that run the risk of becoming obsolete because the technology landscape is certain to evolve rapidly. At the same time, retailers have more fundamental challenges: For example, many have not yet implemented tried-and-true omnichannel capabilities like endless-aisle solutions. Furthermore, many retailers are not well organized for digital success: 33% of the retailers surveyed said their company did not have a well-defined omnichannel fulfillment strategy in place, and 33% don't have the right metrics in place to measure how effective their omnichannel experience strategy is (see Figure 7).

FIGURE 6 Store Associates Are Not Always Using Technology To Support Shoppers

Thinking about how your sales associates interact with your customers in the store, do they have the ability to:

Legend: ■ Yes, completely ■ Yes, somewhat ■ No

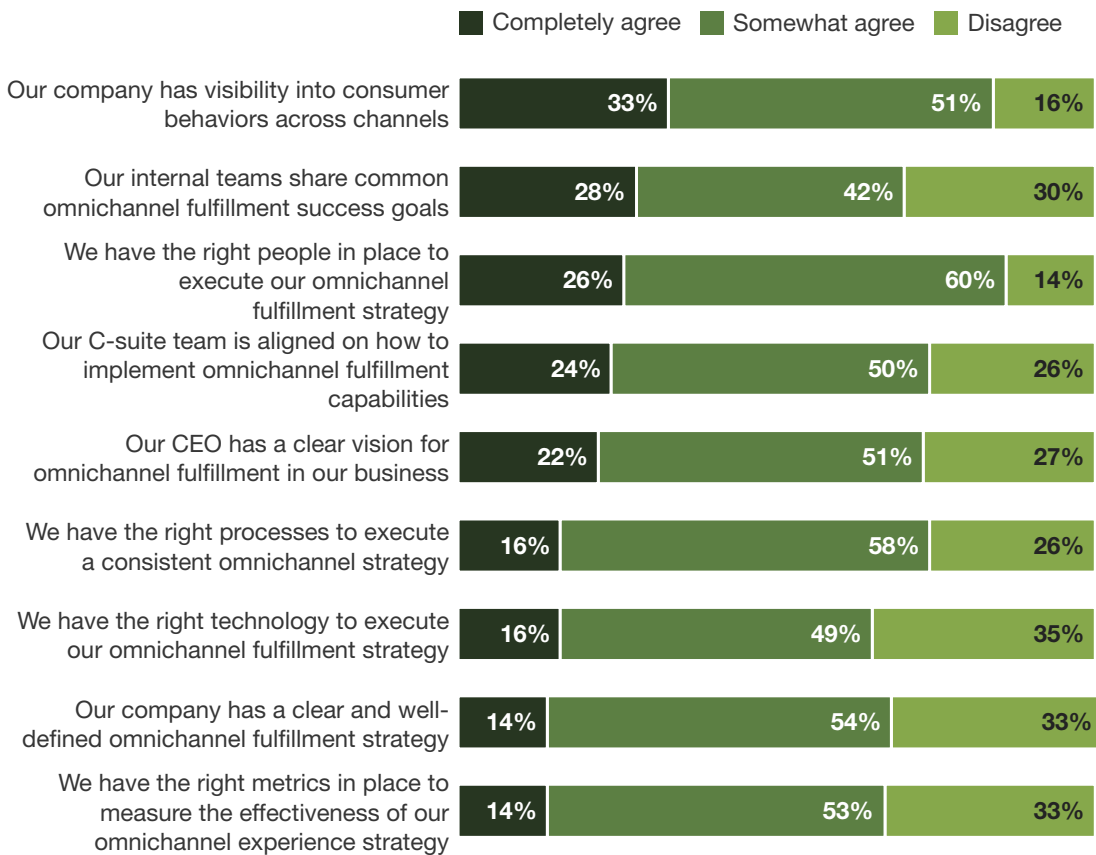|	Yes, completely	Yes, somewhat	No
Place orders for items in another store or DC	61%	25%	14%
Take ongoing training based on performance	39%	42%	19%
Know what tasks are highest priority	33%	56%	11%
Know how much interaction is the right amount to influence purchase	33%	42%	25%
Access web content and information	23%	40%	37%
Take orders on in-aisle mPOS	17%	25%	58%
Access analytics and reporting to understand store and associate performance	14%	69%	17%
Understand past consumer behavior to make recommendations	14%	42%	44%
Understand online touchpoints and interplay with in-store behavior	8%	64%	28%
Adjust their own work schedule	6%	36%	58%

Base: 35 to 36 retailers
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

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FIGURE 7 Omnichannel Is Still A Work In Progress

"To what extent do you agree with the following statements about your company's omnichannel fulfillment execution?"

Legend: ■ Completely agree ■ Somewhat agree ■ Disagree

Statement	Completely agree	Somewhat agree	Disagree
Our company has visibility into consumer behaviors across channels	33%	51%	16%
Our internal teams share common omnichannel fulfillment success goals	28%	42%	30%
We have the right people in place to execute our omnichannel fulfillment strategy	26%	60%	14%
Our C-suite team is aligned on how to implement omnichannel fulfillment capabilities	24%	50%	26%
Our CEO has a clear vision for omnichannel fulfillment in our business	22%	51%	27%
We have the right processes to execute a consistent omnichannel strategy	16%	58%	26%
We have the right technology to execute our omnichannel fulfillment strategy	16%	49%	35%
Our company has a clear and well-defined omnichannel fulfillment strategy	14%	54%	33%
We have the right metrics in place to measure the effectiveness of our omnichannel experience strategy	14%	53%	33%

Base: 41 to 43 retailers
Note: Percentages may not total 100 because of rounding.
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

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Digital Efforts Continue To Be Strong

Retailers are as optimistic about their dot-com businesses as they are about their store businesses. The good news is that retailers have been delivering success in their eCommerce divisions. In fact, retailers reported that their key eCommerce metrics like conversion rates, average order values, and retention rates were all improving (see Figure 8). To further support their eCommerce businesses, retailers this year are focusing on key areas within:

› **Mobile.** Retailers continue to see a significant percentage of traffic to their sites coming from mobile devices, but low mobile conversion rates still plague them (see Figure 9). To this end, they are investing in ensuring that sites render well on all phones, both for customer experiences and to ensure that they show up in Google search results, which prioritize mobile-optimized content. What are retailers spending less time and money on? Apps and tablets. Despite substantial efforts over the years to deliver great app experiences, retailers report only getting an average of 4% of their online sales from apps. Additionally, the majority of retailers (64%) say they plan to keep tablet investments flat or bring them down in 2018 (see Figure 10). On the other hand, 80% of surveyed respondents will increase investments in smartphones, and mobile is the top digital priority in 2018.

› **Platform overhauls.** Whether it is due to omnichannel investments, security concerns, or competitive drivers, more retailers say their key back-end priority in 2018 will be overhauling their eCommerce platform or hosting. Thirty-three percent of retailers surveyed said they planned to focus on this area of investment (see Figure 11).

› **Marketing.** Retailers frequently cited marketing tactics such as email, search, and social network marketing as key areas of investment in 2018 (see Figure 12). Customer acquisition and retention continues to be a challenge for retailers, and it is an easier lever to adjust because it generally requires little IT or operations involvement.

› **The onsite experience.** Retailers still recognize that how shoppers experience a site affects conversion. Site merchandising improvements therefore continue to be a key area of investment and focus for retailers. What are some specific approaches to improving the shopper experience online? Personalization is at the top of this list, and in 2018 it will involve clienteling and rendering offers and imagery that change to address different shoppers or factors such as weather or geography.

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FIGURE 8 Retailers Made Gains In Conversion Rate And AOV In 2017

8-1   **eCommerce key performance indicators**

General	Mean	Median	Base
Percent of sales online (excluding pure-play retailers)*	29%	15%	66
Percent of sales online for store-based retailers	11%	10%	35
Shopping cart abandonment rate	50%	55%	24
Returns as a percent of orders	13%	8%	26

Desktop	Mean	Median	Base
Desktop conversion rate	3.5%	2.9%	30
Desktop average order value	$197	$140	31

Mobile	Mean	Median	Base
Mobile app conversion rate	2.8%	2.5%	9
Mobile app average order value	$54	$8	18
Mobile browser conversion rate	1.7%	1.7%	29
Mobile browser average order value	$136	$120	31

Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research
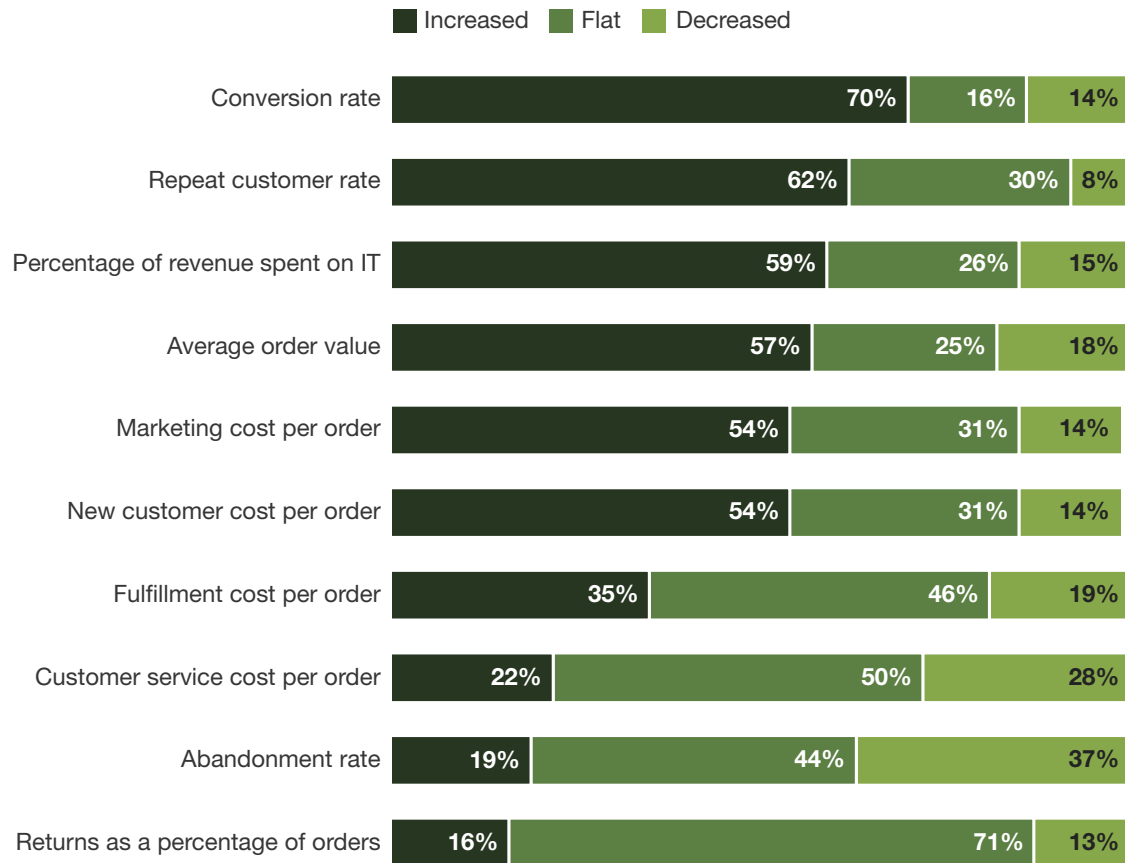*This row excludes retailers that sell exclusively online.

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FIGURE 8 Retailers Made Gains In Conversion Rate And AOV In 2017 (Cont.)

8-2   Retailers continue to improve key eCommerce metrics

"Please indicate for each metric whether it has increased, remained flat, or decreased in the past 12 months for your whole digital retail business ('digital retail business' includes desktop, smartphone/mobile, and tablet, as applicable)."

■ Increased   ■ Flat   ■ Decreased

Metric	Increased	Flat	Decreased
Conversion rate	70%	16%	14%
Repeat customer rate	62%	30%	8%
Percentage of revenue spent on IT	59%	26%	15%
Average order value	57%	25%	18%
Marketing cost per order	54%	31%	14%
New customer cost per order	54%	31%	14%
Fulfillment cost per order	35%	46%	19%
Customer service cost per order	22%	50%	28%
Abandonment rate	19%	44%	37%
Returns as a percentage of orders	16%	71%	13%

Base: 35 to 44 retailers
Note: Percentages may not total 100 because of rounding.
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

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FIGURE 9 Mobile Browsers' Share Of Traffic And Sales Rose In 2017

**9-1   Mobile devices comprise the majority of retailers' web traffic**

"What percent of total online traffic come from desktop, mobile browsers, and your mobile app?"

Mobile app
5%

Desktop
46%
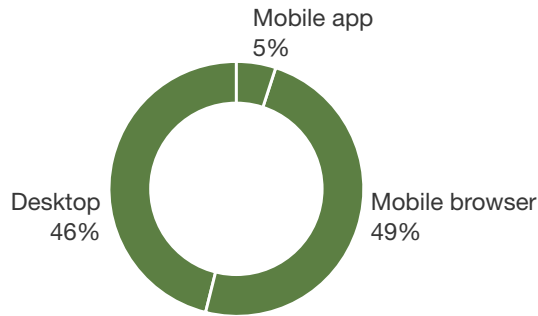
Mobile browser
49%

Base: 35-42 retailers

9-2   Retailers struggle to monetize their apps

"What percent of total online sales come from desktop, mobile browsers, and your mobile app?"

Mobile app
4%

Desktop
64%
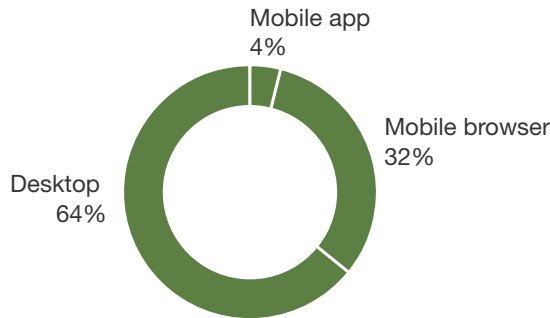
Mobile browser
32%

Base: 35-42 retailers

9-3   Mobile browser traffic rose sharply in 2017

"Please enter the percentage of year-over-year sales growth from desktop, mobile browsers, and your mobile app."
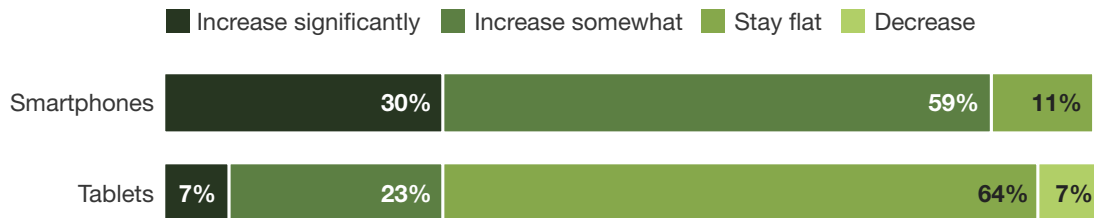
Desktop   **8%**

Mobile browser   **36%**

Mobile app   **16%**
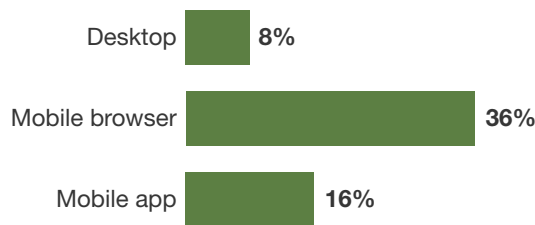
Base: 31-39 retailers
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

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FIGURE 10 The Phone Is The Focus Of Mobile Investments

"How will your investment in mobile initiatives for smartphones/tablets change in 2018?"

■ Increase significantly   ■ Increase somewhat   ■ Stay flat   ■ Decrease

Smartphones	30%	59%	11%
Tablets	7% 23%	64%	7%

Base: 44 retailers
Note: Percentages may not total 100 because of rounding.
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

FIGURE 11 Retailers Will Focus On Overhauling Commerce Platforms In 2018

"What are your top consumer-facing/back-end initiatives and priorities for your digital business in 2018?"
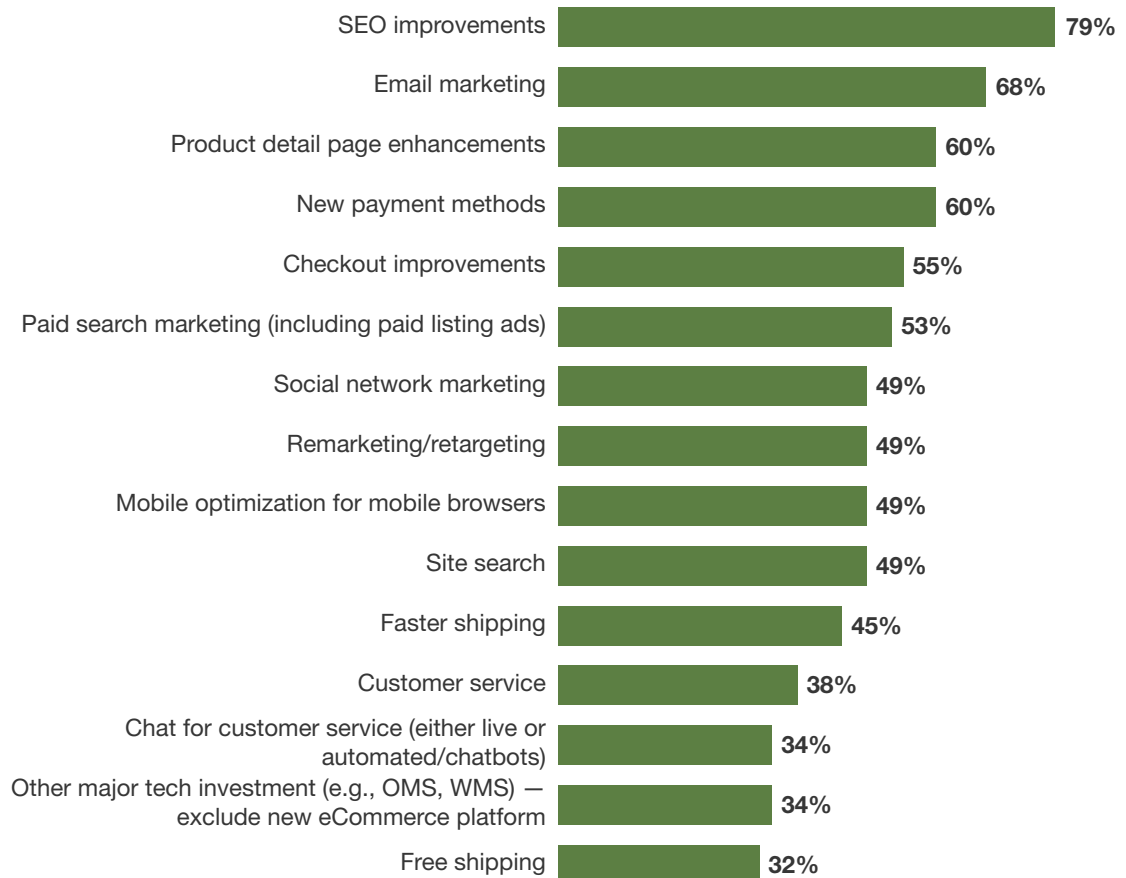**Back-end**

Replatforming and commerce platform upgrades	33%
Site performance	18%
Customer relationship management	8%
Mobile (optimization, app development)	8%
Enterprise resource planning	5%
Payments and checkout	5%
Order management	5%
Product information management	5%
Marketing	5%
Personalization	5%

Base: 39 retailers
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

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FIGURE 12 Digital Marketing Tops Retailers' List Of Digital Initiatives For 2018

"Do any of the following initiatives from the list below also fall within your list of priorities for 2018?"

Initiative	Percentage
SEO improvements	79%
Email marketing	68%
Product detail page enhancements	60%
New payment methods	60%
Checkout improvements	55%
Paid search marketing (including paid listing ads)	53%
Social network marketing	49%
Remarketing/retargeting	49%
Mobile optimization for mobile browsers	49%
Site search	49%
Faster shipping	45%
Customer service	38%
Chat for customer service (either live or automated/chatbots)	34%
Other major tech investment (e.g., OMS, WMS) — exclude new eCommerce platform	34%
Free shipping	32%

Base: 47 retailers
Note: Multiple responses accepted.
Source: "The State Of Retailing Online 2018," an NRF Shop.org study conducted by Forrester Research

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Retailers Need To Focus On Digital Investments More Than Ever

Retail had a strong Q4 in 2017, but retailers cannot afford to be complacent. Digital investments all but guarantee the ability to more cost-effectively deliver great customer experiences. As store-based retailers continue to be challenged by low-margin online pure plays, companies without strong digital strategies will fall behind. Specific takeaways from this year's research include the following:

› **Apps are optional, but a strong desktop experience is not.** Mobile phones are ubiquitous within our lives, but mobile commerce hasn't yet dominated all of eCommerce, much less all of retail. This fact is even more pronounced for apps: With few exceptions, most shoppers simply don't use them. Because desktop devices still dominate eCommerce transactions, retailers should not be distracted by mobile and instead must focus at least as much on traditional desktops as they do on phones.

› **Price and/or selection are critical opportunities for differentiation.** We know that price and selection are two of the biggest reasons that consumers shop online — yet lower prices and broad selections weren't big areas of investment for retailers this year. Retailers need to position themselves to take a greater share of shoppers' wallets by making commoditized products price-competitive and by expanding the selection within their biggest categories.

› **The associate automation gap needs to be closed.** Retailers know the importance of automating tasks in stores, but few have actually put those solutions in place. This year, they need to focus on elements like task automation and even simply first providing web content to store associates. Then, as they evolve, retailers should enable features like self-scheduling on mobile devices.

› **Not all retail executives have bought into digital transformation.** By now, digital transformation is well understood, yet even today retail organizations don't always accept it. Celebrate digital successes within your organization, continue to educate top management regularly about consumer expectations, and spread the word throughout the organization about the benefits and wins that come with embracing digital solutions.

› **Bright, shiny objects still entrance — and distract — retailers.** Ensure first and foremost that you implement and effectively execute tried-and-true solutions like endless aisle and in-store pickup. Focus first on eliminating customer pain points and making the store associate more effective, and do not chase whatever is hot.

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March 26, 2018

The State Of Retailing Online 2018: Store Investments, Business Objectives, And Mobile
Benchmarks: The Retail eCommerce Playbook

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Supplemental Material

Survey Methodology

Shop.org and Forrester annually survey online retailers regarding their key business metrics and areas of focus for mobile. "The State Of Retailing Online 2018" was fielded in October, November, and December 2017. The survey resulted in 76 complete and partial responses from North American retailers.

Eighty-three percent of the participating companies were multichannel retailers, with 17% primarily online-based multichannel retailers (more than 50% of sales online) and 46% store-based multichannel retailers (more than 50% of sales from physical stores). Fourteen percent were pure-play retailers, and 11% were manufacturers selling direct to consumers.

Thirty-nine percent of respondents generated $1 billion or more in annual sales in 2017, 70% generated more than $100 million, 13% generated $10 million to less than $100 million, and 8% generated less than $10 million.

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Endnotes

[1] See the Forrester report "Apocalypse, Schmapocalypse: What's Really Happening In Retail."

[2] We asked US online adults why they chose Amazon for their most recent purchase with the retailer. Forty-five percent chose "best price available" — far more than the 28% who chose "more convenient than going to a store," which came second. Source: Forrester Data Consumer Technographics® North American Retail And Travel Survey, Q4 2017 (US).

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