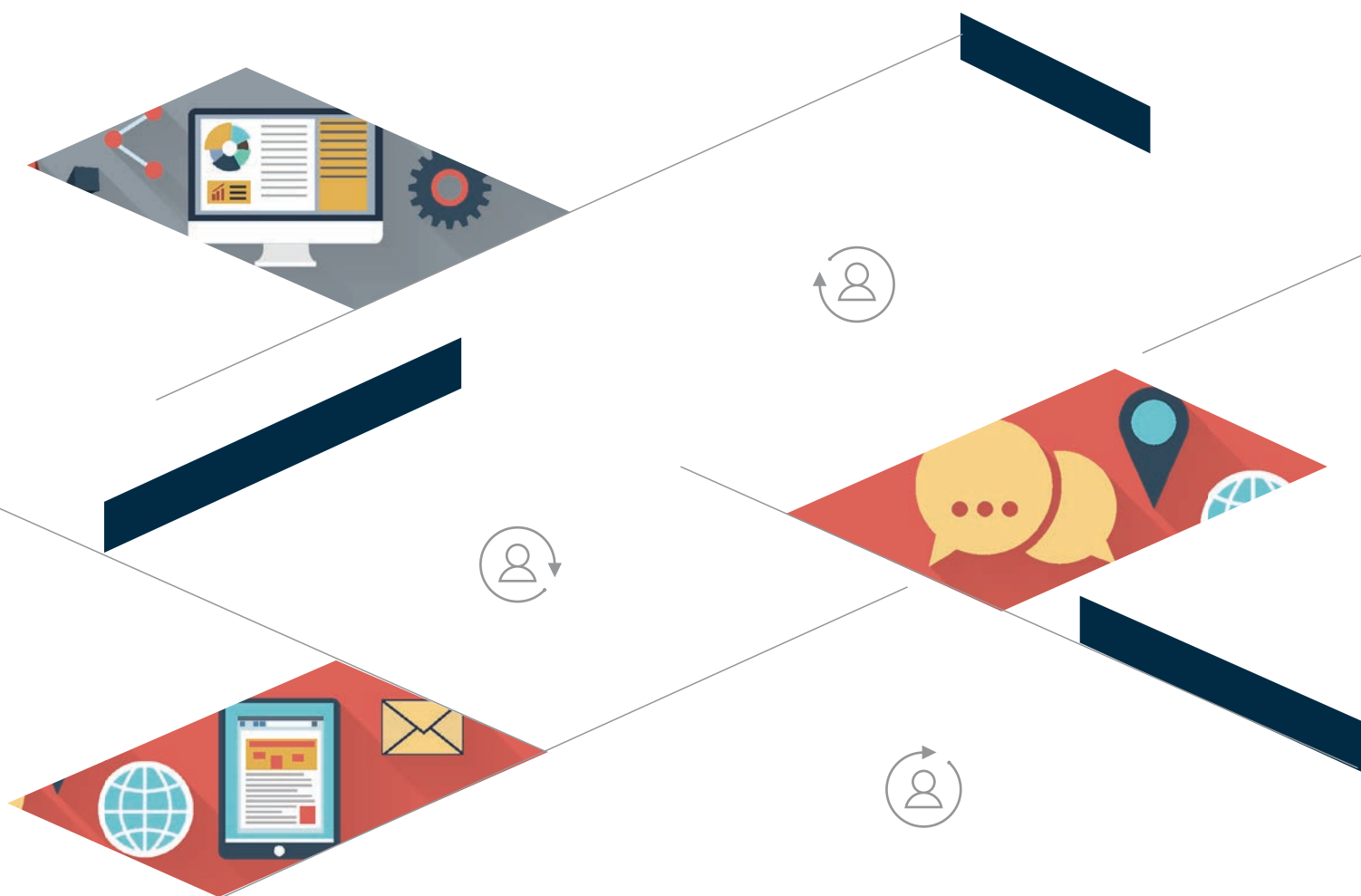




Adapting to the pace of omnichannel commerce

Small & medium-sized businesses
with annual revenues under \$100 million



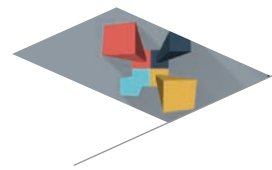
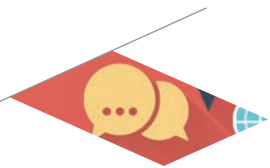


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Additional Contributors

In addition to the benchmark results and analysis in this research report, the following contributors contributed quotes that are featured in the document.



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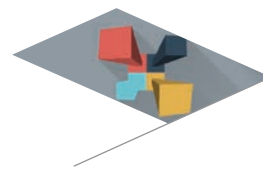
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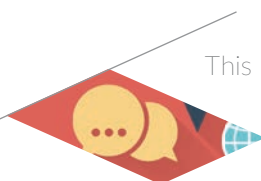
Executive Summary

As the market penetration of smart phones continues to increase, and retail giants such as Amazon continue to raise the bar around convenience, customer retention, and fulfillment, these rising tides are forcing every retailer to lift the standards of their technology and customer service. While several years ago the website may have served as a standalone digital presence for a retailer, in 2016 it's simply one of the larger touchstones of an omnichannel customer experience that has come to be fully expected by the consumer.

SMBs (small and medium businesses with annual revenues under \$100 million) occupy a special niche within the larger retail environment; small enough to nimbly adapt to new technologies and market pressures, yet with high enough earnings to be able to experiment with some truly cutting edge technologies. In 2016, SMBs are seeking to further adapt the way they operate to suit the omnichannel paradigm, with pressure coming from major retailers and pure plays which have aggressively expanded their fulfillment capabilities and built out their customer experiences over the past several years.

Like other retailers, SMBs still rely heavily on email for both customer acquisition and retention, as well as paid and organic search are also major priorities. For SMBs, building a customer base and keeping them coming back are key goals, necessitating a smart SEO and email strategy as the foundation of a sales funnel. Increasingly, social media is being recognized as another key retention channel, while efforts to explore mobile and integrate brick and mortar locations into digital strategy are underway within a more technology-forward subset.

The importance of the website in a SMB retail strategy as a key touch point for gathering customer insights is reflected in the desire to drive more traffic, and use the data gained to enable further insight driven programs. As the flagship digital presence for most SMBs, the website serves as a primary source of customer information – information that can be used to optimize interactions both online and in-store. For SMBs, the establishment of a strong digital presence begins with email and the website, but sets the stage for so much more. Building on a solid digital framework is the theme for SMBs seeking to grow their mastery in 2016.



This report covers mid-year trends for retail organizations with annual revenues of less than \$100 million.



Key Findings

1

SMBs in the B2C retail space are focusing on building out an omnichannel strategy based on what they know works.

Currently, this means a focus on driving traffic to websites through paid and organic search, as well as developing email marketing programs. However, these serve as a platform for building out new technology driven programs.

2

Faced with strong competition from larger players, SMBs are seeking to capture and segment their customer data more effectively and spend more time preparing for the critical holiday shopping season.

For SMBs, the holiday season represents a critical opportunity to not only make a large share of annual sales, but also bring new customers into a marketing and sales funnel towards creating repeat business. Segmentation is one of the keys for pulling this off.

3

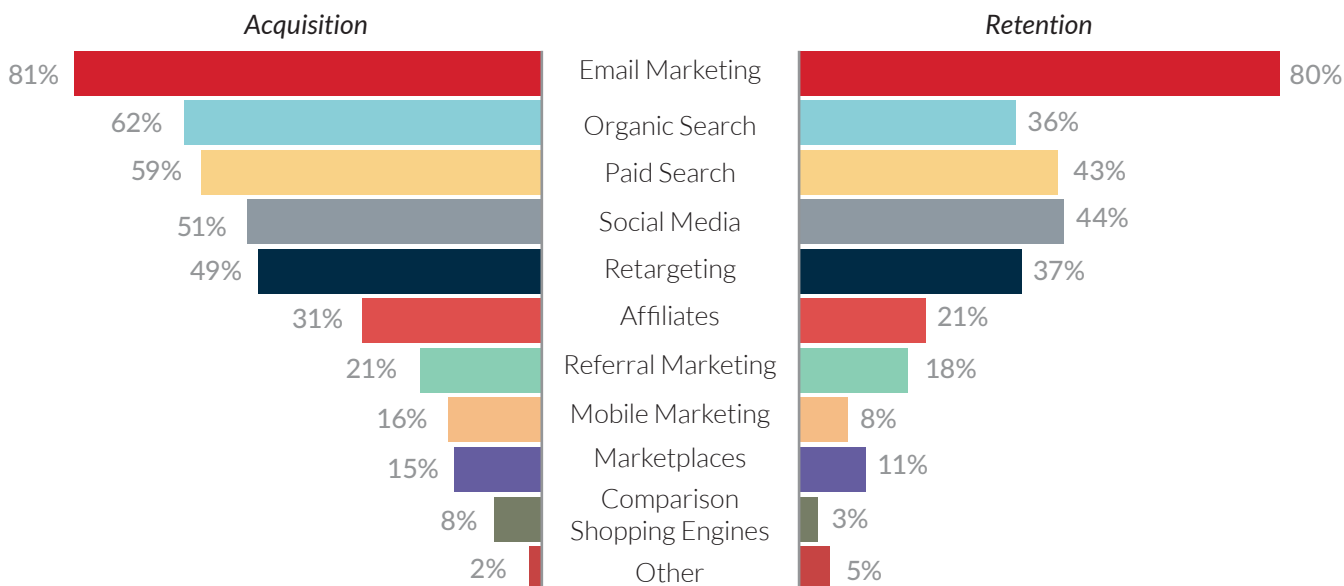
Linking the digital experience with brick and mortar, and investing in mobile commerce capability are two of the ways that SMBs are attempting to bring more advanced technology to the fore and keep pace with omnichannel innovations.

With a greater wealth of customer data and the digital tools in place to act on it, SMBs are moving to adopt some of the cutting-edge technologies their larger peers have pioneered, fine tuning them to retain an edge and build their bond with their customers.

Research Findings

How SMBs are maturing in the omnichannel environment

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



Email continues to be the main driver of customer retention and acquisition for SMBs.

The growth of ecommerce continues to actively shape the way brands sell, from retail giants who are contending with Amazon and other pure plays, to the diverse landscape of SMBs who are coming of age in a rapidly changing environment where technology allows them to disrupt their markets on a level that would have otherwise never been possible. While the promise of new channels beckons, 81% of SMBs are still relying on email as their primary customer acquisition channel, and 80% for retention. Organic and paid search round out the top three acquisition channels, highlighting the importance of staying visible within the search engines that help channel customers through the vastness of the internet. Social media is a primary acquisition driver for just over half of SMBs, while being the second strongest online activity for retention. Retargeting, which can extend the digital footprint of a brand to follow prospects who would otherwise navigate away, is a key component of both retention and acquisition, though less than half of the SMBs in our study found them to be a primary source for acquisition or retention.

Flash Findings

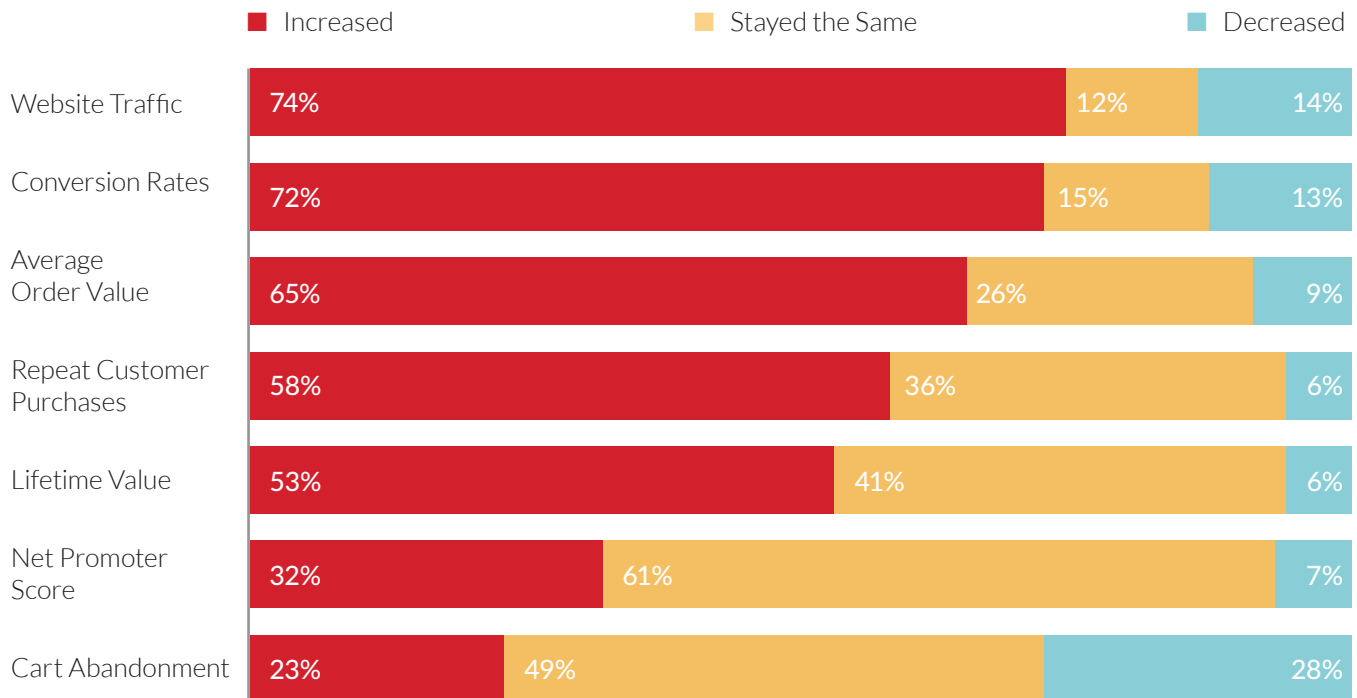
The three most common issues likely to keep retailers up at night:

1. SEO
2. Lack of budget or resources
3. Using personalization and multichannel to increase conversions.

These anxieties reflect the high amount of importance that a website plays in the ecommerce strategies of SMBs.

Shifting KPIs push SMBs Forward

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



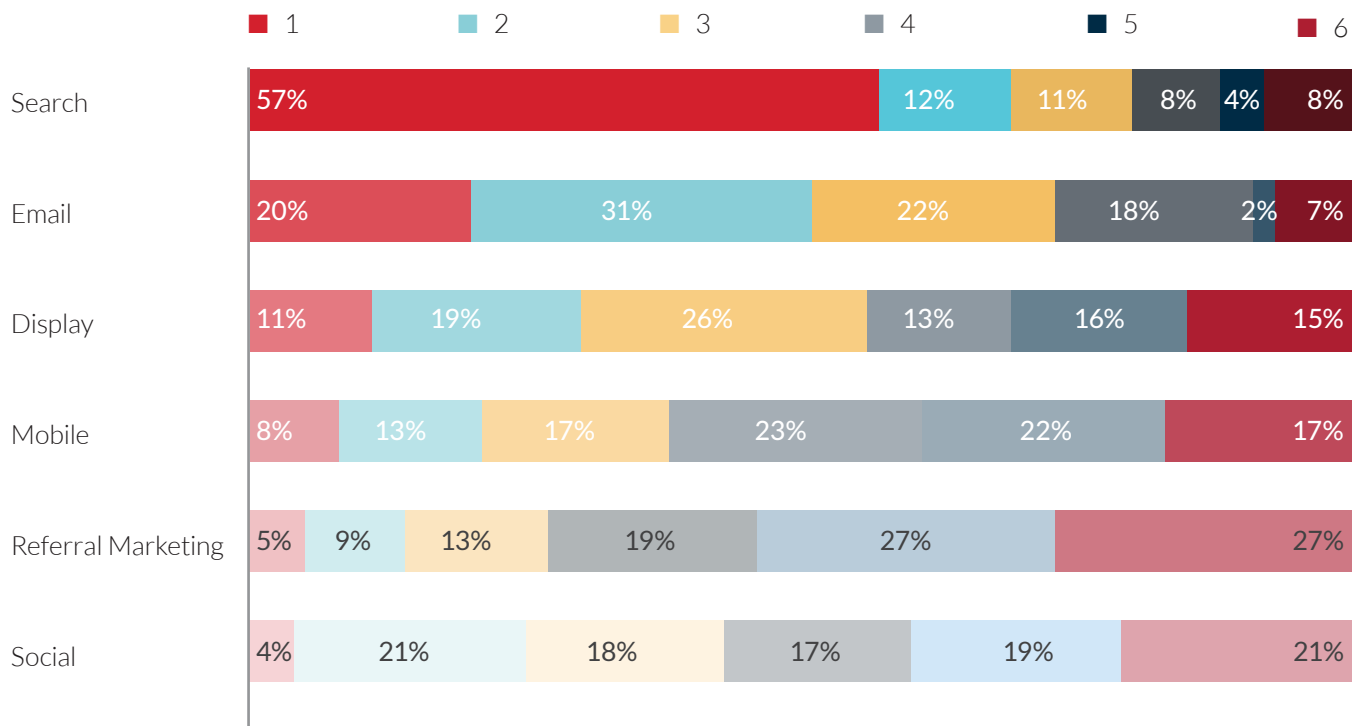
Traffic and conversions are the fastest growing KPIs.

Around three-fourths of SMBs have seen growth in their web traffic, with a similar number also experiencing increasing conversion rates. It's no surprise, as these two metrics are the lifeblood of any business competing digitally. For 65%, average order value also increased, while 58% succeeded in increasing their number of repeat customer purchases, suggesting that beyond investments in customer acquisition channels, SMBs are also building out their sites from the standpoint of conversion optimization, using their customer data as a blueprint. The lifetime value of customers grew for 53% of SMBs, another milestone indicative of healthy business growth. Interestingly, just under a third (32%) reported a growth in their net promoter scores, while for 61% of SMBs they stayed the same. When reconciled against the growth rates of other KPIs, it may be possible that net promoter score is comparatively less important for SMBs to track, leading to a rating that has not been updated year over year. For 28% of SMBs, cart abandonment decreased, with just under half (49%) reporting that it stayed the same.

"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." - Wayne Duan, Director of Walgreens Digital Commerce, Walgreens

Investing in marketing programs that build ROI

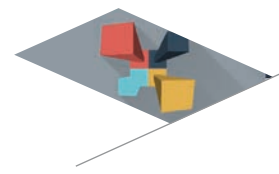
Please rank your marketing spend in the following areas (1 being the highest spend, 6 being the lowest spend)



Paid search figures highly in the budget for the majority of SMBs.

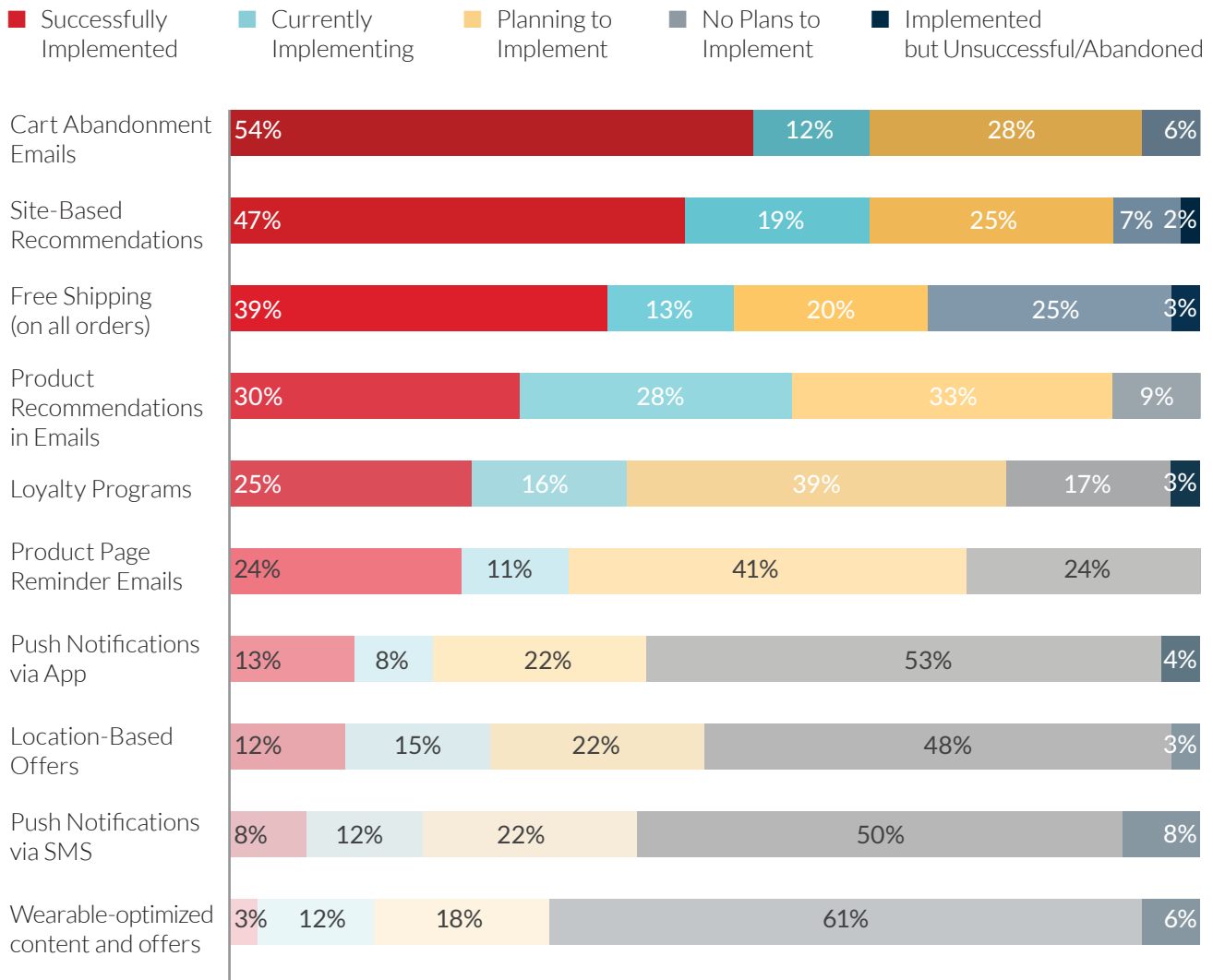
The budgets of SMBs reflect their most important KPIs. With the top KPI being website traffic, the fact that paid search has a high prominence in their budgets should come as no surprise. Investment in email is also a priority, as email continues to be the highest performing channel for the majority of the market. While social is the last channel to be listed as a primary investment, as a secondary investment it has a much better showing, indicating that while it is not a primary piece of a marketing strategy, it is a versatile complement to other channels and a key part of an omnichannel approach. In particular, social media offers brands the means to immediately respond to customer inquiries, thank them for positive feedback, and promote their organic content. Display ads, which can include remarketing, seem to be a common third priority, while mobile's relatively even showing across the board suggests that its importance will vary depending on the organization and the steps they have already taken to build the channel. As more data can be gathered around mobile conversions and the role of mobile as a touch point in the greater customer journey, it's likely that mobile will figure more highly in the overall budget of SMBs going forward.

"We continue to engage more on social media. We see it as a definite way to convert and to find out early on what a customer is going through. For our business, that means 'rainy day engagement' – finding someone who is having an issue (like a flat tire or their car not starting) that is not preplanned. That's a very specific, new approach, and it takes a lot of resources to stay on top of that." – Chris Vitale, VP Digital and eCommerce Operations, Pep Boys



Identifying successful marketing tactics

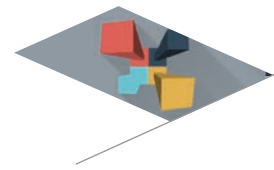
How are you using the following marketing programs?



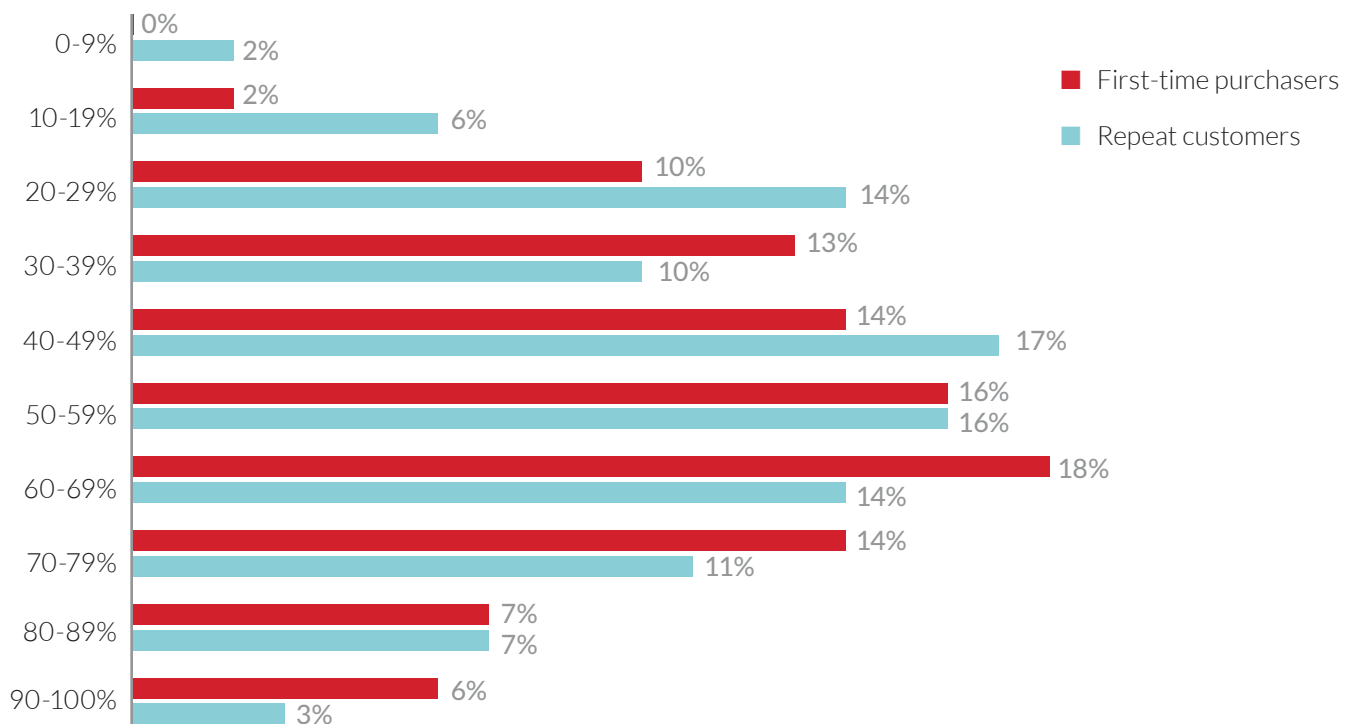
Over half of SMBs report sending cart abandonment emails.

Cart abandonment emails are currently the most widely adopted marketing tactics, simply because of their ease of implementation and the fact that they work so well. Similarly, crafting stronger product recommendations are an intuitive step towards increasing conversions that many businesses have already taken and more are seeking to implement. Free shipping, one of the areas that faces increased pressure from major pure plays, is already implemented by 39% of SMBs, despite the fact that one in four has no plans of offering it. This may be set to change, should the rate at which other retailers compete on shipping increase, and movement in the market suggests that increased competition on fulfillment is likely, helmed by major pushes from Amazon. Interestingly, just a quarter of SMBs have implemented loyalty programs, while 39% are in the planning stage of implementation. Given the importance of customer retention and lifetime value for SMBs, loyalty programs seem to be an area where many are currently missing out. Programs tied to mobile are in the planning stage for just under a quarter of SMBs, indicating that mobile is still in the adoption phase for the majority of small to medium digital retailers.

Measuring the value of repeat customers



What percentage of revenue do each of the following groups represent?



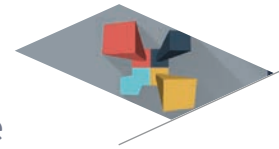
The value of repeat customers is variable based on business type and the programs in place for capturing repeat business.

While there is no clear standout distribution of revenue between new and repeat businesses, there is a concentration around a 40-60% range of division, with more cases placing 40% of their revenues coming from repeat business and 60% coming from first-time purchasers. For SMBs, hitting a balance of growth and stability with returning customers is critical, with perhaps a slight bias towards attracting new business as a brand grows in profile.

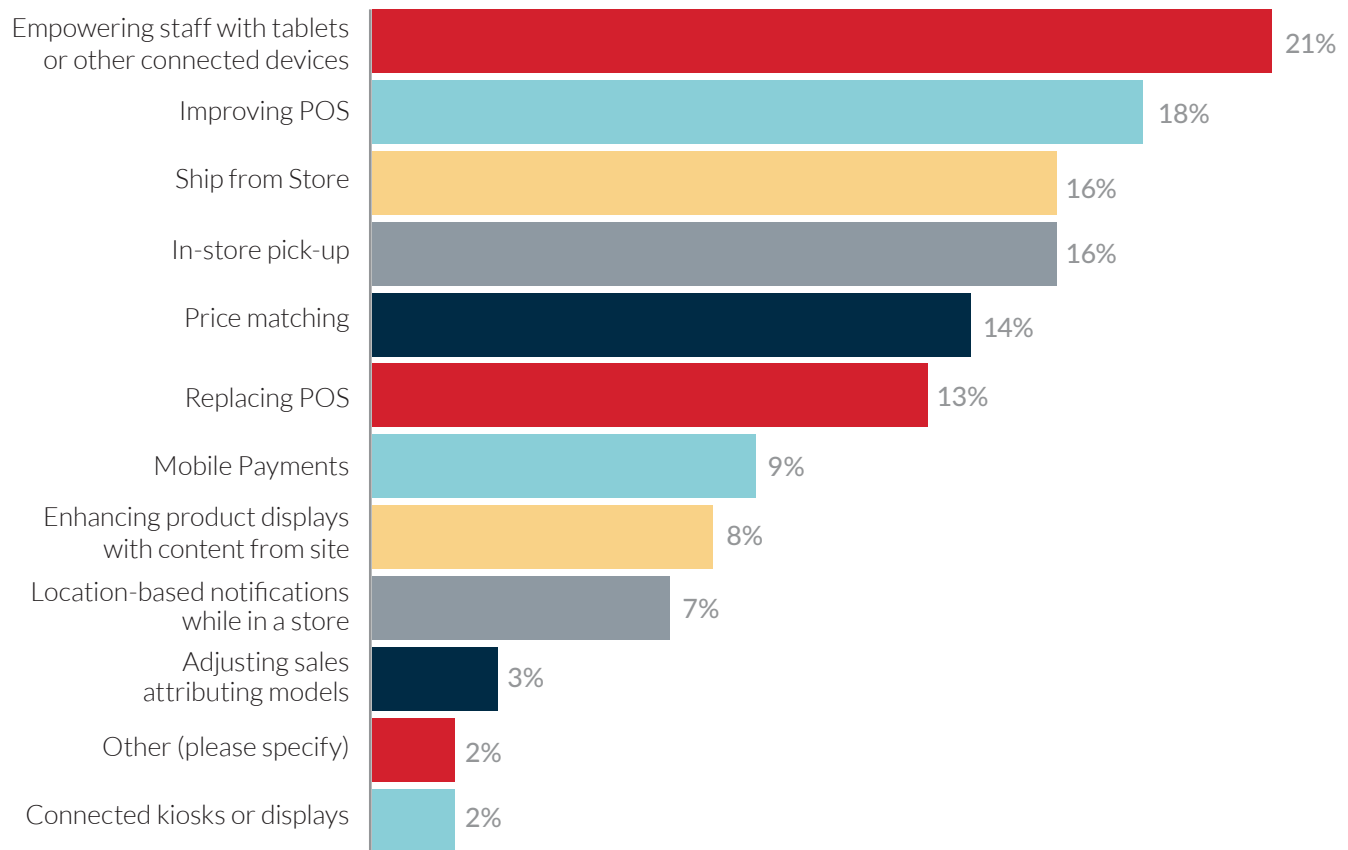
"When it comes to referrals, word of mouth is extremely important. It needs to be easy and seamless for people to make referrals and get credit for them. Referrals carry a lot more weight than anything we can serve up in social or in other channels. It's also important to note that people who are referred tend to be higher value customers."- Alison Ehrmann,
VP Consumer Marketing, Fresh Direct



Connecting brick and mortar to the omnichannel experience



How are you connecting your brick and mortar stores to the digital shopping experience?



Brands are increasingly using digital insights to make sales associates more effective

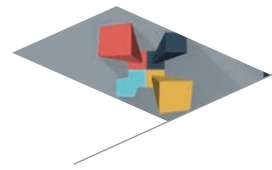
Retailers are seeking to integrate brick and mortar stores with their ecommerce operations. Leveraging insights on customer behavior gained through digital within physical locations creates a more seamless shopping experience and turns the physical store into an edge as opposed to a liability in an industry facing cost pressures from giants such as Amazon. The primary means of integrating digital with the physical is through arming sales associates with smart devices directly, allowing them to tap into a much broader depth of knowledge about products and fulfillment options. More advanced POS (Point of Sale) systems are another leading technology that can help capture customer data from a brick and mortar experience and integrate it into a clearer picture of general shopping habits within all channels.



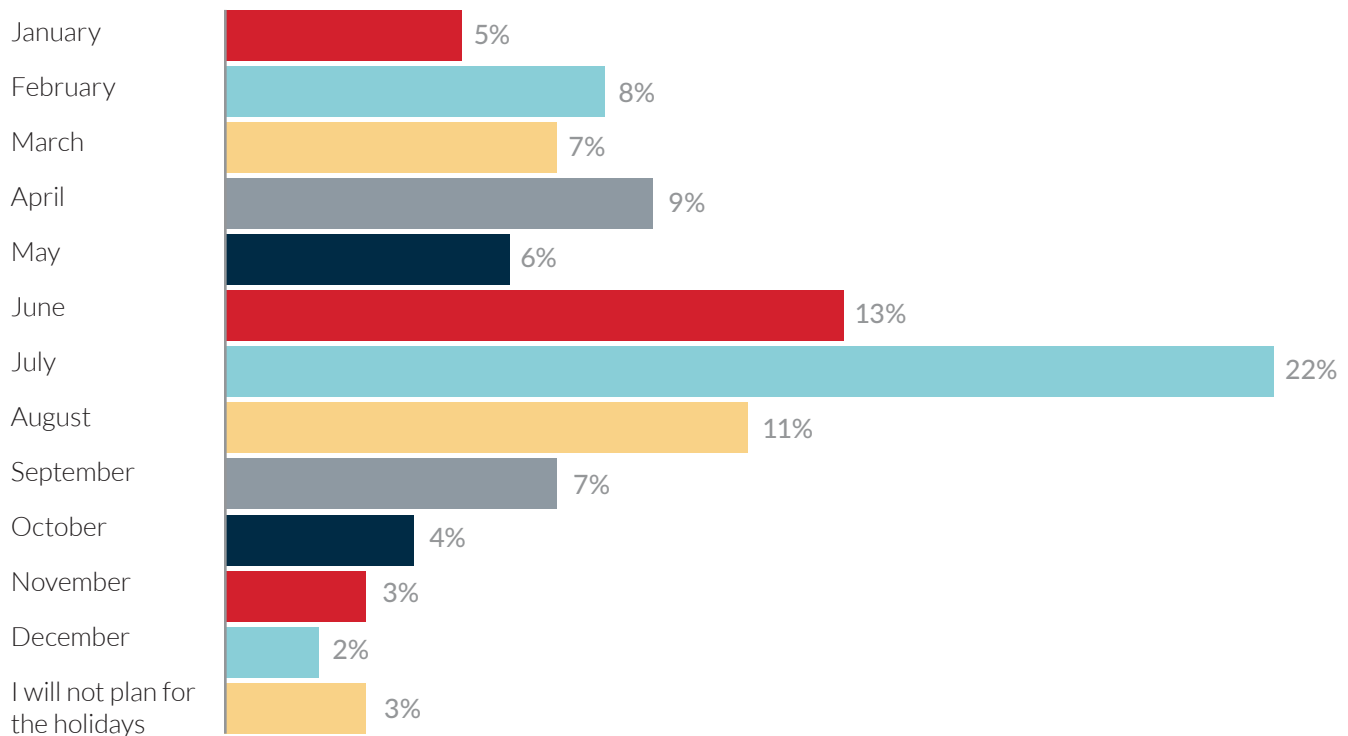
"The next step for omnichannel marketing will be to create and test models that provide better insights into cross-device, cross-channel, and cross-media marketing efforts." - Amit Shah,
SVP Online Marketing, Mobile, & Social,
1-800-Flowers.com



Developing a retail strategy for the holiday season



I will start my 2016 holiday shopping season planning in:



The majority of SMBs will begin their holiday preparations no later than mid-to late summer.

Taken all together, the percentage of SMBs who begin planning their holiday strategies later in the year than August is less than 20%. By contrast, 22% will begin preparing in July, a little under half a year away from the beginning of the definitive shopping season. For SMBs, the high volume sales of the holiday season can make up a significant share of annual revenue. What's more, they represent a prime opportunity for gaining new customers who they can then nurture over the rest of the year. In light of these dual opportunities, it's no surprise that 30% of SMBs will begin preparing between the end of the following year and the beginning of May.

Flash Findings

If budget were not an obstacle, retailers wish lists were topped by improved segmentation and visibility for personalization, improved content, and greater mobile mastery, reflecting a desire to invest further in areas that may not be in house specialties for many SMBs.



Key Recommendations

1

Prioritize building visibility into customer movements across channels.

While SMBs have been steadily building out their customer experiences within digital channels, in many cases the data that they gather is still siloed and provides only a partial picture of today's dynamic omnichannel customer. SMBs should focus on building a more comprehensive view of their customers in order to gain richer data insights.

2

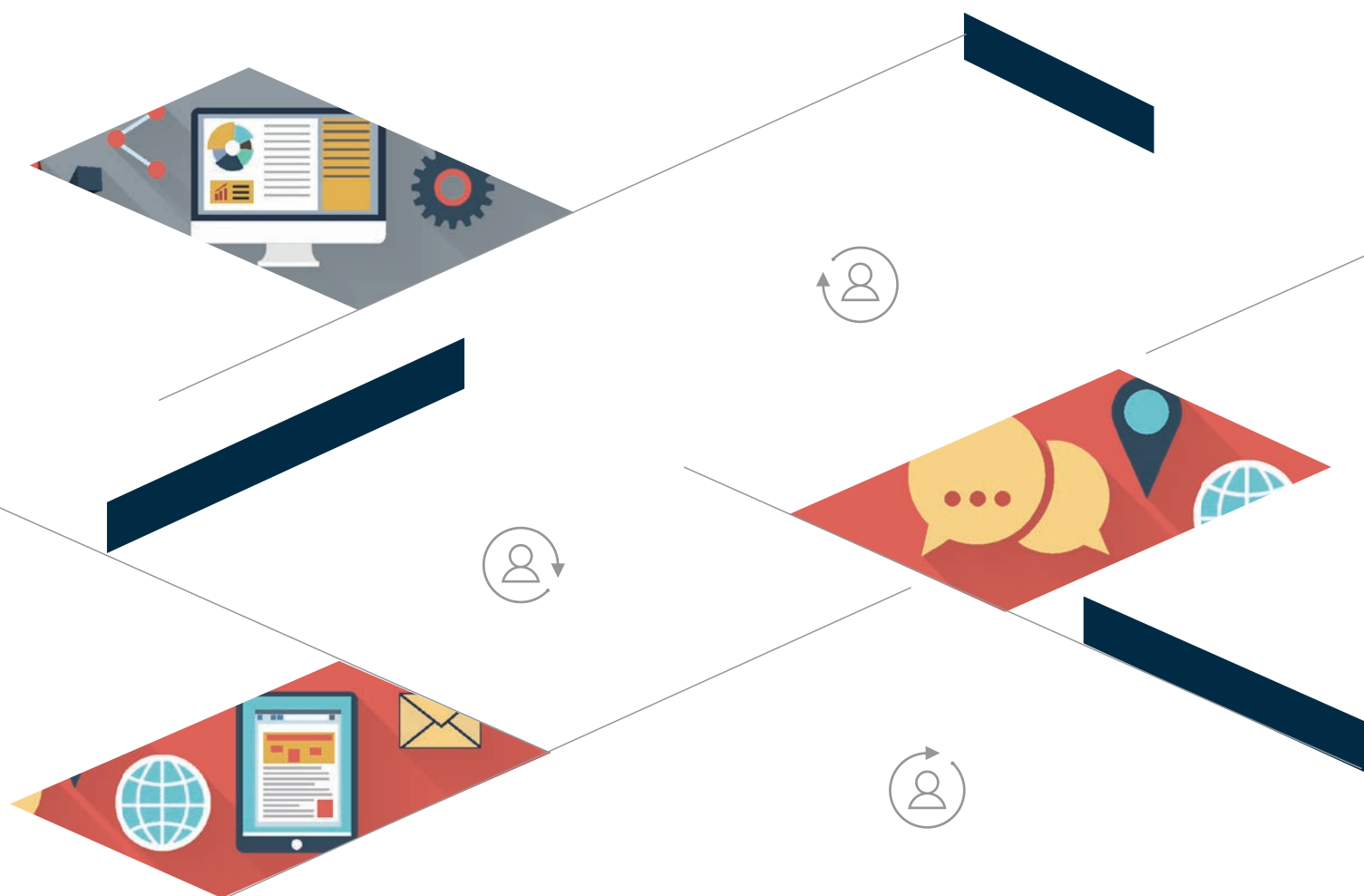
Develop loyalty programs that can capture new purchasers and convert them into repeat business.

Many SMBs still do not have loyalty or referral programs in place, which can leverage their existing customer bases and encourage repeat purchasing. While a focus on growing traffic and conversions can take the top spot for many SMBs, it's important to turn the goodwill of existing customers into a source of conversions and brand evangelism.

3

Continue to link the customer experience across channels and break down silos.

A theme that retailers both large and small have been focusing on in 2016 is bridging the gap between in-store and digital. The sales associate and the physical presence of a brick and mortar store can be powerful brand assets. Under pressure from pure play retailers, SMBs need to focus on ensuring their physical stores are fully leveraged, lest they become a liability.



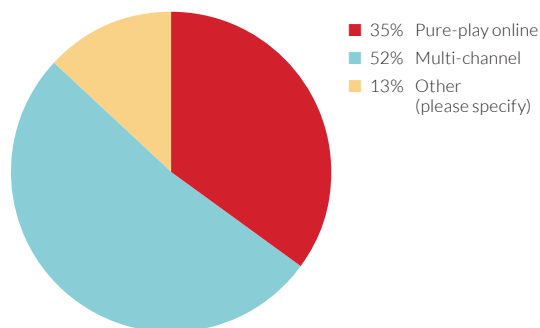
Appendices

Appendix A: Methodology

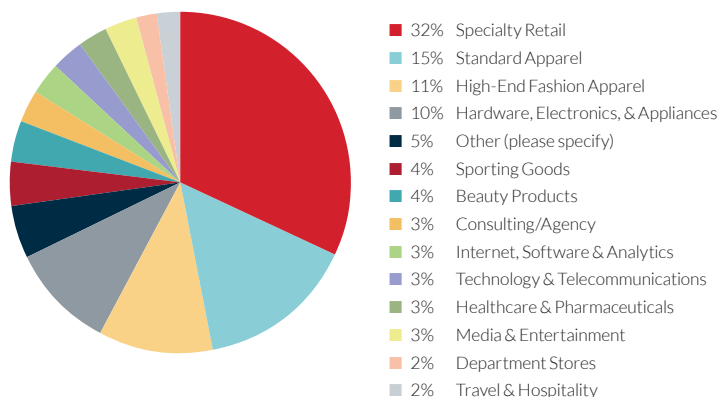
For this report, the eTail team conducted in-person and online surveys of 254 retail professionals from a variety of industries, including apparel, beauty, consumer electronics, hard and soft goods, home furnishings, books, music, and department stores. Survey participants included decision-makers and 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

What is your company type?



What industry does your company represent?



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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Research Partner

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



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