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InSight^{IQ}

Retail Today

Success isn't about online or in-store. It's about offering consumers satisfying shopping experiences.

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Executive Summary

In a fiercely competitive retail landscape, the most successful retailers today are the ones innovating in both their physical and online operations to serve customers in the ways they are coming to expect. Consumers research and gather information using every channel and tool available to them: to compare products and prices, and to determine when and where is most convenient to receive their purchase, regardless of whether they complete a transaction online or offline. Retailers are increasingly listening to consumers, offering more choice and convenience by integrating online and offline research, purchase, and fulfillment options as part of the omnichannel shopping journey. Our 2021 survey of small to medium-sized businesses (SMBs) found that they are leading the way with omnichannel offerings and are seeing rewards. The growing popularity of omnichannel fulfillment options, such as buy online pickup in-store (BOPIS) and curbside pickup, are leading many retailers with both an online sales channel and a brick and mortar store to make multipurpose use of their physical locations by fulfilling online sales. Retailers leveraging their physical stores to serve as fulfillment centers coupled with many consumers still preferring physical retail for some or even all of their shopping highlights the ongoing critical role of physical retail.

SMB retailers are constantly innovating to provide consumers with the convenience and choice they demand. This is best exemplified during the COVID-19 pandemic when retailers rapidly responded to quickly shifting consumer preferences as they looked for safer ways to shop. This led to the growing popularity of omnichannel fulfillment options by retailers of all sizes, comprising about a third of all digital sales.

The increasingly omnichannel nature of modern retail is exemplified by the use of digital tools by SMB retailers. SMB retailers typically use multiple third-party providers of digital tools and sales methods. Digital tools and sales methods have helped SMB retailers increase the digital share of their revenues to about 50%. Nearly all SMB retailers use a mix of digital tools, including multiple sales channels, multiple marketing tools, and software tools to assist with, among other things, payment systems, customer service, loyalty programs, order fulfillment and inventory management. Digital tools are reducing barriers to entry for SMB retailers and helping them reach consumers they might otherwise have difficulty reaching.

Consumers are not segmented into distinct online and in-store customer categories. All consumers just want to find the products they need, at the time they need them, and at the price that works for them. Digital technologies make it easier than ever for retailers to compete, grow, and respond to shifting consumer preferences. Retailers large and small are proving the power of integrating digital tools with in-store experiences to create satisfying customer experiences.



Consumers are telling retailers how to succeed. They only need to listen.

Succeeding as a retailer involves embracing the reality that you need to meet consumers where they are, where they like to be, and how they like to shop. The good news is, thanks in large part to affordable, easily available tools, marketplaces, and resources, they're telling you all of this very clearly. All a smart retailer needs to do is listen and respond. This is proven by SMBs who are having competitive successes in certain areas against much larger, national retailers and by the national retailers who are listening closely enough to expand their strategies and reap the rewards.

Many studies support the fact that a large majority of Americans spend an extensive part of their day on a mobile device, and today the average U.S. household has a total of 25 connected devices—including laptops, tablets, smartphones, smart TVs, and connected fitness devices, among others.¹ Combine this observable reality with the data from our most recent survey examining how consumers often shop and the truth comes into clear focus. Consumers conduct their research using every channel available to them to compare prices, determine convenience factors, and make their shopping choices regardless of whether they ultimately make a purchase online or in-store. In fact, we've found that while digital sales continue to grow, in-store spending continues to grow as well. Our research shows that in-store spending is linked to digital behavior, and vice versa. Each consumer's shopping journey is self-driven and unique based on their need, preference, and occasion.

OMNICHANNEL: A MIX OF PHYSICAL AND DIGITAL CHANNELS

"Omnichannel" shopping, wherein consumers mix and match online and offline components within or across each step of their shopping journey, is not new, but it has continued to grow. It is increasingly the norm for consumers; today consumers expect retailers large and small to offer an omnichannel experience. A retailer can offer:

- **Omnichannel research** by offering both online and in-store research options to consumers, e.g., allowing consumers to browse and compare products and prices in both a brick and mortar store and a website or app.
- **Omnichannel sales channels.** Retailers can offer customers the option to purchase online via a website, online marketplace, and app to name a few or in a brick and mortar store.

¹ Deloitte's ['2021 Connectivity and Mobile Trends Survey'](#)

DIGITAL AS % OF RETAIL SALES

SMB Retailers	Large Retailers
~50%	10–20%

- **Omnichannel fulfillment** allows consumers to buy online and fulfill their purchase at a physical store via BOPIS or curbside pickup.
- **Full Omnichannel shopping experience** by offering consumers both online and in-store options for research, purchase, and fulfillment, and enabling consumers to move seamlessly across channels throughout their shopping journeys.

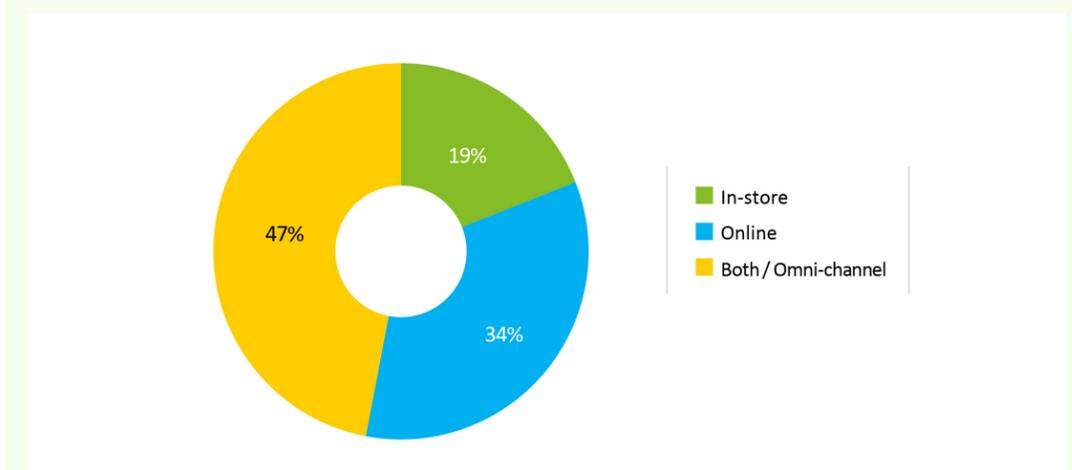
Omnichannel fulfillment offerings—whereby retailers combine online and offline purchase and fulfillment options, e.g., BOPIS or curbside—are a significant and growing trend in the retail sector today and comprise a growing share of digital sales.

Omnichannel options help consumers easily compare products and prices, and give consumers more choices in how to conveniently obtain products. Retailers offering omnichannel fulfillment options are seeing rewards, regardless of the size. Through the results of our survey, we're seeing that SMB retailers are actively embracing a universal approach to their customers; embracing them across all channels in developing those relationships and meeting the expectations consumers have of them.

Among the SMBs we surveyed, about half report selling both online and in-store, two-thirds report selling in-store, and four-fifths report selling online. (See Figure 1) Among the omnichannel SMBs surveyed, digital sales accounts for about 50% of their sales. This is several times the 10–20% digital share of sales reported by large mass merchant retailers in their periodic financial reports.

HALF OF SMB RETAILERS SELL VIA BOTH AN ONLINE AND IN-STORE CHANNEL

Figure 1: Sales Channels used by SMB Retailers



Source: InSightIQ SMB Retail Channel Choice Survey 2021, Deloitte InSightIQ Analysis
Notes: Does your business sell products in-store, online, or both (omni-channel)?



Omnichannel benefits SMBs by:

- Making them visible to a broader range of consumers regardless of geography
- Making them more competitive with their larger counterparts
- Enabling them to leap and bound past peer-sized competitors who do not recognize the power of omnichannel

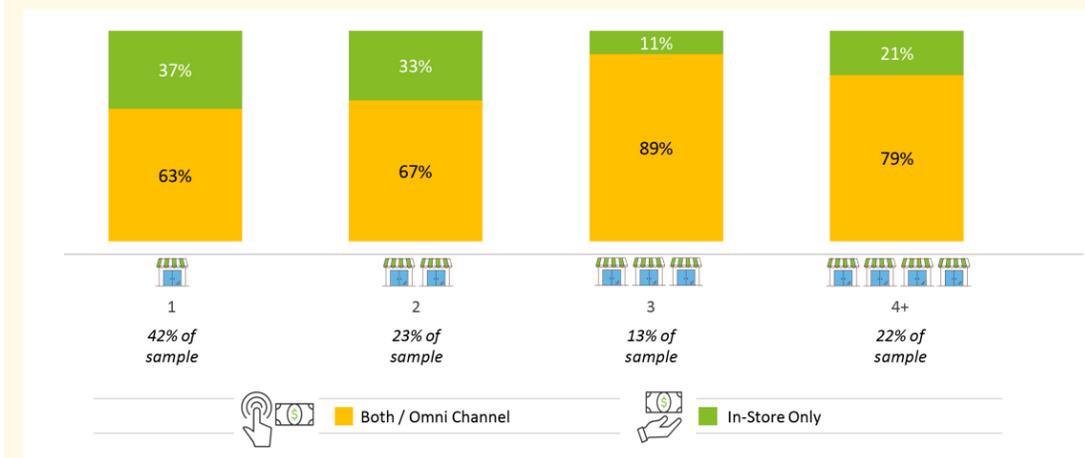
Even before the pandemic, retailers large and small were recognizing the importance of digital as an engine for in-store growth. Both then and now, it is the retailers who recognize the power of their online presence in conjunction with their physical presence who have reaped the largest rewards.

Physical retail will continue to be important in the present and future retail experience, providing consumers with benefits like the ability to: try on items, take home items instantly, get in-person customer service, etc. However, it is those who make the strategic choice to also utilize new tools to engage customers such as social media, SMS, email, app-based interactions, and other tools made possible and affordable by digital platforms who will unlock more growth.

Digital channels add value to the businesses that have physical stores. In fact, we found the more locations an SMB has, the more likely they are to embrace a strategy that utilizes both online and offline options — among SMBs with 4+ brick and mortar locations, 79% also operate a digital channel. (See Figure 2)

THE GREATER NUMBER OF B&M LOCATIONS A SMB RETAILER HAS, THE MORE LIKELY THE RETAILER IS TO ADOPT AN OMNICHANNEL MODEL, WITH SIMILAR % SALES EVEN AS # OF B&M LOCATIONS GROW

Figure 2: Retailer Type (Omnichannel or In-Store Only) By # of B&M Locations



Source: InSightIQ SMB Retail Channel Choice Survey 2021, Deloitte InSightIQ Analysis
 Notes: : Does your business sell products in-store, online, or both (omni-channel)? How many bricks & mortar retail locations does your business operate?

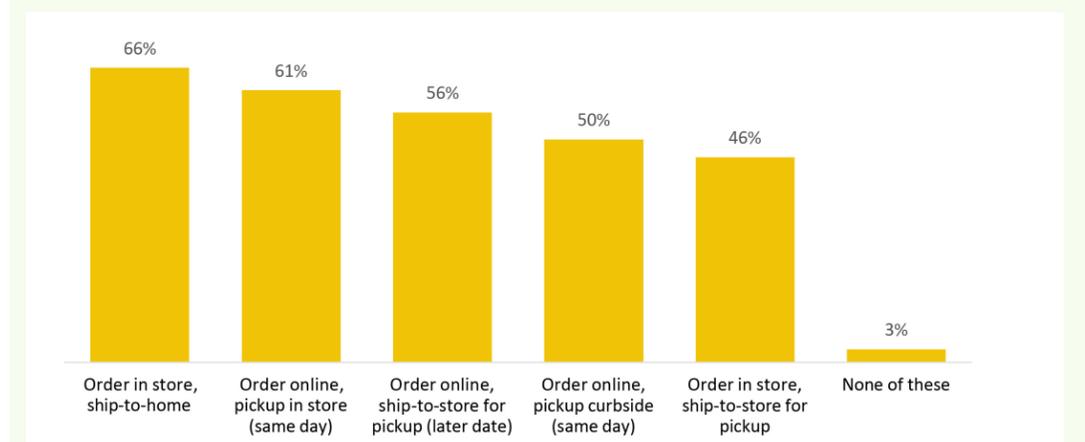
OMNICHANNEL IS A GROWING TREND, HIGHLIGHTS VALUE OF PHYSICAL STORES

Consumer preferences and behaviors throughout the pandemic demonstrate the growing popularity of omnichannel. 78% of consumers value convenience even more now than before COVID-19.² 83% of consumers expect flexible shipping and fulfillment options like BOPIS.³ Our companion piece to this research, “Consumer Preferences Embrace a Mix of Physical and Digital,” found that 44% of consumers preferred having multiple fulfillment options when purchasing online, rather than just defaulting to home delivery. Consumer behavior followed suit: 27% of online purchases are fulfilled at the physical store, found our 2021 survey of SMB retailers. This is consistent with research by Collier’s showing that omnichannel fulfillment grew from 7.9% of online orders in 2015 to 15.8% in 2019 and 21.7% in 2020.⁴

The potential of omnichannel offerings will only continue to grow as consumers increasingly desire a customized shopping experience and adopt more fulfillment options. Consumer usage of a mobile app or website to purchase a product and then pick it up at a physical store grew from 31% pre-pandemic to 51% since the pandemic began,⁵ a noteworthy 65% increase during the pandemic. SMBs are taking advantage of this opportunity and leveraging their physical stores: 61% offer buy online, pick up in-store, and 50% offer buy online, same-day curbside pickup. (See Figure 3)

OMNICHANNEL SMBs OFFER A VARIETY OF FULFILLMENT OPTIONS TO CUSTOMERS

Figure 3: Fulfillment options offered by SMB retailers selling both in-store and online



Source: InSightIQ SMB Retail Channel Choice Survey 2021, Deloitte InSightIQ Analysis
 Notes: Which of the following fulfillment options, if any, does your business offer to customers?

The rapid growth of omnichannel retail has allowed both SMBs and large national retailers to find synergies between their physical and digital channels to create enduring strategic value for their physical stores. A review of the recent annual reports from many of the most

² Salesforce, *State of the Connected Customer (4th ed.)*, October 27, 2020

³ Chain Store Age, “Survey: The top priority for online shoppers is...,” March 10, 2021

⁴ Colliers Fall 2021 U.S. Retail Report, *New Innovations Drive Retail Resurgence*

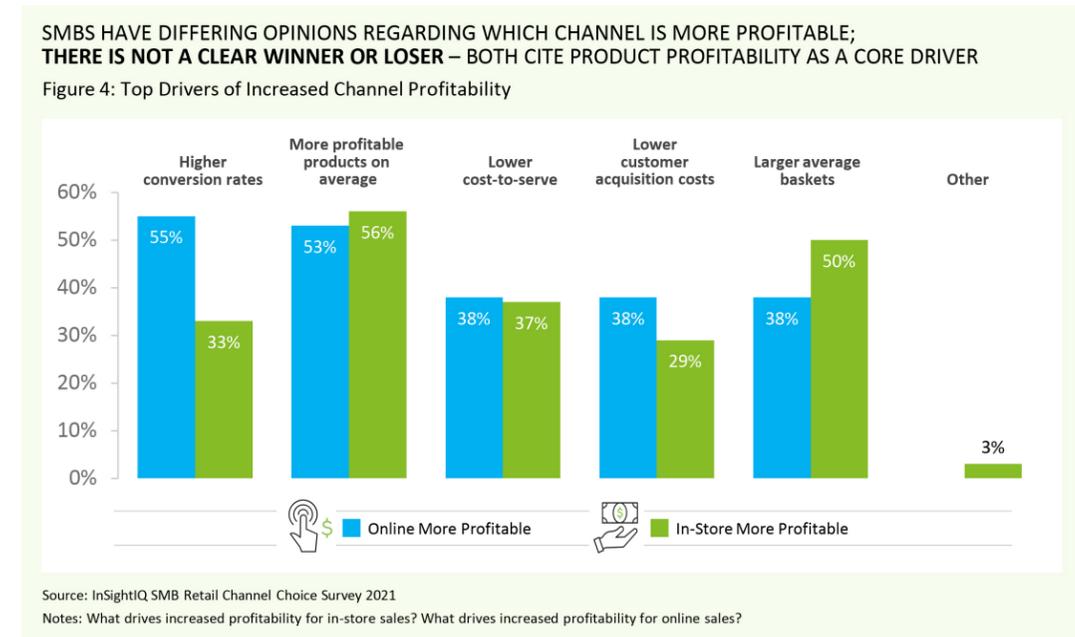
⁵ Deloitte’s ‘2021 Connectivity and Mobile Trends Survey’

successful national retailers highlights how they were able to use their physical stores to fulfill as much as 80–90% of online orders, and that same-day fulfillment accounted for large portions, for some as much as 70% of the digital sales growth over the previous year.

On one hand, this may seem to make predicting where consumers will ultimately complete their purchases more difficult. On the other hand, it opens up a whole new world of opportunities to retail professionals when you stop trying to guess or direct consumers to the channel the retailer prefers. Instead, embrace how the consumer prefers to interact with the retailer and give them the omnichannel options to customize their shopping experience.

ONLINE V. OFFLINE IS THE WRONG QUESTION— IT’S ABOUT THE BEST OF BOTH WORLDS

Which channel, online or offline, is more profitable to SMBs? It depends on who you ask; 44% of SMBs said online, 32% said they’re about the same, and 24% said in-store. Interestingly, both those who indicate online or in-store as more profitable cite similar underlying drivers of profitability, particularly profitability of products as a core driver. (See Figure 4)



Which channel has better cross-selling⁶ or up-selling⁷ opportunity? Our respondents said both have their advantages, and the plurality response to both questions was “about the same.” Some preferred the tracking capabilities of digital. Others preferred the face-to-face interaction of in-store. In the end, it all leads back to the idea that offering consumers the best of both worlds, online and offline options, drives more business. (See Figure 5)

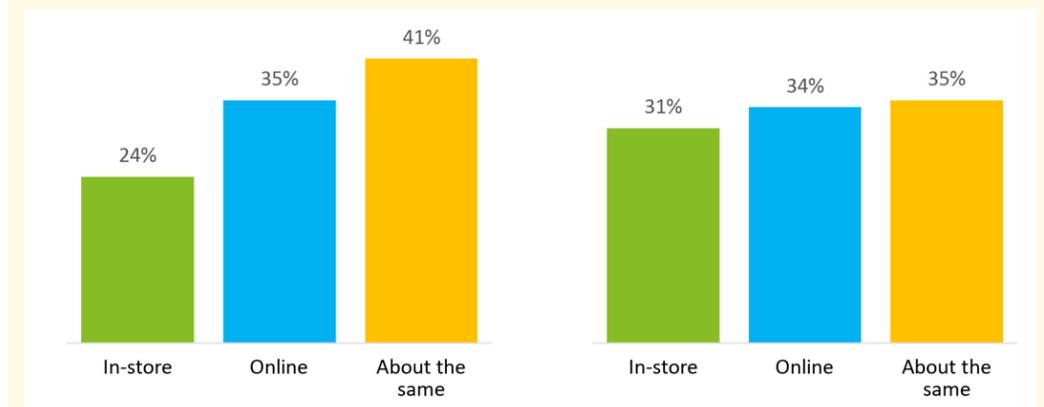
⁶Cross-selling is the practice of selling additional products to existing customers

⁷Up-selling is the practice of helping customers transition to upgraded / more profitable products or services

SIMILARLY, WHEN ASKED ABOUT WHICH CHANNEL IS PREFERRED FOR CROSS-SELLING OR UPSELLING, THERE IS NOT A CLEAR WINNER OR LOSER; BOTH CHANNELS ARE BENEFICIAL

Figure 5a: SMB Perspective on Which Channel Presents Better Opportunities for Cross-Selling

Figure 5b: SMB Perspective on Which Channel Presents Better Opportunities for Upselling



Source: InSightIQ SMB Retail Channel Choice Survey 2021

Notes: In general, which channel presents better opportunities for cross-selling (i.e. selling a different product / service to a customer): in-store or online? In general, which channel presents better opportunities for upselling (i.e. selling a comparable higher-end product): in-store or online?

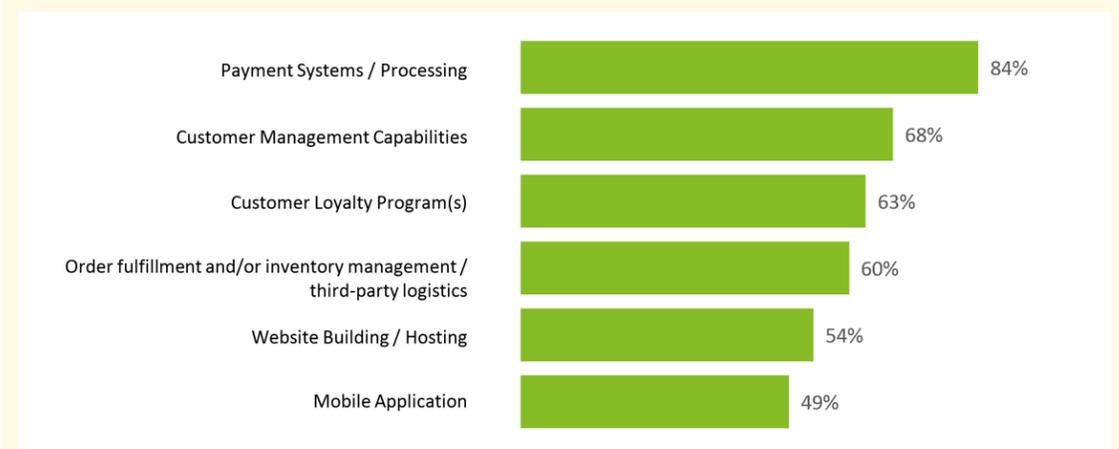
RETAILERS ARE USING A VARIETY OF TOOLS TO COMPETE

Almost all, 99% of the SMBs surveyed, said they use at least one digital tool or marketplace. Most use a variety of tools to support their business activities including sales, marketing, fulfillment, advertising, and payment systems. (See Figure 6)

Digital tools have lowered barriers to entry in retail, allowing SMBs to reach consumers far beyond their physical location or hometown. Digital tools help SMBs grow their business, run their business more efficiently and effectively, and engage and build a relationship with the consumer at their preferred time.

SMBS ARE USING A SUITE OF DIGITAL TOOLS

Figure 6: Utilization of Digital Tools

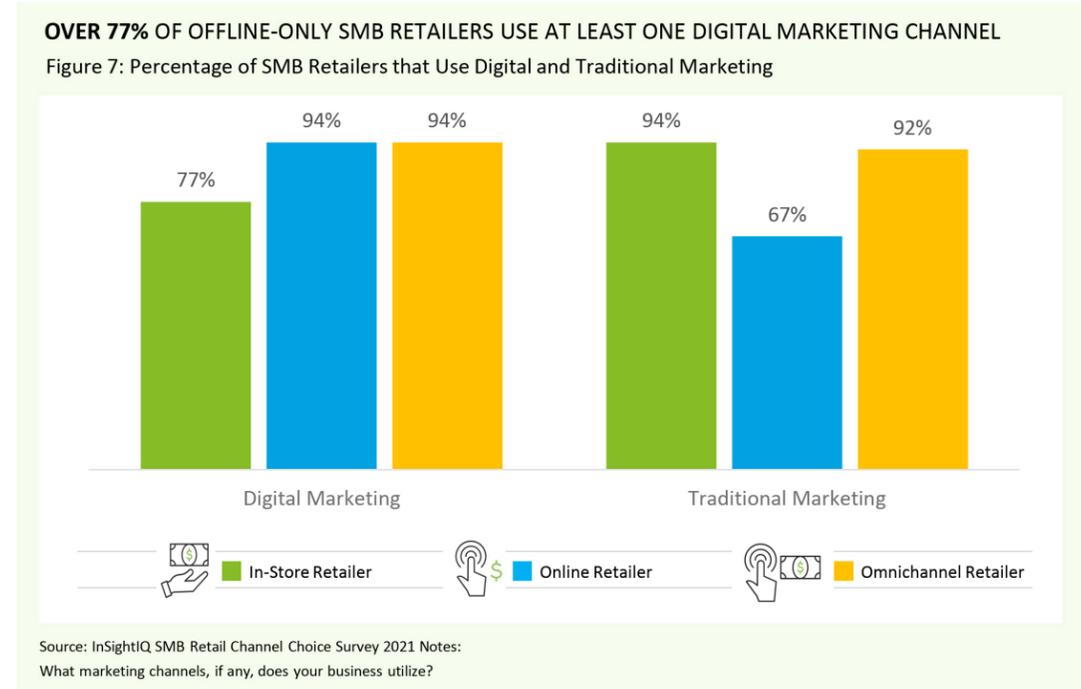


Source: InSightIQ SMB Retail Channel Choice Survey 2021, Deloitte InSightIQ Analysis

Notes: Does your business utilize [Tool]?

SMBs are embracing digital tools more than ever, from the use of digital marketing tools to widespread use of online marketplaces to back-office and fulfillment tools.

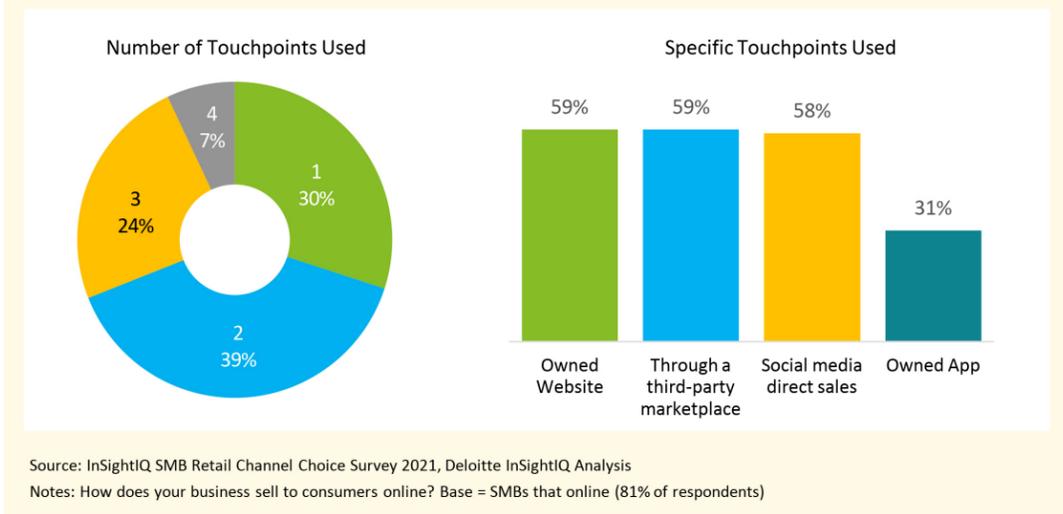
Digital tools are not exclusively used by retailers who sell online, and offline tools are not exclusively used by retailers who sell in-store. For example, both digital and traditional marketing channels are used across a super-majority of retailers who sell: in-store only, online only, and omnichannel (See Figure 7). 77% of SMBs that only sell in-store use digital marketing tools, and 67% of SMB retailers that only sell online use traditional marketing tools, and 9 out of 10 retailers selling both in-store and online use both digital and traditional marketing. Digital marketing is particularly valuable to the 47% of SMBs who sell both in-store and online (omni-channel); three-quarters use digital marketing to target customers and potential customers outside of the geographic footprint of their brick and mortar retail locations.



Among the SMB retailers who are currently selling online, they're using a variety of digital touchpoints; 70% are using more than one and 31% use three or more. (See Figure 8) Moreover, many use more than one service provider within each touchpoint. SMBs' use of multiple online touchpoints and multiple service providers within each touchpoint demonstrates the intensiveness of online retail competition.

SMBS SELL TO CUSTOMERS THROUGH A VARIETY OF DIGITAL TOUCHPOINTS

Figure 8: Touchpoints Used Among SMBs Selling Online



In our companion piece to this research, "Consumer Preferences Embrace a Mix of Physical and Digital," we took a detailed look into the consumer shopping journey to better understand the current state of retail.

What we found was that consumers more than ever are demanding a tailored shopping experience that is most convenient to them, and includes both physical and digital options throughout the journey. Smart retailers are providing an experience that meets expectations, satisfies needs, and builds trust between brand and customer.



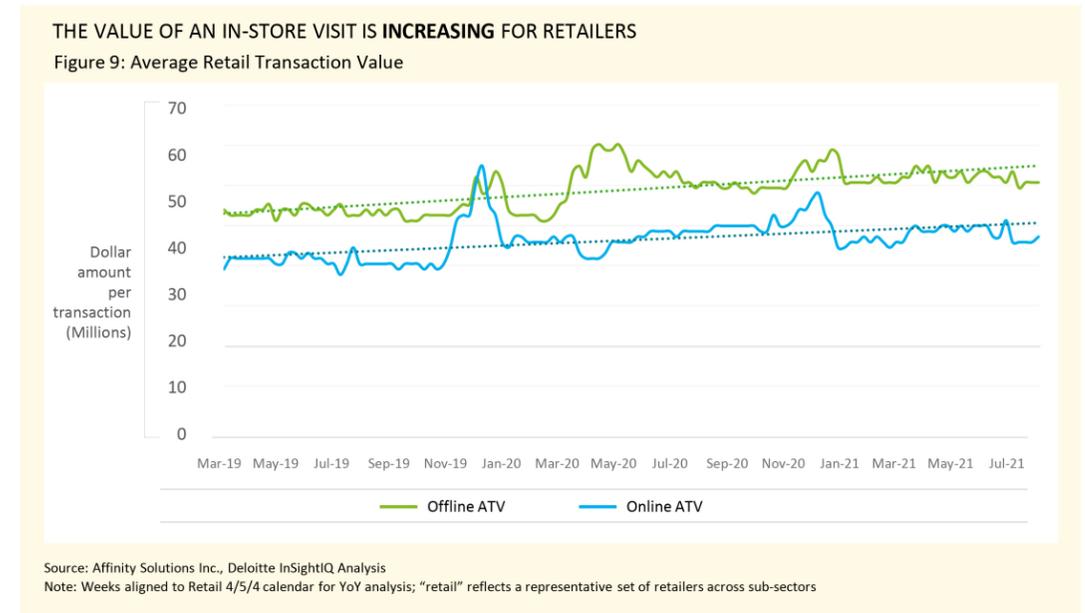
In short, retailers should never categorize a consumer as an online customer or an in-store customer—because more often than not, consumers use a mix of both online and in-store options. The better understanding retailers have of consumers and what they want— or of their loyal customers and what they want—the more effective they can be when crafting strategies, establishing competitive pricing, building experiences, and delivering satisfaction. Digital tools facilitate all of this.

STATE OF AFFAIRS: CONSUMERS RESPOND TO COVID-19 AND RETAILERS INNOVATE

Smart retailers are constantly innovating to provide consumers with the shopping experiences and choices they demand. This is best exemplified during COVID-19 when retailers rapidly responded to quickly shifting consumer preferences with respect to fulfillment.

Rarely does an industry trend show itself so clearly. Retailers from SMBs to large nationwide stores responded quickly and announced plans to implement or expand omnichannel fulfillment options like BOPIS and curbside pickup for online orders, capitalizing on their physical stores to serve as fulfillment centers to respond to consumer public health safety concerns.

From May 2019, before the pandemic began, to the end of summer 2021, the average value of each in-store transaction steadily rose—and today the average in-store transaction is larger than ever. (See Figure 9)



CONSUMERS OFTEN USE BOTH CHANNELS SEAMLESSLY, OFTEN WITHIN THE SAME JOURNEY, BLURRING THE LINES BETWEEN THE TWO MORE THAN EVER

Figure 10: Both online and in-store play important roles across the shopper journey



RETAILERS ARE CONSTANTLY INNOVATING

Many retailers, large, small, and everything in-between, are constantly innovating, and proved it during a pandemic (when they needed to the most). With the onset of the COVID-19 pandemic and lock-downs that temporarily closed the doors on many brick and mortar locations, retailers rapidly evolved to embrace, or double-down, on integrated omnichannel capabilities. For example, retailers that had not yet adopted capabilities like BOPIS transformed their operations seemingly “overnight” to continue to serve their customers in the way the moment required.

Omnichannel: One Size Does Not Fit All

Customers are using every tool and every channel available to them: at times that means searching online for a retailer with a better price; at times that means making a more convenient trip to a store nearby; at times that means comparing products and retailers online while shopping in-store.

This change in perspective doesn't always translate to direct incremental sales, but it does position you as a brand that delivers what customers need and want when and where they are, whether they choose to walk in through a front door physically or digitally.

EXPANDING THE MINDSET

So what if you're one of the retailers who hasn't started to offer a mix of physical and digital shopping options to consumers? What can you do to expand your thinking to a world where consumers shop and research across online and offline channels and expect flexible fulfillment options?

First, you need to start looking to your customers and consumers in general for signals about what they need, when, and why:

- Stop “selling transactions” and start “tailoring experiences;”
- Stop “answering shopper’s questions” and start “meeting a customer’s need;”
- Stop regarding online and offline as competitor channels as both can benefit your business

Consumers are individuals, each at a different point in their own journey. Respond to them with an understanding of what they want, when they want it, and where they need it delivered. Are they ready to buy or just researching? Make it easy for them. Do they need something today or is two-day shipping a perfect option? Give them choices.

After adapting your mindset, it's time to start putting it into practice:

- Actively detect signals from the market and utilize data from sources outside your own. Many of our clients find that they only have access to 25% of the most meaningful signals if they use only internal data.
- Scale your models using advanced intelligent solutions. Don't waste effort building things by hand when you don't have to.
- Expand or embrace new digital tools and channels. Third-party solutions are especially useful to SMBs as they cost less than creating a bespoke in-house solution. Moreover, third-party solutions are often easy to integrate seamlessly with in-store operations, especially for smaller, more agile retailers without bureaucratized in-store operations.



In the end, the research supports the idea that consumers don't think of shopping in segmented terms of online and offline. They just want to find the products they need, at the time they need them, and at the price that works for them. A mix of physical and digital shopping options makes it easier for retailers of all sizes to meet these needs and win. ♦

ABOUT OUR RESEARCH

To better understand small and medium sized retailers' perceptions and strategies, we conducted a quantitative survey of n=1000 retail leaders across 12+ product categories, and conducted a qualitative digital focus group among a n=30 retail leaders to dig deeper on their perspectives. We analyzed three years of observational data on consumer behaviors related to their spending and traffic, across in-store and online channels. As a result, we now have a much clearer understanding of what, how, and why SMB retailers make strategic choices to respond to changing consumer behaviors.

1,000 surveys | **30** interviews | **3 years** of data | **12** product categories



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