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# THE TECHNOLOGY ISSUE

**OCADO, BOXED WHOLESALE  
AND MORE THAN A DOZEN  
OTHER E-RETAILERS  
SHARE INSIGHTS ON  
THE TECHNOLOGIES  
THEY'RE USING TO  
DRIVE STRONG RESULTS.**





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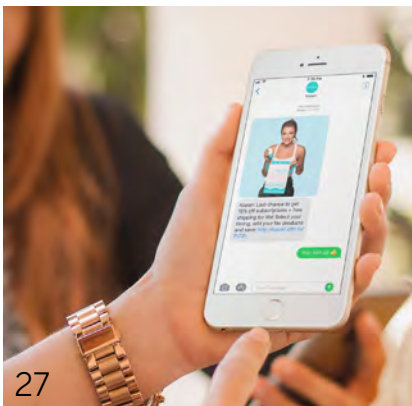
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# WHAT'S WORKING?

## WHO WANTS TO SIT ON THE PHONE WITH A CUSTOMER

service agent? Not me. I'm hardly alone. The percentage of consumers who prefer to use the phone to reach a customer service agent fell seven percentage points between 2017 and 2013—to 47%, according to a 2017 Zendesk consumer survey. Meanwhile, the percentage of consumers opting for live chat has jumped 16 percentage points to 34% from 18% four years earlier. While Zendesk didn't ask shoppers about social media-assisted customer service in 2013, 17% cited it as their preferred channel for receiving help in 2017.

The abrupt shift in consumers' customer service channel preferences is emblematic of the seemingly never-ending array of changes rocking the e-commerce industry. Keeping pace often requires retailers to invest in technology. That's why this special edition of Internet Retailer focuses on the technologies that are transforming e-commerce.

In this issue we focus on the technologies that deliver clear results. For instance, on page 6, we examine what it took for athletic apparel brand Gymshark to effectively handle shoppers' customer service issues on social media. On page 48, we explore how online mattress retailer Nectar is leveraging the data it gathers about shoppers to strategically market to consumers looking to purchase a mattress. And in this month's cover story, which begins on page 11, technology editor Katie Evans explores a wide range of technologies that retailers are using to save money and improve efficiency.

Of course, "not all innovation is practical," Will Fong, Boxed Wholesale's chief technology officer, told Katie. That's a good point; technology isn't worth pursuing unless it helps a retailer improve its operations or deliver an experience that consumers want. You know, like live chat or customer service assistance via social media.

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# SOCIAL HELP

Gymshark built its business with social media-based marketing. But it took work and technology solutions before it could effectively handle shoppers' customer service issues using social media.

BY ZAK STAMBOR

**U.K.-BASED ACTIVEWEAR ONLINE RETAILER AND MANUFACTURER GYMSHARK LTD. BUILT ITS** brand by marketing to shoppers on social media, says Dan Parkin, the retailer's head of customer support. "Gymshark's foundation is built on social media," he says.

Since the brand launched in 2012, the retailer has engaged with shoppers on social media—and Instagram, in particular—by posting vivid, provocative images of well-toned, well-known social media influencers wearing Gymshark athletic apparel. And shoppers have responded in kind. The retailer has attracted more than 3 million social media followers who regularly respond to images shared on Facebook and Instagram by well-known social media figures such as U.K. fitness influencers Lex Griffin and Meggan Grubb. The influencers' posts, which also are posted to Gymshark accounts, typically receive thousands of likes and hundreds of comments and questions.



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Once Gymshark's customers grew accustomed to interacting with the brand's posts, they naturally began posing customer service-related questions to the brand on social networks—mainly Facebook Messenger and Twitter—says Parkin, who was the fifth employee hired at Gymshark. At first, everyone at the retailer handled every task from customer service to fulfillment and someone on staff would aim to reply to those posting on social media as soon as he could. But that process wasn't sustainable.

That isn't surprising as 17% of consumers have used social media to seek customer service assistance, according to a 2017 Zendesk Inc. report based on a survey of more than 3,000 consumers online. 12% have used a messaging platform such as Facebook Messenger and 12% have posted a note on a merchant's social media page. Moreover, expectations are rising: 72% of consumers expect a retailer to respond to the customer service issue they posted about on social media within two hours, the Zendesk survey finds. That's a 20 percentage point increase from three years earlier. And 82% expect a resolution within two hours, up 30 percentage points from 52% three years earlier.

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**THE PROBLEM:** As Gymshark's e-commerce traffic and revenue grew, so too did its customer service query volume. That led Gymshark's staff to specialize and invest in tools that could help grow its business, such as Zendesk's customer service software, which it began using in 2014. Zendesk helped the retailer prioritize customer service queries that arrived via email. But for roughly six months it continued to handle customer service issues on an ad hoc basis within each social network's platform.

"It didn't work," Parkin says. "Every other person asking us a question was on a social

network but we didn't have a strategy to support them."

Customer service agents didn't have a simple way to access a shopper's Gymshark account from his social media query. That meant that tracking down a customer's purchase history often required the agent to pose a number of questions to identify the correct account. The result was that Gymshark's customer interactions were disjointed and response times were slow. And, because it lacked a comprehensive system to direct its social media customer service efforts, Parkin couldn't assess the effectiveness of the team's efforts on social media.

---

**A SOLUTION:** At first, Gymshark used customer service vendor Zendesk's technology to help it improve its interactions with shoppers. Zendesk quickly improved the retailer's interactions by helping the retailer organize and understand each customer service interaction. However, Parkin quickly realized the retailer needed a tool dedicated to customer service support to help him gauge shoppers' sentiments and satisfaction after their social media interaction.

After evaluating several options, it settled on social customer service vendor Conversocial's technology, which integrates with its Shopify e-commerce platform. The system has streamlined and professionalized Gymshark's social media customer service interactions, Parkin says.

For instance, Gymshark used Conversocial's technology to add automation to its dedicated Twitter customer service handle, @Gymshark, and on Facebook Messenger. When a consumer begins a direct message conversation on Twitter, the system provides

200%

The percentage increase in Gymshark customer service agents in the past year.

Source: Gymshark Ltd.



a welcome message, “Hey! Thanks for getting in touch. To ensure your experience with us today is smooth and efficient, please select one of the options below so our team knows exactly what you need.” It then offers several preset options, such as “Where is my order?”, “I have received a faulty item!” and “I want to return my order.” After a shopper selects the appropriate option, the system responds with a specific auto-response that can help it gather specific information to answer the question or assist the retailer’s customer service agents to quickly resolve the issue.

The system also helps the retailer measure its customer service agents’ ability to resolve shoppers’ issues, he says. Within 24 hours of a customer service agent marking a consumers’ issue as “resolved,” Conversocial’s Resolution Management tool sends the consumer a survey. The results help Gymshark collect feedback on the interactions the shopper just had with its agents. In addition to predetermined responses, the tool also has an open text box where the consumer can share feedback.

increase in the number of private Facebook Messenger messages.

With the number of consumers reaching out continuing to rise, Gymshark continues to look for ways to optimize its customer service interactions with shoppers on social media. However, Parkin doesn’t plan to replace the retailer’s customer service agents with chatbots.

“I want our customers to feel like they’re interacting with their family or friends when they’re interacting with us,” he says. “Personally, I don’t think it’s possible to replicate that feeling with a chatbot.”

Many consumers agree; 80% of retail shoppers said they aren’t comfortable turning to a chatbot for assistance to resolve their customer service problems post purchase, according to a 2017 survey of 1,008 U.S. consumers by marketing technology vendor PointSource.

Rather than invest in chatbot technology, the retailer has significantly increased its number of customer service agents. It now has 28 agents. That’s 200% more than it had a year ago and a marked increase from the two agents it had two years ago.

That hiring blitz has helped the retailer expand the hours that it offers service; its social media customer service team is now available from 6 a.m. to 12 a.m., with plans to expand those hours further in the future.

By improving the customer service that it offers shoppers on social media, Gymshark has likely improved consumers’ impressions of the brand, Parkin says. “If we’re ready and able to respond where our customers are already gathering, it should make for a better experience,” he says, noting that the brand hopes that the result is that shoppers return to Gymshark the next time they’re in the market for athletic apparel. [iR](#)

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# 82%

The percentage of consumers who expect a retailer to resolve the customer service issue they posted about on social media within two hours, up 30 percentage points from 52% three years earlier.

Source: Zendesk

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**THE IMPACT:** Increasing the efficiency of Gymshark’s customer service interactions on social media has proven particularly important as the number of consumers reaching out on Facebook Messenger and Twitter is growing significantly.

For instance, the Conversocial platform enables customer service agents to send consumers who post publicly on Twitter a Send A Private Message button. That’s helped reduce the number of public tweets directed at the retailer by 21% from the second quarter of 2017 to the third quarter of 2017. At the same time, the number of Twitter direct messages rose 50%.

On Facebook and Facebook Messenger, the system has produced a similar result, with an 11% drop in public Facebook posts and an 11%

# Overcoming the artificial intelligence execution gap

## WENDY HUFFMAN

product manager at Listrak, a customer analytics, customer relationship management and cross-channel marketing automation platform



**A**rtificial intelligence (AI), big data and machine learning have been e-commerce buzzwords for some time. There's good reason for that: Effectively leveraging AI and machine learning to work on big data can help retailers boost revenue because the technologies allow them to deliver highly effective marketing messages by honing in on consumers' specific needs, experts say. But that's easier said than done, says Wendy Huffman, product manager at Listrak, a customer analytics, customer relationship management (CRM) and cross-channel marketing automation platform.

"There is a huge execution gap between what retailers want to do with AI, machine learning and big data and what they can reasonably accomplish with the teams and technology they have at their disposal," Huffman says. "We see many cases where too much data can lead to paralysis or inaction. We also see cases where brands have the brainpower to digest their own data, but they don't have access to the technology required to act on it."

Retailers also have to deal with their own data silos—in which the various systems that collect data are not connected—which can inhibit them from seeing a complete view of their customers, Huffman says. "It's more important than ever for a brand's technology ecosystems to talk to each other to get data in and out of disparate tools with ease," she says. "That's what will allow them to get a true single person view of a shopper, which can impact both acquisition and ongoing marketing efforts."

**ONE WAY RETAILERS CAN OVERCOME** the AI execution gap is to partner with technology firms that have domain knowledge about their industry, Huffman says. "There are a lot of technology companies that can process big data, but brands can move further faster with tech firms that already have predictive models baked into their tool set that mirror their business goals," she says. "The ramp-up period to tweak and train an existing predictive model that has already proven itself is far faster than paying a company to first learn about your industry before they can begin diving into your data."

Customer-relationship management technology, such as Listrak's, can help retailers overcome the AI execution gap by giving them immediate, actionable data they can use to drive conversions, engagement and re-engagement, she says. "For example, Listrak CRM offers brands a full suite of customizable dashboards and data visualizations out of the box," she says. "And because our origins are in retail, our dashboards are immediately relevant to e-commerce brands. We give brands insights that even people without a data science degree can use to understand their customers, products, sales and marketing performance."

In one recent test, a prominent apparel retailer used Listrak CRM's predictive models to target shoppers who were most likely to make a purchase in the next two weeks, Huffman says. This predictive audience included many subscribers who the retailer was no longer targeting because they didn't meet its long-standing definition of "active." After targeting this group, the retailer generated a 66% increase in revenue per thousand and a click-to-open rate 1.6% higher than its active audience.

Huffman says these types of improvements are common when retailers effectively put AI to work. "Online retailers frustrated by the pace with which their organizations are implementing AI efforts should consider starting with technology that gets all their data under one roof," she says. "Then partner with a data tech company that plays well with your marketing automation systems so you can take immediate, automated action on your data." ■




# Unlock the Power of Your Customer Data

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With Listrak CRM, Your Data  
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Retailers are investing in a wide range of technologies to save money and improve efficiency. BY KATIE EVANS

# TECHNOLOGY SELLS (AND SAVES)



**U.K.-BASED ONLINE GROCER OCADO GROUP PLC CARRIES 50,000 SKUS.** It has more than 645,000 customers and processes 280,000 orders per week. Its average order value is nearly \$140. That's a lot of bread, milk and butter.

Such a vast base of sales, orders and customers means that even the smallest efficiency-oriented tweaks can have a great influence on Ocado's bottom line, says Greg Cempla, general manager of Ocado Technology, a unit of Ocado that develops robotics, machine learning, simulation, data science, forecasting and routing systems.

"It's the economy of scale," Cempla says. "A tiny savings on the cost of processing an order can have a significant impact on your bottom line when you have hundreds of millions in sales. We are always looking for the biggest bang we can get for our buck."

And that's what the Ocado Technology team of roughly 1,000 employees has been plugging away at for more than nine years—small improvements that make a big impact.

Ocado has plenty of company among merchants investing in technology. 78% of retailers are planning to increase their spending on technology this year, according to an Internet Retailer survey of 77 online retailers conducted in October 2017. Retailers like Ocado are using technology in a variety of ways to boost their bottom lines, drive efficiencies and better appeal to consumers. They're implementing technologies in their back-end systems to improve operations and save time and money. Others are offering

customer-facing tools to make shopping easier. Some choose to buy technology talent by acquiring vendors or use service providers rather than develop complex systems themselves. There are many paths to using technology to improve ROI and many retailers report finding successful routes.

For instance, Ocado's most recent program, launched last month, is a fraud detection and prevention machine-learning algorithm built

**Story continues on page 16**

A large, light blue graphic featuring the number '78%' in a bold, sans-serif font. The graphic is set against a white background with a light blue border.

The percentage of retailers planning to increase their spending on technology this year.

Source: Internet Retailer survey of 77 online retailers, October 2017

# Automation is critical to navigating complicated tax collection rules and regulations

## PETE OLANDAY

practice leader for the consulting retail practice at Vertex, a provider of tax technology and services



**T**axes can be complex even at the simplest, most straightforward level. But in the e-commerce environment, where states and other jurisdictions are intensifying their sales tax collection efforts, online retailers are scrambling to ensure they are compliant with these constantly changing laws.

"This used to be straightforward. Online retailers only had to collect taxes in states where they had a physical presence, but that's not necessarily the case anymore," says Pete Olanday, practice leader for the consulting retail practice at Vertex, a provider of tax technology and services. "We're seeing a trend toward online retailers being required to collect taxes in states where they do a certain amount of business—regardless of whether they have a physical presence there."

Understanding exactly where and how the law requires them to collect taxes can be daunting for online retailers. But Olanday says there are a few steps retail organizations' internal tax departments can take to ensure compliance.

Olanday suggests retailers keep current on tax rules and compliance by working with experts who can offer guidance about changes to the laws. And, with the help of a tax adviser, retailers should register with any state in which they take online orders.

Online retailers must also identify tax issues concerning services. For example, if a customer buys a suit online and within that same transaction purchases tailoring on that suit, the tailoring service may require different taxation, depending on the jurisdiction. They also should "tax-sensitize" their merchandise to accurately collect sales tax across all states. "For example, in Pennsylvania, retailers cannot collect taxes on clothing, so they need to ensure clothing items are tax-sensitized to accommodate for that," he says.

### THE BEST COURSE OF ACTION

for retailers to stay on the straight and narrow with regard to these complicated and changing laws is automation, Olanday says. "Tax automation plays a critical role in ensuring accuracy, reducing compliance risks, increasing efficiency and more within most

retail tax departments," he says. "Given the fluid nature of retail tax rules, however, it is imperative that tax departments select the most effective form of sales tax software."

When selecting a tax automation tool, Olanday says the tool's ability to scale is extremely important. And the retail tax departments choosing the tool should ensure it has several critical capabilities, such as the ability to tax-sensitize the merchandise to mitigate the risk of errors. And after a customer identifies as tax-exempt, the tool should automatically validate the exemption before the transaction is completed. The automation must remain up-to-date on the many and constant changes to taxes across all of the jurisdictions in which the retailer operates. In addition to conducting tax calculations seamlessly in the background, the tool should provide convenient transparency and access to all tax data for auditing purposes.

"The tool should enable tax professionals to invest their time in higher-value activities by providing them with easy access to the data they need for planning purposes," Olanday says.

Now more than ever, as laws continue to change and become increasingly complicated across many jurisdictions, retailers need to automate their tax collection functions to ensure they remain compliant, Olanday says.

"They should partner with a third-party tax and technology services provider, such as Vertex, that will enable them to realize the full strategic potential of the tax function by automating and integrating tax processes, while leveraging advanced and predictive analytics of tax data," he says. ■





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—GREG CEMPLA, GENERAL MANAGER, OCADO TECHNOLOGY

using Google’s TensorFlow, an open-source software library for building machine-learning frameworks.

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The new fraud model collects data from Ocado’s order management system, payments, customer-relationship management system and e-commerce teams to predict if an order is fraudulent or not. Its algorithm also adapts over time based on the data it gathers, Cempla says.

For example, the machine-learning model consumes data from the retailer’s contact center using tools developed by its data engineering, data platform and machine-learning services teams. If an order is incorrectly flagged as fraudulent and the customer calls to complain that it was legitimate, that complaint and the details of the order are noted and used to improve fraud forecasting.

It also helps in other ways. If a customer emails or calls the call center to say she will not be home to receive her order and wants to cancel it, the machine-learning system can take that information and automatically cancel the order, making that cheese or eggs

in the order available for other shoppers to buy and saving a warehouse worker time picking and packing.

Ocado tested the program against the manual fraud detection program it had been using and found it to be 15 times more accurate at correctly spotting fraud than an employee. “Analyzing orders for fraud can be very tiring for an employee,” Cempla says. “Doing it for a long time increases the likelihood of a mistake. Machine learning guarantees the same level accuracy applies to all orders.”

Like Ocado, Boxed Wholesale employs an in-house technology team. The web-only merchant of household products has been busy developing and implementing consumer-facing technology to make shopping more convenient, says Will Fong, chief technology officer for the retailer.

It recently implemented several new customer tools, including Smart Stockup, launched in August, and a group-ordering feature, which it rolled out in December.

Smart Stockup predicts when shoppers will most likely run low on particular household products and then sends them an email reminder about the items they are likely to need. Boxed uses machine learning to scan customer data and predict what shoppers are going to need and built its algorithm for the service over three months.

# Shopper Insights & Retail Activation

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# 51%

The percentage of retailers planning to add a new technology that plan to buy the tool from a vendor rather than develop it themselves.

Source: Internet Retailer survey of 81 online merchants, February 2017

Shoppers who use the feature spend up to 15% more per order on average than shoppers who don't use it, Fong says. Additionally, Boxed attributes "a few percentage points" of revenue to the feature by tracking orders from consumers who click through a Smart Stockup email reminder or place an order after tapping the Smart Stockup reminder that appears when a shopper opens the Boxed mobile app.

**CONSUMERS LIKE THE IDEA OF** such helpful technologies. A January 2017 survey of 709 consumers from Oracle Corp. found that 58% had a positive attitude toward having their grocer suggest a shopping list for their approval based on their purchase history, as well as social and environmental data.

The Boxed group-ordering feature enables consumers to use a shareable link to build

their cart with others, even if they're not Boxed customers. The feature is designed for roommates, colleagues, families or anyone organizing a group trip, Boxed says. Shoppers can see who's buying what items and split the bill. Fong says that the feature has proven popular with managers of small offices with around 50 employees or fewer, which is a growing customer base for Boxed. Fong says B2B sales account for about 20% of its revenue and about 50% of its new business.

Boxed, which launched in 2013 and generated more than \$100 million in sales in 2017, now has nearly 600 employees. As it has grown, it's invested heavily in technology. Late last year, it launched an augmented reality tool that lets shoppers envision how that pack of 20 paper towel rolls will fit in their pantry, as well as a Facebook chatbot appropriately named Bulky.

Other recent technology-focused initiatives include investing tens of millions of dollars on a new warehouse automation system. Four miles of automated conveyor belts, which were integrated in April 2017 at its New Jersey facility, deliver goods to warehouse workers for packing. Automation has led to a 600% fulfillment productivity gain and a 350% total productivity gain, which measures labor cost per shipment, the retailer says.

In October, Boxed went one step further, unveiling another tool designed to get orders out the door quickly—self-driving carts that navigate through its Dallas warehouse and pick products. The carts travel the picking route and human warehouse workers pick the items and punch into a computer screen that the item has been selected, and then the cart delivers the finished order to a packer. The vehicles are forecasted to increase picks per hour by 80%, Fong says. Boxed also plans to use the vehicles for replenishment and transportation of supplies.

Of course, before a retailer can implement new technology, it first has to conjure up ways technology can improve their businesses.

Boxed's group ordering and self-driving carts stemmed from the two companywide hackathons the retailer holds each year, Fong says. "Anyone can participate," Fong says. "It's a space where we let our team unleash their creative juices. We aren't just a bunch of executives in a room sitting around thinking about we are going to do next." Some teams create a PowerPoint presentation outlining their ideas and others develop full-scale prototypes. The program enables employees who typically don't get to work together to collaborate and brainstorm. Employees receive a small prize if their idea gets chosen to pursue further.

Ocado hosts a similar program called hackdays, where data scientists and software engineers explore new features, test new models and analyze and visualize new data.

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## WHILE OCADO AND BOXED ARE

developing technologies in house, others are looking outside their offices for technical expertise. For example, department store chain Nordstrom Inc. in March acquired two e-commerce technology vendors, BevyUp and MessageYes. MessageYes is a conversational commerce software platform and BevyUp is a digital selling system that Nordstrom plans to integrate into its employee-facing app in the coming year. In 2012, Nordstrom distributed 6,000 mobile devices to its stores so employees can check customers out in the aisles and email them receipts.

Nordstrom isn't alone: 51% of retailers planning to add a new technology in the next year intended to buy that technology from a vendor rather than develop it themselves, according to a February 2017 Internet Retailer survey of 81 online merchants.

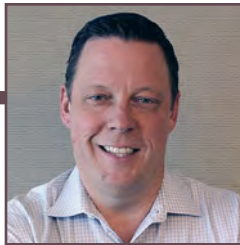
It's no wonder some retailers decide to buy rather than build. Building takes a lot of work. For example, Ocado spent six months building a system using machine learning to better manage emails sent to its contact center. The system takes email as it comes into the center and determines whether the email has a positive or negative sentiment and tags the message with a description of its content, such as a request for website help, a complaint about delivery, a product-related issue or a cancel-order request. Based on that data, each email is immediately prioritized on how quickly it should be read and answered.

**Story continues on page 22**

# Unraveling the complexities of omnichannel profitability

## KC FOX

senior vice president of technology services at Radial, a global omnichannel technology and operations provider



In today's highly competitive e-commerce landscape, a retailer's ability to exceed customers' shopping expectations is critical to success. In fact, Harvard Business Review recently reported that customers who had a great experience will spend 2.5 times more with a retailer than those who did not.

But delivering those highly satisfying experiences while maintaining profitability is difficult to achieve. Retailers must find new ways to innovate to both retain and acquire new customers, and to create a seamless experience across the multiple physical and virtual channels in which today's consumers shop.

"Omnichannel execution is complex," says KC Fox, senior vice president of technology services at Radial, a global omnichannel technology and operations provider. "To profitably deliver on consumer expectations takes not only improving the pieces the customer sees, but also everything behind the scenes needed to execute that seamless and frictionless customer experience."

There are many pieces of the puzzle, according to Fox. Inventory optimization, for example, uses advanced data analytics to provide

better demand forecasts, allowing intelligent inventory placement across fulfillment nodes to match supply with demand, he says.

### OMNICHANNEL TECHNOLOGY IS ANOTHER IMPORTANT

component, Fox says. "Providing a seamless experience means giving customers options for how and where to get their products," he explains. "Therefore, retailers need technology that enables intelligent order fulfillment across the supply chain to ensure the most efficient and profitable fulfillment method—whether it's ship from store, in-store pickup, drop-ship or fulfillment from a distribution center."

Because consumers are increasingly looking for self-service and mobile options for speed and convenience, technologies such as visual interactive voice response (IVR) allow consumers to get answers via their mobile device touch screens, Fox says. For instance, Radial's client, arts and crafts retailer Michaels Cos. Inc., implemented a Visual IVR tool making it possible for its customers to quickly navigate a visual-based menu optimized for smartphones, and then simply select options by touch versus listening to a list of options and interacting via voice. With Visual IVR, more customers were able to resolve their own issues, thereby reducing the volume

of calls going to live agents. It also reduced the average handle time for calls from more than six minutes to under one minute, and improved overall customer satisfaction.

And finally there is the pervasive and costly issue of fraud. As fraud attacks continue to increase, retailers need the right tools and expertise that combine machine learning and human expertise to stop fraud, without rejecting legitimate orders from good customers, Fox says. According to Business Insider, merchants falsely declined \$8.6 billion in sales in 2016—equivalent to \$2 billion more than the fraud they prevented.

Businesses can often successfully manage the complexities of payments and fraud when they outsource fraud management. For example, Everlast Worldwide Inc., a manufacturer, marketer and licensor of boxing equipment was bogged down by manual reviews and processes, which was not only causing friction with customers but also a significant loss in e-commerce revenue. To solve these problems, it outsourced its fraud and payments management to Radial. As a result, Everlast saw an 8% increase in order conversions, an 83% decrease in manual reviews, and a 62% decline in its fraud attack rate. And because Radial covers 100% of losses tied to fraud for its clients, Everlast's fraud liability is zero.

By implementing these technologies and strategies, retailers can make omnichannel profitable, Fox says. But he cautions that most don't have the experience or resources to do it alone. "Retailers should look for a partner such as Radial that provides the technology, services and expertise to take on the complexity of integrated commerce to enable a seamlessly orchestrated customer experience," he says. "That will ultimately separate the winners from the losers." ■



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# ‘Our users are staying on site and clicking through to learn more and shop.’

—JANE SCOTT, SENIOR DIRECTOR OF DIRECT TO CONSUMER, HOBO

Before implementing the system, the retailer’s customer service staff had to scan and sort each email that came in. Moreover, the previous system didn’t have a way to prioritize emails, which meant that messages were handled in the order they were received. And so an urgent message such as “I can’t place my order” might be read after 50 messages asking the retailer to add a new product line.

The new email system saves Ocado 100,000 pounds (\$144,233) a year, Ocado says. And, after using the system, Ocado found that 7% of emails don’t even need to be answered. Additionally, response times for non-urgent emails decreased from 19 hours in 2016 to nine hours in 2017. For urgent emails, the average response time is now two hours. Additionally with the new system, Ocado now answers 95% of emails in 24 hours, an increase from 74% in 2016, the retailer says.

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**BUT DEVELOPING SUCH HELPFUL, COST-SAVING** technology can be tedious. For example, in building its email system Ocado employees used Google’s TensorFlow, an open-source software library for building machine-learning frameworks, to train the computer system using a backlog of three years of customer service emails the retailer had saved. Ocado then looked at which tags

the system applied and examined how closely the assigned tags described the email’s content and the corresponding decision made by the company’s customer service employees.

It took Ocado’s in-house team of four data scientists and two software developers six months just to get to the testing phase.

Other noteworthy internal projects include a skill for Amazon’s voice-activated Alexa software that can determine, based on a shopper’s order history, when a customer says “Alexa, add milk to my Ocado order,” she probably means add two liters of semi-skim Alpo-brand milk. Ocado, which uses both machines and humans to pack and ship out items from its warehouses, also has developed systems to optimize the routes machines take in its fulfillment centers.

Ocado’s technology initiatives have been so effective that Ocado now sells its Ocado Smart Platform technology to other online grocers including U.K.-based Morrisons, Canada’s Sobey’s Inc. and Groupe Casino in France. The retailer plans to grow its Ocado technology team to 1,200 over the next year, which would mean the unit would account for nearly 10% of the retailer’s total workforce of 13,000, Cempla says.

Such internal projects are luxuries many retailers can’t afford. Many merchants don’t have the deep pockets, manpower and

technical knowhow in house as Ocado does. A February Adobe survey of 13,000 marketing, creative and technology professionals found that organizations using artificial intelligence tools to create personalized experiences for their customers were 50% more likely to significantly exceed their business goals and 46% expected to adopt AI to support customer experience by the end of 2018. However, 40% lacked the required knowledge and resources to implement it.

And it's not just nascent technology that retailers seek help with. For example, Hobo, a mid-sized manufacturer and retailer of leather handbags, wallets and accessories, recently sought a more straightforward technology—an easy-to-customize e-commerce platform—says Jane Scott, senior director of direct to consumer for the retailer, which sells online at HoboBags.com.

Hobo sells more than 500 SKUs online and its web sales have grown more than 100% over the past two years. However, Hobo needed help to manage and continue such rapid growth.

The retailer employs seven people who each spend part of their time supporting e-commerce initiatives, Scott says. These employees generate creative for the site, write front-end code and work on product merchandising, including launching new products and copy. They also prioritize site updates and enhancements and manage digital marketing, customer service and analytics and planning—a lengthy list of tasks for a handful of employees.

“We are not the huge brand in the handbag space,” Scott says. “Since we are a mid-sized player, it is important that we make use of the competitive advantage of our size and our ability to be dynamic.”



# 100%

The amount that  
Hobo's web sales  
have grown  
over the past  
two years.



Scott says Hobo has a loyal base of shoppers. Additionally, Hobo's average units per transaction grew more than 5% last year.

To keep up with its swift pace of online growth, Hobo moved to e-commerce platform firm Kibo late last year. Hobo began working with Kibo in February 2017 and launched on the new platform in early October to be live in time for National Handbag Day on Oct. 10.

"We were seeking a company that would provide the technology and support required for the growth that our emerging direct-to-consumer brand is experiencing," Scott says.

Hobo says the platform gives the retailer creative and coding control over the site so that Hobo's staff can quickly and easily make changes.

"[We have] complete control over the look and feel of our home page, our branded pages and many other pages throughout the site, in addition to the header and footer, all of which we can update any time with our own in-house front-end developer," Scott says. For example, staff can write custom code into a blank HTML field to add a feature to the site, Scott says, adding that the platform is user friendly for entry-level employees to highly seasoned front-end developers.

The ability to quickly respond to user behavior is paying off in visitor activity. Time on Hobo's home page has increased

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‘Not all innovation is practical. Not all innovation is useful. What’s most important is to think of what your customers would want.’

—WILL FONG, CHIEF TECHNOLOGY OFFICER, BOXED WHOLESALE

5% so far this year over last year, and bounce and exit rates have each dropped by 4.5%, Scott says.

“Our users are staying on site and clicking through to learn more and shop,” Scott says. For example, shoppers are spending 24% longer in Hobo’s lookbook than they did before Hobo switched to Kibo. The majority of visitors who come to the lookbook spend at least one minute there, and the bounce rate from the lookbook has dropped by more than 16% year over year, Scott says.

With the new site, Hobo also is able to use the same catalog, marketing and merchandising tools on its just-launched B2B site as its B2C site.

“Our B2C and B2B sites can share attributes, which allow for one product upload to cover both sites, which saves us from having to create and maintain two complete lists,” she says. And with the ability to access and manipulate both sites, staff can easily copy and paste any look-and-feel changes across both sites.

In addition to creative control, the new site enables Hobo to easily offer complex discounts, update orders with notes from customer service, maintain accurate inventory, load new products to the site and plug in new technology—such as fraud protection or international checkout—Hobo says.

Since moving to Kibo, Hobo’s sales are up

62% in 2018, and units per transaction are up 12%, Scott says.

Not all technology projects produce such favorable results, says Boxed’s Fong. Case in point: Boxed recently tested offering shopper bundles—discounts on very specific groups of products that would fit snugly into a single package and, therefore, would ship at a very low cost to Boxed.

“The logic was sound,” Fong says. “We thought that if we could bundle products that ship well together, we could pass the discount on to the consumer.” Boxed tested it as a feature in its iOS app for a few months. But the feature was too rigid for consumers who frequently wanted to tweak their orders by adding or taking away an item or two, Fong says. “It was too inflexible.”

Indeed, not all technology projects are successful or beneficial and no two retailers have the same needs and resources when it comes approaching technology. But retailers can nearly always find solutions and improvements with the right technology—if they look hard enough.

“Not all innovation is practical. Not all innovation is useful,” Fong says. “What’s most important is to think of what your customers would want.” And, of course, what makes your business run smoother. [iR](#)

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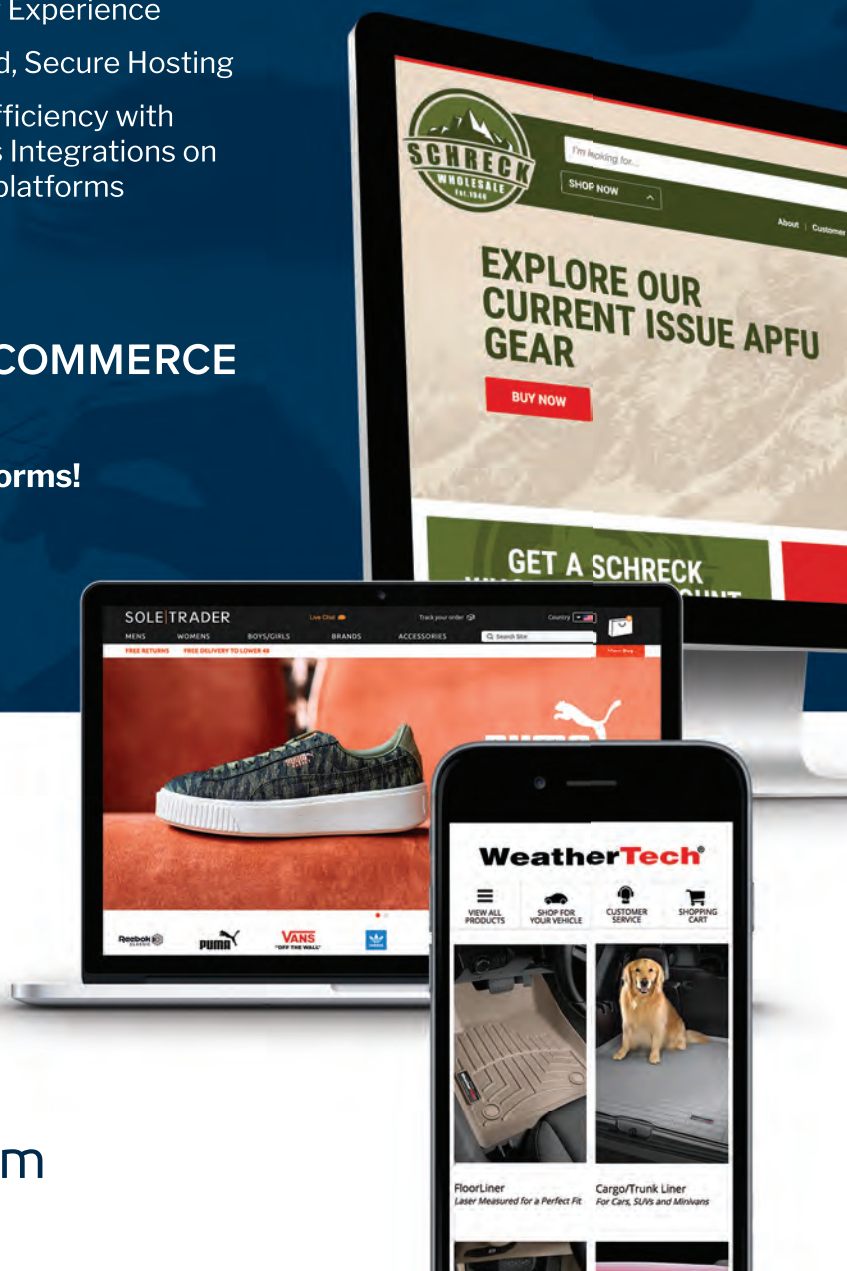
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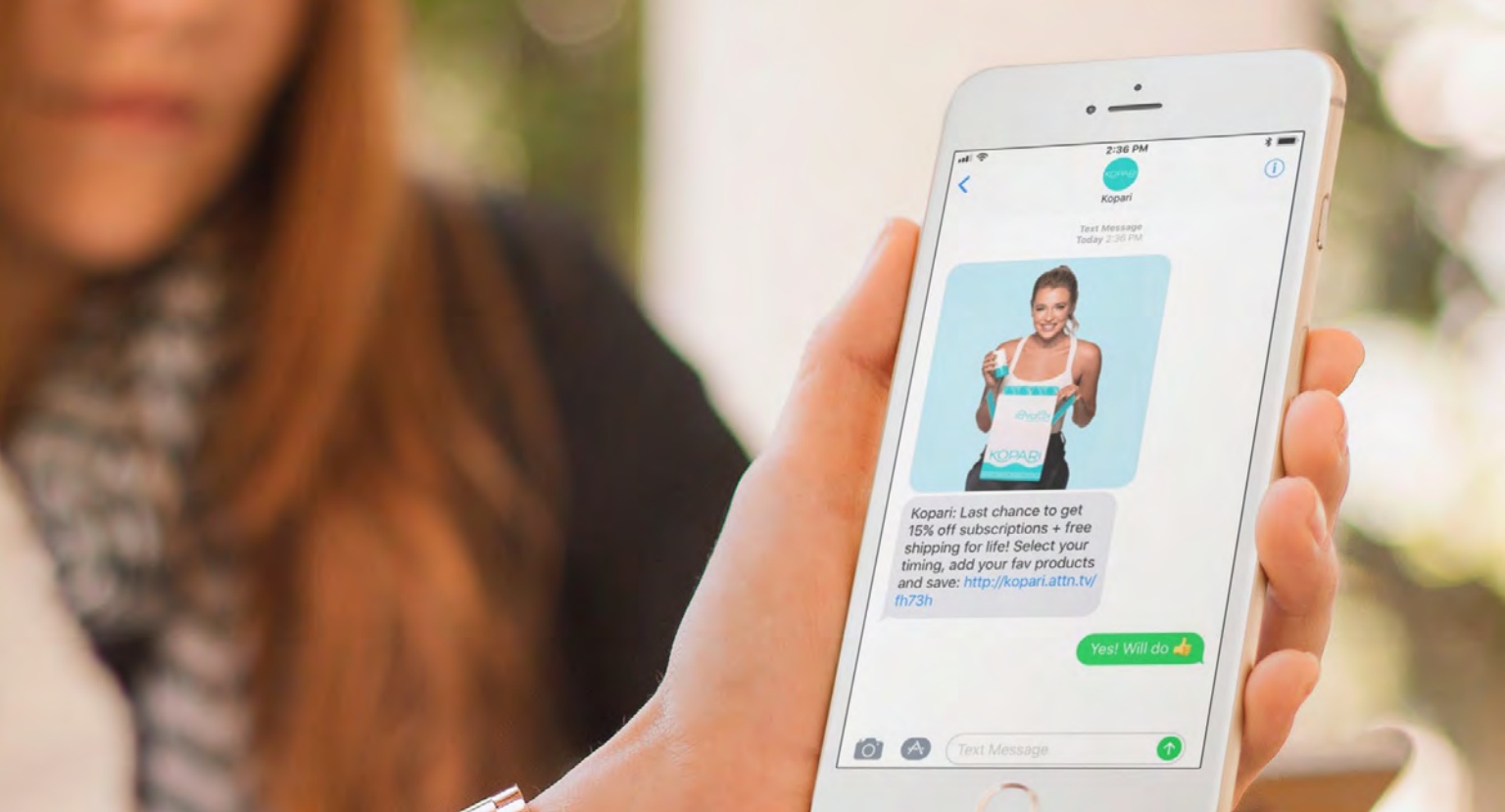
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# HOW TO REACH MILLENNIALS

Merchants with a large base of millennial shoppers are finding that mobile marketing, free shipping and differentiated product sets are resonating with this large and lucrative generation.

BY APRIL BERTHENE

## MILLENNIALS HAVE DIFFERENT EXPECTATIONS WHEN IT COMES TO ONLINE SHOPPING.

This cohort of shoppers—which is made up of consumers born between the early 1980s and early or mid-1990s—has grown up during the rise of Amazon.com Inc. and is accustomed to having a wealth of information instantly accessible to them. For online retailers, that means these shoppers have come to expect fast and free shipping, along with plenty of information on a retailer's products, says Stephen Kuhl, CEO and co-founder of web-only furniture retailer Burrow.

Because more than half of Burrow's customers are 25 to 35 years old, the retailer has several strategies to cater to millennial shoppers. For instance, it includes transparency-oriented information on its products—such as where the materials are sourced from and the quality of the wood and fabric—detailed content including videos on its site about product features and how to assemble them and free shipping. And to

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## ‘Millennial consumers, broadly speaking, want price and convenience, but they also want virtues and values.’

—GUNNAR LOVELACE, THRIVE MARKET FOUNDER

help the shopper feel more connected to the retailer, one of the six choices on the site’s top navigation menu is an “our story” section that explains Burrow’s value proposition, why its products are high quality and biographical information about the co-founders.

“Millennial shoppers are used to researching everything,” Kuhl says. “Information is so easily attainable online. As a result, a lot of companies that have popped up on the internet provide transparency into what they’re making. People want to know why the item they are buying is the best option.”

Burrow has plenty of company among online retailers strategizing how to market and appeal to millennials. There’s good reason for that enthusiasm: Millennials are a large and lucrative market. By 2020, 46% of consumers over 18 years old will be millennials, according to a Forrester Research Inc. forecast. Millennials are entering their prime spending years of setting up their first homes, having children and earning more disposable income. And, perhaps most importantly for e-retailers, these shoppers are comfortable buying online.

Of course, like any generation, millennials are a diverse group of consumers and there are large differences between consumers born within the same time period. For instance, a recent study by Deloitte Consulting LLP found a number of differences in the ways that high-income and

low-income millennials shop. For example, high-income millennials are 24% less likely than all non-millennial shoppers to shop in a store, whereas low-income millennials are similar to other generations.

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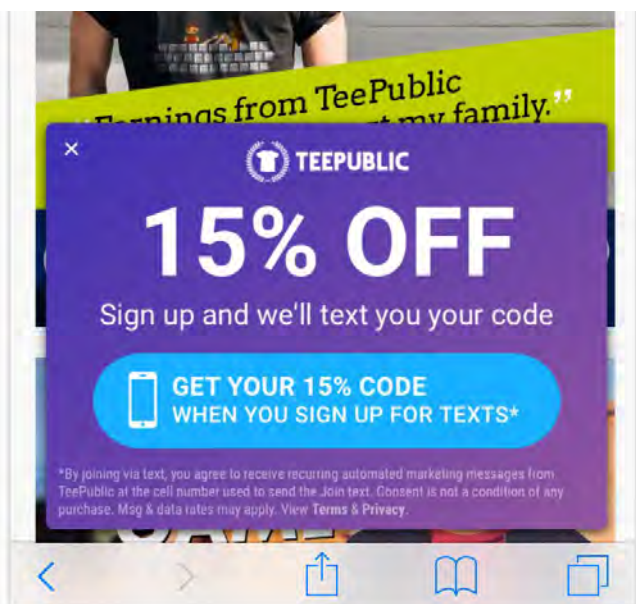
**67% OF U.S. INTERNET-USING MILLENNIALS** prefer to shop online versus in a store, compared with 56% of Gen X (consumers ages 35-49), 41% of baby boomers (consumers 50-68) and 28% of seniors (consumers 69 and up), according to a 2016 survey by e-commerce platform provider BigCommerce Pty. Ltd.

Nearly 75% of global millennials have access to the internet and use smartphones, which is the highest online and mobile penetration of any other age generation, according to Forrester data. Plus, consumers 25-34, on average, spent \$831 online in the previous three months, compared with \$652 online across all age groups, according to Forrester data.

“Overall, these [millennials] are the buyers who are early adopters and high-frequency purchasers online and are spending more online than other generations,” says Satish Meena, senior forecast analyst at Forrester.

Online retailers looking to cater to this generation are using a broad swath of tactics to capture these dollars, including using smartphone-specific marketing and service





More than 40,000 shoppers have signed up to receive TeePublic's text messages.

technologies, communicating to consumers on social media, plus touting products and services that resonate with this generation, such as health and values.

### MILLENNIALS ARE COMMONLY REFERRED TO

as the “always-on” generation, as these consumers came of age during “the internet explosion,” according to Pew Research Center. The iPhone launched in 2007, allowing consumers to be connected to the web at nearly any time via smartphones, and millennials have quickly adopted the mobile devices as they came of age, Pew says. And so it makes sense that this generation is more mobile-savvy and comfortable shopping and purchasing on smartphones than previous generations.

Many retailers have noticed that an increasing amount of their web traffic is coming from mobile devices and have worked to beef up their mobile offerings to cater to these mobile shoppers, especially retailers that are working to appeal to millennials.

Web-only T-shirt retailer TeePublic, for example, uses text messages to cater to its mobile-savvy audience, says Adam Lasky, the retailer's director of marketing.

Text message marketing is important to cater to millennials, one of TeePublic's core customer groups, who account for more than half of its shoppers, Lasky says. Millennial consumers' email open rates were roughly 15% lower than its other shoppers, which meant the retailer needed to find a way to engage this audience, he says.

“We wanted to meet users where they were,” Lasky says. “How they were engaged with us, and are engaging with us, is on their phones.”

Traffic to the web-only merchant was split 60% mobile and 40% desktop, yet mobile sales were only 30-35% of its overall business, Lasky says. “We are seeing that gap between users coming to our site via mobile, but they are just not converting,” Lasky says.

50,000 shoppers have signed up since the retailer launched its text message marketing program in May 2017, Lasky says, and 40,000

# Create an Amazon-like customer experience for a competitive edge

## MATT MULLEN

senior vice president and managing director of North America at ProShip Inc., a provider of shipping and supply chain software



**A**s the world's largest online retailer, Amazon.com Inc. is often considered both an inspiration and a threat to other e-commerce businesses. Boasting nearly \$178 billion in worldwide revenue in 2017, a 27% jump over 2016, the online retail behemoth seems likely to dominate the e-commerce landscape for years to come.

While this may seem intimidating to many online retailers, it's actually a great opportunity for them to push their e-commerce businesses forward, according to Matt Mullen, senior vice president and managing director of North America at ProShip Inc., a provider of shipping and supply chain software.

"Consumers are trying to get more convenience out of e-commerce because it suits their lifestyles, and offering them a valuable shopping experience is the way to do that," Mullen says. "It was easy for retailers to provide excellent customer experiences in a store, but now they must transition those experiences online and make sure that, at every touch point, they are delivering the experience that is anticipated by that specific customer."

Amazon serves as the ideal model for effectively executing a "big picture" strategy around the shopping experience, Mullen says. "Amazon has known for a long time that customers who receive experiences that they both expect and value buy more frequently and have higher average tickets," he says. "That's why it has long tailored its online experience to exceed its customers' expectations."

**EACH RETAILER IS DIFFERENT, WHICH** means they need to implement strategies that suit their target market's expectations, Mullen says. Retailers need to think about which features enhance the customer experience at the shopping level, the cart level and the delivery level. That's when they can choose the features that will build their loyal customer base, and ultimately compete in the market with an Amazon-like profile. Without these strategies, loyalty falls flat, Mullen says.

Take, for example, a Chicago-based customer who orders a product from a retailer that doesn't have a Midwest distribution center. The retailer offers to ship the product from a distribution center further away, which costs significantly more than it would to ship locally,

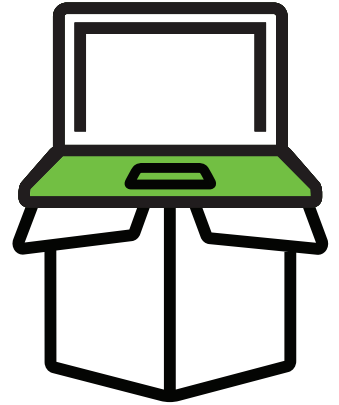
but passes that additional shipping cost onto the customer. When the customer sees the high shipping cost at checkout, he abandons the cart and finds and purchases that product elsewhere. Mullen says this is when the customer experience fizzles and loyalty is lost.

"That customer will likely not attempt to buy from that retailer the next time he needs a product," Mullen says. "But, let's assume it's a valuable customer that the retailer wants to keep. The retailer should consider incurring the shipping cost to save the future revenue that the customer is likely to bring." This is why Amazon provides two-day shipping to Prime members, who are the retailer's best customers given that their annual spending on Amazon is nearly double the amount non-Prime members spend, according to Fortune magazine.

"It's important to stress that retailers don't have to recreate Amazon's model exactly," he says. "But they can identify the things Amazon does that align with their own mission, accounting for the value of long-term relationships with customers, and then find and implement the technologies that support that effort."

ProShip's multicarrier shipping software, for example, integrates with other retail technologies—such as the shopping cart, warehouse management systems, order management systems and enterprise resource planning systems—to help inform the retailer's shipping decisions and generate customer loyalty.

"The retailer must provide the best experience at all touch points—including shipping and delivery," he says. "If retailers aren't thinking about this as a strategic opportunity for their business, then they're missing an opportunity that their competitors probably won't." ■



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shoppers continue to receive the messages.

After less than a year with the program, Lasky is pleased with the results, especially when he compares the program to email marketing. Text message subscribers have a 25% click-through rate to the website compared with 9% for email subscribers. Plus, the conversion rate for text messages is roughly 9% compared with 4% for email. “These subscribers are pretty valuable,” Lasky says.

And mobile sales are increasing. Text messages are now a top marketing channel for TeePublic in terms of generating revenue. Mobile sales between May 2017 and March 2018 grew 47% more than mobile sales between May 2016 and March 2017, Lasky says.

**TEXTING HAS ALSO PROVEN TO** be an effective customer service channel for TeePublic. The retailer initially launched the text message program to drive sales; however, shoppers began texting TeePublic back and the retailer realized that customer service could be a natural extension of the program, Lasky says.

The retailer synced its text message service platform Attentive with its customer service software from Zendesk Inc. to enable human customer service representatives to respond to shoppers if they text TeePublic back. For example, a shopper may send TeePublic a text because he can’t find his coupon code or his order hasn’t arrived yet, and a representative can answer shoppers in real time. The customer service feature is convenient for shoppers since they are already on their smartphones, Lasky says.

Outdoor gear and apparel retailer evo also found that offering customer service via text

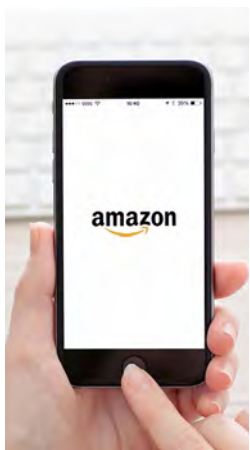
messages resonates with its shoppers. 49.5% of evo’s desktop web traffic comes from consumers ages 18-34, according to SimilarWeb. “Texting caters to the younger generation, including millennials,” says Justin Courtney, evo’s customer care manager.

Texting lends itself to answers to quick questions, such as “How do I return this?” that shoppers may not want to wait for an email response for or be put on hold for if they call, he says. “Phone calls can be a barrier,” Courtney says. “Some people don’t want to talk on the phone.”

Text messages also make it simple for a consumer to send a photo because she can send it using her smartphone’s camera, he adds. For example, if a shopper says she is disappointed about the condition of her product, it’s easier for the retailer to evaluate if and how much of a discount it should offer the shopper by looking at a photo.

Similar to TeePublic, Kopari knew it was relying too heavily on email as a marketing channel and needed to diversify its marketing tactics to cater to its mobile audience, says Shannon Murphy, customer retention manager at the retailer, which sells organic coconut-based beauty products. Kopari decided that because the majority of its customers shop on their smartphones—smartphones account for more than 70% of KopariBeauty.com’s traffic and 53% of the site’s sales—it made sense to market to these consumers in a more mobile way.

In October 2017, the retailer launched a text message marketing program. In just four months, more than 10,000 shoppers signed up to receive Kopari text messages, and text message sign-ups have increased 65% month over month each month, Murphy says.



38%

The percentage of U.S. internet-using millennials who said Amazon is their preferred destination for product research.

Source: Forrester Research Inc.

Such a large response surprised the organic coconut products retailer, which didn't have any specific revenue goals tied to the program at launch and wanted to test the program to see if shoppers wanted to receive text messages. But it's clear that the channel is working. Kopari attributes 14% of its website revenue in January to text messaging, Murphy says, based on the number of consumers who received and tapped on a text message and then made a purchase. Plus, smartphone sales have increased to 60% of the retailer's e-commerce sales, which Kopari in part attributes to the new text message marketing channel.

"SMS fits in with who our customers are," says Megan Bush, chief digital officer at Kopari. "We know our customer is on her phone. It wasn't an issue of getting them on the mobile site. It was us being there and communicating with them."

Kopari also uses a casual tone when it communicates with shoppers on its website, social media and marketing messages, which has helped the retailer cull a younger shopper base. More than 50% of desktop traffic to KopariBeauty.com is from consumers ages 18-34, according to SimilarWeb data between November 2017 and January 2018. For example, on Instagram, its captions take a playful vibe with notes such as "Cheers to happy vibes and blue skies!" and "Coconut Crush Scrub = Bye bye, dry skin. Buh bye, flakiness." That tone carries over to its product descriptions as well. For instance, one description reads, "Coco-Mint: It's the coconutty, pepperminty, wakey-wakey, makeout ready, mouthful of cool mountain air."

Kopari finds that shoppers are engaged and likely to respond to Kopari if the retailer talks

to shoppers as if it was talking to a friend. For example, by conversing with customers, the retailer learned the different ways shoppers were using its multi-use products, as some of its products can be used on a shopper's hair, body or legs.

The retailer also noticed that shoppers will leave questions on social media and so it will answer them with a post and solicit more questions for consumers. For example, Kopari posted on Instagram about a common question it receives about the product being chunky/solidified in the packaging, and the retailer detailed in the caption why this is and how to make the coconut oil melt.

The retailer also received feedback via comments on its social media posts on its lotion packages that not enough lotion came out with each pump, so Kopari switched its packaging based on this feedback. "Building our channel and building the brand on social lends itself to younger demographics," Bush says.

## OTHER RETAILERS WOULD BE WISE

to use social media to engage with millennial shoppers. 44% of consumers ages 18-34 view social media as an effective channel for customer service, compared to just 27% of consumers ages 55 and up, according to a Microsoft Corp. survey of 5,000 consumers in the U.S., U.K., Japan, Germany and Brazil. Plus, 62% of millennials said they are more likely to become a loyal customer if a brand engages with them on social networks, according to a Forbes survey and interviews with 1,300 millennials.

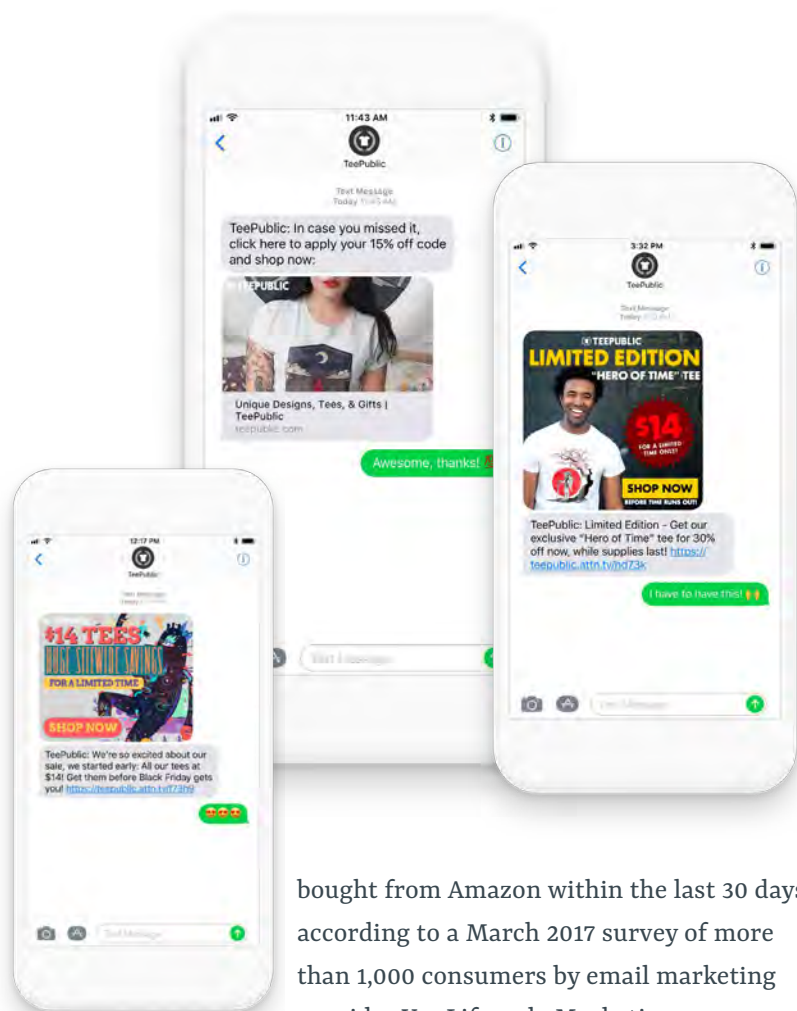
In addition to mobile and social savviness, millennial shoppers also are frequent Amazon shoppers. 79% of millennials have



# 44%

The percentage of consumers ages 18-34 who view social media as an effective channel for customer service.

Source: Microsoft Corp.



Text message marketing is important to cater to millennials, one of TeePublic's core customer groups, who account for more than half of its shoppers.

bought from Amazon within the last 30 days, according to a March 2017 survey of more than 1,000 consumers by email marketing provider Yes Lifecycle Marketing.

Plus, 38% of millennials said Amazon is their preferred destination for product research, compared with 27% of overall consumers, according to a Forrester survey. According to Forrester data, more than 25% of consumers who were in a store and ended up buying a product from another online or offline retailer said the reason was because the retailer offered free shipping, and more than 36% of consumers said they bought from Amazon while in a store because Amazon offered free shipping.

Online retailers may need to take note of how important of a factor free shipping is for consumers, many of whom are millennials, and offer this service to shoppers. For example, furniture retailer Burrow engineered its sofas so they could ship in a

compact box with UPS to enable it to cost-effectively provide free and fast shipping to shoppers. The retailer went through 20 iterations and prototypes before settling on its design.

Burrow ships its products via UPS ground shipping within a day of a shopper placing an order. Items typically arrive in about a week, Burrow's Kuhl says. While furniture retailers may offer free shipping with a minimum purchase, Burrow.com has free shipping with no minimum purchase, he says.

"What we've come to understand about the millennial shopper is that this group of people has grown up with different expectations of what companies should provide to them," Kuhl says. "With the rise of Amazon and other internet companies, it is an assumption that you will get everything shipped for free and really fast."

## OTHER ONLINE RETAILERS, SUCH

AS Helix Sleep, Thrive Market and City Girl Coffee differentiate themselves and go after millennial shoppers by emphasizing an aspect of their product or business model that resonates with certain trends or mindsets of this generation.

Organic grocery products Thrive Market, for example, "thoughtfully and sequentially" communicates to shoppers the values that are behind certain products, says founder Gunnar Lovelace. In fact, one of Thrive Market's navigation menus is to "shop values" so shoppers can sort products by more than 70 values, such as if the products are fair trade, pasture-raised or non-GMO verified.

"Millennial consumers, broadly speaking, want price and convenience, but they also want virtues and values," Lovelace says.



“They want great prices and great quality, but they also want to know where their products came from and whether they were produced in an ethical manner.”

For example, Thrive Market makes its own fair trade organic coffee. Via videos, blogs, social media and influencers, the retailer communicates to shoppers that coffee is often produced by “near slave-labor conditions” in which children have to pick 100 pounds of coffee for a \$3 per day salary. Thrive Market seeks to counteract those practices by producing a fair trade, organic coffee, Lovelace says. Millennials account for about 50% of Thrive Market’s shoppers, and “millennial-minded” consumers, which Lovelace says are consumers who have millennial values like the ones previously mentioned, are more than 70% of Thrive’s customers, he says.

City Girl Coffee Co. takes a similar path to market to its target shopper of consumers aged 40 and younger, says founder Alyza Bohbot. The coffee retailer sources its coffee from women-owned and managed farms to bring awareness and equality to women in the coffee industry, and the retailer donates a portion of each sale to organizations that help women in coffee businesses, such as the Café Feminino Foundation and the International Women’s Coffee Alliance.

“Millennials in general tend to purchase brands or products based on if they identify with a large piece of the mission,” Bohbot says. The retailer writes on its home page that its coffee is from women-managed farms, and in its “about” section, City Girl Coffee details the retailer’s mission and shoppers can read about the female coffee growers.

Online mattress retailer Helix Sleep’s value proposition hits on a few other trends

that resonate with a millennial audience: health and personalization, says co-founder Adam Tishman. Millennials represent a “large group” of Helix Sleep’s customer base, Tishman says. Nearly 40% of Helix’s shoppers are ages 25-34, according to Top500Guide.com.

Helix sells mattresses that are customized to each consumer based on a sleep quiz it asks shoppers to complete. The quiz asks questions such as a consumer’s height, weight and sleep preferences—for example, if he likes to sleep on his back, side or stomach, if he typically gets cold or hot in the night, if he tosses and turns during the night, if he prefers a soft or firm mattress—as well as how he feels about his current mattress.

“That messaging—to provide a better night’s sleep with a personalized product—resonates with [millennials],” Tishman says. “The millennial consumer is health conscious, and they understand that health is important and you need a good night’s sleep to be healthy.”

Millennials are big online purchasers, especially on mobile devices. Online retailers that are focused on this group of consumers need to offer top-notch mobile shopping. Millennials also have grown accustomed to Amazon’s fast, low-cost or free shipping, and if retailers can’t deliver that, they must offer a different incentive, such as a health or socially conscious product, to stand out. It’s a tall order. But many retailers say the effort is worth it. The millennial is a young and mighty consumer segment that will be shopping online for many years to come. [IR](#)

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# 67%

The percentage of U.S. internet-using millennials who prefer to shop online rather than in a store.

Source: BigCommerce





# AN OFFLINE CONNECTION

Fast-growing web-only retailer Rad Power Bikes works with mobile bike shop Velofix to assemble and repair Rad's electric bikes.

BY DON DAVIS

**MOST BIKE ENTHUSIASTS WOULD WANT TO TEST RIDE A TWO-WHEELER** before spending \$1,300 or more on it—and that's even more true when it's not just your everyday bike, but one with an electric motor attached.

How does a retailer that sells only online give consumers confidence to buy a bike like that without trying it out?

That's the problem Rad Power Bikes has faced since it began selling online in May 2015. The answer has been to engage bloggers and bike enthusiasts who then post reviews of Rad bikes online, often on YouTube. More recently, it began working with Velofix Holdings Ltd., a company that operates vans that are mobile bike shops and that can assemble and repair bikes, including Rad's electric bicycles.

The results have been promising. Sales last year grew an Internet Retailer-estimated 300% to \$30 million from \$7.5 million a





‘We’ve put a lot of emphasis on online reviews and partnerships with YouTubers, things that will make people feel they have had the same experience of going into a bike shop and trying it out.’

—TY COLLINS, CHIEF MARKETING OFFICER, RAD POWER BIKES

year earlier. That makes Rad the fourth fastest-growing e-retailer among merchants ranked in the forthcoming Internet Retailer 2018 Top 1000.

Selling exclusively online allows Rad to sell directly to consumers at a lower price point than if it sold through physical bike shops, says Ty Collins, the retailer’s chief marketing officer. At the same time, the retailer recognizes that the internet-only model comes with a disadvantage: “Unlike with most bikes where you’d go to a local independent dealer, see a bike and try it out, you can’t do

that with ours. We’ve put a lot of emphasis on online reviews and partnerships with YouTubers, things that will make people feel they have had the same experience of going into a bike shop and trying it out.”

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### RAD WORKS WITH NEARLY A DOZEN

bike bloggers to generate online reviews; some are compensated financially while others just want to publish interesting content, Collins says. As a result, there are tens of thousands of videos on YouTube about Rad bikes, many from customers showing off their bikes. But well-known bloggers’ reviews generate the most views: A video posted online in August 2016 has been watched more than 792,000 times.

Those YouTube reviews build confidence, much as a referral from a friend would, Collins says. “People say, ‘I’ve watched 10 or 15 hours of videos so I feel like I’ve been on test rides,’” he says.

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### RAD RECENTLY TOOK A STEP to

address another hesitation about buying a bike online: assembly. While Rad’s bikes come 85% assembled, Collins says some customers are not comfortable getting a box and putting a bike together.







Because Rad Power Bikes come 85% assembled, the retailer offers shoppers the option to ship their bike to a Velofix franchise that will assemble and deliver the bike to the shopper's door.

Rad now offers these customers the option to ship their bike to a local Velofix franchise that, for \$99, will assemble and tune up the bike and deliver it to the consumer's door. Velofix, which launched in Vancouver in 2012 as a mobile bike repair service, began working with brands that sell directly to consumers to assemble their products in March 2016.

Velofix has 114 bike repair vans on the road and has sold 168 franchises, some of which are not yet operating, says Drew Axt, U.S. program manager for Velofix. The company's website lists 49 U.S. markets and 24 in Canada where the company operates. The company has assembled more than 3,000 bikes purchased online last year from about 35 brands.

"Velofix meshes with us," Collins says. "They were born because of online brands like us."

priced at from \$1,299 to \$1,499, it introduced a new model lineup this year. Rad now offers five models with prices that range from \$1,499 to \$1,599.

It's also growing beyond the United States. Based in Seattle, where it has a distribution center and showroom, it has also established fulfillment centers in Vancouver and Rotterdam, the Netherlands. Shipping to Canadian customers from a Canadian site reduces import fees, taxes and extra shipping fees that could add \$500 or more to the cost of a bike, Collins.

In November, Rad also announced it would now ship to 28 countries in Europe from its distribution center in Rotterdam. Rad uses logistics firms to manage its warehouse.

Rad has about 32 employees, Collins says. It operates its e-commerce site on technology from Shopify Inc.

Collins says the growth of Rad from a hobby of co-founder Mike Radenbaugh, who started adding motors to bicycles in high school because he and other students had to travel up to 20 miles to their high school in rural northern California, is only possible because of the reach of the internet. And he gives Amazon.com Inc. part of the credit for Rad's success.

"Gone are the days when people thought there were certain things you can buy online and others you can't," he says. "Amazon changed that, and changed the way consumers think about purchasing. I'm glad we have this awesome machine we call the internet behind us." [iR](#)

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**RAD IS ALSO EXPANDING IN** other ways. While last year Rad sold four models,

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# A RETAIL VETERAN WHO ISN'T SLOWING DOWN

Steve Mandell launched party supplies store chain Party City Corp. and online retailer CostumeSuperCenter.com.

Now he's back spinning up new businesses but focusing on e-retail rather than on physical stores.

BY DON DAVIS

## STEVE MANDELL IS RESTLESS.

The entrepreneur launched Party City Corp. in 1986 and built it into a publicly traded nationwide chain of party supplies stores that's also a significant online seller. He then went on to found and develop online retailer CostumeSuperCenter.com, which his son Erik now runs as CEO.

Now 73, Mandell is still spinning up new businesses. But this time around he's focused on selling online, rather than in physical stores.

"Putting money into inventory and one warehouse is a lot better than writing a check for \$500,000 every time you open a store, and I don't have to deal with the huge infrastructure and 400 store managers," he says.

In 2016, two years after resigning as chairman of CostumeSuperCenter.com and selling his stake to his partners, Mandell purchased WH Candy, which was best known for selling Hershey chocolate bars personalized for birthdays or other events.





‘Putting money into inventory and one warehouse is a lot better than writing a check for \$500,000 every time you open a store, and I don’t have to deal with the huge infrastructure and 400 store managers.’

—STEVE MANDELL, PARTY CITY CORP. FOUNDER

Sellers of personalized candy and party favors were behind the times, he says. “It was a mom-and-pop industry, similar to party supplies in 1986 when I started Party City,” Mandell says. “There was no dominant player that offered one-stop shopping for personalized and bulk candy. That’s what gave me the idea to get into the business.”

In order to make the business work, Mandell and his colleagues had to modernize it. And, like many entrepreneurs launching retail businesses online, Mandell selected a software-as-a-service e-commerce platform. Providers of such SaaS technology host the software on their servers and allow client retailers to access it via the web, much as an individual might access a web-based email service like Gmail.

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**MANDELL MADE BUILDING AN UP-TO-DATE** e-commerce platform one of his first priorities because he was determined not to make the same mistakes he made with

CostumeSuperCenter.com. When he launched that site, he had an internal team managing licensed software and found the site crashed frequently when traffic peaked.

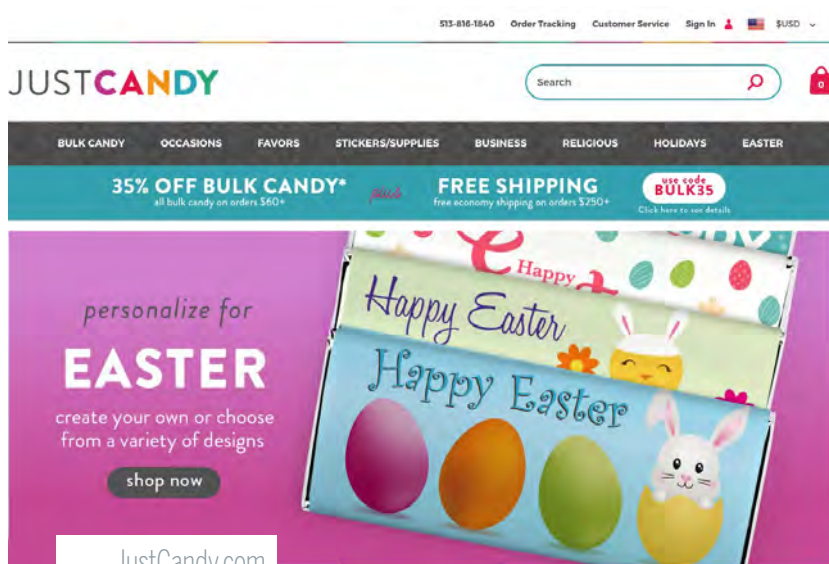
This time, he selected software-as-a-service platform Workarea from WebLinc LLC, which the vendor hosts and operates.

Following his acquisition of WH Candy, Mandell launched JustCandy.com in October 2016. The company, now called Just Candy LLC, subsequently relaunched WHCandy.com on the same e-commerce platform it uses for JustCandy.com. Both sites allow customers to customize candy items, such as chocolate bars or jars of sweets, with names, slogans and company logos. JustCandy.com caters to corporate customers and WHCandy.com to consumers with discounts and free shipping offers.

Choosing a SaaS provider eliminated a lot of headaches, Mandell says. “Things we used to worry about—such as bandwidth and speed—are non-issues today.”

Moreover, the technology **has** helped him quickly bring the new business to life. “The





JustCandy.com attracted nearly 160,000 visits in December, according to SimilarWeb Ltd.

Workarea platform makes it really easy to implement a new business like this," he says. He pays Workarea approximately 2% of online sales, plus any development costs for needed site customization.

### MANDELL HAS RELIED HEAVILY ON

paid search advertising to get the word out about his two online stores, including Google's Product Listing Ads that show product images. JustCandy.com, the larger of the two sites, hit a peak of nearly 160,000 visits in December, well ahead of the

November 2016 peak of nearly 84,000 visits, according to SimilarWeb Ltd., which tracks website traffic. SimilarWeb data suggests nearly 45% of JustCandy.com's traffic comes from paid search and more than 35% from organic search.

Sales have tripled from when he took over the company a year and a half ago, though he would not provide specifics.

**A KEY DIFFERENTIATOR, HE SAYS,** is his company's ability to personalize candy—such as chocolate bars or jars of sweets—in a day. That focus on customized items insulates his business from competition from Amazon.com Inc. and other large retailers that are geared to shoppers looking to buy a specific item.

"We're not in the item business," Mandell says. "The Amazon experience is more for the person who wants to go online and buy an item, not for the person looking to make a statement with personalized candy for an event or occasion."

Expansion is on the agenda. Just Candy sent out its first catalog for the 2017 holiday season and will follow it up with another this year, Mandell says. [iR](#)

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# FIND THE RIGHT FIT

With tens of thousands of reviews to work with, Proper Cloth finds a fit without measurements.

BY JAMES RISLEY

## MADE-TO-MEASURE CLOTHING CAN BE A TOUGH PROPOSITION FOR ONLINE RETAILERS.

After all, they have to rely on consumers providing their own measurements, which typically aren't as reliable as those a tailor makes before building a suit. Plus, measurements don't always give the full picture for a perfect fit, with important details, such as the circumference of a sleeve, often inferred from other sizing measurements.

But that hasn't stopped men's dress shirt seller Proper Cloth. The retailer harnesses customer feedback data to ensure its shirts fit and feel right. The company offers store credit or other incentives for customers to share their opinions on Proper Cloth's garments, including how they fit and feel.

"One of the cool, unique things about us is we have tens of thousands of clients giving us some form of feedback," says founder Seph Skerritt. "We can statistically optimize for the





‘The way we predict the right size for someone, the right dimensions, is by leveraging all of our existing customer data.’

—SEPH SKERRITT, FOUNDER, PROPER CLOTH

best fit for everyone. I don’t think any other brand has the volume or detail of customer data we have.”

Proper Cloth, founded in 2009, presents potential customers with a 10-question Smart Size guide that asks for information such as their weight and pants size. Some questions are traditional, asking for the shopper’s suit jacket and collar sizes. If a consumer is uncertain, the retailer allows him to select the option “I’m not sure—skip this question.”

The quiz also asks the shopper to share his regular shirt size and stomach profile (including options like “pretty fit” and “significant belly”), as well as details including whether he prefers to wear his shirt tucked in. His responses help inform the garment’s final fit.

Proper Cloth regularly tweaks its algorithm to attempt to bolster the accuracy of its sizing.

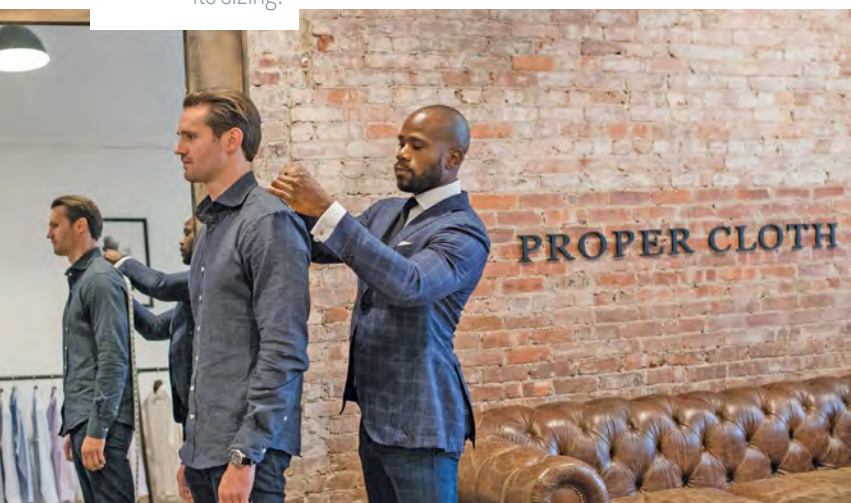
The proprietary software that returns those dimensions is constantly integrating new data thanks to the company’s tens of thousands of customer reviews. Once a customer gets his order, Proper Cloth offers incentives like a \$5 store credit in return for feedback that ranges from where the fit could be improved to the quality of the fabrics.

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**BY MATCHING HOW CUSTOMERS ANSWERED** the sizing questions with the review of how the shirt fits, Proper Cloth tweaks its algorithm to attempt to make its sizing more accurate for the next new customer. Those tweaks allow it to predict the correct shoulder width within half an inch 78% of the time and correct collar size within half an inch 61% of the time after customers complete the smart sizing survey.

“From those questions, we’re predicting what we think the perfect shirt dimensions will be based on their answers,” Skerritt says. “The way we predict the right size for someone is by leveraging all of our existing customer data.”

The feedback on fabrics helps the retailer provide good quality fabrics and improve the fabric descriptions. Skerritt says that while the site offers plenty of customization choices for obsessive fashion followers, it also puts a lot of effort into explaining terms around fabric and cut for fashion novices.



The screenshot shows the Proper Cloth website interface. At the top, there's a navigation bar with links: Shop, About, Features, PROPER CLOTH, Help, Sign In, and Cart · 0. Below this, a secondary navigation bar highlights 'FABRIC' among other options: STYLE, SIZES, and SUMMARY. The main content area features a large image of a folded, light blue and green checkered shirt. To the right of this image is a grid of 12 fabric swatch thumbnails, with the last one showing a detailed pattern. Above the swatches is a search bar. Below the swatches, the product name 'Adams Green Multi Check' is displayed, along with the price '\$95 / PCF1277'. To the right of the price, there are two specifications: 'Thread Count 60s' and 'Thickness Light'. A 'DETAILS' button is located to the right of these specifications. At the bottom of the product section, there are 'PREV' and 'NEXT' buttons, and the price '\$95' is prominently displayed. A small disclaimer at the bottom left of the product image area reads: '\*Not all details are as shown above.'

Proper Cloth offers shoppers more than 500 fabric options.

Because Proper Cloth offers more than 500 fabric choices, it is important for it to explain subtle difference between options such as Newton Blue Striped Pinpoint and Thomas Mason Light Blue End-on-End Stripe in order for it to keep its customers satisfied, Skerritt says.

### PROVIDING A GARMENT THAT FITS

well and is made from a high-quality fabric helps Proper Cloth maintain its profit margins. The company offers free alterations if a fit doesn't meet a customer's expectations, which means getting the fit right the first time saves Proper Cloth the cost of shipping the shirt back, remaking it and shipping it back to the customer. Skerritt declined to disclose the percentage of orders

that customers return to have remade. He says that it's not a measure the retailer uses for success since small measurement errors often aren't noticed by the average buyer.

But beyond improving the bottom line, the algorithm improves feedback as well. During the third quarter of 2017, the average fit rating an order received was 4.64 out of 5, up from 4.59 during the same period in 2016.

The next step for Proper Cloth is moving beyond custom shirts. This year the company plans to take the same algorithmically driven sizing it has developed for shirts and implement it for a new line of suits and blazers, and Skerritt hopes to one day drive innovation across all kinds of tailored clothing. [iR](#)

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# DIGGING INTO DATA

Online mattress retailer Nectar Sleep is growing quickly by using the information it gathers about shoppers to strategically market to consumers shopping for a mattress.

BY JAMES RISLEY

**NECTAR SLEEP IS TRYING TO DISRUPT SAATVA INC., CASPER SLEEP** and other web-only entrants to the traditionally offline mattress industry.

U.S. consumers purchased \$7.08 billion worth of mattresses in 2016, up 4.4% from 2015, and brands that sell primarily online are driving all of the growth, according to a recent Internet Retailer analysis. Eyeing those sales, Nectar co-founder Craig Schmeizer saw that those online mattress-selling retailers had created an opportunity. In 2016, he launched Nectar Sleep.

While the online mattress category was growing crowded, Schmeizer thought Nectar could leverage data that it gathers about consumers on its site and around the web to strategically market Nectar by targeting consumers in the market for a mattress. At the same time, Nectar aims to set itself apart from competitors like Saatva, Casper and Leesa Sleep LLC. For example, Nectar gives





‘The data is critical, because when we were entering this market, we knew we could have the best product at the best price, but the challenge was that there were a lot of competitors. It was going to be hard to stand out.’

—CRAIG SCHMEIZER, NECTAR CO-FOUNDER

customers a year to return their mattress if they’re not satisfied as opposed to the 100-night trial offered by Leesa and Casper and the 120-night trial offered by Saatva. Additionally, Nectar’s queen-size foam mattress is \$670 compared with Saatva’s \$999 queen-size mattress, Leesa’s least-expensive queen-size offering, which is \$840, and Casper’s mid-tier queen-size option, which is \$950.

But Schmeizer says Nectar’s understanding of its visitor data has helped it quickly grow its sales. The online-only mattress retailer earned roughly \$52 million in sales in 2017 and was profitable in its first full year in business.

“We get very into the nitty-gritty around how folks shop for mattresses,” he says. “The data is critical, because when we were entering this market, we knew we could have the best product at the best price, but the challenge was that there were a lot of competitors. It was going to be hard to stand out.”

To use the available data and new advertising strategies to drive sales, Schmeizer hired a team with a background in big data. By analyzing shopping trends and effective advertising strategies, Nectar spends the majority of its marketing budget on ads targeted to consumers who have shown signs that suggest they’re ready to buy a mattress. That means Nectar avoids branding-focused marketing tactics often

used by its competitors, like YouTube video campaigns, podcast endorsements or public transit ads. Instead, Nectar looks for potential customers going through such life changes as moving to a new house or getting married.

The e-retailer sometimes finds such buyers with tools on social sites like Facebook, using the platform’s predefined targeting categories like “likely to move” or “newly engaged,” then targeting those users with ads focused on price or the lengthy trial period to get clicks to its site. Nectar also allocates money to its affiliate marketing program in which it pays a commission to bloggers who review mattresses. Consumers who visit those blogs usually are ready to make a purchase, which justifies the affiliate commissions, Schmeizer says.

Affiliate commissions are common in the online mattress world. Review sites such as Mattress Clarity, Sleep Junkie and Sleep Advisor have cornered the market on SEO-friendly terms like “best mattress” with reviews on the wealth of mattresses available online. They then generate revenue from affiliate partnerships with the mattress brand. It’s such a common part of the mattress-buying experience that Casper invested in a review site last year.



Nectar aims to differentiate itself from other mattress retailers by giving consumers a year to return their mattress.

Keith Cushner, founder of sleep review site Tuck.com, says Nectar pays a significant commission to reviewers who direct buyers to the mattress seller. Nectar pays more than the average 5% commission fee (he declined to share the specific percentage), he says. Tuck.com says it is a non-commercial entity that has no affiliate relationships with products or companies reviewed on the site.

Once potential buyers are on Nectar's site, the retailer offers user reviews and comparison tools to keep them there. A lot of the information Nectar needs to continue marketing to consumers comes from how they found the site in the first place.

Data about how a consumer reached Nectar.com is more valuable than basic information such as a consumer's age or other demographics, Schmeizer says. "How did someone find us? We know that people from different sources think differently and maybe have different buying timelines or maybe go through different purchasing paths."

For example, if consumers come from a review site, Nectar may highlight more

positive reviews, while a Google search referral leads to more general information about the mattress. Review sites usually link directly to product pages, removing steps required for consumers to make the purchase.

Engagement data, such as the pages a user visits before buying or leaving Nectar.com, is also important. Shoppers who browse the retailer's home page aren't typically as valuable as customers who click onto a product page or blog post, Schmeizer said.

By using this shopper data, Nectar is able to hone its marketing spending on consumers most likely to buy mattresses, and then drive conversions after shoppers arrive on the retailer's site.

That approach is helping Nectar stand out, Tuck's Cushner says. That's because many mattress retailers are using the money they've raised from investors to spend heavily on marketing. The approach is eating into their profits—despite selling a product with profit margins that he estimates are as much as 75%. Companies like Casper and Leesa have raised multiple funding rounds to build their businesses, with Casper's latest \$170 million valuing the company at \$750 million.

Nectar, on the other hand, hasn't raised any money and is already profitable thanks to its investment in its data-driven approach to advertising and marketing and limited spending in other marketing channels, Schmeizer says.

To ensure that it keeps up its momentum, Nectar is expanding its offerings. This year it plans to add a line of spring mattresses to its current foam offering. [iR](#)

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