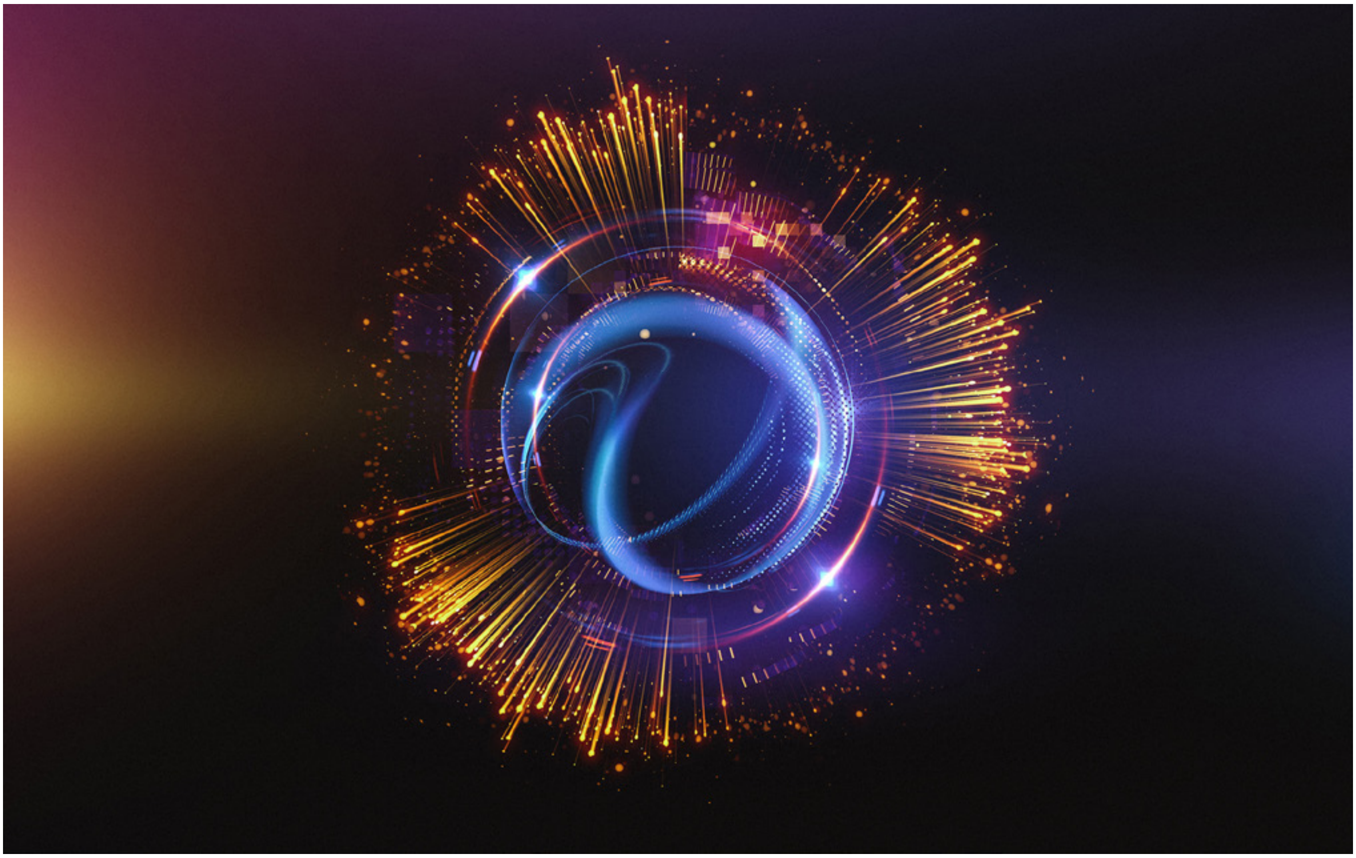
By the editors of **Internet Retailer**

THE BEST OF 2018
INTERNET RETAILER RESEARCH

E-commerce industry data and analysis on key topics including market leaders, global expansion, fulfillment, personalization and more.



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INTRODUCTION

For nearly 20 years Internet Retailer has collected, analyzed and ranked the largest merchants in e-commerce. From that base, we've built a body of research that enables us to dig deeply into the e-commerce market in North America and abroad, and to examine different sectors of the market and the critical components necessary to run an online retail business. In 2018 we published more than two dozen data-rich research reports targeting key topics and market segments, providing expert trend and data analysis for readers.

These report topics range from big-picture studies of the Internet Retailer Top 1000 and global e-commerce to more narrowly focused analyses of online marketplaces and personalization strategies. The seven subjects presented here provide readers with insights from the best of our 2018 research.

We hope you enjoy this free introductory look at our research coverage. Access to these research reports and dozens of others are included in premium memberships. Learn more or become a gold or platinum member for complete access.

—The editors at Internet Retailer

FOR RETAILERS, ONLINE IS WHERE THE GROWTH IS

E-commerce retailers made up 13% of all retail in 2017.

By Don Davis

The growth in online retail sales has been remarkably consistent since the recession ended in 2010. It's averaged just over 15% during that period, and shows no sign of slowing down. In fact, in 2017 e-retail growth accelerated to 16.0% over 2016, according to the U.S. Commerce Department, the first year of above-15% growth since 2011.

The retailers ranked in the 2018 Internet Retailer Top 1000 accounted for roughly 92% of the 2017 online retail sales in the United States and Canada, and thus provide valuable insights into what's driving this consistent growth in online shopping.

25%

Projected percentage of e-commerce share of U.S. retail sales in 2024

(excluding automobiles, fuel and restaurant meals)

Source: Internet Retailer

When you exclude online sales, the rest of the retail industry—stores, vending machines, door-to-door sales, mail order and everything else—only increased by 2.2%. And that was in the strongest year the retail industry has seen in years. The web accounted for 13.0% of total U.S. retail sales, excluding vehicles and fuel, up from 5.1% a decade earlier, in 2007. What's more, e-commerce represented 49% of growth for the U.S. retail industry.

Readers won't have to look far to detect Amazon.com Inc.'s outsized role in that growth: The No. 1 e-retailer in the Top 1000 accounted for 30.7% of Top 1000 online sales in 2017, an increase from 29.8% in 2016. Thus, much of the Top 1000 report is about how competitors are fighting Amazon for market share, amid the overall growth in online shopping.

Some are holding their own, or even growing faster than Amazon. Some of the biggest retail chains registered online growth above 20% in 2017. And there continue to be startups bringing new ideas to online retailing, whether that's setting up websites where women can sell dresses on consignment, disrupting traditional retailers of products like mattresses and eyeglasses, or simply designing new styles and selling them directly to consumers via the web, cutting out the wholesalers and retailers that in earlier times took their cuts of every sale.

Here's another sign that growth remains broad-based in e-retailing: 518 of the Top 1000 grew their online sales in 2017 by more than the 15.9% growth of the U.S. market.

Consumer brand manufacturers led the way in terms of above-market growth. Of the 255 branded manufacturers in the Top 1000, 162, or 63.5%, registered year-over-year growth of 16% or above. Web-only retailers were next, with 55.0% of the retailers in that category exceeding the growth of the U.S. market.

The largest cohort in the Top 1000 are the 397 retailers that sell primarily online, and they collectively grew the fastest among the four major types of merchant groups in Internet Retailer's Top 1000 analysis. (The other three categories are retail chains, consumer brand manufacturers and merchants that sell primarily through catalogs and call centers.)

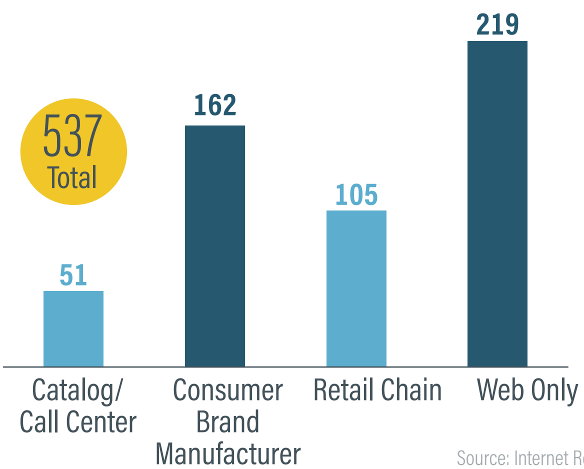
Web-only retailers increased their sales by 20.6% in 2017 over 2016, well above the U.S. market growth. Even when taking out Amazon, online retailers still increased their sales by 19.5%, faster than any other type of merchant.

But that doesn't mean all was rosy for retailers that sell online. Two web-only retailers that had grown rapidly, women's apparel brand Nasty Gal (No. 323 in the 2017 Top 1000) and Door to Door Organics (No. 415 in the 2017 edition), effectively went out of business. United Kingdom-based Boohoo.com UK Ltd. bought Nasty Gal's assets for $20 million in February 2017, a big comedown for a one-time hot e-retailer that had raised $65 million in venture capital. Jewelry retailer Blue Nile (No. 108 in the 2018 Top 1000) was sold to a private equity firm for substantially less than its peak value, and insiders say some of the online retailers Walmart Inc. acquired in the past year or so were struggling.

Collectively, the 255 manufacturers in the Top 1000 increased their online sales in 2017 by 15.9% over 2016, slightly less than the 16.0% growth in U.S. e-commerce and nearly three percentage points below the Top 1000 average of 18.5% growth. But there is a subset of manufacturers that grew more quickly. These are brands that design their own products and sell them initially online, rather than in stores, in

MARKET BEATERS

Number of retailers by merchant type with 2017 online sales growth of at least 16%



Source: Internet Retailer

the manner of such traditional manufacturers as Nike Inc. (No. 27) or Under Armour Inc. (No. 33).

Such startups are sometimes referred to as “digitally native vertical brands,” or DNVBs, and their control of the design and production process potentially affords them a greater profit margin than they would enjoy if they bought and sold goods from other suppliers. They also enjoy an advantage that’s increasingly important today: They can create unique products—merchandise that consumers can’t find on Amazon.com.

These digitally native brands are growing fast—collectively they increased their online sales by 53.6% in 2017. And they are mostly relative newcomers, with an average launch date of 2011 versus 2002 for the Top 1000 as a whole.

Glossier Inc. (No. 175) is an example of an online brand selling its own products in a way only it can, primarily to followers of its own popular Into The Gloss blog that features interviews with models, makeup artists and other celebrities.

Glossier’s e-commerce business was spun out of the blog in 2014, and the company has steadily grown its line of cosmetics since. The Into The Gloss blog, which attracts an average of 2.43 million monthly visitors, allows Glossier to speak directly to potential customers, and highlight products in a low-key way. Consumers can shop Glossier from the blog and those who sign up for the blog’s email list also get marketing email from Glossier.

All indications are that there is plenty more growth ahead in online retailing. But only those with the cash and creativity to stand out amid increasingly tough competition will share in the growth in e-commerce that lies ahead.

For more information on Amazon’s domination in online retail, what e-commerce startups are doing to make it and more, download the 2018 U.S. Top 1000 report at www.digitalcommerce360.com/product/top-1000-report

SPONSORED ARTICLE

ONE-ON-ONE CUSTOMER ENGAGEMENT HELPS RETAILERS MAINTAIN PROFITABILITY WELL AFTER THE HOLIDAYS

The 2018 holiday shopping season was one for the books. For the first time in history, U.S. shoppers were set to spend slightly more than $1 trillion between Nov. 1 and Dec. 31, a 5.8% increase over last year, eMarketer Inc. predicted.

But what almost always follows the profitable shopping season for retailers is a post-holiday lull, according to Ron Gerace, senior vice president of product and marketing at Exchange Solutions, a customer engagement company. "Consumers have spent much during the holiday season, and they want to give their credit cards a break," he says.

But at the same time, retailers are trying to continue their sales momentum and start the year off strong. "It's a challenge," Gerace says.

When they start to see sales slow, Gerace says a retailer's knee-jerk reaction is often to increase promotional spending. For example, a retailer that sees its sales drop the first week of January may offer a dollar-off promotion to all their customers. "It's the first tool they use to reignite revenue, but it's a profit killer," he says. "There are better ways to keep the holiday momentum going without spending on promotions—and it all centers on the ability to drive customer engagement."

Gerace says retailers can dramatically reduce promotional spending by delivering customers more efficient offers at the right time. For example, a nonmonetary offer to inform a customer he is only $5 away from free shipping may prompt him to add to his purchase. An encouragement offer, such as reminding a customer of a return policy that lessens her concern about her purchase may be just the nudge to get her to complete her order.

But an offer that appeals to one customer may not appeal to another, Gerace says, so it's important that retailers have the ability to engage their customers with individualized offers and messaging to create a truly personalized experience that leads to profitable revenue. "Using artificial intelligence and machine learning technology will help them achieve that," he says.

A large, international home improvement retailer was recently looking for new ways to boost its online revenue in a way that minimized margin erosion. Collectively, its shoppers put more than half a billion dollars worth of merchandise in their online carts each year that they didn't buy, and because a majority of them didn't log in, the retailer had no data on these customers.

The retailer worked with Exchange Solutions to implement a cloud-based tool that used artificial intelligence and machine learning to individualize offers for customers and drive engagement. The tool targeted customers that were most likely to abandon their carts and then presented them with offers in real time to entice them to complete their orders. After three months, the retailer saw a 15% jump in conversion rates, average order values increased $35 and every $1 invested in the program returned an average of $6 in revenue.

"Any retailer, with the right partner and technology, can maintain its holiday momentum well into the year by focusing on this type of one-to-one customer engagement," Gerace says.

Ready to reignite revenue without mass discounts that kill profits and margins?

Not all your customers need deep discounts, so start engaging your customers individually, personally and profitably with the right offers and messages.

Crest a post-holiday high without enduring deep discount lows with Exchange Solutions.

Exchange Solutions

www.exchangesolutions.com/blog

ONLINE RETAILERS ARE GETTING MORE PERSONAL

Personalization can boost revenue and get shoppers to buy more, but not many retailers are doing it.

By Don Davis and Jessica Young

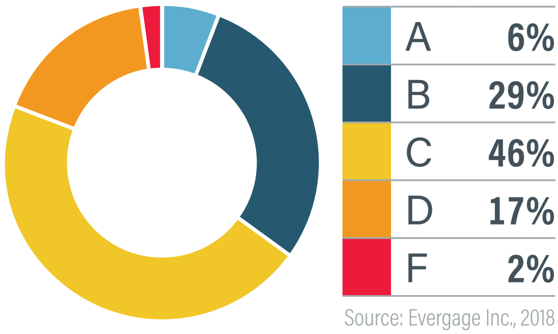
Personalization is important—but it's hard. That's the opinion of marketing executives, and it shows up in an Internet Retailer test of the personalization capabilities of 125 leading online retailers.

Our tests of the websites, mobile sites and marketing emails of these relatively large retailers reveal a wide variety in their personalization practices. A few are customizing content at every opportunity—and in some cases letting the shopper know they're doing it. But most are only offering personalization in some, but far from all, of the areas we tested.

Many marketing executives recognize they have a long way to go to effectively serve customers in a personalized way. In a 2018 survey of 300 marketers by Evergage Inc., a provider of personalization software, only 6% gave their organizations a grade of A in personalization and 29% a B. The largest segment, 46%, gave themselves C's, while 17% awarded their companies D's and 2% F's.

A retailer doesn't have much to work with when a visitor like our testers lands on a website with all cookies cleared and an empty browser cache. But retailers can generally detect one important piece of information: where the consumer is coming from, based on her IP address. That's particularly important information for retailers that operate bricks-and-mortar stores and use their websites to drive traffic to those locations.

HOW 300 EXECUTIVES GRADE THEIR COMPANIES ON PERSONALIZATION



Source: Evergage Inc., 2018

Of the retail websites tested from a desktop computer, just under half (47.6%) picked up some information from our tester's device without requiring her to enter any address details. Only 19.0%, however, made clear that they had narrowed down the visitor's location to a city or ZIP code.

Several of those retailers, for example, tell the visitor the location of the nearest store to them. The retailer that made the best use of that piece of information was Neiman Marcus, which not only pointed out the nearest store to the visitor but also highlighted events coming up in that store.

Once a consumer begins browsing a retailer's website, she's providing signals about what interests her. That can help an online retailer recommend products tailored to those interests. And product recommendations make an impact: A study by e-commerce technology provider Salesforce.com Inc. showed that 37% of shoppers who clicked on a recommended product during their first visit to a retailer's site returned to that site, versus just 19% who didn't view a suggested item.

Williams-Sonoma Inc. is an example of a retailer that updated its homepage recommendations immediately based on our tester's activity. Before browsing, a section of the homepage labeled "Just for You" showed blenders and cookware. After the tester navigated to product pages for grilling cookware the "Just for You" tile on the homepage changed to show grill tools and outdoor dinnerware.

Williams-Sonoma also updated its category pages to reflect the tester's activity. When the tester returned to the "Outdoor best-sellers" section, it showed products similar to those the tester had viewed under a heading "Customers who viewed items in your recent history also viewed."

The page also encouraged the tester to "See recommendations just for you," and clicking that link took her to a page called "Top picks for you." On that page, Williams-Sonoma makes clear it plans to offer personalized recommendations as she browses the site. The page says: "Welcome to your personalized list. As you browse and shop on our site, we'll update your top picks based on what customers with similar interests have selected."

On that page, the tester could select from a "Show top picks by" dropdown for the following sub-categories: "Recently viewed," "Under $100," "Top gifts," "For him," "Williams Sonoma," "Grilling essentials," "Gifts for the cook," "Top-rated" and "Grilling tools & accessories." Those are all suggestions closely related to the grilling tools the tester had viewed. There was also another dropdown to filter for category, which gives a consumer the option to view other types of products.

In all, 51 items were listed, and each product image and description had a "View similar items" link at the top. 18 of the items were related to outdoor cooking and included a carving board, cedar planks, BBQ sets, skewers, cookbooks and a brand that allows a chef to sear his initials into the steak he's grilling.

Good personalization makes customers feel that the retailer knows what they are looking for, and a great place to show that they are understood is in the search bar.

Online retailers have good reason to pay close attention to site search. According to Salesforce, website visitors who use a site's search box are 2.4 times more likely to buy than other visitors. And, while users of site search account for only 9% of visits, they generate 23% of online sales.

Yet, relatively few major online retailers appear to be fully personalizing their site search engines.

The way our testers gauged site search personalization was by browsing for certain products and then typing in related terms in the site's search box. Since nine out of 10 of the retailer websites we tested offered type-ahead search, we looked for evidence that the site search engine associated the words we began to type with the products we had searched for. For example, if we searched for table lamps, did the site search box suggests "lamps" after we typed in the letters "la"?

Only nine of the 112 sites with type-ahead search—or 8.0%—personalized site search in this way. For example, our tester looked at paper shredders on Staples.com and then went to the search box and typed in the letter "s": Shredders came up first in a list of suggested products. But that wasn't the case when the tester went to another browser and typed "s" into the search box before viewing products. In that case, the search box brought up first such products as staplers, scissors and staples.

On BestBuy.com, a tester who viewed product pages for drones and then started to type "dr" into the search bar saw a suggestion for drones as the top item, ahead of such products as dryers, Dr. Dre headphones and Dragon Ball (a Japanese TV show for which Best Buy sells DVDs). Thumbnail images of products in the preview results also appeared.

The primary takeaway from our study of 125 leading online retailers was this: There is a big variation in the extent to which even the largest e-retailers have mastered personalization.

Given that each retailer has its own combination of e-commerce technology and systems for storing customer and product data—some of it built in-house in many cases and other pieces licensed from technology providers—there is no one road map to advanced personalization. But some online retailers are getting there.

Shoppers who use a site's search box are **2.4x** more likely to buy than other visitors

While site search users account for only 9% of visits, they generate **23%** of online sales

For more details on Internet Retailer's findings on personalization, including highlights from some of online retail's top personalizers, download the 2018 E-commerce Personalization Report at www.digitalcommerce360.com/product/e-commerce-personalization-report

MARKETPLACES ARE HALF THE ONLINE SHOPPING EQUATION

Big marketplaces are drawing in consumers with their breadth of offerings, but smaller players compete with better seller options.

By Fareeha Ali

For the first time, in 2018 Internet Retailer researched and analyzed the top 75 online marketplaces in the world. Our analysis shows these 75 marketplaces sold more than $1.55 trillion worth of goods in 2017. Gross merchandise sales on these sites account for more than 90% of global marketplace sales and more than half of all global online retail sales.

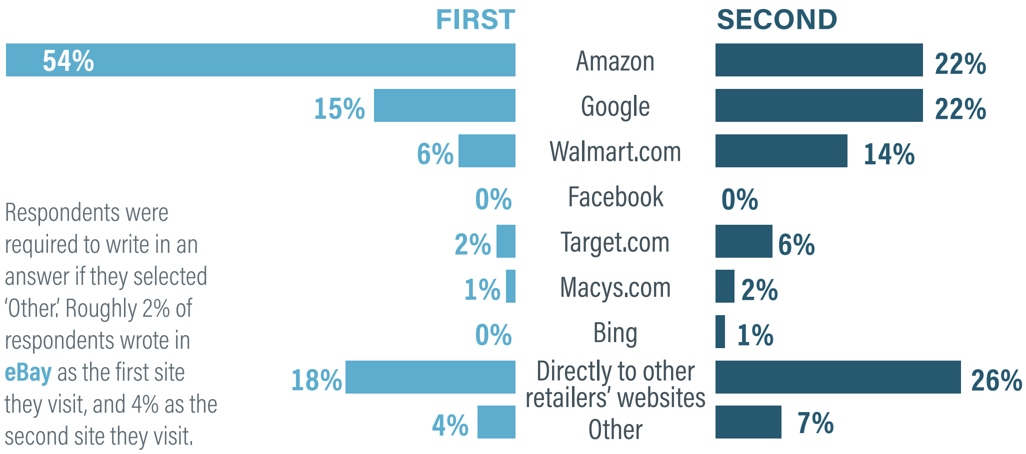
The world's largest marketplaces, operated by Alibaba Holdings Group Ltd. and Amazon.com Inc., dominate the industry. But there are a number of marketplaces, many that sell products in a particular retail category, increasing sales at a rapid pace. In fact, 41 of the 75 marketplaces Internet Retailer tracks grew faster than the 27% growth Amazon logged, and 15 of those marketplaces brought in more than $1 billion in sales in 2017.

Marketplaces are popular because customers are attracted to the breadth of products available and competitive prices on a single site. Internet Retailer and Bizrate Insights surveyed 1,082 U.S. online shoppers in March to learn more about their online shopping habits. The survey asked consumers the first and second shopping sites they visit, and among the results were seven marketplaces operators (Amazon, Walmart Inc., eBay Inc., Etsy Inc., Wish.com, Facebook and Newegg Inc.) 54% of consumers say Amazon is the first site they visit, followed by Google (15%) and Walmart.com (6%). Of course, sites like Walmart and Newegg sell their own products as well, but it's still a signal to marketplace sellers that their products are put in front of a large audience.

Furthermore, 97% of U.S. consumers who shop online do so on marketplaces, up from 85% in 2016, according to a 2017 global study by United Parcel Service and comScore Inc. The study evaluated consumer shopping habits of more than 18,000 online shoppers worldwide. Of those U.S. marketplace shoppers, 90% surveyed said they shop on Amazon, up from 70% the previous year.

Consumer interest is just one side of the marketplace business model. In order for marketplaces to be successful, they need to attract brands and retailers to sell their merchandise. Marketplaces tend to sell merchandise from small and midsized

WHEN SHOPPING ONLINE, WHERE ARE THE FIRST AND SECOND PLACES YOU GO?



Source: Internet Retailer and Bizrate Insights survey of 1,082 consumers, March 2018

merchants, particularly because for years many prestige brands steered clear of sites like Amazon and eBay, fearing that their discount model would hurt their reputation. But marketplaces, particularly Amazon, are chipping away at that resistance.

The tens of millions of shoppers who are loyal to Amazon makes selling on the marketplace an opportunity many retailers and brands feel they can't refuse, even though many of them consider Amazon their biggest competitor.

29% of the retailers in the Internet Retailer 2018 Top 1000 sell on the Amazon marketplace. The next most popular U.S. marketplace in terms of Top 1000 participation is eBay at 16%, followed by Alibaba's Tmall at 11%.

Nike Inc. began for the first time selling a limited number of items on Amazon.com last summer, recognizing the reality that Nike products were already available on Amazon.com from many other merchants. Calvin Klein offered an expanded selection of underwear and jeans on Amazon for the 2017 holiday season and Gildan made its full line of men's underwear available on Amazon in January 2018, reports Coresight Research, an online market intelligence firm. Under Armour Inc. also sells its products to Amazon.

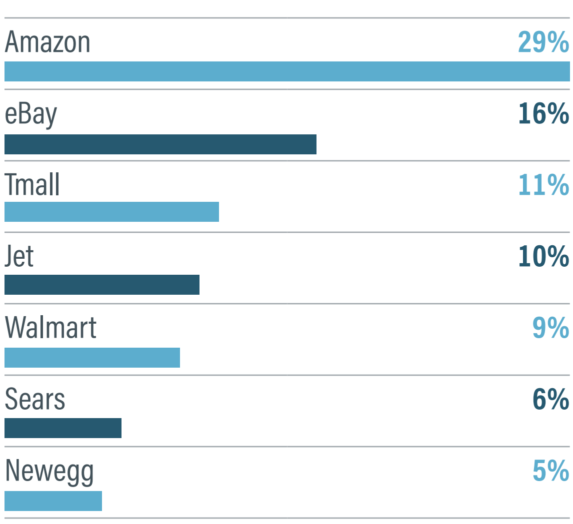
Sears Holdings Corp. took the same route in 2017, for the first time selling Kenmore appliances to Amazon on a wholesale basis, which will then be sold on Amazon.com. Best Buy Co. Inc. began selling as a third-party merchant on Amazon.com for the first time in the summer of 2018. Amazon is the exclusive seller of web-connected "smart" TVs loaded with Amazon Fire software, including the Alexa voice assistant. Best Buy will sell those TVs in its stores and on BestBuy.com as well as on Amazon.

Marketplaces also present opportunities for smaller brands. Many online marketplaces are small and very specialized, offering consumers a unique set of goods in a specific retail vertical. Of the 75 online marketplaces Internet Retailer tracks, 34 sell products from a particular merchant category, such as apparel or home furnishings. Electronics marketplace operator Newegg and home furnishings marketplace Houzz are some of the bigger examples. The majority (29) of the niche marketplaces bring in less than $1 billion a year in GMV.

Small and specialized can be a good thing for sellers as long as the product lines of the seller and the marketplace match up. Consumers attracted to sites such as Orchard Mile, a high-end luxury fashion site, are likely certain about what they're looking for. That's also why category-specific marketplaces tend to charge sellers a higher commission than the 8-15% average of mass merchant marketplaces.

WHERE THE TOP 1000 ONLINE RETAILERS SELL

Portion of Top 1000 retailers that sell on each marketplace



Source: Internet Retailer

For musical instruments retailer Monster Music, the highly targeted audiences of some of the smaller marketplaces have made these attractive outlets for bringing in new sales, says owner Brian Reardon. In addition to its retail store in Long Island, New York, the company sells on its own website, eBay and Reverb, an online marketplace for musical instruments. Reverb sold $385 million worth of goods last year from 150,000 merchants selling products targeting customers looking for musical instruments or other related products. Reverb projected $600 million in 2018 GMV, Reverb CEO David Kalt says.

Since it started selling on Reverb in 2014, Monster Music has generated more than double the sales on Reverb compared with eBay, Reardon says. Having a customer base that's only looking for instruments helps. It's particularly helpful because 70% of items Monster Music sells are used, so a targeted music-oriented audience brings in both buyers and sellers.

Marketplaces are a significant part of the e-commerce industry. And signs of where the industry and consumer shopping habits are headed show the growth of marketplaces isn't slowing down anytime soon.

To learn more about marketplaces, including growth internationally, analysis of marketplace leaders and more, check out the full 2018 Online Marketplaces Report: www.digitalcommerce360.com/product/online-marketplaces-report

GROCERY'S FUTURE GROWTH LIVES ONLINE

Online sales of food are a tiny slice of the overall grocery market, but big players are moving in on e-commerce opportunities as a path to growth.

By James Melton

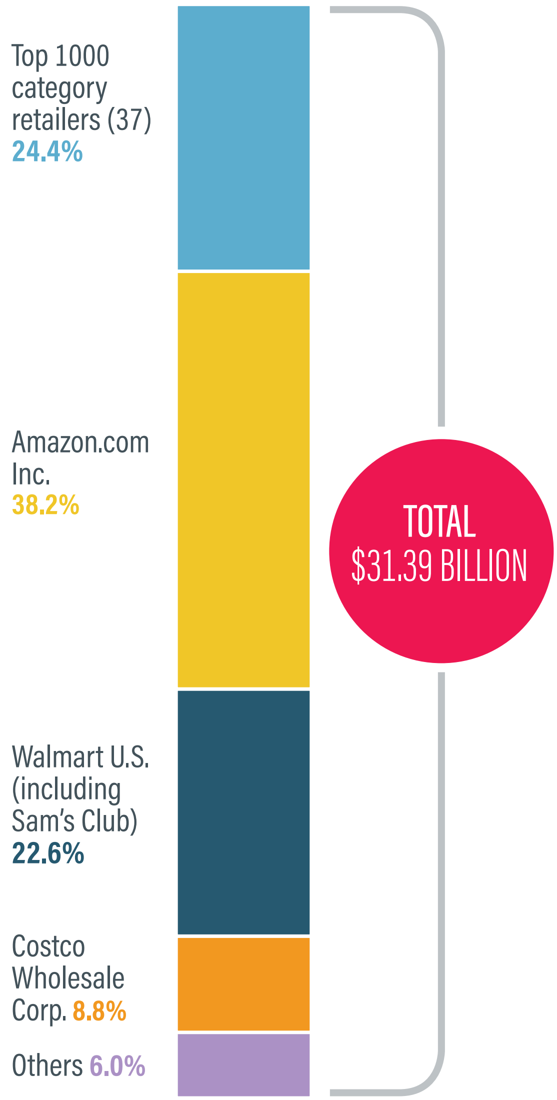
Virtually every week, another food retailer announces that it will begin or expand delivery of online orders or that it will add pickup points for such orders.

Walmart, Kroger and others are aggressively adding delivery services for online orders, even as they continue to expand pickup points for orders placed online. The boom in meal kits has seen some consolidation as German giant HelloFresh SE acquired Green Chef, while Kroger scooped up Home Chef for $200 million. Target Corp. also invested in delivery speed with the $550 million acquisition of next-day delivery service Shipt.

All of this change is happening in a sales channel that represents a small part—about 3%—of the $1 trillion-plus U.S. grocery market. Two factors are driving grocery chains and others to invest in e-commerce: The rapid growth of online grocery sales compared to in-store sales and competition from online retail giant Amazon.com Inc. Amazon, the No. 1 e-retailer in the Internet Retailer Top 1000, is the dominant player in online grocery sales—even if its overall market share in grocery retailing remains small.

STATE OF THE U.S. ONLINE FOOD MARKET

Share of top online food retailers



Source: Internet Retailer, U.S. Department of Commerce, company reports, Cowen & Co.

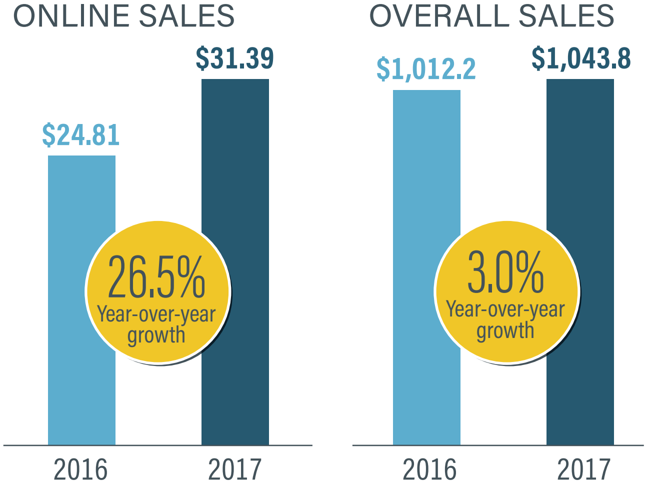
Amazon's position was bolstered considerably in 2017 when it acquired the grocery chain Whole Foods Market. After that acquisition, many supermarket operators, which in some cases were already cautiously wading into e-commerce, jumped into the deep end.

Kroger, for example, is working on a strategic plan called Restock Kroger, which aims to expand the company's digital and e-commerce efforts and make broader use of customer data. The Kroger Ship service is part of that plan. And investing in online food sales means getting in on a channel that's growing far faster than traditional food sales.

Internet Retailer estimates about 3%, or about $31.39 billion, of 2017 U.S. grocery sales were made online. That amount was up 26.5% from $24.81 billion in 2016, when online sales represented 2.5% of the overall market. That growth in sales means online grocery purchases represented about 21.0% of all growth in the U.S. grocery market in 2017.

GROWTH OF THE ONLINE AND OVERALL GROCERY MARKETS IN 2017

In billions



Source: Internet Retailer

On the surface, persuading consumers to buy groceries online seems like a tough sell. The clear majority of consumers do not shop for food online, according to a July Internet Retailer consumer survey conducted by Bizrate Insights. Of those surveyed, more than 80% say they have never ordered groceries online for home delivery.

On the flip side, however, the poll numbers indicate how much the online grocery business could grow. A look at data about the rest of the e-commerce market indicates how much potential exists. In 2017, e-commerce represented 13% of all sales of U.S. retail goods that could be purchased online and 49% of the growth, according to Internet Retailer data. About 27% of U.S. apparel and 22.0% of home good purchases, for example, are now made on the web.

Even if online grocery sales fail to reach the levels of penetration seen by other e-commerce sectors, the sheer size of the U.S. grocery market means food e-commerce could grow quickly into a sizeable industry.

Online grocery shopping is not something offered only by the big players. Many smaller and regional chains are also embracing e-commerce and omnichannel services. Fresh

Thyme Farmers Market launched delivery from most of its locations via Instacart, the app-based grocery delivery service, in March 2018. Then Weis Markets Inc. rolled out same-day delivery in September via Shipt in 11 markets.

Web-only grocers are also on the rise. FreshDirect LLC, for example, has figured out an important trick: how to make money delivering groceries. In July, the company, which topped an estimated $800 million in revenue in 2018, announced plans to open a 400,000-square-foot facility in New York's South Bronx that will allow it to double its business, CEO Jason Ackerman, a co-founder of the company, told Bloomberg News.

Boxed Wholesale, which sells groceries and household staples to consumers and businesses, raised $111 million in August after turning down a $400 million takeover offer from Kroger. Boxed's use of robotics is one reason the company is of interest to venture-capital investors and potential acquirers. Boxed's fulfillment centers use robotics developed in-house to help automate fulfillment and get orders out the door efficiently.

Subscription meal kits, which came of age in the online era, have seen the most growth of any grocery subcategory. The seven meal kit retailers in the Top 1000 grew 44.8% in 2017. And five of the top 10 fastest-growing online food retailers in the Top 1000 come from this category. It's also not unusual for relatively small, niche online retailers to grow at a fast pace.

However, the second-fastest growing subcategory is one that includes some of the biggest players in retail. Online food sales for the six Top 1000 mass merchants that also sell groceries—a group led by

MEAL KIT E-RETAILERS GROW FASTEST

Sales growth of online food and beverage retailers in the Top 1000, by merchandise subcategory

SUBCATEGORY	NUMBER OF RETAILERS	GROWTH
Meal Kit	7	44.8%
Grocery/Mass Merchant[1]	6	29.8%
Wine/Spirits	8	23.8%
Grocery/Fresh Food	18	11.7%
Candy/Sweets	3	6.9%
Coffee/Tea	1	0.0%
Overall	43	26.8%

1. Includes food and beverage sales from mass merchants that also sell groceries such as Amazon, Walmart and Target

Source: Internet Retailer

Amazon, Walmart and Costco Wholesale—grew 29.8% in 2017. Each of these players has been investing heavily to compete as omnichannel food sellers.

After decades of reluctance, the grocery industry and a significant slice of grocery shoppers are embracing e-commerce. In a slow-growing overall market, retailers are looking to gain customers any way they can. E-commerce offers grocery shoppers a level of convenience and flexibility they previously didn't have.

For more information, including an in-depth look at the major players in online grocery sales, download the 2018 Online Food Report www.digitalcommerce360.com/product/online-food-report

HOME GOODS RETAILERS CONTINUE HUGE REVENUE GROWTH

Online homeware retailers have the fastest growing revenue in the Top 1000, but dedicated home goods startups face competition from mass merchant powerhouses.

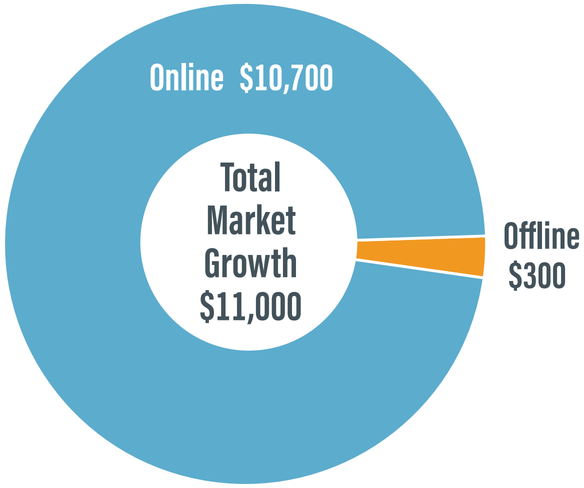
By James Melton

The online home goods market continues to grow at a blistering pace. In 2017, as in 2016, Housewares/Home Furnishings was the fastest-growing merchandise category in terms of sales in the Internet Retailer Top 1000. The Top 1000 ranks the largest e-retailers by their North American online sales.

The online sales for the 109 dedicated home goods retailers in the Top 1000 soared 29.3% in 2017, according to Internet Retailer estimates and company reports. That's compared to an 18.5% rate of growth for the Top 1000 as a whole. Online sales for the 109 home-goods e-retailers in the Top 1000 totaled $21.2 billion in 2017, up from $16.4 billion in 2016.

WEB SALES PROPEL GROWTH OF THE HOME GOODS MARKET

Online and offline growth in the home goods sector ($millions)



Source: Internet Retailer, U.S. Department of Commerce

Including Amazon, the 109 home goods retailers in the Top 1000 and others, Internet Retailer estimates the U.S. online home goods market was roughly $44.9 billion in 2017, up 31.3% from $34.2 billion in 2016.

The online share of the entire home goods market was 21.9% of the $205.3 billion (online and offline) market in 2017, up from 17.6% of 2016's $194.3 billion. That means online sales represented 97.3% of the growth in home goods sales in 2017.

Dedicated home goods retailers ranked in the Top 1000—those that specialize in selling home goods such as furniture, small appliances, lighting and décor items—had a 47.3% share of the online home goods market in 2017. Online retailers that sell home goods along with other kinds of goods—particularly Amazon—command the rest of the market.

It's not hard to see where the growth in the home goods category came from. Of the 109 retailers in this category, 14 had online sales growth of 75% or more in 2017, according to Internet Retailer data.

Of the 10 largest dedicated online home goods sellers, all showed at least some online sales growth in 2017. Mattress manufacturer Casper (No. 132 in the Top 1000), the eighth-largest dedicated home goods retailer, had online sales growth of 70.0% in 2017. That surpassed the growth rate of Wayfair Inc.—the largest retailer in the home goods category and No. 13 in the Top 1000—which grew 42.5%.

Of the dedicated home good e-retailers in the Top 1000, most are clustered into two subcategories, Furniture and Accessories/Home Décor. Those two categories have 28 and 27 retailers, respectively, and together represent 63.2% of the total sales for all 109 retailers analyzed.

Brands are also making it big online. At almost 40% of sales, chain retailers command the largest share of the online home goods market, but they also collectively grew their online sales the least. Seven of the 10 fastest-growing merchants in the online home goods market are consumer brand manufacturers.

But dedicated home goods sellers have to compete against some of the biggest names online.

TOP 10 FASTEST-GROWING

Ranked by 2017 online sales

Rank	Company	2017 growth	Subcategory
1	Harvest Right LLC	386.7%	Small Appliances/Electronics
2	Purple	149.3%	Mattress
3	Cutco Corp.	109.7%	Kitchen/Bath
4	Dyson Ltd.	109.0%	Small Appliances/Electronics
5	Helix Sleep	100.0%	Mattress
6	Traeger Grills	99.6%	Outdoor
7	AppliancesConnection.com	83.6%	Small Appliances/Electronics
8	American Signature Furniture	83.1%	Furniture
9	Char-Broil LLC	79.4%	Outdoor
10	Relax The Back	79.4%	Furniture

**For web sales, conversion rate and other key data points on home goods leaders, contact our custom research department at digitalcommerce360.com/database-inquiry/.
Source: Internet Retailer

Amazon is easily the largest e-commerce seller of home goods—and its sales in this category are growing fast. Internet Retailer estimates Amazon sold about $12.0 billion worth of housewares and furniture in 2017, up 50% from $8.0 billion in 2017. That gives Amazon an online market share of 26.7%—which is slightly more than that of the top six dedicated home goods retailers combined.

Among online retailers that specialize in selling home goods, Wayfair is the biggest. Its sales growth in 2017 was 42.5%, making it the fastest-growing retailer in the furniture subcategory. But its revenue is not growing as fast as Amazon's home goods sales—and it's not making a profit. In 2017, Wayfair lost $244.6 million.

That's not to say that online home goods sales can't be profitable. For fiscal 2017, Williams-Sonoma Inc. (No. 25) reported e-commerce net revenue increased to $2.78 billion from $2.63 billion in fiscal 2016. E-commerce generated 52.5% of total company net revenue in fiscal 2017 and 51.8% in fiscal 2016. Online operations at Williams-Sonoma were more profitable for the housewares seller, with operating margins for the e-commerce channel up to 23.0% versus 22.7% in 2016, the company reported.

To build on that momentum, Williams-Sonoma will invest in more omnichannel services to bridge the online and offline divide. The company will be adding the option to buy online and pick up goods in Pottery Barn and West Elm stores. It also will add text message notifications alerting customers of the status of their orders.

It used to be that buying a sofa, mattress, rug or other home good item involved going out to a store—or many stores—to sit or lie on samples of the merchandise. Once an item was purchased, that led to arranging delivery and having to be there when the new piece of furniture arrived.

Fewer people want to go through that anymore. So, mattresses and sofas are shipped in boxes via UPS. And the buying experience might include "trying" out virtual images of several options to see how they might look. Buying involves a click and a credit card, rather than waiting around for a salesperson to write up the order.

The successful home goods e-retailers will be those that are willing to question everything, embrace technology and find ways to differentiate themselves with unique products and a story that consumers will take to. ■

For more information, including demographic insights on the home goods market, a closer look at the big names in the category and a ranking of all the home goods retailers, check out the 2018 Home Goods Report www.digitalcommerce360.com/product/home-goods-furnishings-report

GROWTH OPPORTUNITIES GO GLOBAL

North American retailers are taking their offerings around the globe with a range of online tactics.

By Don Davis

Many consumers around the world are shopping on retail websites outside their home countries, looking for goods they can't find at home, better prices or products they trust. Retailers and brands increasingly are seeking to serve these global shoppers, and the prospects for growing sales and profits from international e-commerce have never been greater.

Already, 72 of the Top 1000 retailers in North America (ranked by online sales) operate websites outside of the United States and Canada, according to Internet Retailer research. And those sites account for more than 23% of their web sales.

That number, however, is skewed by leading e-retailer Amazon.com Inc., which operates 14 non-U.S. e-commerce sites outside of the U.S. and Canada, 11 of them with online marketplaces where other merchants and brands can sell. Amazon generates nearly half of its retail-related revenue outside of North America and accounts for 70% of U.S. Top 1000 retailers' international sales. But, even without Amazon, other U.S. Top 1000 e-retailers generate $28.5 billion in annual web sales from outside of North America, nearly 9% of their web sales.

Top 1000 retailers also are increasingly reaching global shoppers via web marketplaces, not only those operated by Amazon and eBay Inc., but also such shopping sites as JD.com and Alibaba Holdings Group Ltd.'s Tmall in China, as well as Mercado Libre in Latin America.

And the most common way that North America's top online retailers serve global consumers is simply by taking their orders on the retailers' primary websites and shipping merchandise abroad. Nearly half of the Top 1000 fulfill orders to consumers in such major European markets as the United Kingdom and Germany, and more than a third to such countries as China, Russia and Mexico.

But getting into international e-commerce is no easy feat. In a survey of 111 retailers and brands by Internet Retailer and the Global E-Commerce Leaders Forum, respondents pointed to such hurdles as regulations that vary by country on product safety, marketing practices, customs and taxes. Language, customer service and

TOP 10 COUNTRIES FOR INTERNATIONAL ONLINE SALES

Countries ranked by U.S. Top 1000 retailers' revenue in each market, with number of URLs for each country

Country	No. of URLs
Japan	14
Germany	17
United Kingdom	32
China	7
India	1
Canada	33
France	12
Italy	8
Spain	8
Mexico	9

Source: Internet Retailer

fulfillment all present challenges, they say. And there is a relatively new factor: More governments are tightening customs regulations or introducing new fees as they see more parcels arriving for their citizens from international websites.

Despite these hurdles, among those engaged in international e-commerce nearly 48% reported 2017 growth in overseas web sales of at least 15%. And while 4% called e-commerce beyond their home countries not worth the effort and nearly 13% said the path to profitability appeared too long, 80% of respondents called international e-commerce "a critical source of our e-commerce growth in the future."

72 retailers in the Top 1000 operate a total of 295 country-specific e-commerce sites outside of the U.S. and Canada that together booked $109.9 billion in sales in 2017.

Some retailers and brands are far more reliant on international e-commerce sales than others, suggest the Internet Retailer/GELF survey results. When asked what percentage international represented of their online sales, the most common answer was "1-2%," cited by 31% of respondents. But the next most common response was "more than 20%," selected by 29%. That's an indication that retailers putting significant resources into global e-commerce are reaping important returns and building a big lead over competitors slow to move into the international arena.

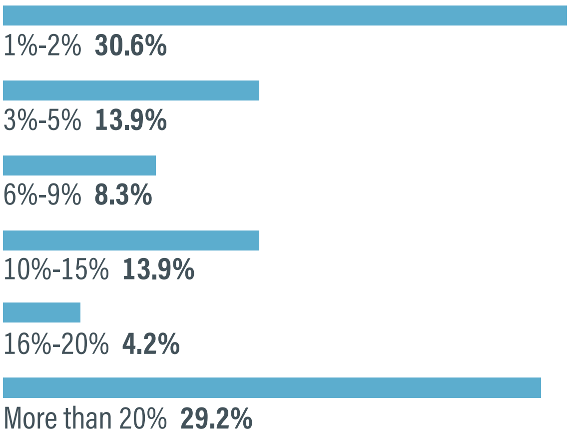
There are three main ways retailers and consumer goods manufacturers sell directly to international shoppers: cross-border sales from a domestic e-commerce site, online marketplaces and localized websites in other countries.

Sales through online marketplaces are growing rapidly, in part thanks to the popularity of Amazon around the world. In addition, China's two leading shopping sites for foreign brands, Alibaba's Tmall and JD.com, also have stepped up recruitment of retailers and brands to sell on their sites and offered new services.

Most online shopping on a global basis takes place on online marketplaces. In 2017, consumers around the world purchased more than $1.55 trillion on shopping portals featuring the wares of many brands and retailers, Internet Retailer estimates. That's roughly 65% of eMarketer's estimate of $2.3 trillion in global online retail sales in 2017.

INTERNATIONAL SHARE OF E-COMMERCE SALES

Percentage of total online sales from international e-commerce



Source: Internet Retailer/Global E-Commerce Leaders Forum survey, April-June 2018

Consumers made more than half of those purchases on the marketplaces operated by China's two dominant e-commerce companies: Alibaba Group, which operates the mostly domestic Taobao shopping site along with the Tmall marketplace that features many foreign brands; and JD.com, which, like Amazon, both sells its own merchandise and hosts other marketplace sellers.

Most of the rest of the marketplace sales occur on the 14 marketplaces operated by Amazon and the 23 sites run by eBay. However, in particular markets, other marketplaces are big players, notably Rakuten Ichiba in Japan, Mercado Libre in Latin America, Flipkart in India and Coupang in South Korea.

Sellers responding to the survey were generally positive about their marketplace results, with more than 73% saying they are at least achieving their goals, including 15% who say they are "far exceeding goals." Few retail marketing initiatives can claim a more than 70% success rate.

Amazon in particular is a favorite of North America-based Top 1000 retailers, many of whom rave about the services it offers. Especially popular is Fulfillment by Amazon, which will store and ship items for sellers on Amazon sites, and even handle fulfillment of orders from retailers' own sites.

International e-commerce takes work, but it can yield significant revenue for brands and retailers that have the kind of products global shoppers want. And those that got into the game earliest appear to be gaining an edge that rivals may struggle to overcome.

One sign of the gains made by early entrants: Those that have been selling the longest are reporting the strongest online growth, 3.56 on a

HOW RETAILERS FARE ON INTERNATIONAL MARKETPLACES

Source: Internet Retailer/Global E-Commerce Leaders Forum survey, April-June 2018 scale of 1-5 (with 5 being the highest growth and 1 the lowest). That compares to 3.33 for those selling internationally less than a year and 3.25 for those with one to three years of experience in global e-commerce, according to the survey by Internet Retailer and the Global E-Commerce Leaders Forum.

Those that are selling online outside of their home country are gaining valuable information about how to overcome the obstacles to selling internationally. And they're gaining those insights as consumers, year by year, become more comfortable shopping online, including on websites outside their own countries.

For international growth strategies, more survey results and global marketing tactics, download the 2018 E-Retailer Expansion Report www.digitalcommerce360.com/product/2018-e-retail-global-expansion-report

SMARTER THINKING ON FULFILLMENT AND DELIVERY

With fulfillment spending rising, online retailers adopt new tactics to balance speed and cost.

By James Risley

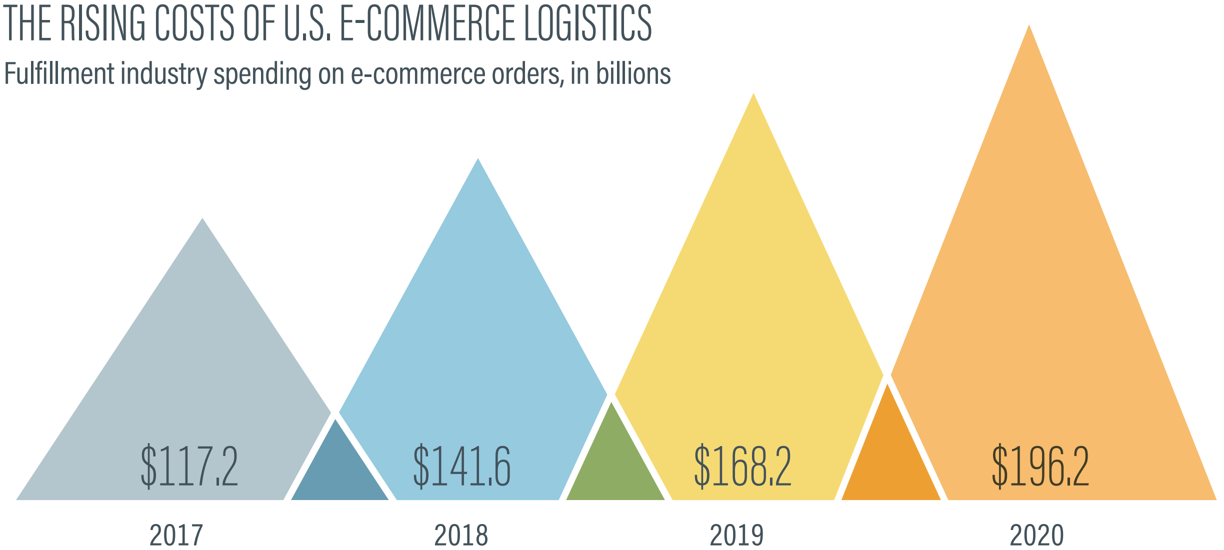
The $453.5 billion U.S. retail e-commerce market is built on the back of consistent and accurate fulfillment pipelines. Consumers expect inexpensive or free shipping options, speedy delivery and easy returns. Options like in-home delivery, in-store returns and same-day delivery are gaining traction too.

All that is helping to drive up retailers' fulfillment costs. Supply chain consultancy Armstrong & Associates estimates e-commerce logistics costs in 2017 totaled $117.2 billion, including transportation of products to fulfillment centers, delivery to customers, warehousing, returns, administration and inventory carrying costs. That's roughly a quarter of total U.S. e-commerce revenue.

Amazon.com Inc., with its free and expedited shipping options, has helped to set consumers' expectations high for fulfillment and delivery. Shipping and fulfillment is one of Amazon's biggest business expenses. It spent $46.95 billion, or 27.0% of its total 2017 operating expenses, to continue building out its distribution network and get products delivered to warehouses, sorted and stored, then picked, packed, shipped, and delivered to consumers.

THE RISING COSTS OF U.S. E-COMMERCE LOGISTICS

Fulfillment industry spending on e-commerce orders, in billions



Source: Armstrong & Associates

These costs have been rising every year as Amazon expands its shipping network and processes more orders for physical goods. In 2015, shipping and fulfillment accounted for 23.7% of Amazon's operating expenses; in 2016, it was 25.7%.

Retailers are working to strike an acceptable balance between their fulfillment costs and consumers' expectations. Some leverage an omnichannel approach to give shoppers more ways to pick up orders while providing a larger pool of inventory that's spread across their retail networks. They also work with third parties to tackle the changing fulfillment landscape without having to invest in creating fulfillment networks from scratch.

Among the 2018 Internet Retailer Top 1000 retailers, which ranks the largest North American retailers by web sales, 66.8% offer free shipping on purchases and 55.6% offer customers the option to pay for next-day delivery.

Fast, free shipping is a top consideration for shoppers making an online purchase. In an Internet Retailer study conducted by Bizrate Insights, 94.8% of online shoppers took advantage of free shipping from a retailer, and 58.5% didn't place an order because delivery dates weren't offered or were too far out.

One of the key ways e-commerce orders are delivered quickly without paying more to shipping carriers is by warehousing products close to the consumers ordering them. That means spreading out inventory locations to cut how far an order travels from the warehouse to the customer.

One way to do that is to build new fulfillment centers. In spring 2018, online apparel retailer Lulus added a second fulfillment center in Ohio to complement its Chico, California, warehouse in a bid to get all orders to customers within 10 days. And its first round of funding allowed it to plan more fulfillment locations to cut the shipping times down even more.

Other retailers are retooling existing fulfillment centers for e-commerce needs. Apparel giant Gap Inc. over the past three years reduced its number of distribution centers to 14 facilities in 10 locations from 19 facilities in 19 locations, which meant each center had to increase its output. The company invested "tens of millions of dollars" to increase automation and technology at the facilities, says Kevin Kuntz, senior vice president, global logistics fulfillment. By doing so, the facilities increased the number of orders each could process while requiring fewer people. Kuntz says the increased efficiencies have generated a 20% return on that investment.

Third-party logistics (3PL) firms can help retailers meet demand as well, spreading inventory at their warehouses around the country. They can store and ship inventory from multiple clients in their network of warehouses, letting retailers expand their fulfillment network without starting from scratch. According to supply chain consultancy Armstrong &

Associates, the U.S. 3PL market topped $12.8 billion in 2017.

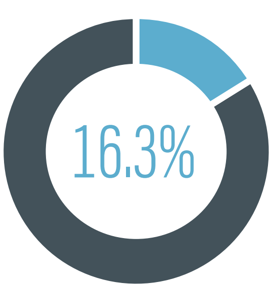
Fast and free are not the only things consumers consider when placing an online order. More consumers are demanding flexibility, ordering products for same-day delivery, in-store pick-up or delivery to lockers.

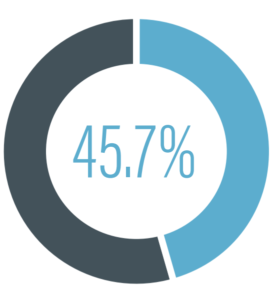
Just like fulfillment centers around the country, in-store pickup and ship-from-store, which uses retailers' physical store inventory to fulfill online orders, gets products closer to consumers for faster fulfillment. Retailers with bricks-and-mortar stores can use those locations to get orders to customers quickly. However, just 16.3% of Top 1000 retail chains offer ship-from-store options while 45.7% offer buy online, pick up in-store.

In the Internet Retailer/Bizrate consumer survey, 34.9% of respondents ordered products for same-day delivery in the past six months, and

NEARLY HALF OF RETAIL CHAINS OFFER BOPIS

Portion of Top 1000 retail chains offering fulfillment options

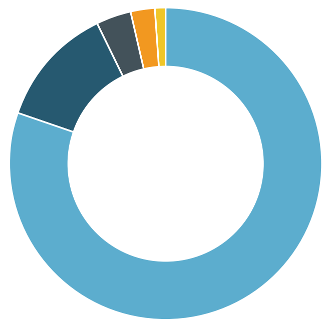




Source: Internet Retailer

ONLINE SHOPPERS DON'T RETURN ORDERS OFTEN

Of all products purchased online in a given year, what percentage do you typically return?



I returned ...	
5% or less	80.3%
6%-10%	12.3%
11%-15%	3.7%
16%-25%	2.4%
26%+	1.0%

Source: Internet Retailer/Bizrate survey of 1,105 shoppers, July 2018. Total does not equal 100% due to rounding.

23.5% of respondents plan to order products for same-day delivery more often in the next six months. 54.7% of respondents said they ordered products for in-store pick-up, and 36.1% planned to do it more often in the next six months.

Returns are a large concern for consumers when placing an online order. In the Internet Retailer survey conducted by Bizrate, 80.3% of consumers returned 5% or less of their online purchases. But return options play an outsized role in consumers' decisions on where to purchase—the No. 1 pet peeve in the returns process is paying for returns.

Across the Top 1000, 11.1% of retailers offer free return shipping. The percentage of retailers offering free returns is higher in categories like apparel/accessories and jewelry. 24.8% of apparel retailers and 20.0% of jewelry retailers provide free returns.

Accepting in-store returns of goods ordered online also benefits retailers by getting shoppers through the door, where 66% will make another purchase, according to Pulse of the Online Shopper, a report from UPS and comScore. That far outruns the 44% who will make another purchase when shipping a product back to an e-retailer.

For more details on the state of online order fulfillment, including the details of Internet Retailer's secret shopper test of 25 e-commerce sites, check out the 2018 Click, Ship & Return Report www.digitalcommerce360.com/product/fulfillment-delivery-report/