The Amazon Effect

HOW RETAILERS ARE ADAPTING THEIR BUSINESSES TO BETTER COMPETE WITH THE INDUSTRY LEADER

TotalRetail IBM NAPCO MEDIA

Gartner names IBM a leader for Digital Commerce solutions

Gartner has recognized IBM as a leader among Digital Commerce platform providers for several reasons, including the ability to support B2C and B2B business models and for Machine-learning integration.

See the complete evaluation along with insight to digital commerce market dynamics and guidance for evaluating technology providers.

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EXECUTIVE SUMMARY

2017 hasn't been kind to traditional brick-and-mortar retailers. From bankruptcy filings to store closures to companies going out of business, the first half of the year has analysts talking about the "death of retail." The common thread between all of these is that consumers' shopping behaviors have changed. Today's consumers are increasingly digital-first. Fewer consumers are choosing to shop — and make purchases — in-store, opting instead for their phones, tablets, laptops and desktops.

At the center of this digital shopping transformation is Amazon.com. The online retailer continues to exert its influence on the retail industry. From its online marketplace to newly opened brick-and-mortar stores to web and fulfillment services, Amazon is a force to be reckoned with. Consider the following:

- Amazon accounted for more than half (53 percent) of all U.S. e-commerce growth in 2016 (Slice Intelligence).
- 55 percent of consumers start their product searches on Amazon, more than any other channel, including Google (BloomReach).
- Amazon's market value at the end of 2016 ($355.9 billion) was larger than the next eight brick-and-mortar retailers — Wal-Mart, Target, Best Buy, Macy's, Kohl's, Nordstrom, J.C. Penney, Sears — combined ($297.8 billion) (Yahoo Finance).
- Amazon moves nearly six times as much e-commerce merchandise as the eight biggest brick-and-mortar retailers — Wal-Mart, Target, Best Buy, Nordstrom, Home Depot, Macy's, Kohl's, Costco — combined (RW Baird).

Pretty impressive, right? Amazon is disrupting the retail industry, both online and offline, and its influence only continues to grow. The question is, how do retailers not only compete with Amazon, but also beat it?

KEY FINDINGS

61% **of respondents believe Amazon has significantly increased its position in the marketplace during the past two years.**

34% **of respondents' e-commerce sales have increased by 5 percent or more in the last two years.**

17% **of respondents' brick-and-mortar sales have decreased by 5 percent or more in the last two years.**

45% **of respondents believe their brick-and-mortar stores offer a competitive advantage vs. Amazon.**

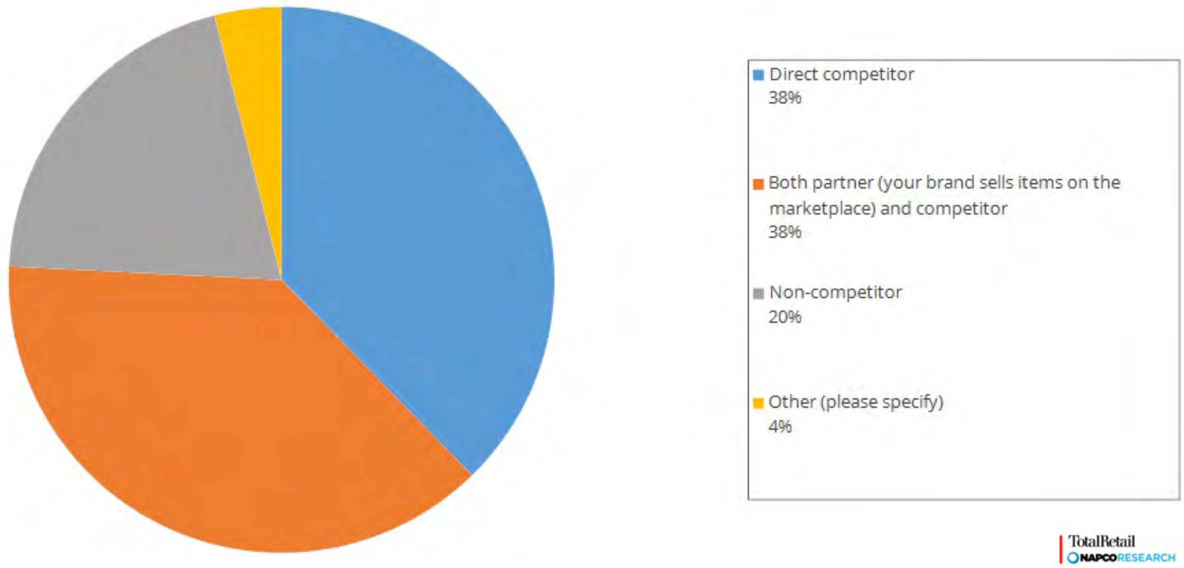
To find the answers — there's going to need to be more than one — Total Retail surveyed its audience in June. We wanted to know the ways in which Amazon was impacting their businesses, what technologies and innovations they've "stolen" from Amazon, and if their technology spending has changed as a result of what Amazon is doing.

We focused the questions on particular areas of strength for Amazon, including customer experience, personalization, and order delivery. The data we got back both confirmed some hypotheses we held going in (e.g., retailers believe Amazon has completely changed consumers' expectations for order delivery, from speed to cost) as well as offered some surprises (e.g., the majority of retailers haven't increased their spending on personalization/customer experience technology in the last two years).

Use this report as a research tool to give you insights into how the retail industry views Amazon's position in the marketplace, as well as identify growth opportunities for your business. Take a cue from Amazon and become an industry disrupter in your own right.

CHART 1

How Retailers View Amazon's Position in the Marketplace Relative to Their Business

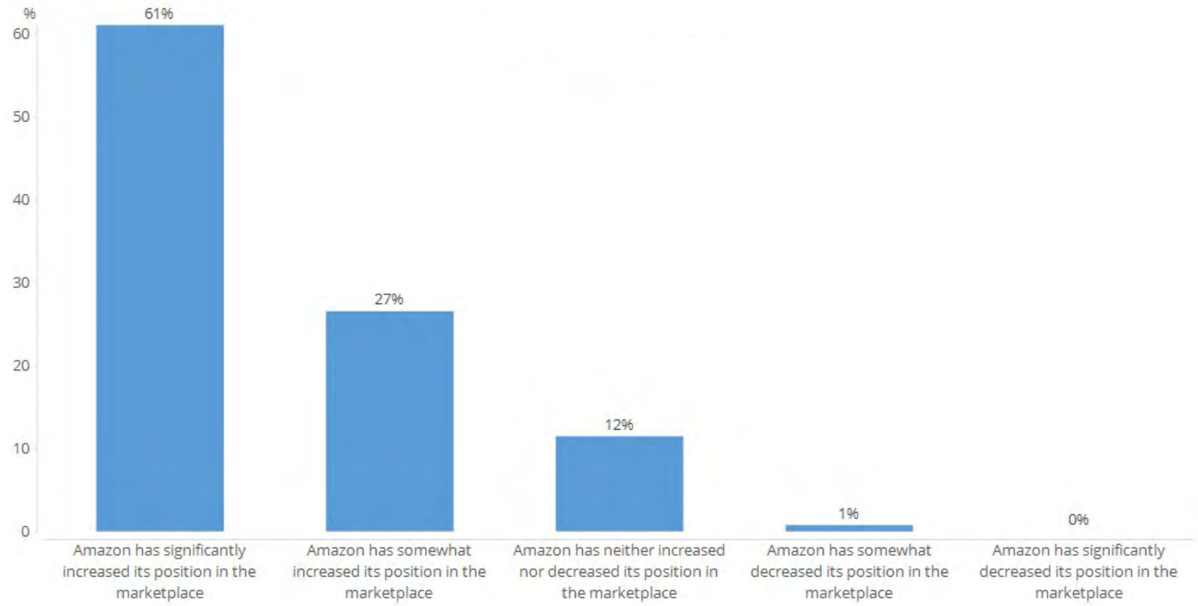


With Amazon making daily headlines, you would think every retailer feels directly in competition with it. However, results from our survey show differently.

While 38 percent retailers consider the online Goliath to be a direct competitor, an equal 38 percent choose to partner with Amazon (sell products on its marketplace). What was surprising is 20 percent of retailers polled found Amazon to be a non-competitor. With all of Amazon's recent acquisitions, most recently the acquisition of Whole Foods, it has grown its product reach into what seems every vertical. It's hard to imagine that 20 percent of retailers still don't consider Amazon to be a competitor to their business. If you're selling products online (and now even in brick-and-mortar stores for certain categories such as food and books), don't you have to be wary of Amazon?

CHART 2

Retailers' Perceptions of Amazon's Penetration Into Their Markets During the Past 2 Years

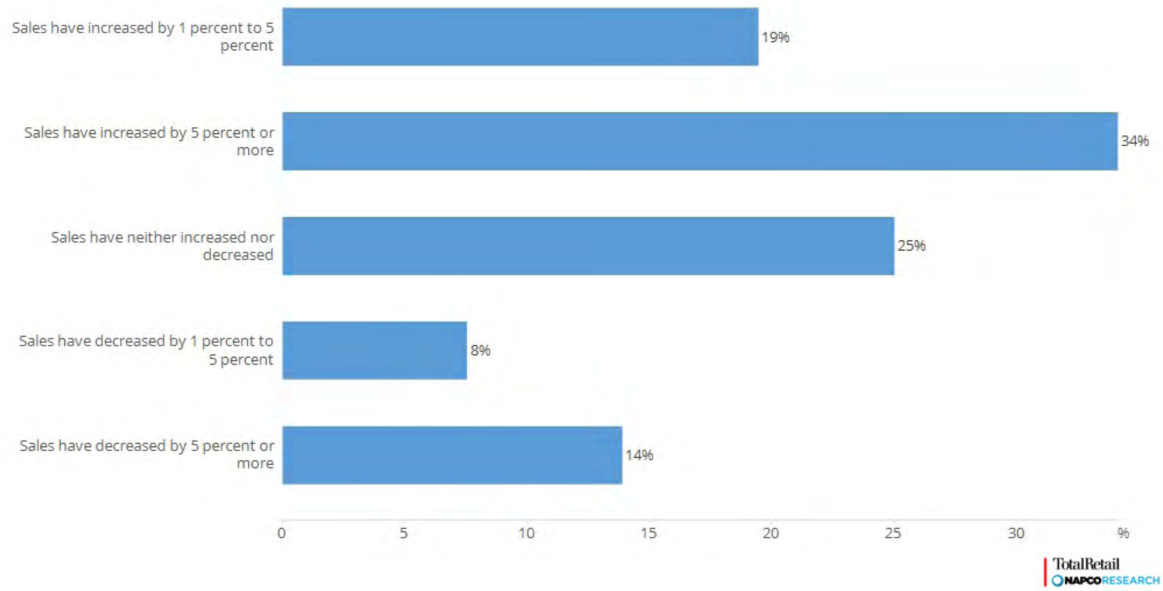


TotalRetail NAPCO RESEARCH

Retailers agree that Amazon's influence on the industry has been dramatic, to say the least. The chart above shows 61 percent of retailers think Amazon has significantly increased its position in the marketplace in the past two years, and 27 percent of retailers believe it has somewhat increased its position in the marketplace over the last two years. As mentioned earlier, Amazon's recent acquisitions, ranging from apparel, grocery and gaming, have put it in a strong position to grow and gain market share in various verticals.

CHART 3

How Retailers' E-Commerce Sales Have Trended in the Last 2 Years

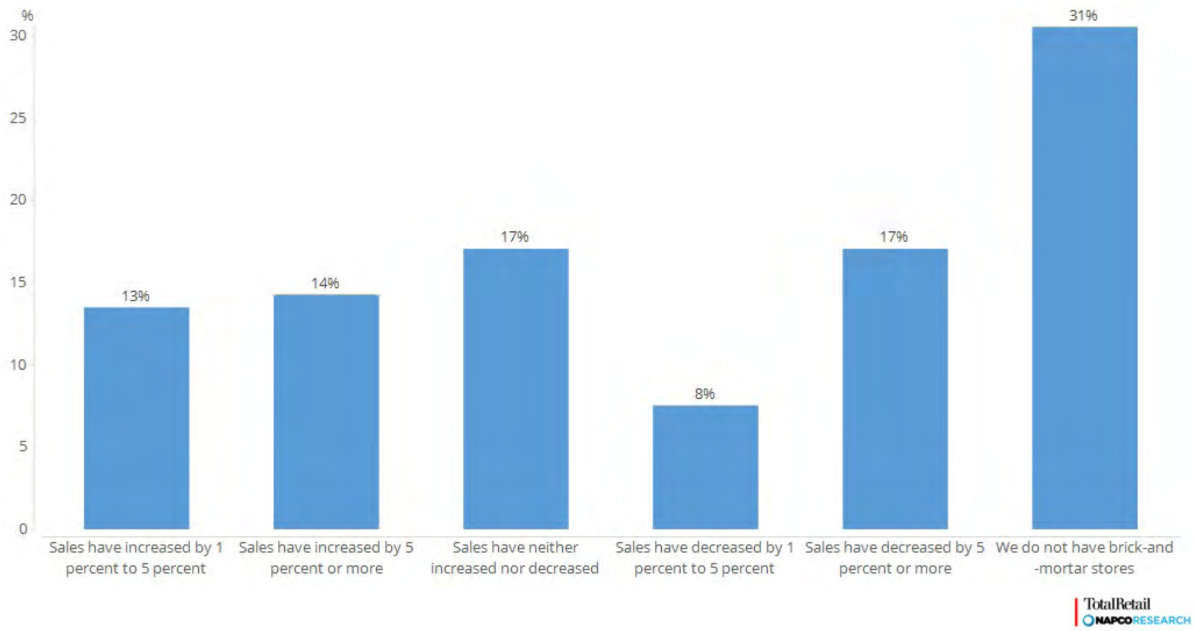


More than a third of retailers surveyed (34 percent) said their e-commerce sales have increased by 5 percent or more over the last two years. While much attention has been paid to the recent struggles of traditional brick-and-mortar brands, highlighted by bankruptcy filings and store closures, perhaps not enough has been written about the growth of their online businesses. Consumers are increasingly shopping online, including via mobile, and this chart proves that point.

Conversely, 22 percent of retailers have seen their e-commerce sales decrease over the last two years. There could be a number of factors at play here, but one that's most certainly part of the mix is the increasing influence of Amazon when consumers go online to shop.

CHART 4

How Retailers' Brick-and-Mortar Sales Have Trended in the Last 2 Years



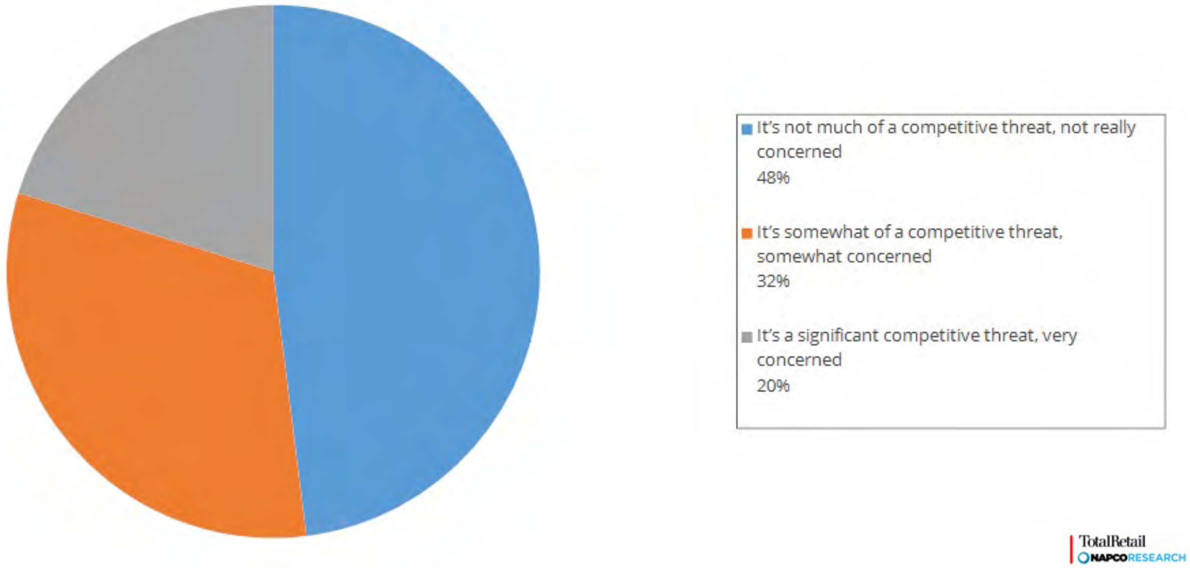
While 31 percent of respondents said they don't have brick-and-mortar stores (perhaps a sign of brick-and-mortar's troubles), 17 percent of retailers that do said in-store sales have decreased by 5 percent or more over the last two years. Another 8 percent said their brick-and-mortar sales have decreased by 1 percent to 5 percent in the last two years. In general, today's consumer likes the ease of shopping online via mobile, tablet or desktop whenever it's convenient for them.

In 2017, there have already been multiple retailers that have filed for bankruptcy (Gordmans, hhgregg, Gander Mountain), gone out of business altogether (The Limited, Wet Seal) or announced store closures (Macy's, J.C. Penney, Sears, bebe, Ascena Retail Group), in part due to changing consumer behaviors. Retailers will need to take a closer look at the role of the brick-and-mortar store going forward, and how it can be an asset to be better serve today's omnichannel shoppers.

However, it's not all gloom and doom for brick-and-mortar retailers. Twenty-seven percent of respondents report their brick-and-mortar sales have increased in the last two years, with 14 percent posting sales gains of 5 percent or more.

CHART 5

Are Retailers Concerned About Amazon Opening its Own Stores?

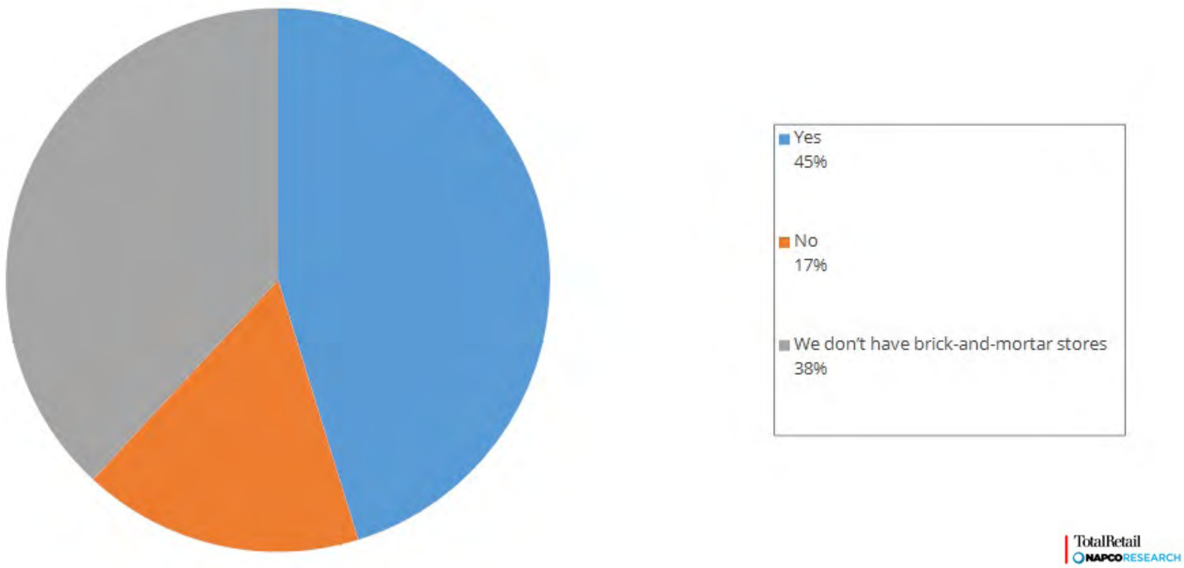


Amazon has begun opening its own physical stores, so we wanted to know if this development had retailers nervous. As of right now, it doesn't appear that they are. Of the retailers surveyed, only 20 percent believe Amazon opening its own stores is a significant competitive threat. Nearly half of the respondents (48 percent) said they don't believe Amazon opening stores constitutes much of a competitive threat to their businesses, while 32 percent believe it's only somewhat of a competitive threat. (Note: this survey was taken before it was announced that Amazon had acquired Whole Foods.)

With Amazon apparently committed to growing its brick-and-mortar presence, I have a feeling these numbers could change in a short period of time. Much like online retail, Amazon isn't merely looking to compete; it's looking to dominate.

CHART 6

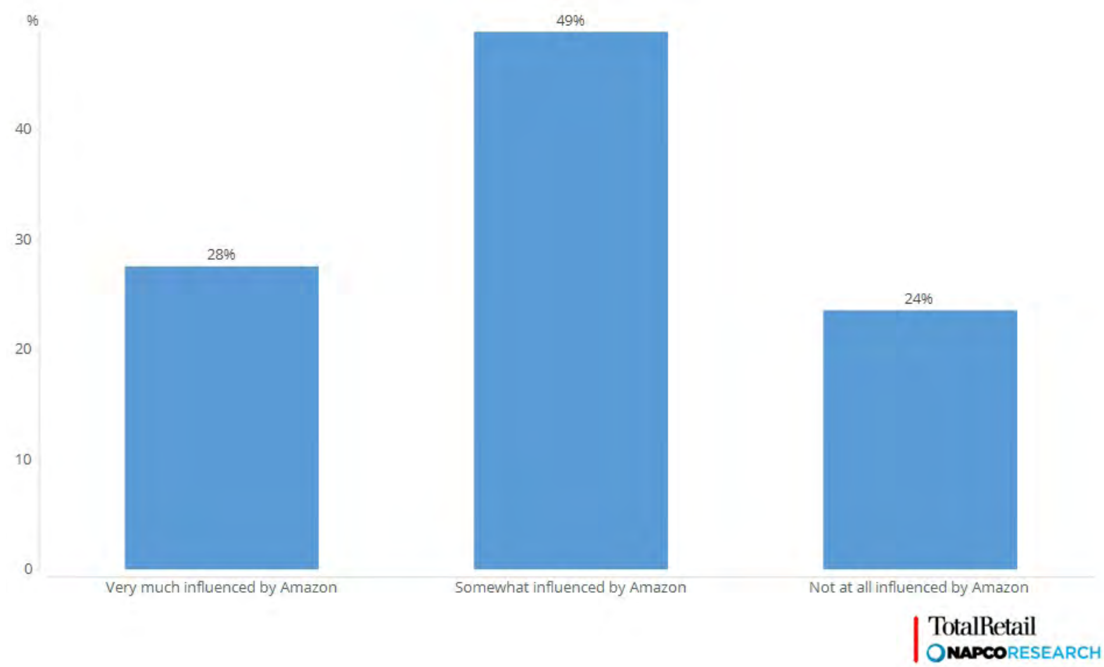
Do Retailers Believe Their Stores Offer a Competitive Advantage vs. Amazon?



Taking on Amazon can be a daunting challenge, however, many of our respondents feel they have an unlikely advantage: their brick-and-mortar stores. Nearly half of the retailers surveyed (45 percent) feel their stores offer a competitive advantage against Amazon. If leveraged correctly, retail stores can provide the physical experiences consumers are looking for as well as the personalized service they've come to expect, while still being integrated with digital operations, from in-store apps to increased fulfillment options (ship from store; buy online, pick up in-store).

CHART 7

Are Retailers' Online Customer Experiences Infuenced by Amazon

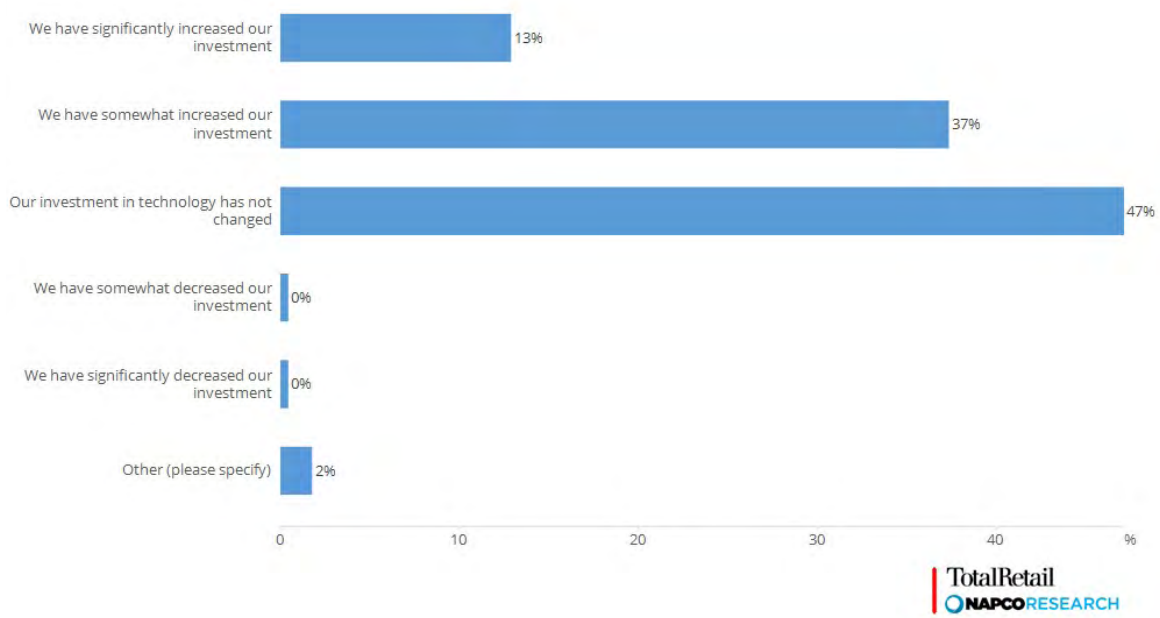


More than three-quarters of respondents (77 percent) said that their online customer experiences have been influenced by what Amazon has done in this area. Amazon has long been recognized as an innovator when it comes to the online shopping experience, whether it be offering detailed product pages, personalized product recommendations, simple checkout or fast (and sometimes free) shipping.

Consumers have now come to expect that type of personalized experience on every e-commerce site they visit. Therefore, retailers are increasingly looking to see what they can "steal smart" from Amazon and implement on their own websites.

CHART 8

Are Retailers Spending More on Personalization and Customer Experience as a Result of Amazon?

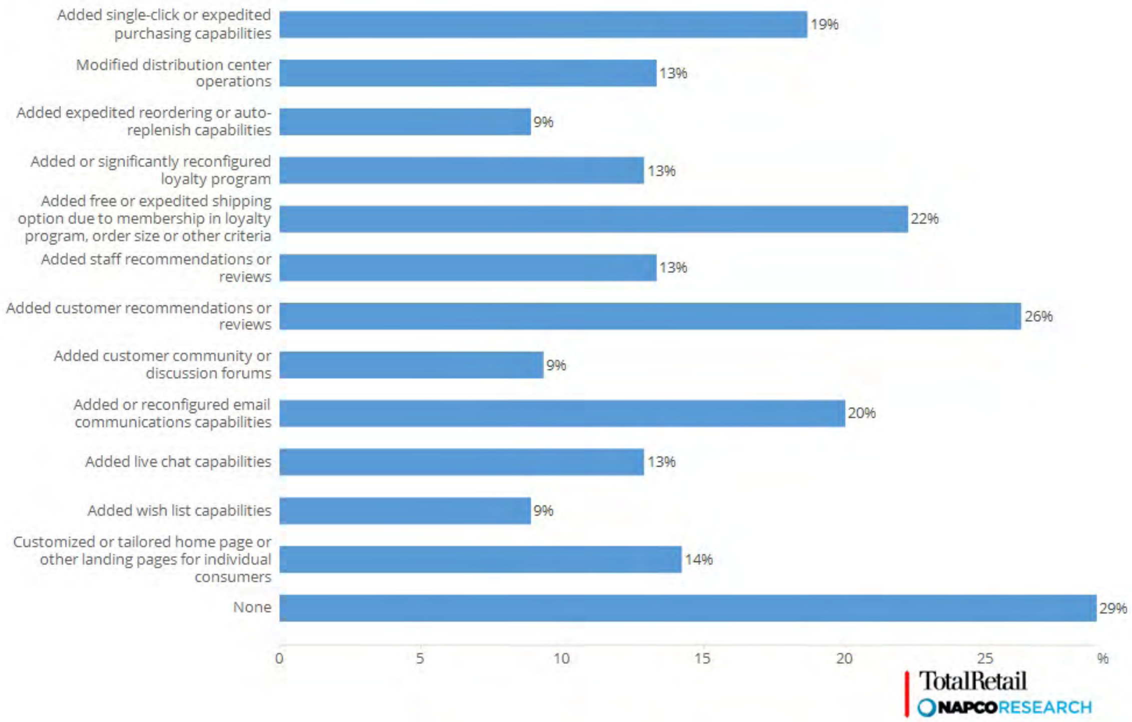


Forty-seven percent of retailers surveyed say they haven't changed their technology spend on personalization and customer experience tools as a result of Amazon, which is surprising considering the level of success the online retailer has enjoyed. Amazon thrives in part because of the personalized experiences it gives customers throughout their purchase journeys.

Overall, 50 percent of respondents said they have either somewhat or significantly increased their spending on personalization and customer experience technology as a result of Amazon. Thirty-seven percent of respondents report that they are "somewhat" increasing their tech spend, and 13 percent say they are "significantly" increasing their tech spend. I expect to see these numbers rise as retailers position themselves to better compete with Amazon.

CHART 9

Technology Upgrades to Compete With Amazon



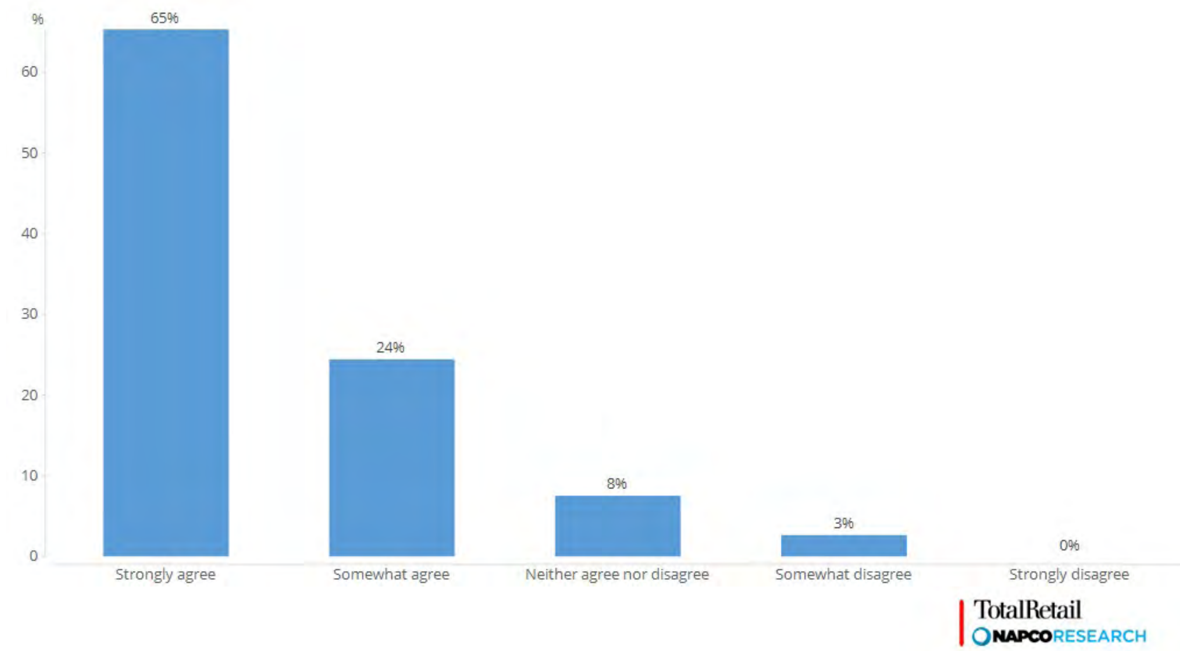
As retailers know, a large portion of Amazon's success can be credited to its many innovations. Amazon offers its customers a completely personalized shopping experience. To keep pace with the leader, retailers have started to implement new technology capabilities into their own digital touchpoints.

In the chart above, you can see that 26 percent of retailers surveyed have added customer recommendations and reviews in the past two years. Amazon offers its shoppers tons of product reviews — straight from people who have already purchased. This is particularly important, as consumers are significantly more likely to trust another customer than they are to trust the retailer itself.

Consumers trust product ratings and reviews, and are more likely to purchase from websites with them. Those retailers surveyed that are implementing this technology to their websites will be in a much better position to compete with Amazon.

CHART 10

Retailers Believe Consumers' Expectations for Order Delivery Have Changed Because of Amazon



Nearly 90 percent of respondents "somewhat agree" or "strongly agree" that Amazon has changed consumers' expectations for order delivery.

Amazon offers free two-day shipping to its Prime members (no minimum order required). For Amazon orders over $25, shoppers get free shipping. Other big-box stores, including Wal-Mart and Target, have started to offer similar promotions.

Amazon has conditioned consumers to expect expedited, free delivery, and retailers are clearly feeling those effects.

CHART 11

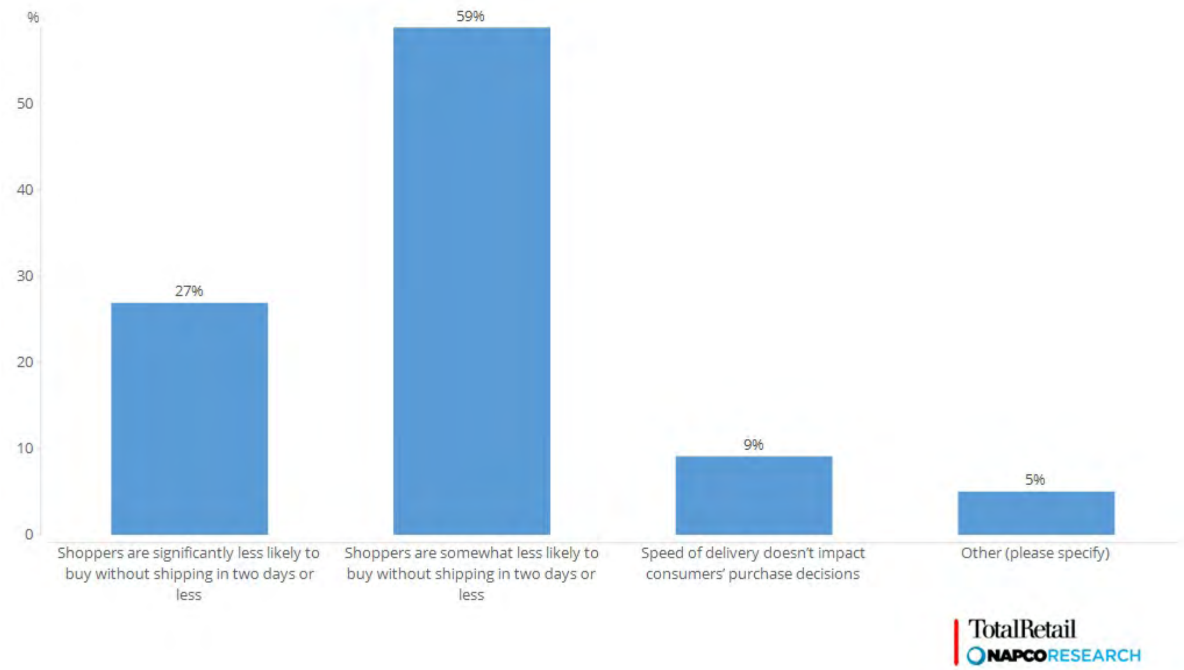
How Retailers View Free Shipping's Impact on Consumers' Purchase Decisions

As stated above, retailers are feeling the effects of Amazon's customer-friendly shipping policies. More than 90 percent (91 percent) of respondents say that shoppers are "significantly less likely" or "somewhat less likely" to buy without free shipping.

Retailers are now being forced in many cases to offer free shipping to customers, and that's directly impacting their bottom lines — and not in a good way.

CHART 12

How Amazon's Fast Delivery Impacts Consumers' Purchase Decisions

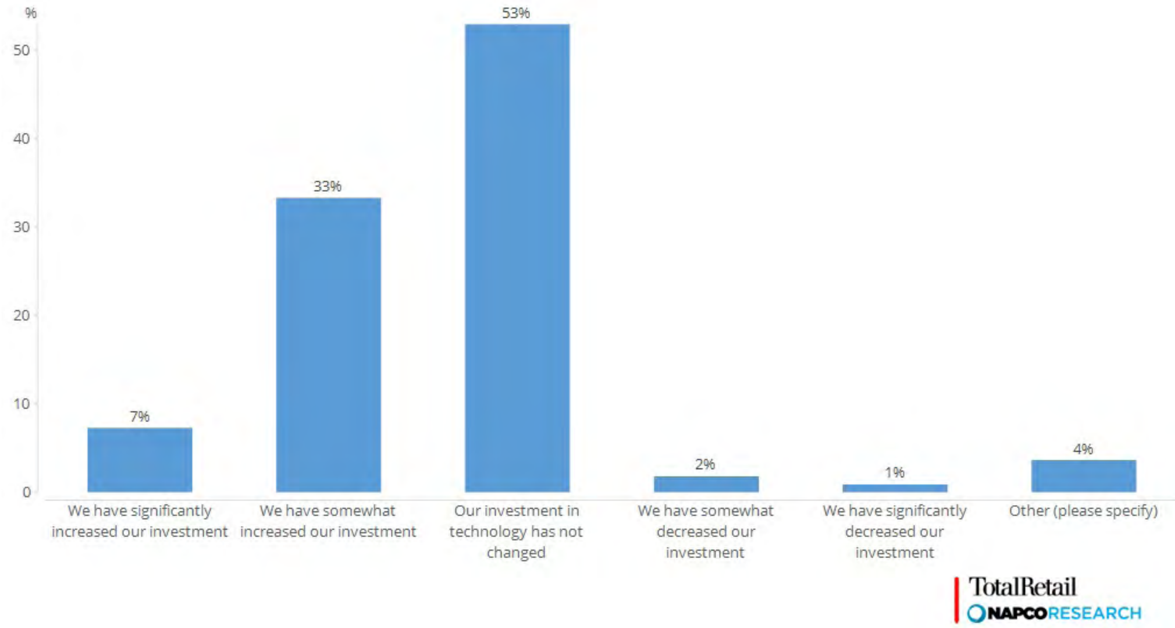


Much like the chart above it, which analyzes the impact of free shipping on consumers' purchasing decisions, Chart 12 dissects retailers' views on how the speed of delivery affects consumers' purchase decisions. While Chart 11 reveals that retailers strongly believe shipping costs affect consumers' decisions to buy, this chart shows that retailers don't believe delivery speed has as big of an impact on shoppers' decisions.

Fifty-nine percent of respondents say that shoppers are "somewhat less likely" to buy a product without it shipping in two day or less. Offering customers expedited delivery is often an expensive proposition for retailers, especially if it's paired with free shipping. Retailers need to determine if the cost of expedited shipping (two days or less) is worth the potential margin hit. If it is, and this will largely depend on customer lifetime value, retailers must work to get packages shipped at Amazon speed.

CHART 13

Are Retailers Spending More on Order Fulfillment and Delivery Technology as a Result of Amazon?

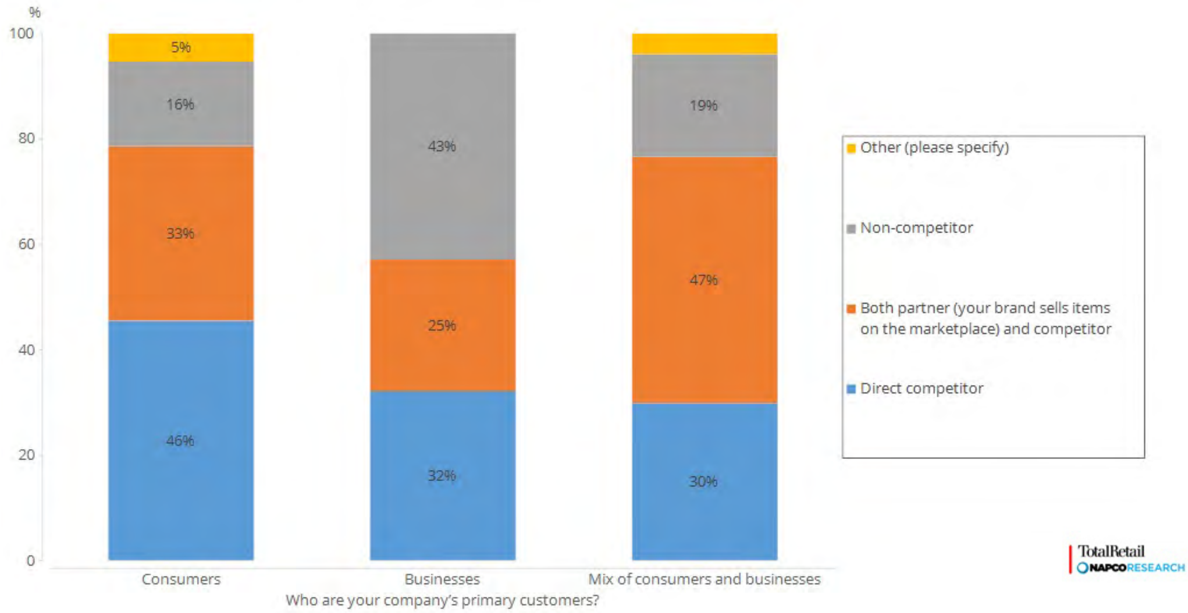


Although 89 percent of respondents say that Amazon has changed consumers' expectations for order delivery (they want their items ASAP), more than half (53 percent) haven't adjusted their technology spending on order fulfillment and delivery. The encouraging sign is that 40 percent of retailers are either somewhat or significantly increasing their investment in this area, leaving just 3 percent that are either somewhat or significantly decreasing their investment to lag behind.

Investments in technology throughout the purchase journey, from product discovery to post-purchase, are needed to keep up with Amazon. Over the next few years, the number of respondents increasing spending on technology for order fulfillment and delivery should grow.

CHART 14

How B-to-B and B-to-C Retailers Differ on Their View of Amazon



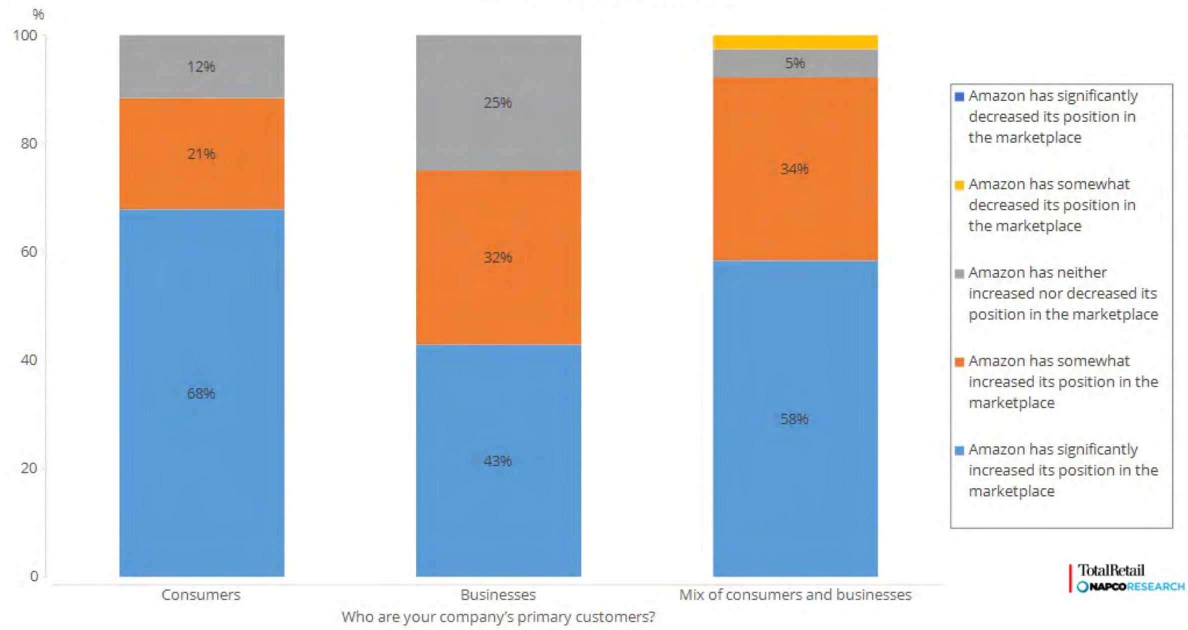
It's clear from this chart that more B-to-C businesses believe that Amazon is a direct competitor than do their B-to-B counterparts — and that definitely makes sense. Almost half (46 percent) of B-to-C respondents say that Amazon is a direct competitor, compared to 32 percent of B-to-B businesses and 30 percent of retailers that listed their primary customers as a mix of consumers and businesses.

Many big-box, B-to-C retailers with nationwide brick-and-mortar store networks are making these feelings known by waging war with Amazon on everything from product pricing to delivery speed to fulfillment options. For example, Wal-Mart has lowered its free, two-day shipping minimum order value and is testing a pickup grocery kiosk.

Fewer B-to-B retailers are feeling the competitive pressure of Amazon. However, as Amazon enters more verticals (which it will), B-to-B companies will likely have to fight harder to maintain and grow market share.

CHART 15

Amazon Grabbing Market Share From B-to-B and B-to-C Retailers

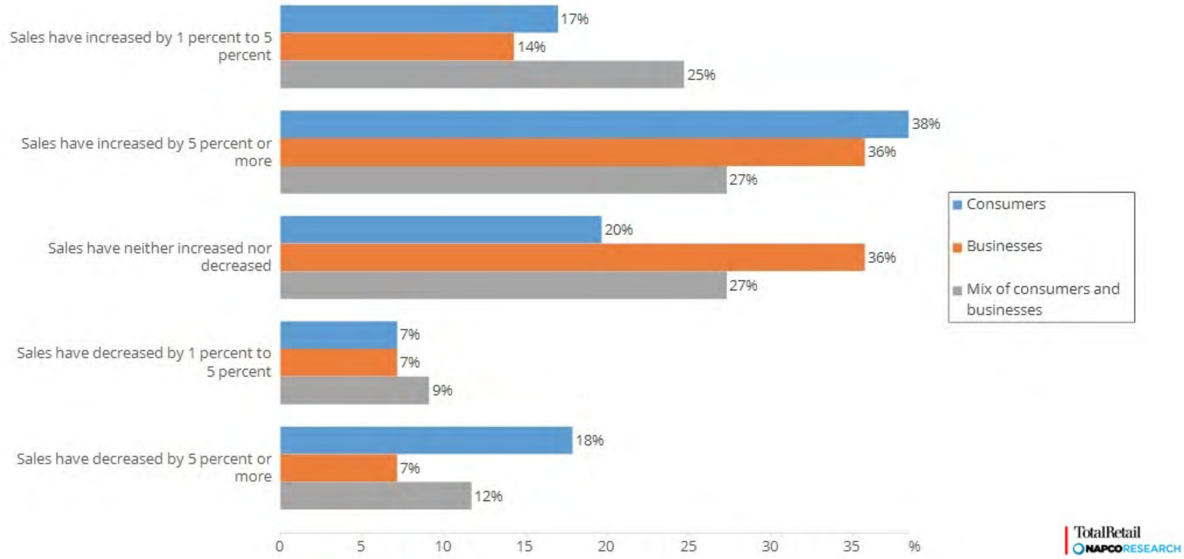


All business segments surveyed (B-to-B, B-to-C and a mix of both) say that Amazon has increased its position in their marketplaces. Amazon's market penetration is reported to be strongest for those retailers that sell to a mix of consumers and businesses. Ninety-two percent of respondents in that segment say Amazon has "significantly" or "somewhat" increased its position in the marketplace.

Amazon is constantly evolving, developing new and improved ways to do business across its marketplace, Web Services platform and Amazon Business sector, among others. This goes to show that no matter what kind of business or industry you're in, Amazon can never be far from your mind.

CHART 16

E-Commerce Sales Increasing for Majority of B-to-B and B-to-C Retailers

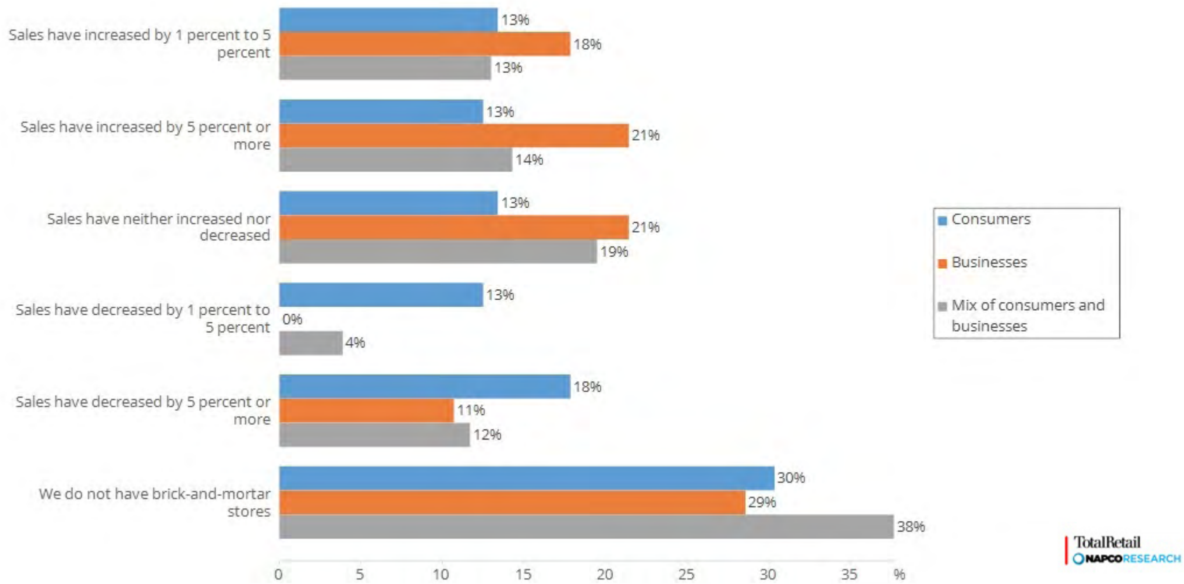


Aligning with the larger retail industry trend, the majority of respondents to our survey reported that their e-commerce sales have increased during the past two years. This is particularly true for B-to-C retailers, with 55 percent saying their e-commerce sales have increased since 2015 (38 percent of which said their online sales have grown by 5 percent or more). As tends to be the case, B-to-B retailers are trying to play catch up with their B-to-C counterparts when it comes to e-commerce. While 50 percent of B-to-B respondents reported an increase in e-commerce sales during the past two years, 36 percent said that their online sales have neither increased nor decreased in this same time period.

More and more consumers are choosing to shop online (desktop and mobile), and this chart reflects that trend.

CHART 17

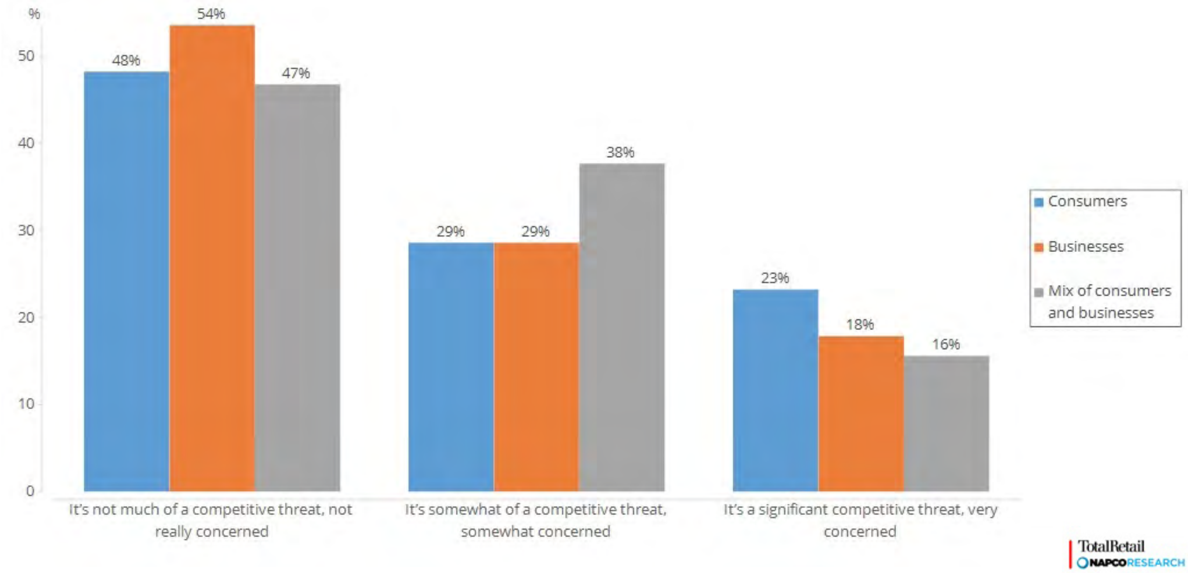
B-to-C Retailer's Brick-and-Mortar Sales Impacted Most by Amazon



This chart reveals that brick-and-mortar store sales for business-to-consumer retailers have been impacted the most by the rise of Amazon. In fact, for 18 percent of B-to-C respondents, sales have decreased by 5 percent or more during the past two years. Furthermore, 13 percent of B-to-C retailers saw their sales decrease by 1 percent to 5 percent in the same time period. Interestingly, for business-to-business retailers, their brick-and-mortar store sales have actually increased by and large despite the looming threat of consumers opting to buy from Amazon. For these respondents, 21 percent said their sales have increased 5 percent or more over the last two years. And for 18 percent of B-to-B retailers, sales have increased 1 percent to 5 percent.

CHART 18

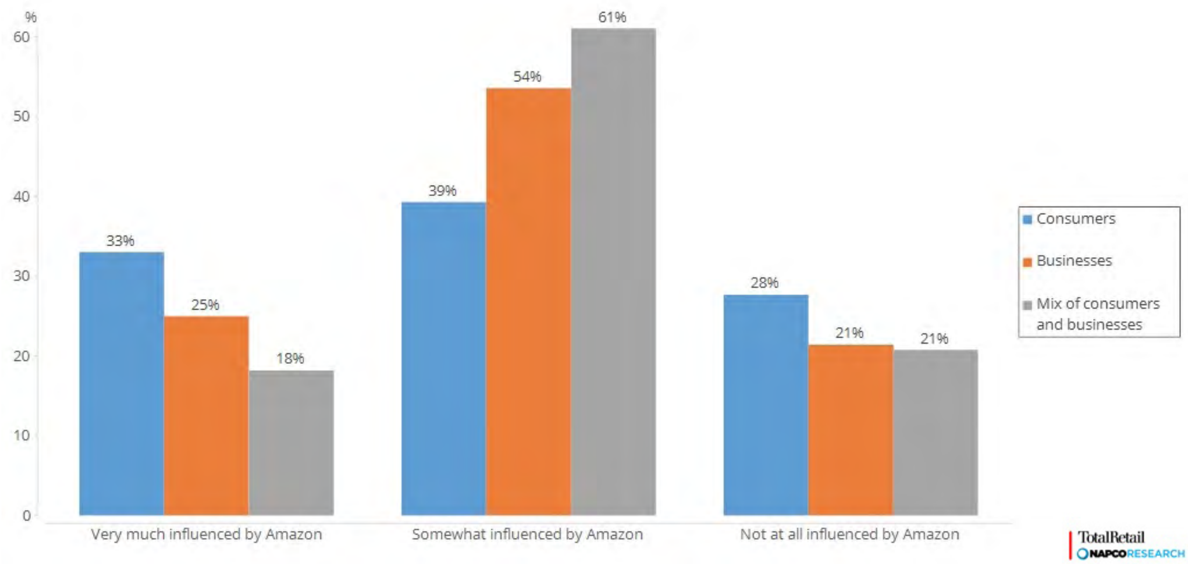
B-to-C Retailers More Threatened by Amazon's Push Into Brick-and-Mortar



When it comes to feeling threatened by Amazon's push into brick-and-mortar, B-to-C retailers are feeling the heat more than B-to-B retailers and companies that sell to both businesses and consumers. As the chart above reveals, 23 percent of B-to-C respondents said Amazon's decision to open brick-and-mortar stores is a significant competitive threat, and that they're very concerned about it. On the other hand, only 18 percent of B-to-B retailers and 16 percent of companies that sell to both businesses and consumers label Amazon's entry into brick-and-mortar retail as a significant competitive threat, of which they're very concerned.

CHART 19

B-to-B Retailers' Customer Experiences Increasingly Influenced by Amazon

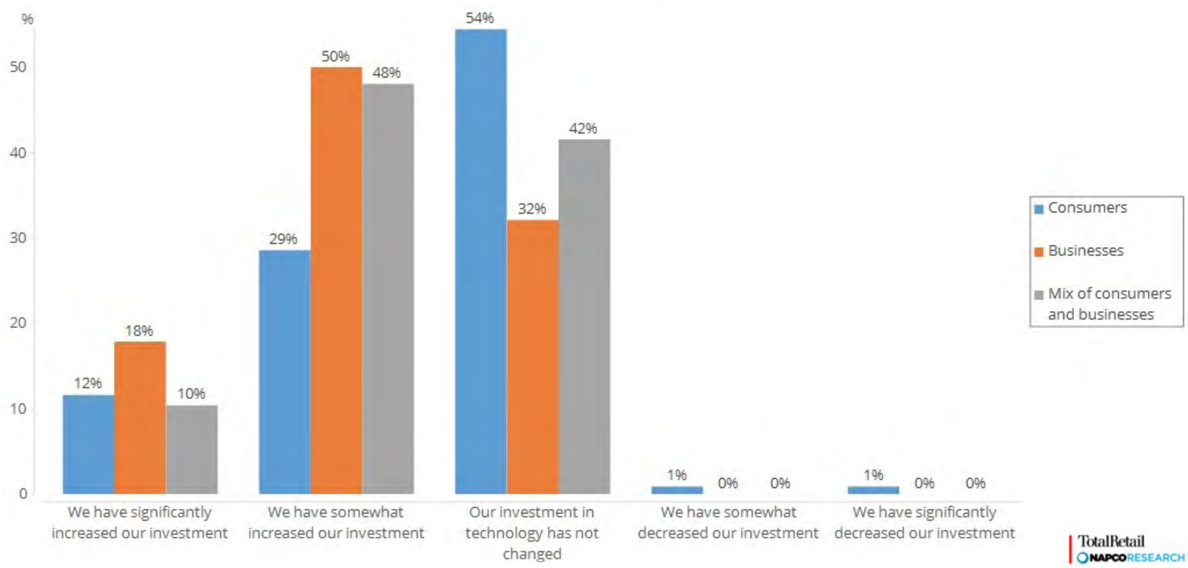


A key finding in this chart is that B-to-B retailers are more likely than their B-to-C counterparts to be influenced by Amazon when it comes to online customer experience. Seventy-nine percent of B-to-B respondents say their online customer experience has either been somewhat or very much influenced by Amazon, compared to 72 percent of B-to-C retailers that said likewise.

Therefore, it makes sense that 28 percent of B-to-C respondents said their online customer experience has not been influenced at all by Amazon, the highest of the three segments.

CHART 20

B-to-B Retailers Increasing Technology Spending on Customer Experience to Keep Pace With Amazon

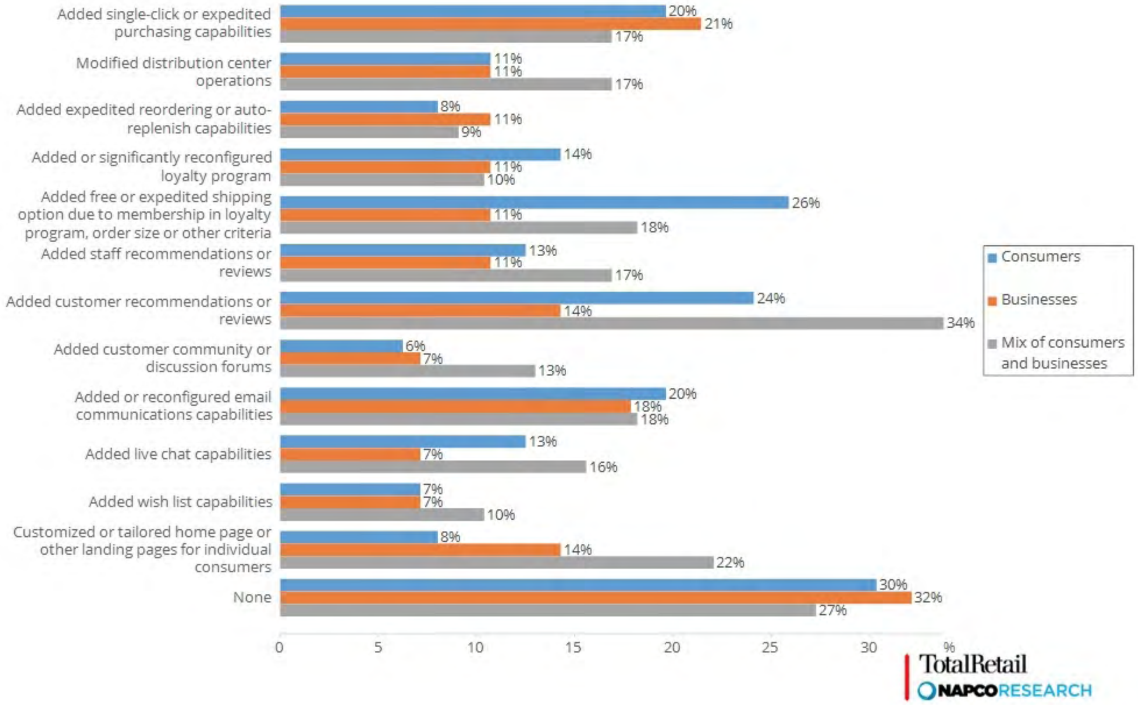


According to this chart, B-to-B retailers are ramping up the amount of money they spend on technology to compete with Amazon's personalized shopping experience. Eighteen percent of B-to-B retailers have significantly increased their technology investments on customer experience, and another 50 percent have somewhat increased their investment.

While B-to-B retailers ramp up their spending on customer experience technology, B-to-C retailers aren't quite keeping pace. According to the survey, 54 percent of B-to-C retailers said their technology investments around the online shopping experience have not changed as a result of what Amazon is doing.

CHART 21

B-to-C Retailers Invest in Reviews, Free Shiping

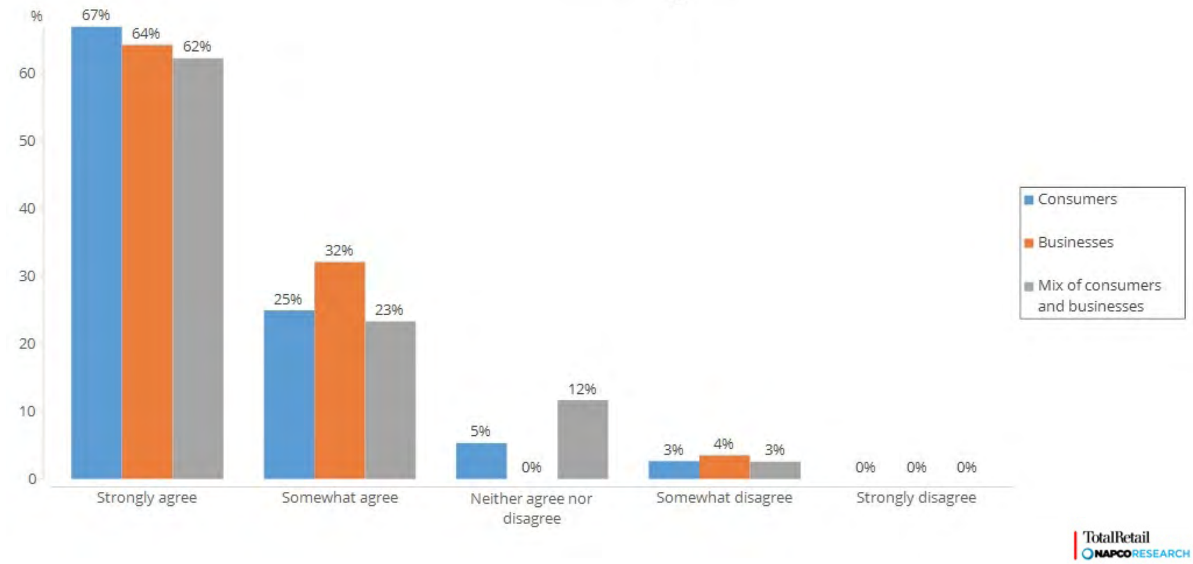


Our findings reveal that B-to-C retailers are investing heavily in customer reviews and free shipping technologies to better compete with Amazon. As for what B-to-B retailers are investing in, single-click/expedited purchasing capabilities and updated email programs are the focus. More specifically, 26 percent of B-to-C respondents said they're investing in technology that allows them to add free or expedited shipping options for loyalty members, customers that reach a specific order size, or other criteria. Twenty-four percent of B-to-C retailers said they're adding customer recommendations or reviews.

As for B-to-B, 21 percent of respondents are adding single-click or expedited purchasing capabilities, while 18 percent said they're investing in added or reconfigured email communications capabilities.

CHART 22

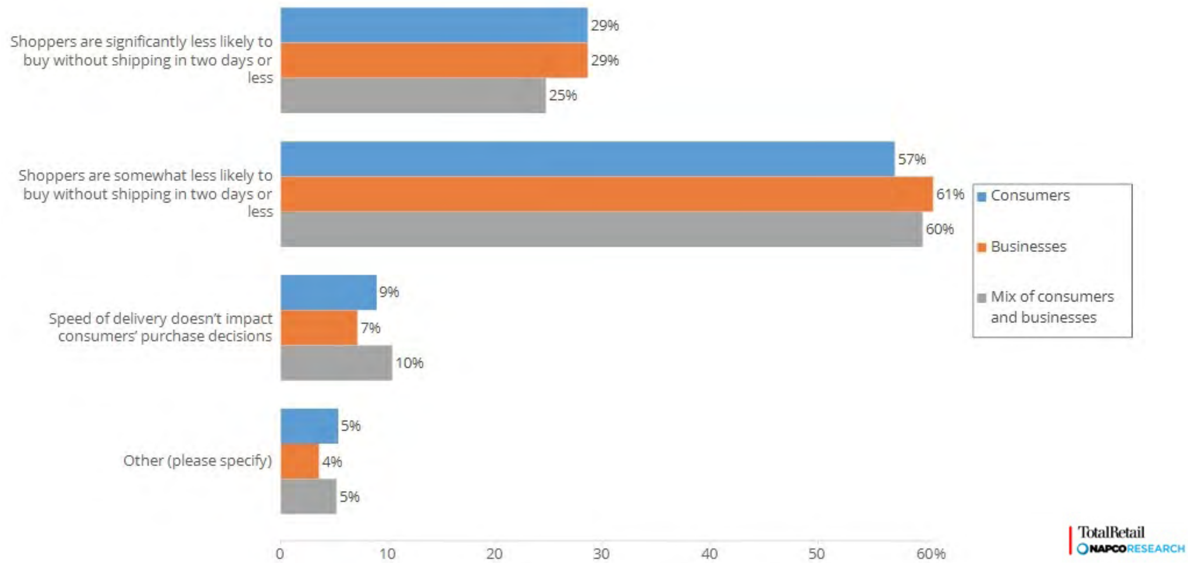
B-to-B, B-to-C Retailers Agree: Amazon Has Changed Consumer Expectations for Order Delivery



All types of retailers (B-to-B, B-to-C, hybrids that sell to consumers and businesses) agree that Amazon has changed consumers' expectations when it comes to order delivery. In fact, 67 percent of B-to-C retailers, 64 percent of B-to-B retailers, and 62 percent of retailers that sell to both consumers and businesses strongly agree that Amazon has changed consumer delivery expectations. Anything longer than two-day delivery has become unacceptable for most consumers. Retailers recognize the urgency — and value — in making sure their online orders are fulfilled and shipped as quickly as possible.

CHART 23

Amazon's Emphasis on Delivery Speed Impacts Both Consumer, Business Customers

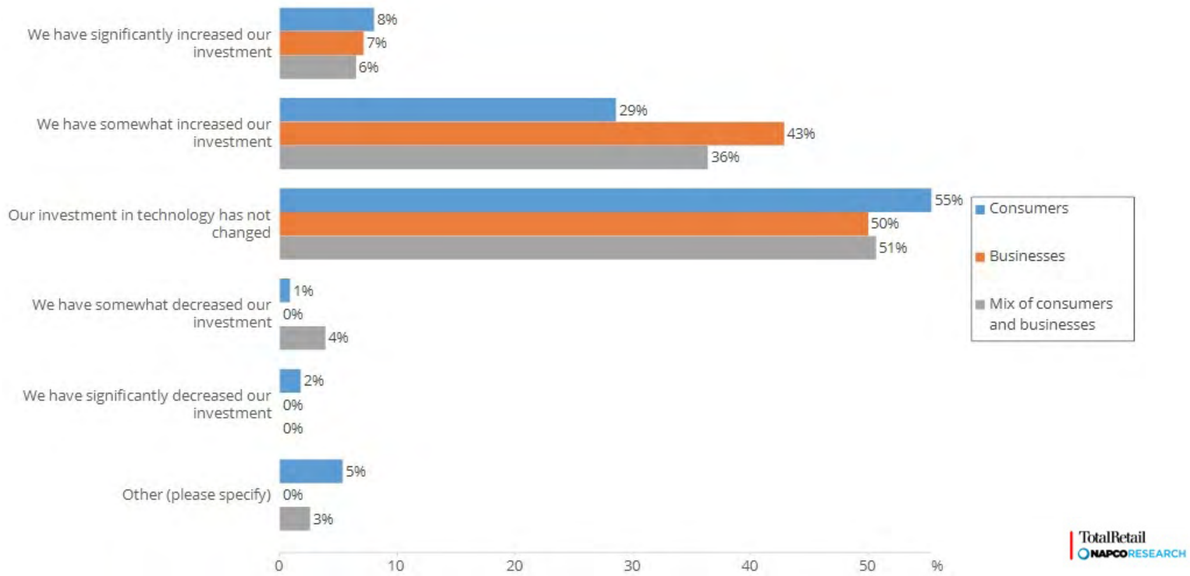


Amazon's emphasis on delivery speed impacts retailers serving both business customers and consumers. For example, 61 percent of B-to-B retailers said their customers are somewhat less likely to buy merchandise if they can't receive their orders in two days or less. For B-to-C retailers, 57 percent of respondents said their customers would be somewhat less likely to order under those circumstances.

What's potentially most concerning in the above chart is that nearly 30 percent of both B-to-C and B-to-B retailers believe shoppers are significantly less likely to buy unless they receive their orders in two days or less. The value of an efficient supply chain in today's hypercompetitive retail environment can't be understated.

CHART 24

B-to-B Retailers Ramping Up Spending on Order Fulfillment, Delivery Technology



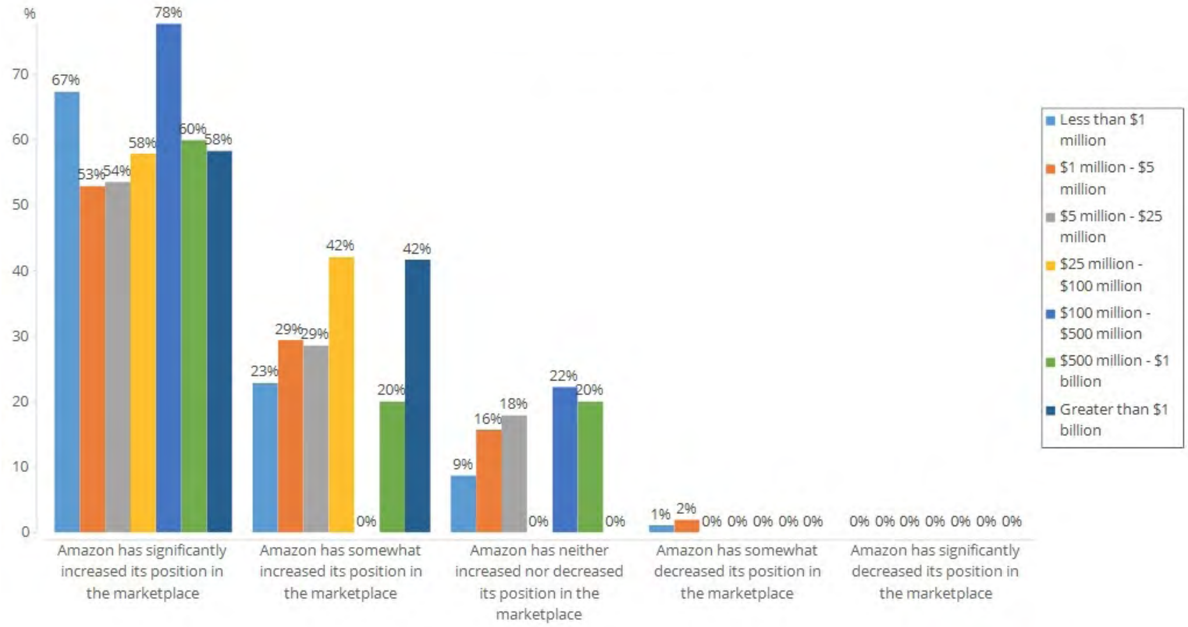
This chart reveals that B-to-B retailers are increasing their spending on order fulfillment and delivery technology more than their B-to-C counterparts. More specifically, 50 percent of B-to-B retailers said that they have somewhat or significantly increased their investments in these technologies to better compete with Amazon, compared with 37 percent of B-to-C respondents that said likewise.

This is interesting in that corresponds with Chart 20, which also found that B-to-B retailers were more willing than B-to-C brands to increase spending on technology, whether it be the customer experience (i.e., personalization) or order fulfillment and delivery. The potential reason for that might be that B-to-B retailers have traditionally been slower to adapt new technologies, particular when it comes to online, and therefore they're being forced to spend more to catch up. Either way, this chart is telling us that in order to keep pace with Amazon, retailers are being forced to increase budget for their supply chains.

HOW COMPANY SIZE IMPACTS RETAILERS' AMAZON STRATEGIES

CHART 25

Midsize Retailers Believe Amazon Gaining Most Marketshare

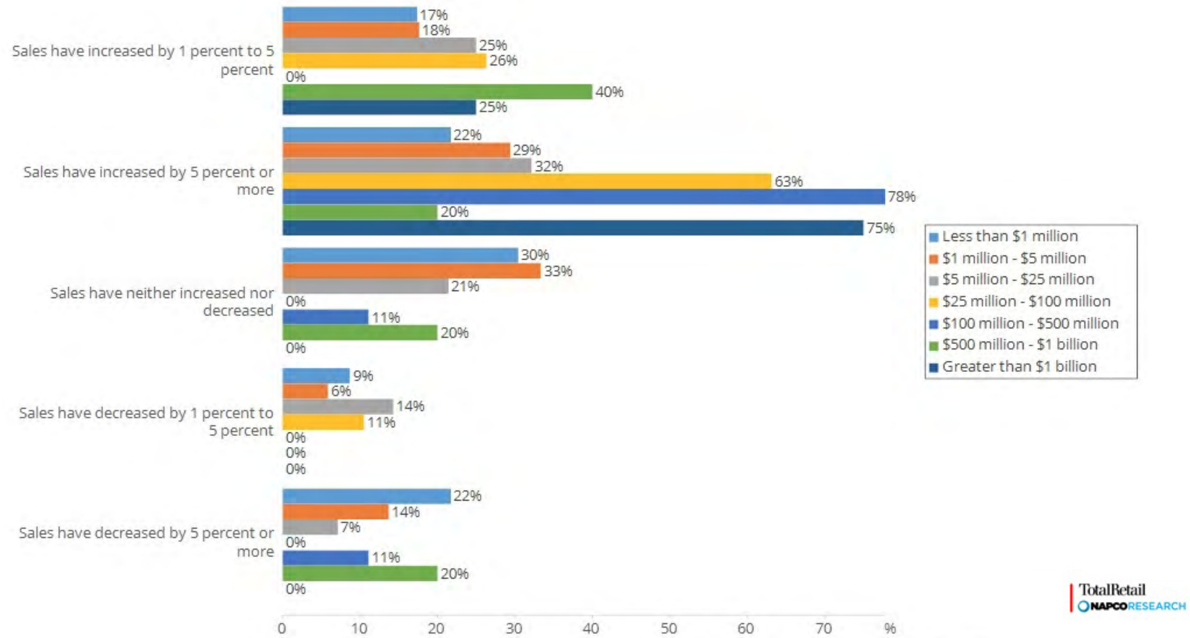


Not surprisingly, retailers of all sizes are unanimous that Amazon has at minimum somewhat increased its position in the marketplace during the past two years. Consider that none of the survey respondents said that Amazon "has significantly decreased its position in the marketplace," and just 1 percent of respondents whose businesses generate less than $1 million in annual sales, and 2 percent of respondents whose businesses have annual sales between $1 million and $5 million believe that Amazon has "somewhat decreased its position in the marketplace." The message is clear: retailers rightly understand that Amazon is taking market share from all, from the mom-and-pop shops to the online pure-plays to the big-box stores.

Further analysis of the chart reveals that midsize retailers ($100 million to $500 million in annual sales) are most concerned about the increasing presence of Amazon in their markets. Seventy-eight percent of retailers in this segment said Amazon has significantly increased its position in the marketplace, easily the highest percentage of any group. In addition, 100 percent of retailers with annual sales between $25 million to $100 million believe that Amazon has either significantly or somewhat increased its position in the marketplace during the past two years.

CHART 26

Enterprise Retailers Enjoy Growing E-Commerce Sales



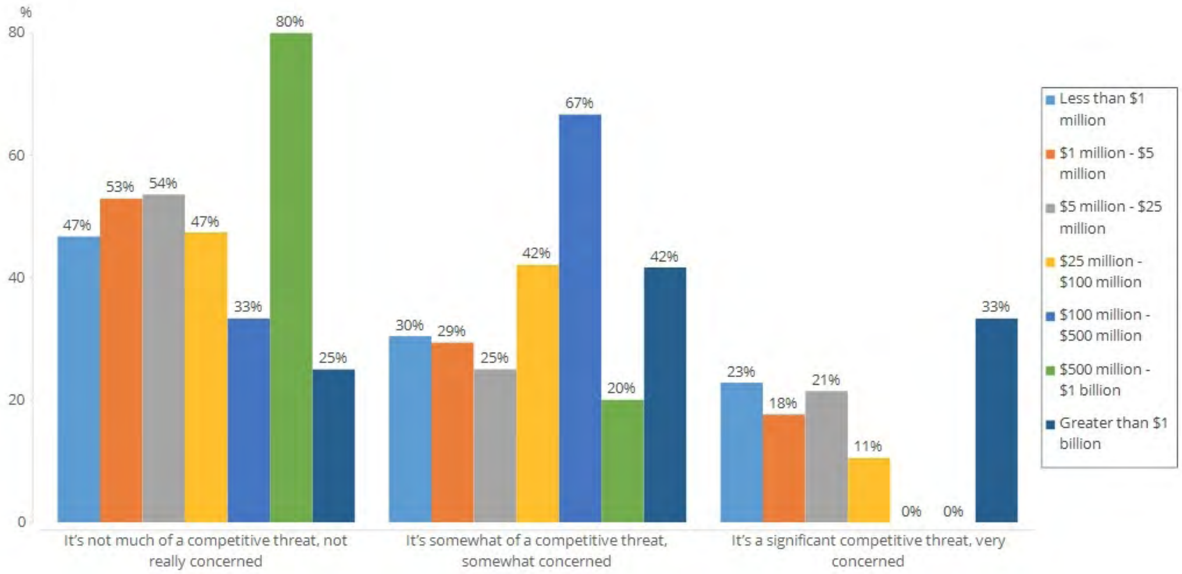
It's not a secret that retail sales growth is coming online — e-commerce sales grew 15.1 percent in 2016, according to the Commerce Department. How does that growth correlate to Amazon? Well, for one, Amazon is part of that 15.1 percent growth (a big part of it). Also, other retailers, many whose roots are in brick-and-mortar, realize what's going on around them. They're seeing consumers increasingly using their phones in-store, the success of Amazon, and traffic to their websites increasing while in-store traffic goes the other direction, and they're making investments in digital. And for the most part, their investments are paying off.

This is particularly true for enterprise retailers ($500 million - $1 billion; greater than 1 billion). Seventy-five percent of respondents whose annual revenues are greater than $1 billion report e-commerce sales increasing by 5 percent or more in the last two years (100 percent of this segment says its e-commerce sales have increased in the last two years). In addition, 60 percent of retailers in the $500 million to $1 billion segment report an increase in e-commerce sales during the past two years.

Conversely, smaller retailers have had a more difficult time growing their online sales. Twenty-two percent of retailers with annual sales less than $1 million said their e-commerce sales decreased by 5 percent or more over the last two years, and 61 percent of this segment has seen no growth in their online sales during the same time period.

CHART 27

SMB, Enterprise Retailers Not Overly Concerned Yet by Amazon Opening its Own Stores



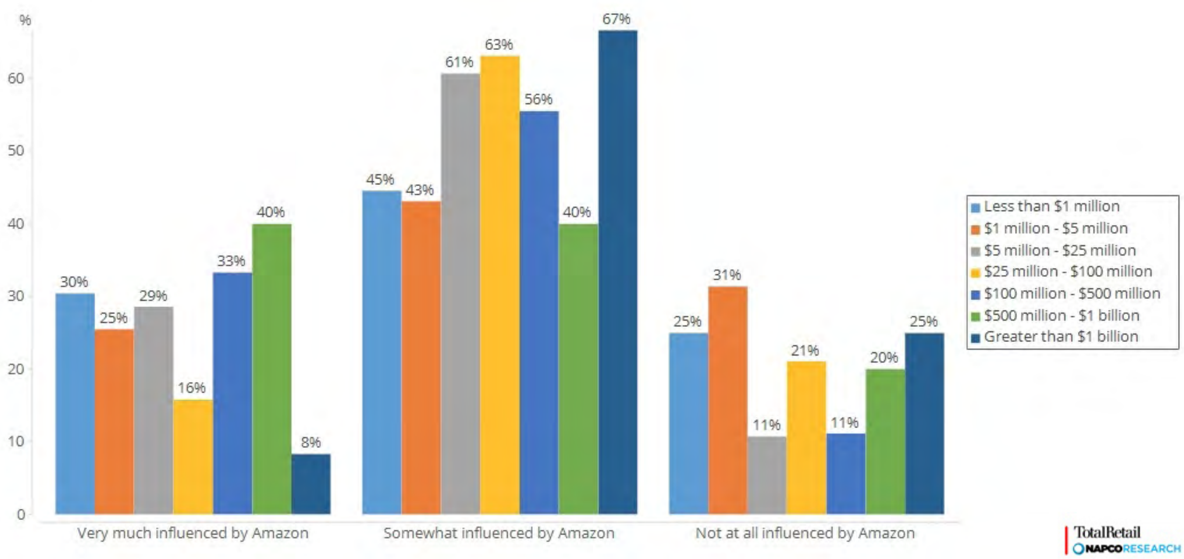
TotalRetail
NAPCO RESEARCH

As Amazon looks for growth vehicles, it has targeted brick-and-mortar stores. The online retailer has opened physical bookstores in Seattle; Portland, Ore.; San Diego; Chicago; New York City; and other markets, with plans to open more. In addition, Amazon has opened two AmazonFresh grocery pickup stores in its hometown of Seattle. So, are retailers worried about the unquestioned online leader entering the offline space?

The early consensus is that retailers aren't yet seriously concerned about Amazon opening its own stores. Only 19 percent of the retailers we surveyed said that Amazon opening brick-and-mortar stores is a "significant competitive threat, and they're very concerned." Compare that with the 48 percent of retailers that this development "is not much of a competitive threat, and they're not really concerned." Falling in the middle is the 32 percent of respondents that said Amazon opening stores is "somewhat of a competitive threat, and they're somewhat concerned."

Analyzed by company size, SMB retailers ($5 million-$25 million; $25 million-$100 million; $100 million-$500 million) appear to be showing the highest level of concern about Amazon opening stores. Forty-five percent of retailers in the $5 million-$25 million bracket, 53 percent of retailers in the $25 million-$100 million bracket, and 67 percent of retailers in the $100 million-$500 million bracket said that it's either somewhat or a significant competitive threat to their businesses. It will be interesting to see how these numbers change in coming years as Amazon continues to expand its brick-and-mortar presence.

CHART 28
Smaller Retailers' Customer Experiences Less Influenced by Amazon



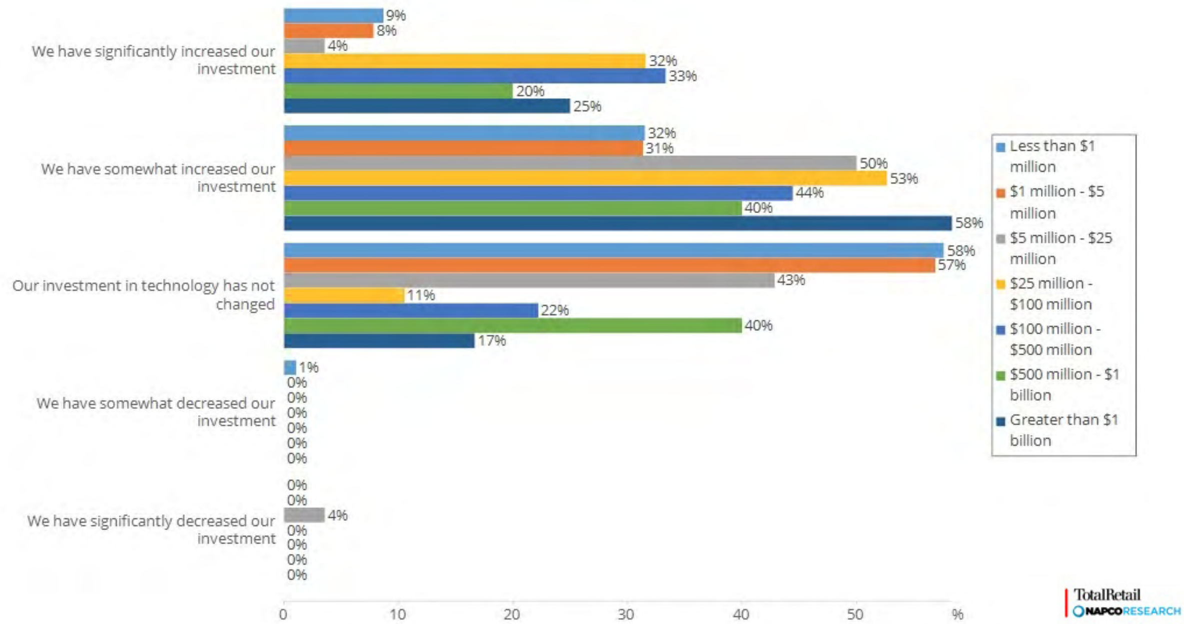
Analysts have frequently cited the ease and convenience of shopping on Amazon, as well as its vast product selection, as a primary reason for its success. In fact, 55 percent of consumers said they start their product searches on Amazon, not Google, according to a survey by BloomReach. It therefore stands to reason that other retailers would want to mimic Amazon's customer experience on their own sites. And to some degree they do, just not to the extent that you might expect.

Nearly a quarter (24 percent) of all survey respondents said their online customer experience is not at all influenced by Amazon. Fifty percent of respondents said that their online customer experience is somewhat influenced by Amazon, while just 27 percent said their online customer experience is very much influenced by Amazon.

What's interesting is that smaller retailers (annual revenues less than $5 million) tend to be least influenced by Amazon's customer experience, with 31 percent in the $1 million to $5 million category saying their online customer experience is not at all influenced by Amazon, and 25 percent of retailers with annual sales less than $1 million saying the same. Perhaps this is because these smaller retailers lack the budget to implement even some of the technologies that Amazon has made integral to its customer experience.

CHART 29

Midmarket Retailers Investing in Customer Experience



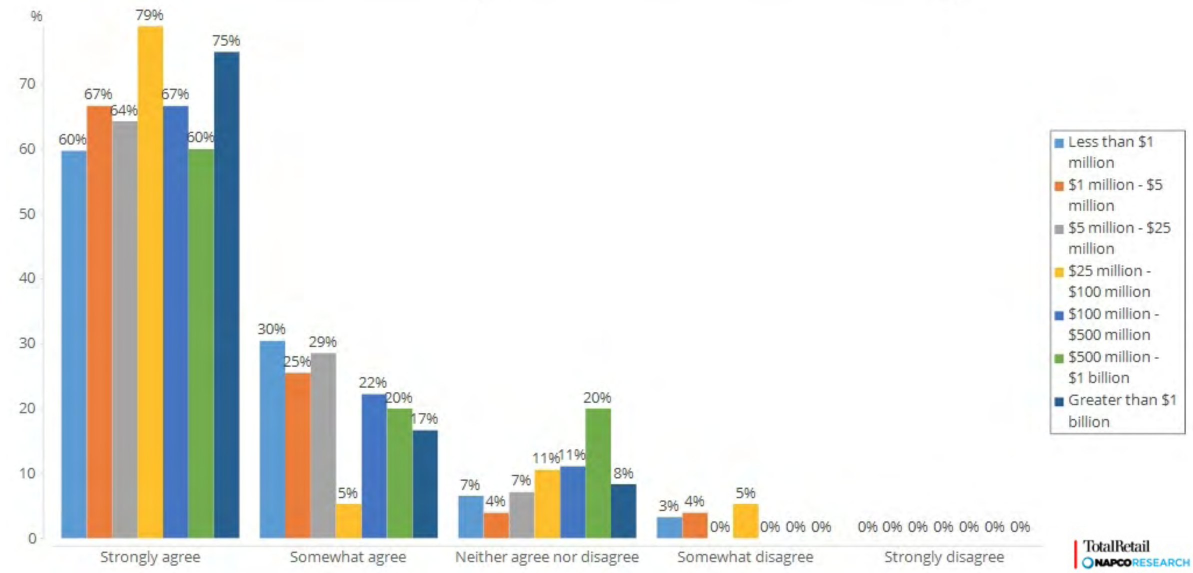
In order to keep pace with Amazon and the customer experience it's offering its customers, retailers need to invest in technology solutions. But are they? This chart illustrates retailers' answers to the following question: How has your company's technology spending personalization/customer experience been impacted as a result of Amazon's efforts to personalize its customers' shopping experiences?

For the most part, retailers are spending more to improve their customers' shopping experiences. Fifty percent of respondents said they have either somewhat or significantly increased their investment on technology. And if they're not spending more, they're at least maintaining their current investment. Forty-seven percent of respondents said their investment in technology to improve customer experience has not changed as a result of Amazon.

As one would expect, midmarket and enterprise retailers are more likely than their smaller counterparts to have significantly increased their technology investments on customer experience. Retailers in the $100 million to $500 million annual sales bracket led the way, with 33 percent saying that they have significantly increased their investment in technology.

CHART 30

Retailers of All Sizes Agree That Amazon Has Changed Consumer Expectations for Order Delivery



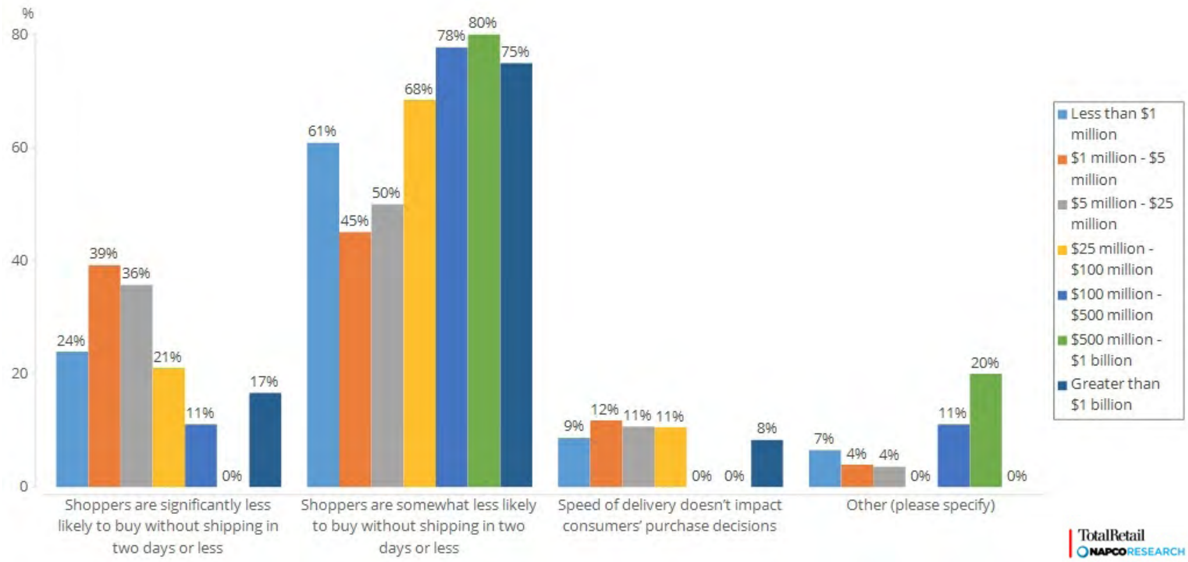
The vast majority of retailers surveyed strongly agreed with the notion that Amazon has changed consumer expectations for order delivery — i.e., customers now expect that their online purchases will be delivered to their homes in two days or less. And why wouldn't they. With the launch of Amazon Prime and its two-day shipping guarantee — not to mention next-day and same-day delivery in many markets — speed of delivery has become a major battleground for online retailers. The faster you can get a customer's order to them — and in many cases for free — the more likely you are to convert them.

An overwhelming 90 percent of respondents either somewhat or strongly agree that Amazon has changed consumer expectations for order delivery. The only slight departure from this consensus exists among smaller retailers ($100 million in annual revenues or less), which were the only retailers that somewhat disagreed with the idea that Amazon has changed consumer expectations for order delivery.

With the growth of Amazon Prime — it now boasts more than 66 million members — two-day delivery has in essence become table stakes for retailers selling online. What this chart tells us is that they know the competition they face.

CHART 31

Smaller Retailes More Concerncе Over Cusomers' Demands for Fast Shipping



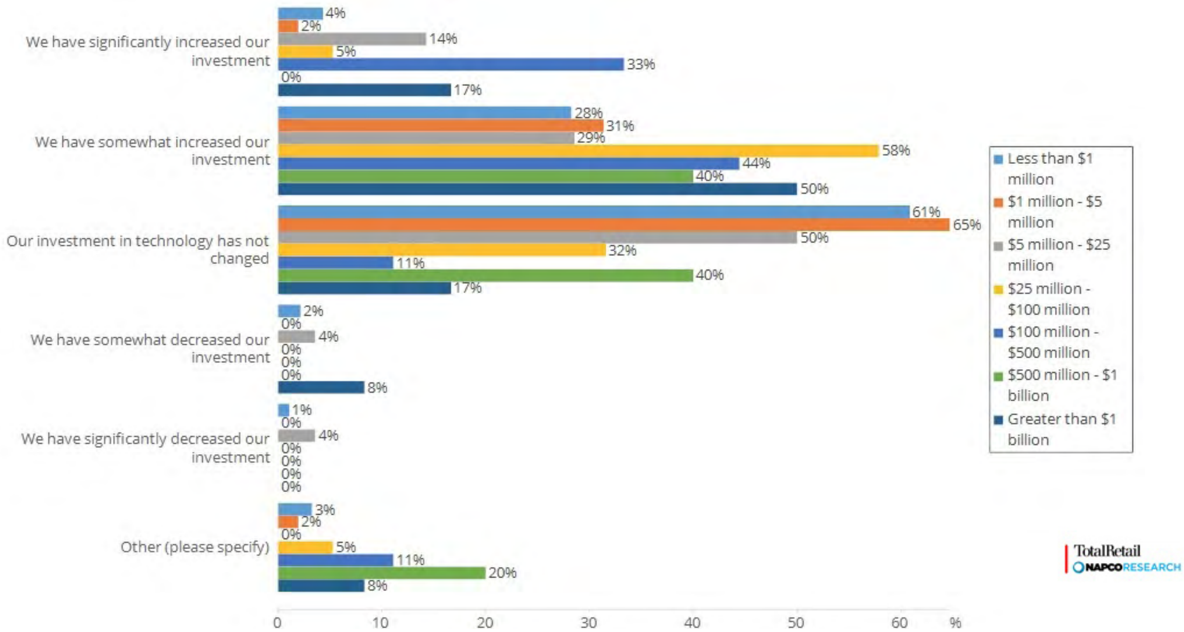
In conjunction with Chart 30, this chart examines retailers' opinions on how speed of delivery impacts consumers' purchase decisions. Specifically, are shoppers less likely to make a purchase unless shipping in two days or less is guaranteed? Our respondents believe they are.

The general consensus among respondents is that shoppers are somewhat less likely to buy without shipping in two days or less, with 58 percent choosing this answer. Twenty-seven percent believe shoppers are significantly less likely to buy without shipping in two days or less. Just nine percent of respondents said that speed of delivery doesn't impact consumers' purchase decisions. This data underscores the challenge retailers are up against. As Amazon builds out a nationwide network of distribution centers to expedite order delivery, how can other retailers compete on speed — and do so without total margin erosion.

Smaller, less-funded retailers (i.e., those with annual revenues less than $100 million) seem to be more concerned about consumers' willingness to buy without two-day shipping. Conversely, enterprise retailers — which are more likely to offer two-day shipping themselves — seem to be taking a more measured approach when it comes to the impact speed of delivery has on consumers' purchase decisions. For retailers with annual sales of $100 million or more, 78 percent believe shoppers are only somewhat less likely to buy without shipping in two days or less.

CHART 32

Enterprise Retailers Boost Spending on Order Fulfillment, Order Delivery



We've already established that the overwhelming majority of retailers, regardless of company size, agree that consumer expectations for order delivery have changed because of Amazon. Therefore, it makes sense that retailers would consider investing more into order fulfillment and delivery technology to be able meet the heightened expectations of consumers. That hasn't necessarily happened, however.

Fifty-three percent of respondents said their investment in order fulfillment and delivery technology has not changed as a result of Amazon. Furthermore, only 7 percent of respondents said that they have significantly increased their investment in order fulfillment and delivery technology.

Most retailers are opting to keep their spending levels status quo, or are slightly increase their investment. Thirty-four percent of respondents — and 58 percent of retailers with annual sales between $25 million-$100 million — said they have somewhat increased their investment on order fulfillment and delivery technology. A positive sign is that while not many retailers are significantly increasing their technology budget on order fulfillment and delivery, they're not decreasing it, either. Just 2 percent of retailers said they were somewhat decreasing their investment, and 1 percent said they were significantly decreasing their investment. Again, as one would expect, midmarket and enterprise retailers appeared more willing and/or able than their smaller counterparts to allocate more money to technology in the fight against Amazon.

METHODOLOGY

This online survey was conducted over a two-week period in June 2017. A total of 327 respondents completed the survey. Those respondents comprised a portion of the Total Retail audience, including small to midsized retail organizations as well as enterprise brands, representing a multitude of retail verticals, including apparel/accessories, consumer electronics, home improvement, sporting goods and more.

WHO WE ARE

TotalRetail

Total Retail is the go-to source for retail executives looking for the latest news and analysis on the retail industry. Featuring a quarterly print magazine, daily e-newsletter (Total Retail Report), daily-updated website, podcast channel, virtual and in-person events, and research reports, *Total Retail* offers retail executives the information they need to do their jobs more effectively and grow their professional careers.

IBM

With Watson, IBM is transforming retail and how brands engage customers. What if you could combine the collective knowledge of your organization with the ability to understand new sources of customer, market and business data in real-time? With Watson Commerce as your cognitive assistant, you can have the customer, market and business insight you need to make better decisions faster and capitalize on opportunities before your competitors do.

NAPCO MEDIA

NAPCO Media. Total Retail's parent company, is a leading B-to-B media company specializing in creating community through content via integrated media programs, video services, marketing services, events and event management, custom content, eLearning and market research. NAPCO Media has rapidly expanded its portfolio to include NAPCO Video Services, NAPCO Events, NAPCO Marketing Services and NAPCO Research.

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