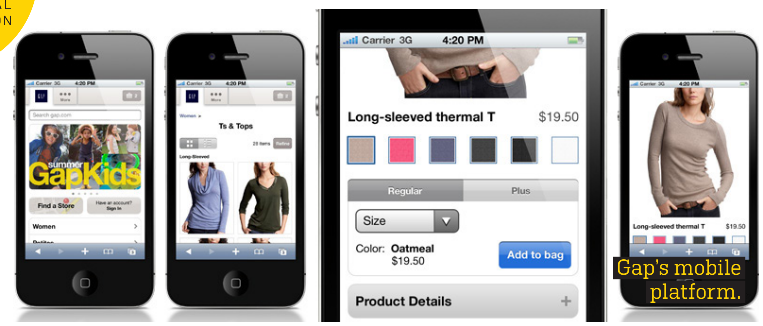
MASTERS OF THEIR DOMAIN

WHY DIGITAL BRANDS ARE KILLING IT IN ECOMMERCE. **BY LAUREN JOHNSON**

THE INDEX
A MONTHLY DEEP DIVE INTO HOW INDUSTRIES NAVIGATE DIGITAL TRANSFORMATION


Everlane in NYC.



Gap's mobile platform.

For decades, the retail industry stood strong. Retailers emerged fairly unscathed during the first wave of the internet in the '90s because consumers still by and large chose to shop in physical stores staffed with employees that strived to provide customer service. So, it was business as usual with a small number of wary execs cautiously eyeing the growing shift toward ecommerce.

Those days are long gone thanks to Amazon and the latest tsunami of technology that makes it convenient for consumers to shop from anywhere via ecommerce sites and mobile apps. A quick glance through recent headlines shows why retailers are hustling to embrace ecommerce and become more digitally minded businesses: Toys R Us plans to close 800 stores this year as it likely begins to phase out its U.S. operations; Best Buy will shutter all 250 of its small retail sites that sell mobile phones; and Foot Locker plans to shut down 110 stores to focus on high-performing locations.

These recent moves aren't just a shift to ecommerce. Publicly held brands also have to position themselves as cutting edge for investors to compete alongside Amazon, Alibaba and other ecommerce giants.

"The challenge to traditional retail is approaching innovation in the right way," said Matt Kaden, managing director of MMG Advisors, a retail financial advisory service firm. "It's not just the Amazon effect, it's dealing with Wall Street—they don't have the rope that an Amazon has to not deliver profitability and continue to see your stock price increase."

Wall Street aside, ecommerce only makes up 10 percent of retail sales and is on track to account for $526 billion of $5.3 trillion in total retail sales this year, according to data in a new report from eMarketer and Accenture. Specifically, 39.6 percent of those transactions will take place on a smartphone. And in terms of top retail categories, 19.7 percent of apparel and accessories sales are expected to flow through ecommerce this year, up significantly from ecommerce sales from categories like health and personal care (6.8 percent) and food and beverage (2.8 percent).

Because ecommerce only makes up a sliver of transactions, digital retailers that have mastered data and analytics, like Everlane, Walmart-owned Bonobos and Amazon, are now setting up physical stores that encourage consumers to stroll through and touch products. Clothing retailer Everlane, for instance, has showrooms in New York and San Francisco where shoppers can buy shoes, bags and jackets as well as make returns. The catch: Cash isn't accepted at the shops and all sales must be made using debit or credit cards.

"Digital brands have been experts at getting in front of a consumer, understanding them, capturing data, messaging to their consumer, but it's an expensive endeavor," Kaden said. "It's increasingly expensive to acquire customers through Facebook, Instagram, Google or retargeting—these companies have been relying upon raising a lot of money at high valuations but not necessarily building sustainable businesses."

Retailers also are experimenting with virtual reality, chatbots and augmented reality as new ways to show off products. But unlike other retail categories, like consumer packaged goods, there's a larger onus on retail to make sure those tests prove worthwhile for consumers and are not overly gimmicky.

DIGITAL DATA

$526b
Total ecommerce sales for 2018

$5.3t
Total retail sales for 2018

19.7%
Percentage of apparel and accessories sales from ecommerce this year

2.8%
Percentage of food and beverage sales from ecommerce this year

$3b
Gap's digital and online business in 2017, up 30% from 2016

SOURCES: EMARKETER AND ACCENTURE; GAP

"It has to either lead to a sell-through or provide the retailer or brand data that will eventually lead to the sale and to do it in a way that's not sales-y—there's a Catch-22 there," Kaden said.

THE DIGITAL STORE OF THE FUTURE

Forty-nine-year-old Gap is one example of how traditional retail is evolving to put more of a focus on ecommerce. Digital allows the brand to analyze data and see how consumers shop while physical stores can boost digital sales with customer service, said Noam Paransky, svp of digital at Gap Inc.

During Gap's recent earnings for the fourth quarter, Gap said that its digital and online business reached more than $3 billion in sales in 2017, increasing digital revenue 30 percent year over year.

The retailer is currently piloting a program on Old Navy's site that asks consumers to answer a few questions about themselves to find the best fit on an item. Gap Inc. also uses past purchase behavior to recommend products.

Other areas Gap is investing in: mobile point-of-sale systems in more than 1,000 stores that allow staffers to find items online and check shoppers out around stores via smartphones, and tracking digital browsing on the website to in-store visits for shoppers who have created an online account.

"There's a healthy percentage of online sessions and in-store transactions where customers are self-identified that we're able to stitch that data and gain a greater understanding of that behavior," Paransky said.