

Retail is Everywhere

By NetChoice

**A look into the current
state of retail**

By Zach Lilly

Executive Summary

News reports often warn of a “retail apocalypse” whenever a storefront closes or downsizes. Is this accurate? Are small businesses and brick-and-mortar retailers dying? Are large, online businesses the only ones succeeding? These are questions that some in Washington, both lawmakers and regulators, seem to be grappling with. NetChoice wanted to dive into the retail landscape and how consumers feel about it.

We found that innovation continues to drive the sector, and opportunity abounds for retailers of all sizes. Research indicates that a one-size-fits all approach of doing business has never worked in retail,¹ and retailers are working to meet customers where they are by offering them numerous ways to shop and receive products. Choice in retail continues to expand for both the consumer and the retailer. The typical small and medium-sized business today uses at least five different sales channels, blending both online and offline methods to sell products.² Consumers believe shopping is more convenient than ever, prefer retailers that offer both online and in-person shopping, and feel they have many options to choose from when looking to shop based on new NetChoice polling data. Smart retailers - regardless of size - that respond to consistently evolving consumer preferences are reaping the rewards.

Retail is robust and far from being a concentrated market. The vast majority of retail sales in the United States occur outside the largest retailers. In fact, the top five U.S. retailers account for only a quarter of retail sales.³ And while significant attention is paid to digital technologies, online sales account for only 15% of all retail sales.⁴ In reality, the role of physical stores will continue to play an important part of the retail experience. For example, many retailers are leveraging their physical footprint to support and fulfill online sales. Research also shows that online marketplaces are helping the industry grow, particularly small and medium-sized businesses.

Put simply, Americans know what some well-intentioned regulators and policymakers are ignoring: retail is working. As policy discussions mature, and hopefully become more nuanced, interested parties would do well to ground their analysis in an accurate representation of retail.



¹ Deloitte, The Future of Retail Stores, 2021; <https://www2.deloitte.com/us/en/pages/consulting/articles/future-of-retail-stores.html>

² Data Catalyst, Super Selling: Most Small Businesses Use Multiple Sales Methods, Oct 2021; <https://datacatalyst.org/wp-content/uploads/2021/10/DCI-Super-Sellers-FINAL-Oct-2021-1.pdf>

³ National Retail Federation, Top 100 Retailers 2021; <https://nrf.com/blog/2021-top-100-retailers>

⁴ National Retail Federation, The State of Retail 2021; <https://nrf.com/topics/economy/state-retail>



Introduction

In today's landscape we see retail happening everywhere. Retail occurs "when a business sells a product or service to an individual consumer for his or her own use." This is taking place in both online and offline channels including physical stores, social media apps, online marketplaces, and business-owned websites, to name a few. Far from buckling under the combined pressure of a global pandemic and ever shifting consumer habits, retail led the way in business creation growth last year.⁵

Retail isn't just growing, it is expanding, and retailers know there isn't one avenue to retail success. Retailers often pursue every medium available in order to reach shoppers and give them what they want. Retailers are innovating to either meet the existing needs and preferences of shoppers, or to anticipate future ones.

Free market critics and special interest groups in Washington have been quick to peg online sales as the sole reason for retail's continued success. In reality, 80% of all shopping still happens in stores.⁶

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Indeed, as their narrative goes, retail is a largely stagnant industry that is being swallowed whole by large online retailers that are smashing small businesses. This view, while unsupported by data, has gained traction amongst some Washington lawmakers and led to proposals that would restrict common retail practices and successful business models such as online marketplaces that unite first-party and third-party business.⁷ Importantly, our recent survey found that 80% of consumers believe retailers should be treated equally.⁸

In retail, the consumer is at the center of the shopping experience and enjoys an enormous amount of power. Consumers ultimately decide who to reward with a purchase. Consumers are enjoying more convenience and choice as they use a mix of both online and offline channels to conduct research, compare prices, and select the fulfillment option that is most convenient to them. These are some of the findings from a NetChoice/Savanta survey that helps us better understand the current state of retail from the consumer's point of view.

⁵ National Public Radio, The COVID Small Business Boom, July 15, 2021; <https://www.npr.org/2021/07/15/1016628762/the-covid-small-business-boom>

⁶ National Retail Federation, The State of Retail 2021

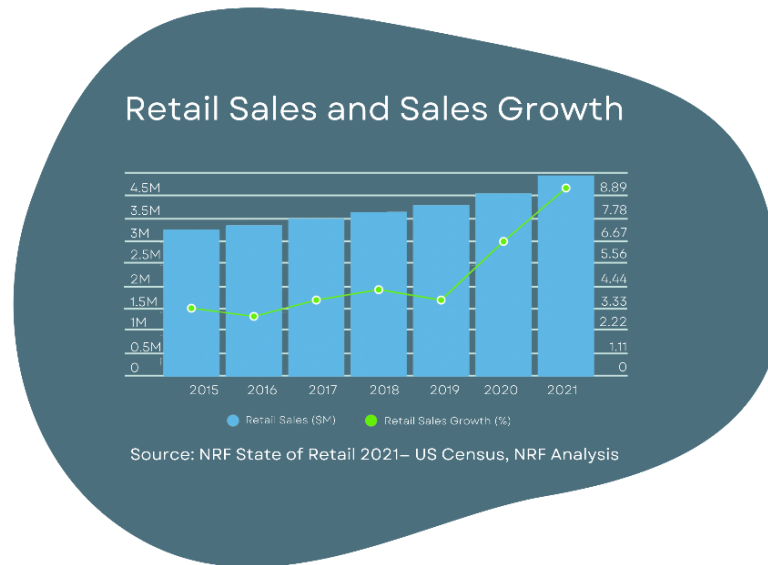
⁷ Disruptive Competition Project, August 3, 2021; <https://www.project-disco.org/competition/080321-what-smes-stand-to-lose-from-overregulation/>

⁸ NetChoice/Savanta polling 2021; <https://netchoice.org/wp-content/uploads/2021/11/Retail-Is-Everywhere-Polling.xlsx-Sheet2.pdf>



Retail is Growing

\$4.44 trillion: the level that the U.S. retail sector is expected to grow to by the end of 2021. This represents a 6.7% growth rate, a level that hasn't been seen in the past decade and a half.⁹ According to the U.S. Bureau of Labor Statistics, as of Q3 2020, there were 1.04 million retail businesses in the United States, up 4,801 versus Q2 2020, marking a record in the last decade.¹⁰



There has never been more ways to launch a small business and entrepreneurs are responding. Small business creation has exploded in the past two years.¹¹ In the past, entrepreneurs faced a myriad of challenges when starting a business, including identifying affordable commercial real estate, applying and receiving financing, and pinpointing a consumer base that was likely confined by geography and demography.

Today, you don't even need to leave your couch to launch a retail business. Creating a retail website with Shopify, building a brand and following on Instagram, partnering with online marketplaces like Etsy, Amazon, or OfferUp, and plugging into a worldwide audience can all be done so much faster, easier, and cheaper. Online marketplaces are helping retail grow, particularly small and medium-sized businesses.

⁹ National Retail Federation, The State of Retail 2021

¹⁰ U.S. Bureau of Labor Statistics, September 2021; <https://www.bls.gov/iag/tgs/iag44-45.htm>

¹¹ U.S. Census data, Business Formation Statistics, September 9, 2021; https://www.census.gov/econ/bfs/pdf/bfs_current.pdf



Retail is Both Digital and Physical

The dichotomy between digital and physical retail is a false one. Consumers don't view their shopping experience this way. Instead consumers want the choice to shop online, offline, or a mix of both. Our new consumer survey found that 68% of shoppers prefer retailers that offer both online and in-person shopping.¹²

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Yet it is clear that many consumers still prefer physical retail with 77% saying it is important or somewhat important that a retailer offer a physical location.¹³ Retailers are embracing these preferences and offering consumers a variety of ways to shop including in-store or online via a web store, social media, app, and online marketplaces, to name a few. Retailers are also offering various ways to fulfill online orders including same-day delivery, curbside, and in-store pickup. This is commonly referred to as the omnichannel retail experience.

While the term omnichannel may sound a bit like industry jargon, it is effective in describing the variety of choices that exists right now for both retailers and shoppers. Retail isn't online or offline, it's both.

Recent survey data from U.S. small and medium-sized businesses found the typical seller uses five different sales methods. This could be a combination of brick and mortar stores, wholesales, business websites, online marketplaces, offline marketplaces, app stores, click-to-buy social, and on-demand delivery.¹⁴ A retailer no longer has to place all their bets on one method. It can, and does, move seamlessly between and within many sales methods, scaling and editing as necessary to meet the evolving needs of consumers. As mentioned above, retailers are also innovating to give shoppers an omnichannel experience when it comes to shipping and fulfillment options. Retailers with physical stores are able to leverage their footprint to fulfill online orders with curbside or in-store pick up. In fact, 83% of consumers expect flexible shipping and fulfillment options including buy online, pick up in store (BOPIS) and curbside in the post-vaccine era.¹⁵

83% of consumers expect flexible shipping and fulfillment options.



¹² NetChoice/Savanta polling data, 2021

¹³ Ibid

¹⁴ Data Catalyst, Super Selling: Most Small Businesses Use Multiple Sales Methods, Oct 2021

¹⁵ Deloitte, The Future of Retail Stores, 2021



Omnichannel is also useful because it doesn't just define how retailers operate, it also accurately describes how shoppers interact with retailers. It would be challenging to find a shopper today who limits their retail experience to just one way of shopping. For a rapidly growing majority of consumers - 73% - their shopping is done across channels.¹⁶ When a shopper makes a purchase online, they often first research and engage with the brand on social media.¹⁷ Similarly, when shoppers make an in-store purchase, they may still consult their smart device to compare prices or to double check options to ensure they are getting the best deal possible.¹⁸ In each instance, we call these shoppers omnichannel shoppers. Omnichannel shoppers are far more likely to develop a sense of brand loyalty to retailers that make it easy to shop across channels, and they spend more money on average than non-omnichannel shoppers do.¹⁹

Now that we have a general sense of what retail is, it is worth outlining what retail is not. Some of the most prevalent and inaccurate narratives include, (1) that online platforms and marketplaces are squeezing smaller retailers, (2) small retailers have no choice but to engage large online platforms and marketplaces, and (3) that retail is a stagnant industry, providing diminishing returns for consumers and in need of regulatory overhaul. None of these claims stand up to even minimal examination.

Retail Means Choices

A major misconception of retail is that large, online retailers are killing smaller ones. Similarly, another claim is that small retailers have no choice but to do business with large online retailers. These views are currently being used to justify several pieces of antitrust legislation²⁰ in Congress that target select companies largely based on their size. Little attention, however, has been paid to whether the underlying premise is true. Are small retailers being swallowed by larger ones?

Recent research analyzing how 2,000 U.S. small and medium sized businesses sell demonstrate choice and opportunity abound.²¹ The study found the typical seller used at least 5 different sales methods and within sales methods, sellers frequently use more than one competitive vendor.²²

The typical seller uses at least 5 different
sales methods



¹⁶ Harvard Business Review, A Study of 46,000 Shoppers Shows That Omnichannel Retailing Works 2017; <https://hbr.org/2017/01/a-study-of-46000-shoppers-shows-that-omnichannel-retailing-works>

¹⁷ Bloomreach, The State of Commerce Experience 2021; <https://visit.bloomreach.com/state-of-commerce-experience>

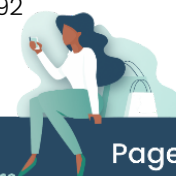
¹⁸ Bloomreach, The State of Commerce Experience 2021;

¹⁹ Harvard Business Review A Study of 46,000 Shoppers Shows That Omnichannel Retailing Works, 2017

²⁰ HJC Antitrust package; <https://buck.house.gov/media-center/press-releases/rep-buck-applauds-house-judiciary-committee-passage-bills-taking-big>; and Senate legislation; <https://www.govtrack.us/congress/bills/117/s2992>

²¹ Data Catalyst, Super Selling: Most Small Businesses Use Multiple Sales Methods, Oct 2021;

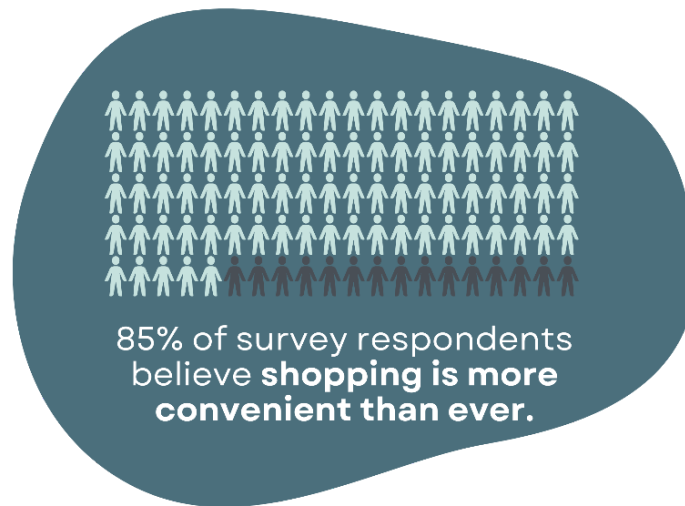
²² Ibid



For example, 87% of sellers on Amazon’s marketplace also sell on at least one other online marketplace, including 54% also selling on Walmart’s marketplace, and 50% also selling on eBay.²³ Further, 83% of sellers on Amazon’s marketplace use five or more different sales methods.²⁴

Another helpful entry point into these retail misconceptions is to analyze the American consumer. How do they shop and do they feel that their access to small and independent retailers is being unfairly curtailed, or curtailed at all? We recently surveyed consumers across the country with this question and found that the answer is no.

85% of respondents believe shopping is more convenient than ever with retailers offering more fulfillment options.²⁵ Consumers also believe they have a lot of choices when it comes to shopping. American consumers don’t share the same pessimistic view of some lawmakers and regulators in Washington.



Marketplaces play a role in providing choice for consumers and enables an extraordinarily symbiotic relationship to exist between retailers of different sizes. Online platforms and marketplaces like Amazon, Ebay, and Etsy exist, in part, to connect smaller retailers with a broader audience. When polled, 30% of shoppers prefer to do business with small sellers creating artisan or handmade goods.²⁶

Take Etsy as an example. 97% of businesses selling on Etsy are run out of the owners’ home.²⁷ These independent businesses use Etsy’s investments and infrastructure to reach millions of consumers and grow their own business. With access to online marketplaces and digital tools, entrepreneurs now have the ability to take their dreams to the next level. This includes small businesses like ceramics makers, painters, toy makers, and other artisans that launched their businesses in the last year.²⁸

²³ Ibid

²⁴ Ibid

²⁵ NetChoice/Savanta polling data, 2021

²⁶ Ibid

²⁷ Small Business Trends, The Second Most Popular Online Marketplace May Surprise You, August 30, 2021; <https://smallbiztrends.com/2021/08/etsy-second-most-popular-online-marketplace.html>

²⁸ Etsy, 11 Standout Etsy Shops That Got Their Start This Year, December 16, 2020; <https://www.etsy.com/blog/best-etsy-shops>



Etsy saw the number of sellers on its platform grow by 4 million, an increase of 41.7% in 2020.²⁹ This is a perfect example of how online marketplaces and smaller retailers mutually benefit. Sales grew from \$5 billion in 2019 to \$10.3 billion in 2020.³⁰ Both the marketplace and the small seller are succeeding at the same time within the same channel. In fact, they have created a partnership by which one's success means the other succeeds too.

The same can be said for businesses that sell on the Amazon Marketplace. Small and medium-sized retailers make up close to 60% of the physical merchandise moved across Amazon's marketplace and have hiring growth twice the rate of similarly sized businesses that don't use Amazon's platform.³¹ Amazon seller exports grew from \$1.5 billion in sales to \$2.2 billion over the past year.³²

Smaller retailers also benefit from the relationship they have with online marketplaces because it means saving on costs associated with infrastructure and logistics. Another important factor is privacy and security when shopping online. Americans limit their internet use due to privacy and security concerns.³³ When a small business is able to harness the security infrastructure of a larger player, consumers can shop with confidence and small retailers are able to earn trust with new customers. The same is true when small businesses are able to take advantage of the larger retailer's scale to store inventory, ship goods quickly, manage returns and provide customer service. Smaller sellers can take advantage of the economies of scale offered by packing and shipping services of large companies, and shoppers can choose from a broad selection of products without having to compromise on their expectations for delivery.

Retail is Constantly Innovating

Another misconception about retail is that it is stagnant. This simply isn't true. Even in the most mundane spaces, retail has proven to be able to innovate business models, products, and services that benefit consumers.

A major innovation story has been in the direct to consumer (DTC) space, a sales strategy where a business sells directly to customers. A product as common as the mattress has been totally transformed with an explosion of brands offering different types of sleepers, at different price points, delivered directly to homes, and in the process expanding the ways that millions of Americans buy a mattress. In decades past, the consumer would be required to travel to the store, try out dozens of options under fluorescent lights, and take their purchase home with them. Even with a delivery option, many shoppers clearly felt that this process was inconvenient, or simply didn't meet their needs. The DTC model enabled Casper to offer home delivery and 100-day trial runs. Casper, knowing there are many consumers who still prefer to try before they buy, is expanding its offerings to physical locations to continue growing.

²⁹ Etsy 2021 Stockholder and Proxy Statement, August 2020; https://s22.q4cdn.com/941741262/files/doc_financials/2020/ar/2021-Proxy-Statement_Final.pdf

³⁰ Ibid

³¹ Amazon, Zero to 60: The acceleration of independent sellers in our store blog, June 2020; <https://www.aboutamazon.com/news/how-amazon-works/zero-to-60-the-acceleration-of-independent-sellers-in-our-store>

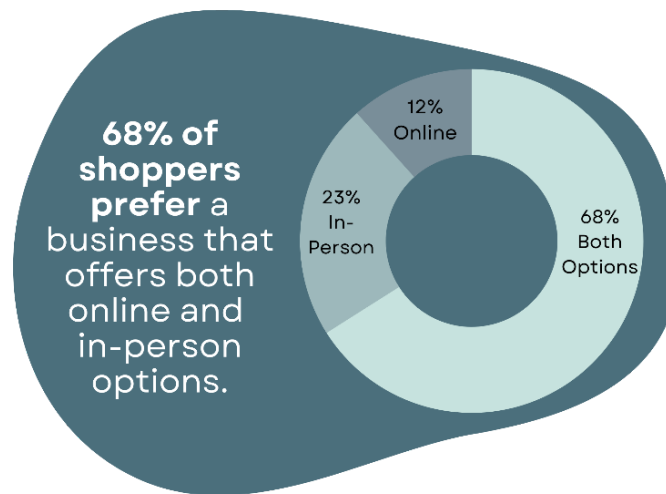
³² Amazon Small Business Empowerment Report 2021; <https://assets.aboutamazon.com/9b/84/05cb2fc14da18e4574a5132f675a/amazon-smb-report-2021.pdf>

³³ Internet Use Survey Data, NTIA, 2019; <https://ntia.gov/data/digital-nation-data-explorer#sel=privSecMainReason&disp=map>



Casper has transformed itself from an in-debt start-up to a billion dollar company.³⁴ While this transformation is stark, it didn't happen overnight, and it didn't happen without the shifting preferences

of shoppers. Virtually half of shoppers prefer a combination of on and offline shopping, and an overwhelming 68% of shoppers prefer a business model that offers both on and offline shopping and multiple fulfillment options.³⁵ Consumers ranked convenience high on their list of priorities when shopping.³⁶ To put it another way, these consumer preferences gave space for the mattress market to change.



Take grocery stores, for example. Food delivery platforms like InstaCart became widely popular just as the Covid-19 pandemic hit the U.S., expanding beyond the company's early testing sites. InstaCart's popularity skyrocketed and the company's valuation doubled in ten months to \$18 billion.³⁷ In the early days of the pandemic, many Americans had the ability to order their groceries directly to their doorstep, helping to ensure their health and safety.

Legacy grocery retailers like Kroger were not shut out of this moment. While InstaCart is popularly understood as a tech company, legacy retailers like Kroger make significant investments in technology and talent to compete. Kroger's profits rose 90% during the first two months of the pandemic, offering its own services that allowed Americans to keep their retail experience contactless.³⁸ While that level of growth is largely tied to particular public health circumstances, it was able to attain such a significant number in part because of its ability to launch into a new mode of selling to its consumers.

Kroger launched a partnership with Instacart in September 2021 called Kroger Delivery Now and the creation of the Convenience Hub on the Instacart marketplace.³⁹ This will allow the grocery retailer to

³⁴ CNBC, How Casper's founders went from \$100,000 in debt to building a billion-dollar mattress start-up, April 5, 2019; <https://www.cnbc.com/2019/04/05/how-caspers-founders-built-a-billion-dollar-mattress-start-up.html>

³⁵ NetChoice/Savanta polling data, 2021

³⁶ Ibid

³⁷ Forbes, Instacart Survived Covid Chaos, January 27, 2021; <https://www.forbes.com/sites/chloesorvino/2021/01/27/instacart-survived-covid-chaos---but-can-it-keep-delivering-after-the-pandemic/?sh=63caa950bfa1>

³⁸ The Brookings Institution, Windfall profits and deadly risks, November, 2020; <https://www.brookings.edu/essay/windfall-profits-and-deadly-risks/>

³⁹ Kroger press release, September 14, 2021; <https://ir.kroger.com/CorporateProfile/press-releases/press-release/2021/Kroger-and-Instacart-Launch-Kroger-Delivery-Now-Nationwide-to-Provide-30-Minute-Delivery-Enabled-by-First-of-its-kind-Virtual-Convenience-Store/default.aspx>

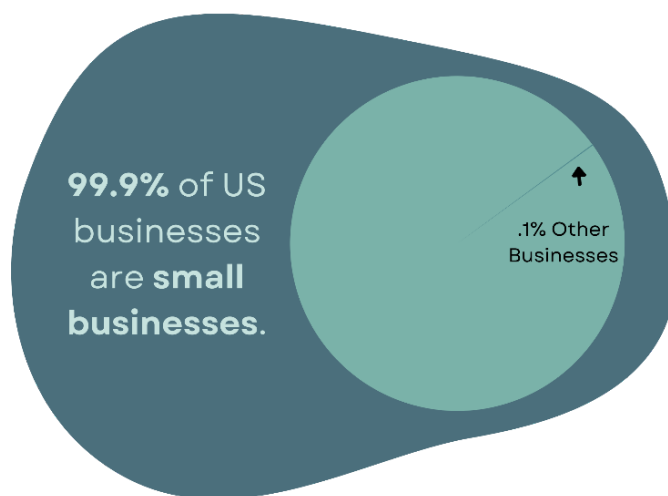


facilitate quick deliveries and focus particularly on “convenience products” that will be available 24/7.⁴⁰ We see plainly that big vs. small and online vs. in-store retail is wrong. Instead, smaller retailers are partnering with large ones and leveraging their economies of scale. Additionally, many retailers utilize both on and offline channels to provide the best shopping experience for customers.

The benefit to shoppers here is obvious. The actions taken by retailers will likely force competitors to bring similar services to consumers or to continue pushing the envelope on what is possible in retail. Innovations help drive down costs, improve the quality of existing services, and further expand the way shoppers believe it is possible to shop.

Conclusion

Retail is so much more competitive and dynamic than it gets credit for. The overwhelming majority of businesses in the United States are small and medium sized businesses,⁴¹ and the five major U.S. retailers only account for 25% of the market. Additionally, while digital growth receives a lot of attention, they still only account for 15% of overall retail sales.⁴² The retail landscape is always evolving, opportunity and growth continue to be possible, and one way of doing business has not pushed out another, because shoppers aren’t a monolith. Current congressional proposals would jeopardize the dynamism inherent in retail and should be reconsidered by lawmakers.



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⁴⁰ Ibid

⁴¹ US Small Business Administration, 2019 Small Business Profile; <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/04/23142719/2019-Small-Business-Profiles-US.pdf>

⁴² National Retail Federation, State of Retail 2021

