Success strategies of the mid-tier in e-commerce

How this fast-growing segment of online retail is finding an edge.
EXECUTIVE SUMMARY

Dare to be different

Roughly 80% of Americans have now made a purchase online.

That’s according to a survey of 4,787 U.S. adults conducted by Pew Research Center during the 2015 holiday season. That is a marked shift from its most recent research about e-commerce in 2007, when 49% of U.S. adults said they had made a purchase online and an even bigger shift from July 2000 when Pew first surveyed Americans about their online shopping habits. That survey found that just 22% had made a purchase online, displaying a tremendous change in consumer behavior.

In many ways, that’s great news for online retailers, as it means the opportunity for potential customers on the web continues to grow and is larger than it’s ever been in history. The days of U.S. consumers being wary of shopping online are long gone.

But in other ways, retailers are increasingly being challenged by consumers who are becoming pickier and more demanding. They’re used to shopping online now, and they want it all—fast delivery, free shipping, low prices, a generous return policy and a wide assortment of products.

The fast-growing mid-tier merchants ranked in the Internet Retailer 2016 Top 1000, and the merchants interviewed for this report, are keenly aware of this fact, and they are taking advantage of it wherever they can.

In this report, you’ll learn some key growth strategies of mid-tier online retailers, or those that bring in between $25 million to $100 million a year in online sales, and tips that merchants large and small can learn from and grow.
How top mid-tier online retailers stand out from the crowd.

Those include:

- **Find new ways to connect with consumers on a personal level.** Through innovative social strategies, raise awareness of your brand.
- **Create strong product pages.** With in-depth and unique content, establish yourself as an expert in your product category.
- **Develop unique products.** Work with your suppliers to see how you can access exclusive styles or colors. That way consumers will come only to you for those items.
- **Find new channels for acquisition.** Try native advertising or reach out to influencers in your field.
- **Use your stores.** Shipping online orders from stores or allowing in-store pickup is a key differentiator for merchants that have a store component.

As consumers are and continue to get more comfortable shopping online, there is plenty of room for merchants of all sizes, including small, to grab their share of the e-commerce market. The mid-tier merchants in this report prove that, as they consistently find an edge to help them succeed. We hope you find that edge, and take advantage of it wherever you can.

Wishing you continued success,

**Rebecca Huling**
VP, Customer Engagement Marketing, FedEx

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**About this report**

All third-party sources that supply Internet Retailer with data for its Top 500 Guide and Second 500 Guide (Top 1000) provide full consent to Internet Retailer to use their data, which is outlined in the methodology disclaimer in each research project. Once provided by the third-party data source, all permissions to publish the information are the responsibility of Internet Retailer. In addition, Internet Retailer surveys thousands of retailers for its annual global e-commerce research reports. If a retailer does not provide certain metrics in a given period of time for a particular project, Internet Retailer will create estimates based on past research histories of retailers and merchandise categories, analyst interviews, and other data. Internet Retailer estimates are noted as such. Retailers are given the opportunity to respond to estimates, and Internet Retailer updates its estimates with any information provided by the merchant. Retailers are given full awareness of the reporting of the data in the Internet Retailer research products that are provided for public consumption. All Internet Retailer research and methodology is publicly available in print and digital formats and on www.internetretailer.com and www.top500guide.com. Retailers have been providing data for Internet Retailer’s various e-commerce research reports for an average of 6 years. Some data have been collected directly from web merchants for more than 10 years, as in reference to the Top 500 Guide.

For more information about FedEx and e-commerce, go to fedex.com/us/ecommerce
COMPETITION IN E-COMMERCE IS TOUGHER THAN EVER, BUT SMALL AND MID-SIZED ONLINE RETAILERS HAVE MANY OPPORTUNITIES.

First, anyone selling online to consumers has a lot of potential for sales growth since only 11% of total retail sales are transacted online, according to an Internet Retailer analysis of U.S. Commerce Department data that factors out the sale of items not normally bought online like cars and gasoline. Also, consumers’ facility with online shopping matures every year, which is good news for those looking to take market share away from store-based shopping. Moreover, many innovative merchants are outgrowing the larger online retail market, and have been for years.

The $25 million to $100 million segment, the mid-tier, in e-commerce have been particularly effective in capitalizing on a growing shift among consumers to shopping online. Merchants in this size range have been consistently keeping up with or even outgrowing their much larger competitors like Overstock.com Inc., Wayfair Inc. and the big retail chains such as Wal-Mart Stores Inc. and Target Corp.

Here’s proof: The 291 online retailers ranked in the Internet Retailer 2016 Top 1000 that fall within the mid-tier in e-commerce collectively grew online roughly 16.0% in 2015 to $14.77 billion from $12.74 billion. That’s 2.5 percentage points faster than the 13.5% growth of e-retailers ranked in the Top 100 and to the 13.5% growth rate of the entire Top 1000, which includes some smaller retailers growing fast in percentage terms.

This is not new. The mid-tier in each of the last five years has grown on average 16.4%, versus 15.4% for the Top 100 and 15.5% for the Top 1000 overall.

Fast-growing online merchants, the e-commerce technology companies that support them and other experts say that the secret lies in how well a merchant stands out
The $25 million to $100 million segment, the mid-tier, of online retail faces major headwinds when it comes to keeping up with much larger competitors on delivery, price and selection. But it's one of the fastest-growing tiers of e-commerce, as many web merchants are finding new ways to give shoppers a memorable experience online.

online—how effectively it can position itself as unique. That “something” will vary, but often includes some combination of personalized customer service, a unique and niche product selection, and loads or rich, meaningful content unavailable on large online retail sites.

USING HUMOR TO CONNECT

Content and personality are exemplified by high-end multichannel outdoor apparel merchant Moosejaw. The e-retailer, ranked No. 261 in the Internet Retailer 2016 Top 1000, sold an estimated $97.2 million in online sales last year, and now gets roughly 85% of its total revenue from e-commerce. (The merchant also runs 12 physical stores in the Upper Midwest.) Shopping on Moosejaw.com is an experience all its own, as the merchant often uses humor and sarcasm in its site merchandising and social media strategy to capture and hold the attention of outdoor enthusiasts.

On its home page, for example, in mid-December, Moosejaw ran a number of deals. The hero image touted a 96-hour sale of up to 40% off plus free three-day shipping on items...
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over $79. A subhead read, “96 hours is 672 hours in dog years.” A secondary image on the home page touts 20 days of “decent” giveaways and tells shoppers, “20 days is also the life expectancy of my house plants.”

Its social media posts are full of the same kind of self-deprecating humor. Staffers on multiple networks share random stories about, for example, watching the film Casablanca the previous weekend strictly to be able to “talk about it and pretend to be smart.” A recent Facebook post touted the “warmth and versatility” of the Harper Hooded Softshell jacket, with a model wearing a mask of a horse’s head. “Click to get yours,” the text reads. “Horse head not included.”

These efforts are largely driven by the company’s single goal, which executives say is to be the most fun outdoor retailer on the planet. It’s what leads Moosejaw, for example, to plaster its Detroit-area delivery truck with the phrase, “Driver carries less than $50 cash and is completely naked.” Or it’s the thinking behind a 2010 Valentine’s Day stunt the merchant called the Moosejaw Break-Up Service that urged customers in bad relationships who were “too chicken to get out of it” to have the merchant break it off for them.

A RICH CONTENT EXPERIENCE

Humor can work in building a relationship with consumers and fostering loyalty, but it only goes so far when it comes to closing a sale, says Moosejaw vice president of marketing Dan Pingree. That’s especially the case when it comes to high-ticket items Moosejaw sells like winter jackets that can run upwards of $1,000 apiece. So Moosejaw spends a lot of time and effort on creating rich site content and providing consumers with knowledgeable customer service—both things he says much larger online merchants don’t offer.

“We try to build an experience around our site visit,” he says.

A standard product page on Moosejaw.com has, for example, the following features:

- Multiple images taken from various points of view
- 360-degree rotating images of each product
- Customer ratings and reviews
- A question-and-answer section where shoppers can ask other shoppers or customer service reps about sizing and product quality

‘We try to build an experience around our site visit.’

Dan Pingree, vice president of marketing, Moosejaw
Moosejaw couples this in-depth product information with other forms of rich content that highlight Moosejaw products and guide consumers through the online shopping journey. It has, for example, its Instagram feed on its home page so consumers can see images of its products in use, and it compiles tailored gifting guides for “women’s casual,” the “outdoor badass” or “adventurer.” These types of features—again, largely unavailable on many other big competitor sites—help to provide consumers more of a personalized and curated shopping experience, as well as to make them feel better about making these high-ticket purchases, Pingree says.

Experts say a strong content strategy is especially important for online resellers of products they don’t produce themselves, since often they are selling the same products as other large online retailers and the manufacturer of the product itself. Thus, they need to differentiate themselves with an immersive web experience. “When they’re investing in product content, they’ve got better search engine optimization and are more likely to be found,” says Peter Sheldon, the vice president of strategy at Magento Commerce, which supplies e-commerce platform software and other services to online retailers in the mid-tier. “Once a consumer is on the website, when you offer a great level of product content with rich reviews, videos, and things like ask and answer, that’s highly differentiated from where the manufacturer is today.”

E-retailer clients that invest more heavily in content grow more quickly than other web merchants, says Darren Hill, CEO of Weblinc, a provider of e-commerce platform technology to e-retailers whose sales mainly fall in the range of $35 million to $45 million. Weblinc data shows that clients that spend more time on developing site content, such as posting blogs or adding more product details, are doing far better in terms of sales and growth. “There is an absolute ROI that we can point to when a client is spending time on the content management side,” Hill says. “Our more successful clients are spending 40% to 45% of their time on creating unique content. They spend more time creating content than anything on the site.”

**REACHING OUT PERSONALLY**

Many merchants in the mid-tier are also reaching and creating connections with consumers in a more direct way—by actually speaking to them personally.

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Online cosmetics retailer Birchbox Inc., for example, knows that education is key to selling beauty products, and video is one of the best ways to show consumers how to use cosmetics. Birchbox is doing that in a new way with Facebook Live, a live broadcasting platform the social network made available for free to all Facebook users in April following an eight-month test.

Birchbox produces a Facebook Live weekly segment, which usually lasts 45 minutes to an hour, and each video typically attracts about 20,000 to 30,000 real-time viewers. Videos that show a transformation, such as getting a blowout at a hair salon, receive even more views, says Juliette Dallas-Feeney, Birchbox’s senior manager of social media. For example, Dallas-Feeney received a haircut on a live segment while 50,000 consumers watched.

“[Facebook Live] continues to be the most engaging post, [have] the most reach and overall engagement whenever we do a live video,” Dallas-Feeney says.

But she says what makes Facebook Live special is the direct interaction it allows the retailer to have with consumers.

“The big differentiator with live video is being able to have a conversation with your audience in real time,” Dallas-Feeney says. “We see the comments come in and we can talk to our customers, and that’s really powerful for us.”

Aiming for direct conversations with customers is also a differentiator for Moosejaw, which employs customer service agents that know a great deal about its products and makes use of that knowledge to help sell products. Moosejaw does that with proactive live chat sessions.

For example, after idling a few seconds on a page for a 66North Men’s Jokla parka, a pop-up box appears that says, “Not Seeing What you Want? We have a bunch of other Mens 66North Jackets. Check Them Out.” Or, the pop-up alerts, “Chat Us and We’ll Help you Find Something.” If a consumer opts to take Moosejaw up on its offer, a customer service rep can use the live chat function to learn more about his shopping needs, answer questions and recommend products.

Those are all personalized services that Pingree points out some other large merchants don’t provide.

**DEVELOPING UNIQUE PRODUCT LINES**

While good content and developing personal relationships are key for many merchants in the mid-tier, another big differentiator for many is having a unique product selection that consumers can’t find anywhere else. That’s especially important for Moosejaw, which has added products from little-known brands to the items it sells from such popular brands as The North Face, Patagonia and Canada Goose. Those big brands are
wholesale suppliers to big retail chains like Dick’s Sporting Goods or REI—both of which have large e-commerce operations, which means their products are not just available on Moosejaw.com.

These consumer brands are also making a big play to sell directly to consumers online, Pingree says, which makes it harder for Moosejaw to stand out on selection. “North Face, Patagonia, Canada Goose. With all of these examples, they’ve beefed up their e-commerce, hired smarter people, gotten aggressive with email marketing and gotten aggressive with Google Adwords bids,” Pingree says. “Our biggest partners are becoming our biggest competitors.”

Moosejaw tackles this obstacle by developing relationships with new, up-and-coming brands that may not yet be familiar to U.S. consumers. 66North, for example, is a high-end outerwear brand that’s popular in Iceland—like The North Face of Iceland, Pingree says. Moosejaw is the exclusive online retailer of 66North products worldwide, so any Google search for 66North brings up Moosejaw.com at the top of natural search results.

**NEW CHANNELS FOR ACQUISITION**

Other merchants that sell products in categories so far untapped by large retail chains and web only e-retailers are also doing particularly well. Take prescription eyewear retailer GlassesUSA.com, which has doubled or tripled sales every year since its founding in 2009, according to vice president of marketing Boaz Ariely. The merchant has benefitted from the growing willingness of consumers to buy prescription eyewear online and not in their local stores. Lower prices are often the draw.

Now, with an estimated $56.2 million in online sales, making it one of the top web retailers of prescription eyewear, GlassesUSA is focused on finding new, innovative ways of acquiring customers that have historically shopped in stores for prescription eyewear, Ariely says. Chief among those ways are reaching out to what the merchant calls influencers—bloggers or celebrities with a large following on social networks that can promote GlassesUSA.com.

For example, earlier this year, GlassesUSA signed a deal with celebrity actress and young mother Hilary Duff for her to post to her nearly 7 million Instagram followers about GlassesUSA products. “We had a strong feeling that there’s a good match between her being a young mother, and our demographic being strong with young mothers,” Ariely says.

As part of the deal, in March 2016, Duff posted a selfie on Instagram with her donning a pair of eyeglasses and this caption, “Obsessed with these new@glassesusa Elliot frames! You know you want them too! www.glassesusa.com#glasses #glassesusa.” The post received 133,000 likes and 849 comments, and drove a big boost in sales for GlassesUSA, not to mention a fresh crop of buyers to add to its email list.
While tracking the precise effectiveness of advertising on Instagram is tough, as posts don’t allow consumers to click directly back to a product page the way a Facebook or Twitter post can, GlassesUSA was able to measure a sizeable return on investment of its deal with Duff, as sales of the items she posted about skyrocketed soon after her posts. “They took off and quickly became bestsellers,” he says.

**USING STORES TO COMPETE ONLINE**

Another strategy driving big growth for many in online retail is using the web to drive more store sales, or alternatively using stores to serve as pickup points or mini-fulfillment centers for web orders. These so-called omnichannel features are being rolled out at a breakneck pace by many of the largest retail chains, including Wal-Mart Stores Inc., Target Corp. and Home Depot Inc.

Home Depot, for one, continues to roll out its “buy online, deliver from store” system, which allows customers to buy something online and schedule delivery from a local store, similar to how they would set up delivery for an in-store purchase. As of Oct. 30, 2016, the end of the merchant’s third quarter, the option was available at about 1,600 stores, according to CEO Craig Menear, up from about 700 at the end of the second quarter. Home Depot has 2,275 stores in the United States, Canada and Mexico.

More than 40% of online orders were picked up in stores, which the company views as a positive sign for the continued relevance of its physical presence.

The mid-tier, however, has been slower to adopt such omnichannel strategies. Only 5% of the 78 Top 1000 retail chains that fall in the $25 million to $100 million range are shipping online orders from stores, versus 38% of the 45 chains in the Top 100. And only 28% of the mid-tier chains offer in-store pickup of online orders, while 80% of the Top 100 chains do.

Sheldon of Magento says omnichannel strategies could be a major advantage for medium-sized store-based merchants since, at least for now, large web-only retailers don’t have a national base of stores that would allow them to offer free and fast pickup of online orders. “The one advantage this segment has is physical stores,” he says. “Whereas perhaps a few years ago they were investing in buy online, pick up in store as a way to make shipping free, what we’re seeing now is it’s not just a minority or nice to have. It’s a real core initiative now. If you can’t win on price, you better be able to ship items from a local store if you’re going to have any chance to compete for that customer’s business.”

Those features that combine online and offline may be next on the to-do list of mid-tier store operators. For now, the mid-tier of online retail is prospering by offering unique products or items that require a lot of service, providing deep product content on their websites and by offering consumers a personal touch that builds customer loyalty.
Ready to take your business to the next level? Combine your experience and know-how with a vast array of FedEx shipping solutions that can help expand your reach and grow your business. Learn more at fedex.com/ecommerce.