

E-commerce Predictions, 2016 - 2019: Digital Buying Comes of Age

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Executive Summary

A new generation of innovators and disruptors in e-commerce technology and services is emerging to challenge incumbent players and business models. This is happening all over the world, in countries where e-commerce is relatively mature as well as in countries where it is still nascent. And thanks to technology advances such as digital payments, cloud computing, and mobility, the barriers to entry for e-commerce vendors are lower than ever.

As a result, implementers have never had it so good or so easy. For example, an artisanal jewelry maker in India can set up an online store herself using low-cost or free software, or via a third-party online marketplace based in her home country or overseas, and reach customers around the globe. On a larger scale, a manufacturer headquartered in the United States can move its customer and supplier relationships online, expanding its potential reach from a handful of one-on-one local relationships to tens of thousands worldwide. While selling on marketplaces is not new and moving B2B sales online isn't earthshattering, the variety of options available and the speed at which one can get up and running are unprecedented.

This globalized and competitive environment offers tremendous opportunity, considering that e-commerce is still a small fraction of total retail and wholesale commerce.¹ To help buyers, vendors, and service providers understand where the opportunities - and challenges - lie, here are Digital Clarity Group's key e-commerce predictions for the next three years.

Mid-Market Companies Will Be Inundated With Love From E-Commerce Platform Vendors

The landscape of software vendors that provide e-commerce platforms targeting the world's largest enterprises (those with \$1 billion-plus in annual revenues) is largely dominated by Oracle, IBM, and SAP Hybris. These vendors consolidated their position in the last few years by providing on-premises solutions that, more often than not, required complex integrations with existing legacy systems and took a year or more to go live.

While the largest enterprises also tend to have the largest individual budgets for technology purchases, there are only so many of them willing to make the multimillion dollar, multiyear investments that complex e-commerce implementations often require. This means that vendors serving the enterprise market segment are looking for new sources of growth and see mid-market companies – those with revenues of anywhere from \$10 million to \$1 billion, depending on which definition of *mid-market* you use – as the next logical group to target.²

The challenge with targeting the mid-market segment is that it has become extremely competitive. The more established vendors have seen success with solutions that range from those that are cloud-based, easy to install, and scale quickly (like Demandware), to those focused on specific verticals (like InSite Software, in manufacturing), to open source options (like Magento). Meanwhile, newer

vendors have cropped up with founders and employees who have firsthand knowledge of the strengths and weaknesses of established solutions after having built, sold, or implemented them earlier in their careers. The incumbent vendors, like Oracle, IBM, and SAP Hybris, will thus be competing in the mid-market arena with established and start-ups such as commercetools, Orckestra, Oro Inc., and Ally Commerce.

The bottom line: *All e-commerce vendors see limitless opportunities in the SMB market, whether they are the mainstream IT suppliers, established e-commerce vendors, or upstarts. These vendors will relentlessly pursue SMBs around the world. Use this as your opportunity to drive the best deal possible with these companies and their services partners. And beware vendors that try to sell you out-of-the-box, off-the-shelf solutions without any customization or post-sales support. There is a common misconception among vendors that mid-market means less complex, and you don't want to be left with a new technology that looked great on paper but in practice needs to be integrated with all your existing proprietary and aging vendor solutions.*

Asia Will Take Center Stage, Especially For Mobile Commerce Innovation

The most heavily populated region in the world is also becoming the largest e-commerce market worldwide. According to eMarketer, Asia's 3 billion-plus residents now account for 52% of e-commerce sales.³ China currently makes up the single largest portion of Asia, totaling 40%. The sheer size of China, coupled with the public relations machine that is Alibaba, the country's largest e-commerce company, means that China tends to grab the most headlines of any other country in the region. However, e-commerce sales in other countries such as India, Indonesia, and Thailand are gathering steam as well, fueled by a combination of venture capital, a growing middle class, improved shipping and logistics, and growth in smartphone usage.

Being mobile-first means that Asian technology and e-commerce vendors have an incentive to try out innovative, new e-commerce solutions, which may in turn travel to the more mature e-commerce markets where mobile is still a small fraction of total online sales. In Thailand, for example, smartphone penetration is estimated to be between 35% and 40%, and there is a whole "shadow market" of social platforms being used informally for e-commerce.⁴

Asian-based companies are also powering growth in cross-border e-commerce. Both Alibaba and JD.com, China's second-largest e-commerce company, established offices in Silicon Valley in the last year. Rakuten, Japan's major marketplace provider, has been quietly building a portfolio of acquisitions in

international companies across the e-commerce ecosystem, including Ebates (cash-back and promo coupons), OverDrive and Kobo (digital content/e-books), and ride-share company Lyft. SingPost, the national postal operator of Singapore, has also embarked on an acquisition spree abroad, most recently buying US companies Jagged Peak and Tradeglobal, as it positions to be a gateway to Asia for the world's leading brands via its subsidiary SPecommerce.⁵ Meanwhile, Thailand-based start-up aCommerce has ambitions to be the gateway to Southeast Asia.

The bottom line: *The costs and risks in selling online to Asian consumers are lower than ever, but it still takes a significant amount of learning and time to figure out what segment of the 3 billion inhabitants to target. Make sure you take the time to understand local preferences and expectations regarding online content, payment options, delivery methods and timelines, and returns policies before you start thinking about the technology implementation. Finding the right vendor that can provide this information, not just software out of the box, will be key for success selling online in Asia. One reason why CEM and BPM projects typically occur worlds apart is because they are both figuratively and literally separated, rarely coming into contact with one another.*

Marketplaces Will Thrive, Driving Cross-Border Sales and a Variety of Business Models

Online marketplaces have been a staple of e-commerce since its infancy as a platform for sellers without the means or desire to build their own online stores. Marketplaces will continue to be the dominant platform in several countries and regions, including emerging markets in Asia, Latin America, and Africa. In China, for example, around 80% of online sales occur via Alibaba, and in India sales are split between Snapdeal, Flipkart, and, to a lesser degree, Amazon. The more innovative marketplace operators in emerging markets are also offering ancillary services, such as payments and pay-per-click advertising, in order to continue to grow and add value for their more mature customers. For sellers looking to enter these regions, marketplaces will continue to be the primary entry point.

The marketplace model will also underpin additional new business models and market segments in the next few years:

- *For vertical industries in B2B.* Examples include ShipServ, which matches buyers and suppliers in the maritime industry, and MFG.com, which does the same for the manufacturing industry.
- *As a turn-key service for B2B and B2C.* Examples include Mirakl, Farfetch, and Zalando, all of which are headquartered in Europe. Mirakl already has a roster of clients that includes several of Europe's largest

retailers, and it opened a Boston office in 2015 to serve North American customers. Farfetch and Zalando are B2C pure-play online fashion retailers who will soon be offering their proprietary technology platforms as a white-label service to other online sellers.⁶

The bottom line: *Marketplaces are a great way to get quick access to new markets without having to invest in your own infrastructure. If you prefer to keep your own brand storefront and have a large and complex product assortment that you'd like to augment with third party suppliers' products, a turn-key marketplace is definitely worth exploring. However, while the upfront cost and convenience of marketplaces may be attractive, the advantages of using them could decline over the longer term. If you sell via a third party, you don't get the in-depth data and ability to engage with your customers, and if you use a turn-key solution, you will likely pay a percentage of revenue that will grow as you grow. Weighing these issues is key to determining whether a marketplace solution is right for your business.*

Sustainability Will Become a Critical Concern For All E-Commerce Players

E-commerce purchasing volumes have passed the trillion-dollar mark, but they are still only around 6% of total retail sales worldwide.⁷ As online buying becomes more widespread, it will require more energy, labor, and materials needed to sustain that adoption. This is one reason why Amazon has been looking into deploying drones for deliveries.⁸

This means there will be more people packing, shipping, and transporting parcels; larger amounts of packing materials like boxes and plastic wrap; and higher energy consumption to keep up with the amounts of power to keep the whole process running. Rising consumer expectations are further fueling this growth. In the e-commerce world, these expectations include free shipping and returns, next- and same-day delivery, and the ability to buy across physical and digital channels, like buying online and picking up in-store.

As e-commerce retailers are already challenged with the need to figure out how to meet these higher customer expectations, they should also think about how to manage the physical aspects of their digital business strategies in a more sustainable way and how to build sustainability into customer experience management. The recent experiences of multitenant building occupants and campus environments show the danger of not taking this issue seriously enough.

For example, e-commerce deliveries are already overwhelming mailrooms and building management employees in apartment buildings and university dorms, particularly in large cities.⁹

Here's some additional evidence that sustainability needs to take a prominent spot on the e-commerce vendor agenda. A recent study by Nielsen revealed that millennial purchasers cite sustainability as a key issue in determining where they choose to shop and will pay more for brands that demonstrate social awareness and responsibility.¹⁰ Furthermore, sustainability is not just a generational issue; at the recent climate talks in Paris, 195 nations agreed to a set of measures to lower greenhouse gas emissions.

The bottom line: *Being able to demonstrate that you operate your e-commerce business with sustainability in mind will become more and more important. It will be part of your appeal to consumers who cite sustainability as a key factor in which brands they buy from. It will become more important in order to meet regulatory requirements as countries work to reduce emission standards. It will also make business sense by reducing the cost of packaging, shipping, and labor if you adopt more efficient and sustainable technologies.*

Buyers Will Demand Integration of Commerce With Content and Other Existing Systems

Digital Clarity Group has noted the persistent gap between the worlds of content and commerce.¹¹ There are, however, some encouraging signs that this gap is narrowing. We've seen RFPs for technology selections that combine content and commerce elements; spoken with more service providers focused on web content that have recently hired e-commerce executives; and heard about more implementations where CMS and e-commerce vendors have joined forces for a single customer. For instance, IBM and CoreMedia collaborated on a project for UK retailer Homebase by adding informational content like articles to its store, resulting in 75% reduced production time and 8% increase in average order value. More recently, CMS vendor e-Spirit and e-commerce platform vendor Demandware worked together on an implementation led by OSFWeb for cosmetics retailer Urban Decay.

This is a positive development, as content will be the way for more brands to differentiate online against the likes of Amazon, and more vendor and service provider partnerships, mergers, and acquisitions will undoubtedly follow in the years ahead to meet these needs. Nevertheless, content and commerce integration is just one of many of the integration challenges companies face in executing on their customer experience strategies and initiatives. As more B2B companies – such as manufacturers, shipping companies, and industrial equipment suppliers – invest in online selling, they will need to integrate commerce with their back-end systems as well. Integration with ERP systems, for example, is one area where we have seen buyers struggle. Another is with integrating online and in-store systems for services such as click and collect. In the recent holiday season, around 30% of shoppers used buy-online/pick-up-in-store options.¹² As more

retailers offer this service, it is going to be imperative for them to integrate the necessary software that powers it.

We have also heard from companies that want to offer more personalized and relevant experiences to their customers but struggle with tracking the entire customer journey across different systems – product, sales, call center, and customer service – in order to do this. Acquiring the insights needed to develop these services can be a monumental task; they may sit in separate business divisions, on different technology platforms of different ages and provenance. For example, a product catalog built on an obsolete technology platform may sit in an operations division, while a state-of-the-art CRM from a leading vendor may sit in sales – both having been purchased and implemented by different external consulting firms. Developing a common data architecture is not just an IT challenge, but also an operational and change-management challenge, which includes bringing together the disparate parts of the organization to come up with requirements that will bridge the gaps.

The bottom line: *Think about how your e-commerce plans will affect and need to involve other parts of your business, make sure you actively seek the input of representatives from different business divisions, and make sure you have an executive sponsor championing the project who has the clout to enforce participation. Have this information at hand before you begin reaching out to potential software and service provider partners. And be skeptical of software vendors that claim they can integrate with anything – that may be true in theory, but get real-life customer references for evidence this works in practice.*

Implications For E-Commerce Market Players and Buyers

What do these predictions mean for the different players in the e-commerce market?

- **Buyers** of technology and services are clearly the most affected by failed e-commerce initiatives, making it important for them to get their e-commerce strategies right the first time. Again and again, we hear stories from buyers about failed e-commerce initiatives, where millions were spent on projects that failed to yield the desired results. The reasons for these failures are not always clear: Sometimes it is the buyer who has not adequately collected requirements or budgeted the necessary amount of time for the project. Other times it is the vendor that sold software that wouldn't do what it was supposed to; still, other times it is the service provider that misrepresents or exaggerates its capabilities.

This is why e-commerce initiatives are not just about choosing the best technology available, and why buying a vendor's platform simply because that vendor has won industry accolades, will not guarantee success. In this globalized and increasingly competitive environment, companies can no longer afford to view e-commerce as a technology project for a single division. It is an integral piece of a company's strategy that affects the entire organization, and needs to be scoped and managed as such.


Instead, e-commerce initiatives should begin with what the buyer's overall strategy is and how e-commerce will fit into it, what departments and individuals will be affected, and what the requirements are for those departments and individuals. For example, the CIO will need to determine what

integrations will be necessary with existing systems and how to manage those implementations to minimize risk and meet defined budgets and timescales. Chief financial officers will be more concerned with return on investment – what volume of online sales increases will be needed to cover implementation costs – and that any new systems are compliant with regulations. The chief legal counsel and chief risk officers will also need to weigh in on compliance and personal-data protection issues. Getting the right scope and requirements is critically important, as is setting a realistic time frame for completing the project.

Similarly, the lack of organizational change management is a big quagmire for companies. Buyers would be well advised to seek out certified, professional training and consulting methodologies after determining that the consultants have a successful track record in leading change management initiatives.

- **Technology vendors** are essential to project success, and, with the right service provider partners, can avoid e-commerce initiative failures. To help customers stay on track, vendors must assess the software solution (and be honest, even if it is their product) to ensure it is well aligned with the customer's strategy. If it isn't, that is the first warning sign of trouble to come.

Another important situation to monitor is if the customer is buying lots of e-commerce point solutions without a clear vision of how the products will work together (or not); if the project team hasn't considered how customer data will support the new products; and if the



project team lacks a clear roadmap for deploying and possibly integrating so much software in a short timeframe. These issues point to the critical need for vendors to team with qualified service providers that can help buyers get past any hurdles they encounter.

But vendors must also vet their service providers to validate that they have the right skills, methodologies, and staffing. Vendors should ensure that their customers are paired with capable teams, whether it's the vendor's own professional services staff or well-vetted implementation partners. Also, vendors could and should take proactive steps to support implementation. For example, many project teams correctly say the role of business analysts cannot be overstated; if this is the case, the service providers or the vendor's professional services staff could train and staff a substantial number of billable business analysts to help with troubled or challenging projects.¹³

- **Service providers** range from large management consulting and IT services companies to smaller, specialized digital and experience-design agencies. Large does not

guarantee success, and small does not necessarily mean risky. We have spoken with numerous smaller service providers that report they were hired as part of a “rescue project,” after a tier 1 IT services firm had failed to deliver what was initially promised. More important criteria for success is for the service provider to have core competencies in areas such as (1) how to design, install, implement, and integrate critical software (like e-commerce platforms, order management systems, product information management systems, content management systems, data management capabilities, analytics capabilities, and personalization capabilities); (2) how to integrate e-commerce software with existing systems (like CRM, ERP, and call-center software), and (3) how to bring to bear other core skills (like measurement and organizational change management). Most importantly, service providers must keep initiatives on track by hiring and retaining employees with the right skills, knowledge, and expertise.



Endnotes

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About Digital Clarity Group

Digital Clarity Group is a research-based advisory firm focused on the content, technologies, and practices that drive world-class customer experience. Global organizations depend on our insight, reports, and consulting services to help them turn digital disruption into digital advantage. As analysts, we cover the customer experience management (CEM) footprint – those organizational capabilities and competencies that impact the experience delivered to customers and prospects. In our view, the CEM footprint overlays content management, marketing automation, e-commerce, social media management, collaboration, customer relationship management, localization, business process management, analytics, and search. As consultants, we believe that education and advice leading to successful CEM is only possible by actively engaging with all participants in the CEM solutions ecosystem. In keeping with this philosophy, we work with enterprise adopters of CEM solutions, technology vendors that develop and market CEM systems and tools, and service providers who implement solutions, including systems integrators and digital agencies. For more information about DCG, visit www.digitalclaritygroup.com or email info@digitalclaritygroup.com.

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