

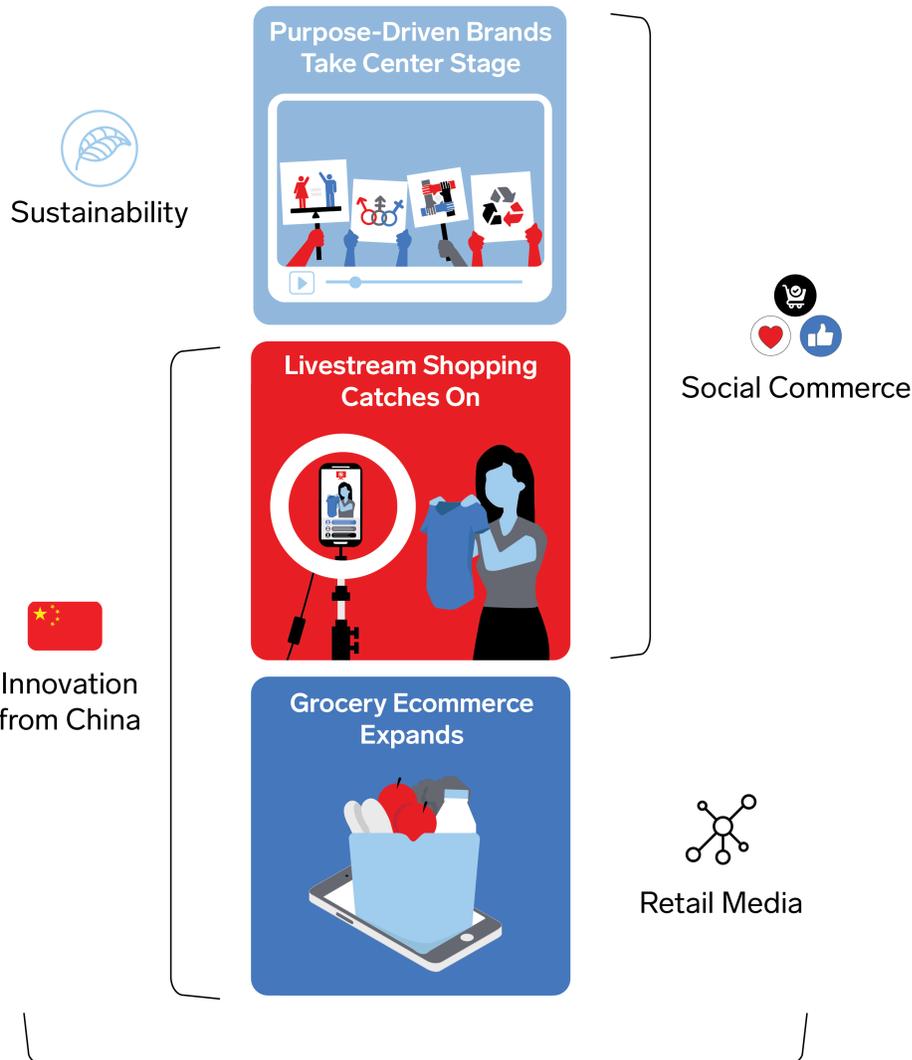
A new era in retail and ecommerce is emerging

Article

The year 2021 marks a new era for retail and ecommerce. The pandemic drove a massive shift in almost everything digital, and while 2020 will remain an anomaly in terms of the frenzied pace of adoption, consumers' new behavior is here to stay. Over the next five years, digital activities will continue growing from today's accelerated base.

Starting this year, **Insider Intelligence will dedicate** more analysts to the increasingly digital world of shopping, expanding our coverage of the most significant retail trends, providing greater breadth and depth to our retail and ecommerce forecasts, and offering a growing list of key performance indicators (KPIs) and benchmarks.

Key Retail Developments in 2020-2021



High-Level Trends Retailers Must Think About

The Retail Industry Saw Numerous Developments Since the Pandemic Began

Retailers have started embracing new opportunities and catering to consumer demands that have gained momentum since the beginning of 2020. Several developments kicked into high gear over the past 18 months.

No. 1. Purpose-Driven Brands Take Center Stage

This past year highlighted how important it is for brands to be conscious of social issues as they look to differentiate themselves and keep up with shifting consumer demands.

Being green is in fashion. A May 2021 Stifel and Morning Consult survey found that 71% of US adults ages 18 to 55 care more about product sustainability than they did a year ago. Sustainability can take on many meanings, ranging from recycled textiles and reusable packaging to delivery options that reduce carbon footprints. Green business practices run the gamut, but many are focused on these areas:

- **Reusable and sustainably sourced materials.** One of the most widespread initiatives is the drive by retailers to use more environmentally friendly materials. For example, American Eagle Outfitter's x Jeans Redesign collection focuses on recyclable, durable denim that's finished with water-saving methods. Crocs recently announced a goal to be a 100% vegan brand by the end of this year. West Elm Kids launched sustainably sourced bedding and furniture made from recycled, reclaimed, and responsibly harvested material.
- **Carbon footprint reduction.** Retailers and their partners are working hard to reduce their carbon emissions across the value chain—from production, to fulfillment, to store operations. For example, Amazon is investigating the production, use, and disposal of all its devices to shrink its carbon footprint; Mastercard's new carbon calculator allows bank clients to easily access information about the carbon impact of their purchases. Carbon labels are being added to products from food and beverage to beauty and electronics.
- **Reusable containers.** Packaging hurts the environment in two ways. Production consumes a lot of energy, water, and chemicals; packaging also accounts for disproportionate volume in landfills given that containers are not typically disposable. Several brands have adopted reusable packaging to help solve for environmental strain. Dove, for example, offers a stainless steel refillable deodorant case; numerous others like The Clorox Co. and Nestlé have partnered with TerraCycle's Loop for reusable containers. Kiehl's recently launched products in pouches that can be used on their own or to refill existing plastic bottles; the brand claims the initiative saves on average 80% more plastic than a typical single-use container.
- **Recyclable packages.** Manufacturers can also produce packaging out of recyclable materials or ensure it can be easily recycled. Several consumer packaged goods (CPG) companies are prioritizing this area. For example, Unilever has stated that it will cut the amount of virgin plastic used in packaging in half and ensure that 100% of plastic packaging is reusable,

recyclable, or compostable by 2025. Nestlé and General Mills similarly have goals of making all their packaging reusable or recyclable by 2025 and 2030, respectively.

- **Green business certification.** In addition to carbon footprint reduction, retailers are moving toward building business practices that do not harm the environment. Leadership in Energy and Environmental Design (LEED) store certifications are one step in the process. Starbucks, a leader in this area, intends to design, build, and operate 10,000 “Greener Stores” globally by 2025. Other certifications involve grading the way materials flow through the supply chain and society. Best Buy’s reverse logistics center in California, for example, has been certified as a zero waste facility.
- **Donations to environmental causes.** Many brands are weaving environmental concerns into their brand missions by donating to causes. Patagonia, one of the most lauded US apparel brands for its sustainability efforts, has long committed 1% of sales or 10% of profits to conservation. Many smaller, digitally native brands have included donations as part of their environmentally conscious businesses. Vegan beauty brand Ethique, for example, creates more sustainable, condensed haircare products and also donates 20% of its profits to nonprofits.

Consumer attitudes pushing for sustainability are stronger among younger generations, but awareness is rising for all. A majority (82%) of millennial internet users in the US surveyed by Compose[d] and MaCher said sustainability is important to them when shopping for clothes, beauty products, and travel experiences. Even 52% of baby boomer respondents agreed. While consumers’ values don’t always directly translate into behavior, it is clear that sustainability will remain a key focus area for consumers.

Inclusive practices are no longer just nice to have. In mid-2020, racial issues took center stage across the US as most of the population found themselves quarantined and spending a growing amount of time on social media. Consumers demanded change, and diversity and inclusion became top of mind as brands re-evaluated their roles in promoting social values.

Many brands and retailers took steps to be more inclusive. Initiatives that were underway pre-pandemic accelerated, including:

- **Supplier diversity programs:** Many retailers have or are developing vendor partnerships aimed at increasing diversity, equity, and inclusion in their suppliers. Initiatives like the 15 Percent Pledge were launched, which calls on major retailers to commit a minimum of 15% of their shelves to Black-owned businesses. Macy’s developed The Workshop at Macy’s, a

business boot camp developed 10 years ago designed to give minority- and women-owned businesses tools to succeed in the industry. In June 2021, Albertsons launched programs offering diverse-owned small businesses access to often difficult-to-attain working capital.

- **Diversity of sizing and models.** One of the biggest shifts in the fashion industry in recent years has been the arrival of extended sizing. Brands like Old Navy, Reformation, Madewell, Good American, and H&M have all taken steps in this direction. Others like Aerie, ModCloth, and M.M.LaFleur are also using models with various body types to showcase their products. Nike's advertising has featured inclusive products, such as its Nike Pro Hijab for Muslim female athletes and adaptive activewear for people with disabilities.
- **Inclusive marketing.** Retailers' and brands' marketing efforts are not limited to showcasing traditionally underrepresented groups. Tiffany & Co. portrayed same sex couples in its advertising years ago—in 2021, it took support a step further by launching the entire category of men's engagement rings. The Walt Disney Co. has a companywide strategy to accelerate inclusive marketing initiatives and align its internal culture with target customers. It partnered with #SeeHer and Free the Bid, two initiatives intended to create more opportunities for female advertising directors, and chose a female director for 64% of its commercials in 2020. CPGs have also been active in the space, with Procter & Gamble producing inclusive campaigns for brands such as Gillette, Tampax, and Tide.
- **Inclusive work environments.** Workplaces that welcome and value employees with all kinds of differences are not only moving the industry in the right direction, but also increase employee satisfaction and drive profit. The Estée Lauder Companies actively promotes that 55% of its executives at the vice president level and above are women. Apple, long a promoter of LGBT equality, has pledged to hire a more diverse workforce with nearly half its employees coming from underrepresented groups. By contrast, brands that took to Instagram last year to support a variety of global movements, such as Urban Outfitters and Salvatore Ferragamo, experienced backlash for the lack of attention to diversity and inclusion within their own organizations.

The bottom line is that consumers feel good when doing good and continue to shop from brands that align with their own beliefs. Marketers and brands should embrace social issues meaningfully and authentically: Consumers have a greater number of brands to choose from every year, and they can amplify their opinions through a growing number of social media platforms.

No. 2. Livestream Shopping Catches On in the US

Popularized in China, livestream ecommerce combines QVC-like shopping, game shows, talk shows, and auctions with the ability to chat and purchase in real time.

China’s livestream shopping market alone is bigger than every other country’s total ecommerce market—save two. Livestream shopping took off in China four to five years ago, but has developed into a \$300 billion industry this year, accounting for 11.7% of all retail ecommerce sales in the country. To put that in perspective, that figure makes the livestream shopping market in China larger than every other *entire retail ecommerce market* in the world, except for China and the US.

For more on this topic, read our recently published report, which focuses on Europe:

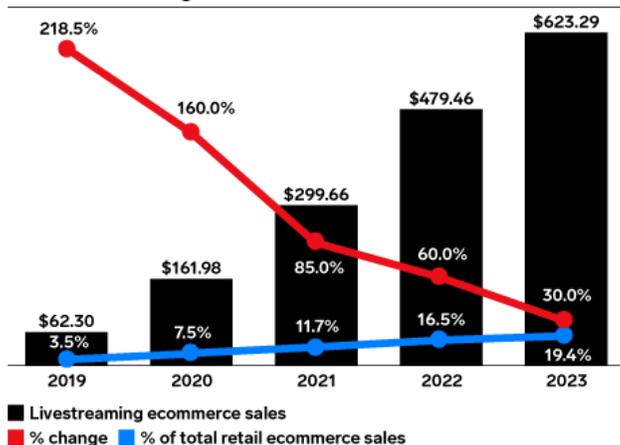
Report by Karin von Abrams Aug 02, 2021

Sustainability in Ecommerce 2021



Livestreaming Ecommerce Sales in China, 2019-2023

billions, % change, and % of total retail sales



Note: includes products or services ordered via online video streaming where the presenter demonstrates and discusses the offering and answers audience questions in real time; the livestream session can take place on an ecommerce website or on a social media platform; includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes virtual items gifted by viewers to livestream presenters, travel, and event tickets
Source: eMarketer, May 2021

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eMarketer | InsiderIntelligence.com

The phenomenon gained momentum in the US last year. In the US, livestreaming was just starting to make inroads when the pandemic hit, giving it a sudden boost. Brick-and-mortar stores temporarily closed down and consumers, quarantined at home, looked for new ways to entertain themselves and shop.

US brands are turning to partners for their livestream shopping initiatives. Livestreaming remains a relatively nascent shopping experience in the US. But smaller, more daring digitally native brands, and even well-established brands and retailers, are testing the waters. Most are partnering with one of four types of players:

- **Social media networks.** Many brands are using the massive existing audiences of social media networks and their expanding livestream offerings. Walmart's partnership with TikTok and Sephora's with Facebook are just two examples of this practice.
- **Newer livestream shopping apps.** A number of new apps have emerged that offer brands the opportunity to livestream on their platform. Brands like Diageo and Vans have partnered with LA-based Ntwrk; Ulta Beauty has worked with beauty-focused Supergreat.
- **Legacy home shopping networks.** Many established brands have long-standing relationships with legacy home shopping players like QVC or HSN (now both part of Qurate Retail Group). For example, Estée Lauder and Dyson sell through QVC. These legacy TV networks are well-established shopping platforms built around video; they enjoy high levels of brand

recognition. However, buyers on these platforms can skew older than those on digital platforms.

- **Amazon.** In 2019, Amazon launched Amazon Live, a series of concurrent livestreams where brands can showcase their products. Livestreams appear on Amazon product detail pages and on the Amazon Live homepage. However, Amazon Live hasn't gained serious traction, with even the featured livestream often attracting a few hundred shoppers at most.

Going it alone is also an option. Retailers such as Nordstrom have also launched their own livestream shopping channels. This approach allows retailers to retain complete control of the experience and tap into loyal shoppers. But it's difficult for retailers to get a large number of shoppers to tune in to livestreams. New channels like these have to be marketed to reach relevant shoppers.

Brands and retailers should choose a strategy based on their tech knowhow and target demographics. But they should bear in mind that the lines are blurring—even established brands like QVC are wooing younger customers with their digital-first initiatives.

No. 3. Grocery Ecommerce Expands

Much has been made of the surge in US grocery ecommerce buying—it jumped 63.9% from 2019 to 2020 and will climb another 12.3% to \$122.39 billion in 2021. But it will account for just 9.6% of total grocery sales this year, making it one of the few categories yet to reach double-digit ecommerce penetration. Is it therefore worth all the attention it receives?

For more on Livestreaming Commerce, see our recent report:

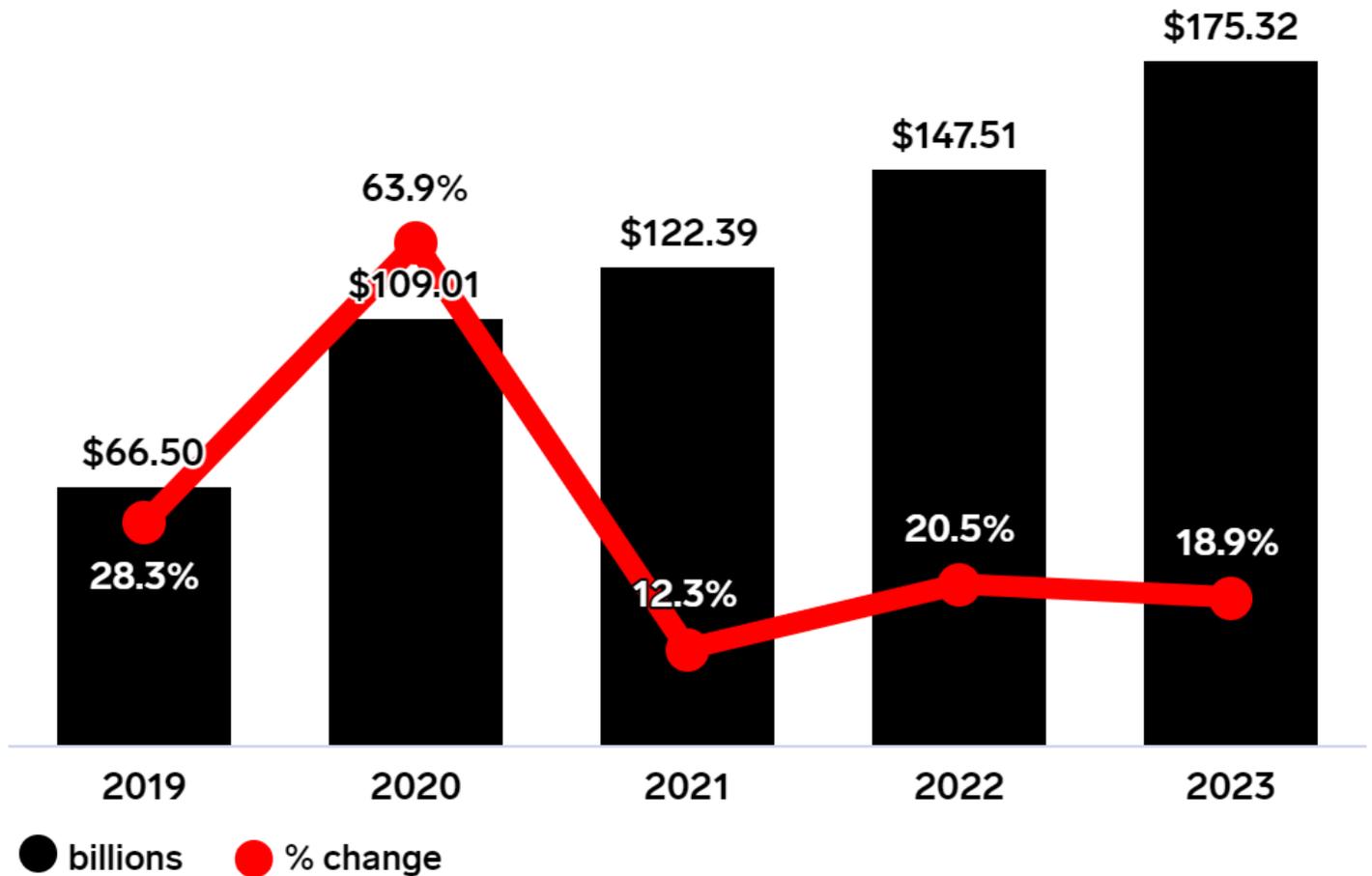
Report by Jasmine Enberg Jun 28, 2021

Social Commerce Forecasts 2021



Grocery Retail Ecommerce Sales

US, 2019-2023



Source: eMarketer, August 2021

eMarketer | [InsiderIntelligence.com](https://www.insiderintelligence.com)

In short, yes—grocery ecommerce is worth the hype. If anything, grocery’s “ecommerce moment” is underappreciated given how digitization will reshape grocery’s traditionally analog retail value chain. An industry once dominated by large CPG brands using demographic-targeted TV ads and tightly controlled distribution in physical stores is now heavily influenced by digitally native companies like Amazon, Instacart, and DoorDash.

Online grocery shopping is here to stay. While early pandemic panic buying has receded and some newly minted online grocery buyers will ultimately churn back to physical shopping, the

pandemic will have lasting effects on grocery ecommerce. The number of digital grocery buyers surged from 92.3 million in 2019 to 142.9 million in 2021, and we expect that figure to continue climbing. Online sales are not just coming from new buyers, either; many existing digital grocery shoppers will direct more of their budgets to ecommerce orders going forward. And with advances in fast delivery and click-and-collect capabilities, consumers' grocery choices will be driven not just by price but also by convenience.

But the economics of online grocery shopping remain challenging. There have been two primary arguments against grocery ecommerce: 1) Many consumers will want to touch and feel purchases like fresh produce prior to purchase, and 2) the economics just don't make sense. While the convenience of online orders will trump the more physical aspects of in-person grocery shopping, the financial challenges of grocery ecommerce remain as fulfillment costs eat into already razor-thin margins. Expect to see even more experimentation intended to make online grocery business models more viable, such as increased delivery fees (as Amazon recently did with Whole Foods Market deliveries for Prime members in certain markets), and the growth of retail media powered by shopper data.

The edge of grocery innovation is not in the US. China's intensely competitive digital grocery market, led by ecommerce innovator Alibaba and its Freshippo brand, offers clues to where things are headed. First-party data from grocery ecommerce transactions will become the foundation for new product research and development, mobile shopping and checkout experiences, direct-to-consumer (D2C) channel development, store digitization, and omnichannel logistics. Grocery ecommerce is also giving birth to the fast-rising retail media opportunity, which is quickly evolving beyond online search toward purchase-based targeting of digital display, video, and connected TV (CTV) ads.

Even though we expect that brick-and-mortar will still drive 83% of grocery sales in 2025, virtually everything about how consumer brands are created, marketed, merchandised, and sold by then will be digitally enabled.

These Recent Developments Showcase 4 Key Trends Every Brand and Retailer Must Consider

Purpose-driven brands, livestream shopping, and grocery ecommerce all gained momentum in 2020 and 2021—they are also all examples of one of four megatrends that will affect the industry going forward. To stay ahead of the curve, brands and retailers must develop strategies to address the following areas.

No. 1. Understanding innovation from China. China's retail and ecommerce market has historically been markedly different from other countries, particularly those outside Asia. But in the coming years, retail trends in every market will increasingly mirror those originating in China. It's critical for brands and retailers alike to be aware of the latest developments. One of our international clients recently told us their retail inspiration has shifted and now largely comes from China.

No. 2. Tapping into social commerce. Media and commerce are converging, and nowhere is this trend more prevalent than on leading social media platforms like Facebook, Pinterest, and TikTok, which are moving from inspiration to facilitating transactions. This year, US social network users will spend a daily average of 1 hour, 35 minutes on the platforms and will embrace shopping while there. We estimate that US retail social commerce sales will almost double between 2019 and 2021, reaching nearly \$40 billion this year.

No. 3. Evaluating a retail media strategy. Following Amazon's example with its surging ad business (Amazon's "Other" revenues, composed primarily of advertising, increased 87% year over year (YoY) to more than \$7.9 billion in its Q2 2021 earnings), marketplaces like Walmart, Instacart, eBay, and Etsy have already established meaningful high-margin digital ad businesses. And a wave of multichannel retailers like Target, Best Buy, Kroger, and The Home Depot are developing their own retail media networks. We forecast that US ecommerce channel advertising—a close proxy for retail media—will rise 27.8% this year to \$23.92 billion, as brands selling online tap the power of retailers' first-party data for performance advertising.

No. 4. Becoming more sustainable. Consumers have long sought authenticity and transparency from the brands they purchase, and 2020 reinforced how consumers and brands think about sustainability. Images of reduced pollution and restored wildlife resulting from the pandemic showed us the positive impact that less travel and consumption could have on the world. Climate change, too, has risen in importance. Rentals and resale have taken off as antidotes to fast fashion and as more environmentally conscious ways of looking good. Companies like thredUp, Poshmark, Tradesy, TheRealReal, and Depop are bringing resale to the masses. These companies are not only operating their own websites, but also partnering with retailers like Fabletics, Walmart, and JCPenney. And brands such as lululemon and REI have launched their own resale platforms to better control their brand experience aside from gaining extra revenue streams.

For more on the topic, stay tuned for our upcoming Digital Grocery 2021 report.

Register now for our September 2 webinar, “A New Era in Retail and Ecommerce Is Emerging,” in which our senior Retail & Ecommerce leaders will explore key interconnected themes that every retailer should be tracking.

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