

Brief: US Retail eCommerce: Readjust Continually To Combat Amazon

Highlights From The US Online Retail Forecast: 2016 To 2021

by Sucharita Mulpuru
August 22, 2016

Why Read This Brief

This brief, intended for eBusiness leaders, outlines the drivers of online retail sales growth in the US and the challenges the industry faces in the years to come. It updates Forrester's previously published US retail eCommerce forecast from April 2016.

Key Takeaways

Online Retail Will Vault To \$591 Billion By 2020

US online retail sales topped \$100 billion only in 2006, but by 2020, Forrester expects online retail sales will have grown almost sixfold, well over half a trillion dollars.

Amazon Drives A Significant Amount Of eCommerce Growth

We estimate that Amazon captured \$23 billion more in US eCommerce sales in 2015 than in 2014 (including its third-party marketplace). That figure accounts for approximately 51% of the total growth in US online sales in 2015.

A Strong Dollar Has Pros And Cons For eCommerce

American online consumers stand to benefit from shopping online with foreign merchants because goods are less expensive. By the same token, American online merchants that depend on foreign shoppers will experience a slowdown because US goods are more expensive abroad.

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August 22, 2016

Online Retail Sales Will Vault Past The Half-Trillion-Dollar Mark By 2020

Online retail sales continue on an upward trajectory, and we expect them to hit \$591 billion by 2020, constituting over 15% of total US retail sales that year. In 2016, Forrester expects online retail sales to total \$345 billion (see Figure 1). These sales continue to grow, thanks to:

- › **Better blocking and tackling by web merchants.** Customer-obsessed online retailers continue to optimize their businesses: Merchants surveyed in the January 2016 version of The State Of Retailing Online (SORO) stated that two of their top priorities in 2016 were online marketing and merchandising.¹ In fact, because initiatives like paid search are more expensive than ever, retailers noted that they were focusing on longstanding elements of retail success like customer relationship management (CRM), personalization, loyalty programs, and improved site content to drive more engagement with existing shoppers.²
- › **More omnichannel efforts.** Omnichannel efforts like endless aisle, ship-from-store, and in-store pickup programs have supported eCommerce by enabling merchants to transform slow-turning or “trapped” inventory into incremental sales. Omnichannel efforts are still a work in progress for many merchants, but we hear from merchants that these services improve customer satisfaction and directly facilitate faster delivery of products to shoppers.³ Already, more than 49% (or \$1.5 trillion) of total US retail sales are web-impacted, and omnichannel offers reduce costs and enable store merchants to compete with pure plays.⁴ Not surprisingly, omnichannel has been at the top of to-do lists since 2012 and continues to be a key priority for merchants.
- › **An improved US economy.** Given relatively low unemployment and steady consumer confidence, we expect consumer spending to be relatively steady in the coming year: The National Retail Federation (NRF) forecasts that retail industry sales will grow 3.1% in 2016, higher than the 10-year average of 2.7%.⁵ The web is a natural beneficiary of that lift because consumers find broader assortments online than in stores, often at favorable prices. Furthermore, the strong US dollar puts foreign web merchants in a strong position to acquire American cross-border shoppers looking for bargains abroad in markets like Canada.⁶

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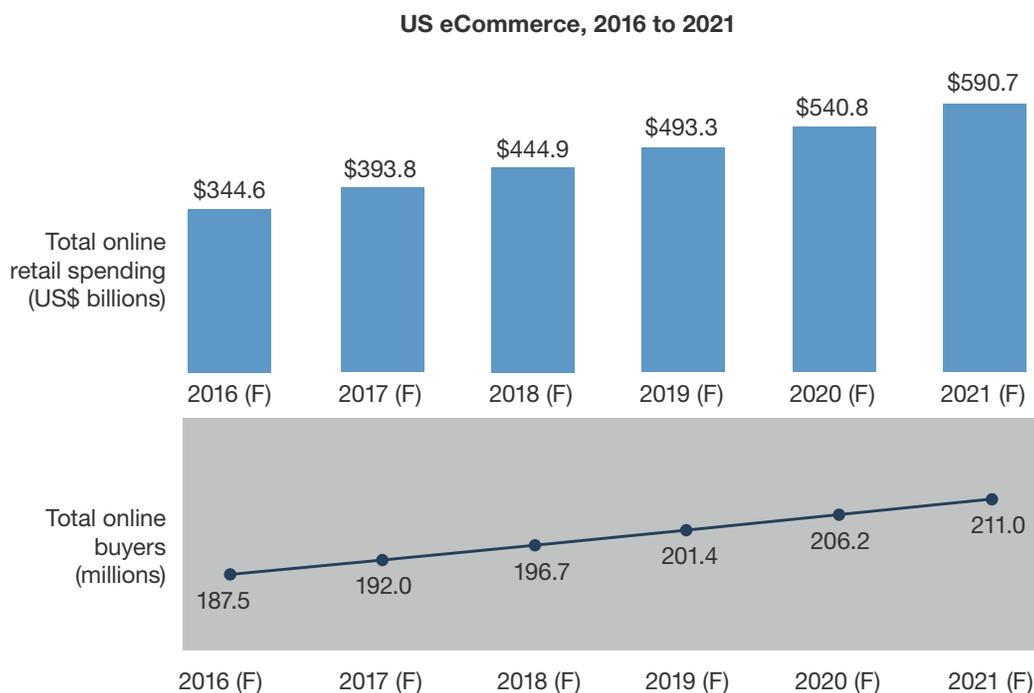
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- › **More growth from Amazon.** Of the total growth in eCommerce between 2014 and 2015, Amazon's US online retail business comprised 51%. Amazon makes up a larger percentage of eCommerce in the US than any other player, and its retail growth has outpaced overall online retail. Much of Amazon's revenue comes from its third-party marketplace and seller services, which we estimate to be 20% of its overall US retail revenue. We believe Amazon's retail revenue translates to about \$100 billion of gross merchandise value in 2015, compared with \$77 billion in 2014.⁷

FIGURE 1 Forecast: US eCommerce, 2016 To 2021

Source: Forrester Data Online Retail Forecast, 2016 To 2021 (US)

F = Forecast

Online Retailers Continue To Face Difficult Challenges

Although most eCommerce merchants continue to grow, many merchants face a number of obstacles that will continue to be challenges in the future, including:

- › **Mobile device usage.** According to Connexity's Bizrate Insights, 78% of consumers say they have been frustrated by purchasing on their mobile phones due to factors like the download time and size of the screen.⁸ Consumers are more likely to use their phones to research and purchase, but mobile is still largely a challenge, rather than a catalyst, for sales for most retailers. Why? The form factor means that direct conversion rates are low, and consumers just don't find it easy to buy most items on small phones.

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- › **Significant competition.** Amazon is a dominant force in online retail, but it is not the only merchant that is challenging traditional retailers. Numerous small merchants have emerged in recent years to compete with larger traditional retailers because online retail has virtually no barriers to entry. For example, Shopify and Magento are two eCommerce platforms that serve small businesses, and both companies assert that they have over 200,000 stores across virtually every retail sector. Shopify reported 105% growth in gross merchandise value of its merchants in 2015 over 2014.⁹
- › **Increased costs of doing business.** As eCommerce has grown, variable costs have also increased, particularly in the heated race to acquire customers. In particular, customers expect packages to arrive faster, so any economies of scale that may have come from volume discounts from carriers quickly vanish when retailers must pay to expedite orders. In early 2016, Nordstrom illustrated the challenges of customer acquisition costs when it announced that it would not grow technology spend for the year because expenses weren't delivering enough profitable revenue for the company.¹⁰
- › **A weaker global economy.** American merchants with strong cross-border offerings receive double-digit percentages of their online sales from foreign shoppers, but a stronger US dollar makes shopping more expensive for foreigners. While the economic situation in the US is relatively strong, the rest of the world (particularly Brazil, China, the UK, and Europe) is more economically vulnerable. According to Forrester's Asia Pacific Consumer Technographics® Retail Survey, 2015, 40% of online adults in a market such as metropolitan China say they order from abroad. The increases in US export prices could hamper that figure in the future.¹¹

Recommendations

Investment Is Inevitable To Gain Share, Even In A Growing Market

Online sales continue to grow, but merchants will need to work hard to maintain share. Amazon is growing rapidly, and the cost of delivering packages is higher than ever. To win in the years ahead, retail eBusiness executives must:

- › **Find unique products.** The future death knell for a retailer will be dependence on broadly available mass-market commodities as firms like Amazon and other pure plays win all price wars for those products. eBusiness professionals must avoid commodities where possible and instead invest in private-label merchandise. Even better, they should secure unique access to categories or products that can serve as levers that enable some flexibility in pricing. Vertically integrated brands are best positioned in this competitive environment, assuming their product development efforts are strong and agile.
- › **Figure out if they are failing where they shouldn't be.** While many firms now have innovation teams, few companies have been able to scale interesting ideas. For example, third-party marketplaces are critical to the success of Amazon and eBay, yet few brick-and-mortar merchants

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have been able to replicate that success, even though many of the biggest ones, like Best Buy and Barnes & Noble, have tried.¹² Failure is usually the result of some shortcoming in culture, organization, or technology. Forrester's toolkit for digital transformation helps firms understand where their weaknesses are and what steps an eBusiness should take to course-correct to transition from a siloed organization to a truly agile one.¹³

- › **Reinvent themselves.** The economics of retail are challenging and destined to remain low-margin for the foreseeable future. While a category like apparel won't be made obsolete by digital solutions, pricing pressure will continue to weigh on the sector, particularly as companies like Amazon invest in private-label apparel products. Companies that find new ways to monetize their businesses, through advertising or other adjacencies, will be better positioned than those that don't.

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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. Our The State Of Retailing Online survey was fielded by Bizrate Insights, a division of Connexity, in September and October 2015. The survey resulted in 195 complete and partial responses from North American retailers (US and Canada) across a variety of industries, including apparel, footwear, general merchandise, home furnishings, and personal care.

Sixty-eight percent of the participating companies were multichannel retailers, with 45% primarily online-based multichannel retailers (more than 50% of sales online) and 23% store-based multichannel retailers (more than 50% of sales from physical stores). Twenty-four percent were pure-play retailers, 4% were manufacturers selling direct to consumers, and another 4% were primarily catalog-based multichannel retailers.

Two percent of respondents generated \$1 billion or more in direct sales from their web channels in 2015, 11% generated more than \$100 million, 21% generated \$25 million to \$100 million, and 56% generated less than \$25 million.

Fifty-two percent of respondents have been selling online for more than 10 years, 30% have been selling online for four to 10 years, and 17% have been selling online for fewer than four years.

Forrester conducted the Asia Pacific Consumer Technographics Retail Survey, 2015, as an online survey fielded in July 2015 of 9,000 individuals in Australia, Japan, South Korea, metropolitan China (cities of Beijing, Chengdu, Dalian, Guangzhou, Nanjing, Ningbo, Shanghai, Shenyang, Suzhou, Wuhan, Wuxi, and Xian), and metropolitan India (cities of Ahmedabad, Bangalore, Chennai, Hyderabad, Jaipur, Kolkata, Mumbai, New Delhi, and Pune). All individuals surveyed go online at least once per week. The data was weighted by age, gender, and geographical distribution to be representative of the adult online population (defined as those online weekly or more often) within each country. The data from metropolitan China was also weighted by income level in the cities of Beijing, Chengdu, Guangzhou, Nanjing, Shanghai, Shenyang, Wuhan, and Xian. The data from metropolitan India was also weighted by socioeconomic classification, representing groups A and B. For results based on a randomly chosen sample of this size (N = 9,000), there is 95% confidence that the results fall within a range of statistical precision of plus or minus 1.03% of what results would be if each country's entire population of online individuals ages 18 and older within the parameters specified above had been surveyed. The survey sample size, when weighted, was 9,000. (Note: Weighted sample sizes can be different from the actual number of respondents to account for individuals generally underrepresented in online panels.) Please note that respondents who participate in online surveys generally have more experience with the internet and feel more comfortable transacting online.

As part of the forecast modeling, Forrester develops comprehensive historical and base-year market size estimates based on a variety of sources, including public financial documents, executive interviews, Forrester's proprietary primary consumer and executive research, and analysis of the

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Internet traffic database. All of Forrester's forecasts are designed by a dedicated team of forecasting analysts who build the models, conduct extensive industry research, and manage the process of formally building consensus among Forrester's analysts. Forecast analysts have backgrounds in investment banking, management consulting, and market research, where they developed extensive experience with industry and company forecasting. The Bizrate Insights Mobile Tracker data was collected between January 25, 2016, and January 31, 2016, via an online survey presented immediately after completing a purchase at one of over 5,000 eCommerce retailers in the US network of the Bizrate customer feedback program. Retailer participation in the Bizrate customer feedback program is free. Bizrate and Bizrate Insights are divisions of Connexity (formerly Shopzilla).

Endnotes

¹ Produced annually in partnership between Shop.org and Forrester Research, The State of Retailing Online (SORO) is highly anticipated research that brings details of all aspects of eCommerce to the digital retail community. Please read the Survey Methodology for additional details.

² For an overview of the key metrics and business objectives for online retailers in 2015 and a look forward at 2016 investments, see the "[The State Of Retailing Online 2016: Key Metrics, Business Objectives, And Mobile](#)" Forrester report.

³ For best practices on how to operate a profitable omnichannel fulfillment program today and in the future, see the "[Build A Profitable Omnichannel Fulfillment Program](#)" Forrester report.

⁴ For an overview on omnichannel retail and how to successfully implement an omnichannel strategy, see the "[Mastering The Art Of Omnichannel Retailing](#)" Forrester report.

For an evaluation of the current state of web-influenced sales in the US and the factors that will drive growth through 2020, see the "[Brief: Digital Touchpoint Investments Significantly Influence US Retail Sales](#)" Forrester report.

Source: Forrester Research Web-Influenced Retail Sales Forecast, 2015 To 2020 (US).

⁵ Economists generally expect that consumer spending, while slightly weaker than 2015, should remain relatively strong. Wells Fargo predicts that there should be a 2.8% rise in personal consumption expenditures in 2016. Source: "2016 Annual Economic Outlook," Wells Fargo Securities, December 9, 2015 (<https://www08.wellsfargomedia.com/assets/pdf/commercial/insights/economics/annual-economic-outlook/economic-outlook-report-2016.pdf>).

Source: Treacy Reynolds, "NRF forecasts retail sales to grow 3.1 percent in 2016," National Retail Federation, February 10, 2016 (<https://nrf.com/news/nrf-forecasts-retail-sales-grow-31-percent-2016>).

⁶ PayPal reports that US shoppers' spending on Canadian websites rose 20% in 2015. This has occurred as the Canadian "loonie" has fallen 18% versus the US dollar. Source: Gerrit De Vynck and Jing Cao, "U.S. Shoppers Heeding Loonie's Call Flock to Canada's Websites," Bloomberg Technology, March 2, 2016 (<http://www.bloomberg.com/news/articles/2016-03-02/u-s-shoppers-heeding-loonie-s-call-flock-to-canada-s-websites>).

⁷ These estimates come from Forrester's internal eBusiness estimates based on assumptions from Amazon's annual SEC filings.

⁸ The Bizrate Insights Mobile Tracker uses device data collected via the Bizrate Insights survey platform from invitations offered to online buyers immediately after purchasing from the Bizrate Insights network of over 5,000 eCommerce retailers in the US and Canada. Source: Connexity's Bizrate Insights Mobile Tracker, January 2016.

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⁹ Source: “Shopify Announces Fourth-Quarter and Full-Year 2015 Financial Results,” Shopify press release, February 17, 2016 (<https://investors.shopify.com/Investor-News-Details/2016/Shopify-Announces-Fourth-Quarter-and-Full-Year-2015-Financial-Results/default.aspx>).

¹⁰ Source: “Q4 2015 Nordstrom Earnings Conference Call,” Nordstrom, February 18, 2016 (<http://edge.media-server.com/m/p/7ivry9gx/lan/en>).

¹¹ Source: Forrester’s Asia Pacific Consumer Technographics Retail Survey, 2015.

¹² For further insights on this topic, please see the “[Case Study: How GameStop Is Fighting Disruption](#)” Forrester report.

¹³ Read the digital business transformation playbook for a phased overview of how to transform to a digital business. Begin with the Executive Overview chapter. See the “[Digitize Your Business Strategy](#)” Forrester report.

For an overview of the fundamental reset of day-to-day operations required to drive customer obsession, see the “[The Operating Model For Customer Obsession](#)” Forrester report.

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