



# Executive Summary

## **The Growth of Multichannel Retailing**

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Traditionally, on the weekend after Thanksgiving, Americans head to their local mall for the unofficial kick-off to the holiday shopping season. Last year, however, a majority of Americans skipped the department stores altogether opting to shop from the comfort of their own homes proving the eCommerce revolution is alive and well. Despite a sluggish economy, online consumers opened their wallets and shopped online in record numbers in 2003, according to a recent Forrester Research report commissioned by the National Governors Association and the National Conference of State Legislatures. Last year, online sales, including auction and travel purchases, reached \$104 billion, a nearly 40 percent jump over the previous year, Forrester found.

Established “brick and mortar” stores, like Borders and Wal-Mart, are increasingly going on-line, transforming the way they do business to accommodate the tech-savvy consumer, and in turn, transforming the whole notion of retailing. Forrester credits much of today’s eCommerce boom with traditional stores effective use of the Internet rather than Web-only retailers like Pets.com. Overall, the sales of these “multichannel retailers,” like Target and Sears, grew by nearly 60 percent in 2002 and 32 percent in 2003. In contrast, Web-based retailers grew only 13 percent in 2003. “With the exception of online sellers Amazon.com and eBay,” the study says, “the majority of online sales are by the same retailers that dominate offline sales.”

Unlike in recent years, online retailers enjoyed robust sales figures throughout each quarter of 2003. Online sales hit the ground running in the first three months of 2003 and never slowed down. First and second quarter sales both reached \$24 billion. To the surprise of nearly all online retailers, the usually slow third quarter totaled \$26 billion and typically strong fourth quarter sales were \$30 billion. Forrester attributes much of the strong fourth quarter showing to innovative and aggressive promotions, such as 48-hour sales, free and reduced shipping offers, and one-day only sales, from consumer-friendly online retailers.

Spending in categories such as apparel and home décor helped fuel the growth in online retailing, the report found. Additionally, female shoppers outnumbered males online, buying more items for the family and home. The success of the online sales last year helped solidify eCommerce as the largest “buying channel,” ahead of mail order sales and the home shopping industry combined.

The eCommerce revolution shows no signs of slowing down anytime soon, according to Forrester. Over the next five years, online retailing—sparked by food and beverage, sporting goods, and home product sales—is expected to grow annually at a rate of 19 percent. Forrester projects Americans will spend nearly \$230 billion online by 2008, a figure that will account for 10 percent of the nation’s total retail sales.

Another important factor fueling the growth of online sales is broadband penetration. By 2008, experts believe that 56 percent of U.S. households will have broadband access. Thanks to the expected increase in competition between telecommunications companies and cable providers, the price of broadband services, and other high-speed Internet services, is expected to make the emerging technology more readily available to the mainstream. Easier Internet access makes shoppers savvier as they initially research items online before buying them offline, a phenomenon called “cross-channel” shopping.

Just as consumers are changing their shopping habits, multichannel retailers are adapting to the technological realities of the eCommerce frontier. The study reveals online sales now closely mirror offline sales at “brick and mortar” stores, which continue to respond and adapt to consumers ever-changing needs. The stores that succeed offline are increasingly the same stores that succeed online, the report found. For example, 66 of the top 100 U.S. retailers offer online services, with average sales ranging from \$100 to \$250 million, and 94 percent of them collecting sales tax online in states where they have nexus. Shopper loyalty to established stores is helped by the fact that more than eight in 10 of the top retailers now accept in-store returns of online purchases, a number Forrester expects will jump to 95 percent by 2005.