AN FTI CONSULTING REPORT

# 2021 Online Retail Forecast Report


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# Online Retailing Excels When It Is Needed Most

There's an old saying that luck is what happens when preparation meets opportunity, and never was that adage more apt than for the fortunes of online retailing since early 2020, particularly for large omnichannel retailers. Those who had spent years positioning themselves for omnichannel success saw a huge payoff last year. Those who were prepared for the once-in-a-lifetime opportunity presented by the COVID-19 pandemic, who had invested considerable resources and effort to build and support a scalable, seamless omnichannel enterprise were amply rewarded.

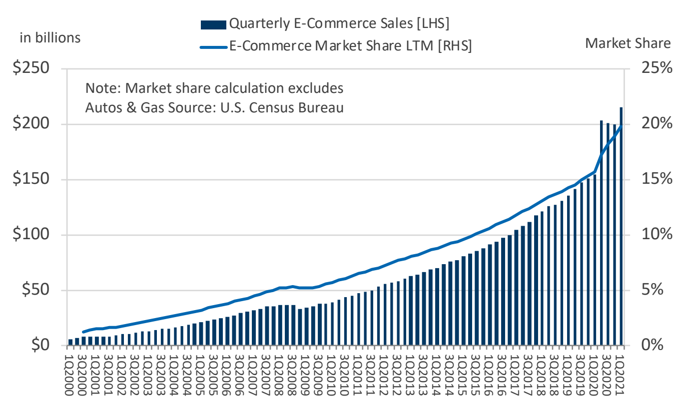
And we don't just mean Amazon, whose retail sales soared by 41% in 2020 and 45% in 1Q21.[1] Target reported its online-originated sales increased by 145% in 2020, to $17 billion, and accounted for 18% of its total sales, double its share in 2019[2]. Walmart reported its U.S. ecommerce sales increased by 78% in 2020, to $43 billion, and accounted for 11.6% of its total domestic sales compared to 7.0% in 2019. Walmart's annual capital investment in ecommerce and supply chain has been more than double the amount spent on store openings and remodels for several years[3]. Most other large omnichannel retailers reported less stellar but still impressive online results in 2020.[1] It is especially notable that stores figured prominently in these strong online results, either in terms of fulfilling online orders for home delivery or providing in-store or curbside pickup of online orders — truly the embodiment of the omnichannel concept. BOPIS (buy online, pick up in store) has become a well-known acronym in the retail lexicon. Consumers figured out how to use online shopping in combination with stores in ways that best suited their personal preferences during a strange and stressful time for most of us. This seamless integration was always the vision for omnichannel retailing and the primary advantage that large store-based retailers had over online-only sellers. It only took a global pandemic to finally have it come together.

Now that COVID-19 is nearly behind us, will omnichannel retailers retain and build on these hard-fought gains or will consumers revert to their pre-pandemic shopping habits? Our recent survey of 1,000 online shoppers provides some encouraging responses for omnichannel on that front. However, whether these considerable investments and ongoing expenses of omnichannel will finally produce meaningful ROI is still unclear. No matter the answer, these investments must continue for large retailers to remain relevant to shoppers. It has become the ante required to stay in the game.

## 2020 Was a Record Smashing Year for Online Retail Sales (Duh!)

U.S. online retail sales surpassed all expectations in 2020, even those made amid the pandemic when shutdowns were in effect, topping $762 billion, an increase of nearly 32% (YOY) compared to 2019. Such stupendous sales growth is all the more impressive considering that 1Q20 was an ordinary quarter for online retailing that mostly preceded the pandemic shutdowns of mid-to-late March[4].Bolstering this growth was the second (or third) wave of the COVID-19 virus across much of the nation in the fall and winter that kept most Americans housebound longer than expected and still shopping remotely for the most part. (Recall that COVID-19 positivity rates and deaths moderated notably across much of the country in the summer of 2020[5].) Seasonally adjusted online retail sales have surged to approximately $200 billion per quarter since the pandemic hit compared to $150 billion per quarter in the pre-COVID period of late 2019 **(Exhibit 1).**

### Exhibit 1 - U.S. E-Commerce Retail Sales (Quarterly on a Seasonally Adjusted Basis)




Source: U.S. Census Bureau and FTI analysis

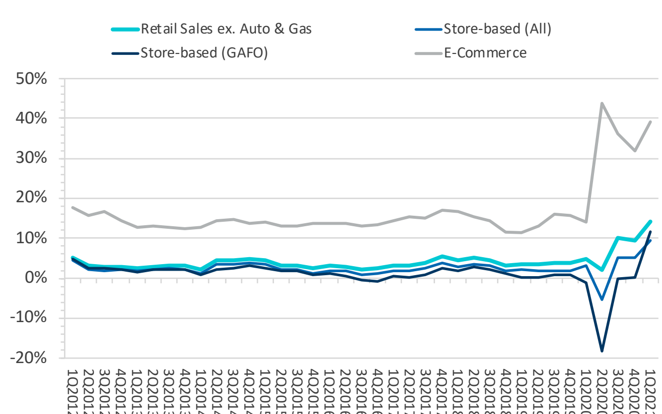
[1] Amazon Quarterly Report
[2] Target Annual Report
[3] Walmart Inc. Annual Report
[4] Marketplace Pulse
[5] Reuters

Online market share of total retail sales (excluding auto & gas) jumped to 19.0% in 2020 from 15.4% in 2019. A further acceleration of ecommerce sales in 1Q21 has pushed online market share to 19.8% currently **(Exhibit 1)**. The 360-basis point increase in online market share in 2020 represents the equivalent of 2.5 years of market share gain in a single year—and unprecedented leap that won't likely happen again. This stands in sharp contrast to the Great Recession of 2009 when online market share remained stagnant for over a year—an easily understood difference given our stay-at-home lifestyles during the rampage of the COVID-19 virus.

We estimate that the pandemic boosted U.S. online retail sales in 2020 by approximately $100 billion above what they would have been in the absence of the COVID-19 virus. This was even larger than the $72 billion sales windfall we estimated last September before the second wave of COVID-19 took hold. Forced adoption of online shopping by holdouts combined with increased usage among existing online shoppers during pandemic-related shutdowns was primarily responsible for these standout results.

The grocery and household products categories took the largest share of these online sales gains. Brick Meets Click estimates that U.S. online grocery sales have accelerated to approximately $8 billion-$9 billion monthly since mid-2020[6] from $4 billion monthly just prior to the pandemic[7]. This would imply that at least one-half of the incremental sales gains of $100 billion went to these essential categories. The online grocery sales category more than doubled in 2020 and is now close to a $100 billion category whose ceiling has moved considerably higher due largely to the traction it gained during the pandemic[8]. Depending on how the category is measured in its entirety, we estimate that the online channel now commands a market share of 8%-11% of grocery-type sales. Grocery is a last mover category in the online channel and it's hard to project future growth based on 2020's exceptional results under extraordinary circumstances. People still enjoy aspects of grocery shopping and it's possible the category will backslide a bit online once shoppers are freely roaming stores again. We don't know exactly where this is going. Online grocery's potential market share has a lower ceiling than most other product categories but it's certainly higher than we once thought possible.

### Exhibit 2 - U.S. Retail Sales Growth (YOY)




Source: U.S. Census Bureau and FTI analysis

The acceleration of total retail sales and online sales alike in 1Q21 is an outlier and won't likely continue over the balance of the year. Federal stimulus payments put more than $500 billion into the pockets of Americans in 1Q21, most of it in March, boosting retail sales in the first quarter beyond any sustainable growth rate. Comparisons to the mostly pandemic-free quarter of 1Q20 also helped the year-over-year sales comparison. Total retail sales shot up 14.2% (YOY) in 1Q21 while online sales growth soared 39.1% **(Exhibit 2).** Even store-based sales increased by 9.5% (YOY). None of this growth is repeatable going forward as stimulus-driven spending fades and we pass the one-year mark of the early COVID shopping nadir in April 2020. Consequently, retail sales growth in the second half of 2021 will be less than impressive.

## Amazon Continues to Crush It

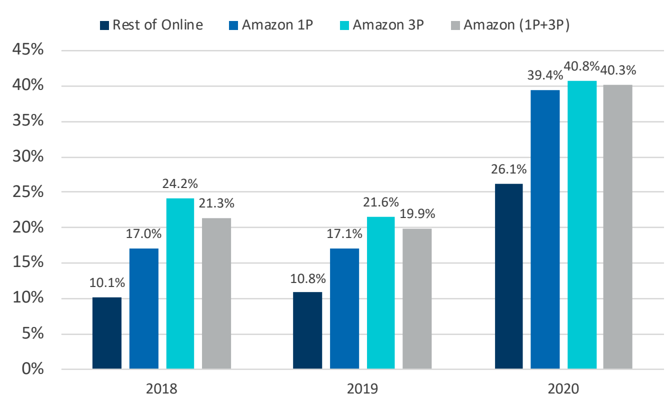
Despite its massive size relative to most omnichannel competitors, Amazon's sales growth in 2020 continued to outpace the rest of the online retail channel as a whole. In fact, Amazon's absolute margin of outperformance widened in 2020, as its sales growth accelerated to 40% from 20% in 2019 while the rest of the online channel saw sales gains of 26% last year compared to 11% in 2019 **(Exhibit 3)**. The largest omnichannel retailers are now seeing online sales growth rates consistently exceeding Amazon's, but that higher growth is simply a function of a smaller sales base. Amazon's formidable sales growth continues to be more than impressive considering its behemoth size.

We estimate that Amazon's global Gross Merchandise Value (GMV) reached $525 billion in 2020, of which nearly 70% originated in North America. Amazon's third party (3P) sales have accelerated sharply in recent years, and we estimate

[6] Brick Meets Click
[7] Digital Commerce 360
[8] Payments Journal

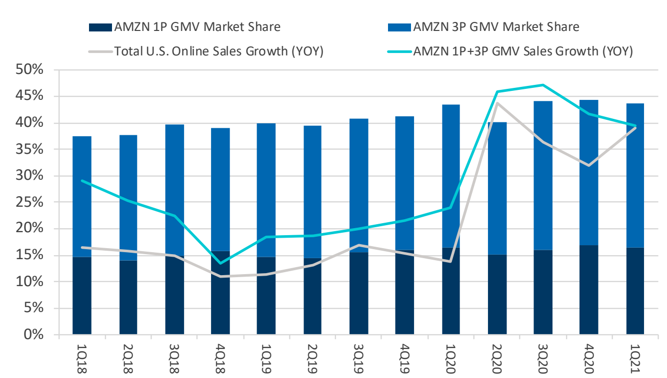
that 62% of its total GMV is now derived from 3P sales compared to 51% in 2015. Amazon's market share of U.S. online retail sales moved higher, to 43% in 2020, from 40.5% a year earlier **(Exhibit 4)**. Again, most of its market share gains in recent years have been driven by 3P sales, where Amazon clearly has decided to devote much of its efforts. Ultimately, we expect Amazon's U.S. online market share (1P+3P) to surpass 50% by the end of the decade in its extant product categories. Amazon Prime continues to help fortify a large and loyal customer base, and it is getting harder to conceive of a scenario where Amazon relinquishes market share in the years ahead. Online market share gains by Walmart, Target, and others are likely coming at the expense of stores — their own and others — not from Amazon.

### Exhibit 3 - Annual Online Retail Sales Growth (YOY)




Source: Source: SEC filings and FTI analysis

### Exhibit 4 - U.S. Online Sales Growth & Market Share




Source: Source: SEC filings and FTI analysis

## Prime Day Moves Again as Amazon Keeps Us Guessing

Amazon threw us another changeup this year and shifted its annual Prime Day promotion to June 21-22. Last year Amazon moved Prime Day in the United States to October 13-14 from its usual mid-July slot, saying that it needed the extra time to ensure its systems and infrastructure could handle such high order volume given the pandemic[9]. Many retail commentators suspected the underlying reason for the move was to get a jump-start on the all-important holiday season[10]. If so, there was considerable speculation as to whether Amazon would repeat an October Prime Day this year or move it back to July. Nobody saw a June date coming, and it left analysts scratching their heads as to Amazon's motives, given that a June date is likely too early to capture back-to-School or holiday season sales[11]. Moreover, June traditionally has been a ho-hum month for U.S. retail sales. Perhaps that's the point. Prime Day has become an event unto itself — generating about $5 billion of incremental sales for Amazon in each of the last couple of years[12] —so maybe it doesn't need proximity to a particular shopping occasion to generate huge interest. It's possible that Amazon is testing that very theory by holding Prime Day in an uneventful month.

We also think it's likely that Amazon was motivated to move Prime Day to June to get some of that stimulus money that households still may have before it's all spent on summer vacations and a shift of spending back to travel and experiences as the economy reopens. Pent-up consumer demand for travel & leisure surely will displace a fair amount of spending on discretionary goods in the months ahead, and perhaps Amazon wanted to front-run that spending shift. Our recent consumer survey (discussed below) indicated that 62% of respondents intend to spend more on vacations/experiences than on products this summer. Just 27% of respondents said they weren't yet ready to be out in public, and this sentiment was dominated by the 54+ age group, 44% of whom weren't ready to put themselves out there. For many retailers, 2Q21 might represent the last hurrah in a one-year period of above-average consumer spending on goods, largely subsidized by Uncle Sam. It might also be the last quarter that any substantial share of shoppers consciously avoids in-store shopping due to pandemic-related concerns or apprehension.

[9] USA Today
[10] Retail Wire
[11] Yahoo Finance
[12] Digital Commerce 360

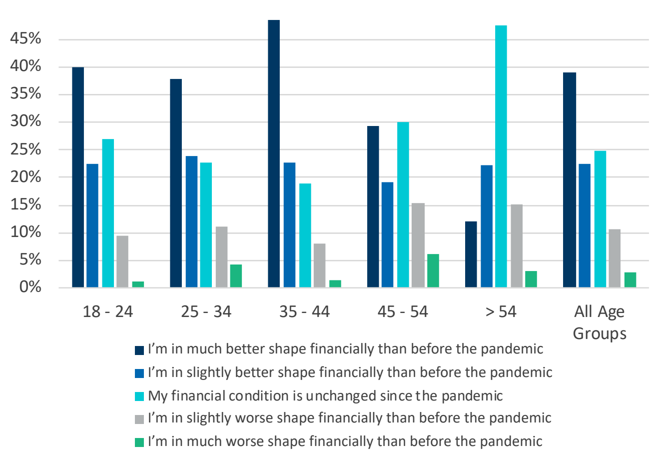
# And the Survey Says…

In preparation for Prime Day 2021, FTI Consulting recently commissioned a survey of 1,000 shoppers who made a purchase on Prime Day last year to get their thoughts on a variety of topics as the big event date approached. One could argue there might be sampling bias in selecting Prime Day shoppers as respondents, but we would counter that surveying Prime Day shoppers is largely representative of most households, given that Amazon now has 150 million Prime members in the United States, several million of whom take advantage of Prime Day promotions. Some of their noteworthy responses are discussed below.

## What Recession?

Perhaps most surprising, a large majority of survey respondents indicated they are in solid financial shape today despite the impact of the pandemic-induced recession. Approximately 62% of respondents said they are in better shape financially today than before the pandemic, including 39% who said they were in much better financial shape **(Exhibit 5)**. This was generally true across all age groups, except for the 54+ age group, a near majority of whom said their financial condition hadn't changed. Overall, only 14% of respondents said they were in worse shape financially today, including just 3% who said they were in much worse financial shape **(Exhibit 5)**. This finding runs counter to the prevailing narrative in the media that a sizeable portion of Americans are still suffering the financial effects of the recession.

### Exhibit 5 - How Would You Describe Your Personal Financial Condition Today Compared to the Pre-Pandemic Period?




Source: FTI Online Retail Survey

Macro-level economic data on personal income is also consistent with our survey response. Wage income growth was marginally positive in 2020 despite the worst quarter of economic contraction since the Great Depression. (Wage income suffered longer and deeper during the 2009 recession.) Moreover, huge amounts of stimulus payments to individuals coupled with federal pandemic unemployment programs have provided households with nearly $1.5 trillion of direct financial assistance since the pandemic began[13]. The wave of shutdown-related furloughs and layoffs was concentrated in lower-paying service jobs, and most unemployed Americans were covered by generous and extended unemployment benefits. Stimulus payments were untargeted, providing more than $800 billion dollars to most individuals and households regardless of whether they were financially impacted by the recession. Some 85% of households have received federal stimulus checks. (Just under 10% of our survey respondents said they did not receive any stimulus payments.) For tens of millions of households untouched by the recession, this was a sizeable financial windfall. Lastly, work-from-home policies provided millions of workers with additional savings resulting from reduced commuting and childcare costs[14]. Ironically, a large majority of American households pocketed several thousand dollars of incremental income and savings during the worst recession of our lifetime. Financial payments from government to individuals in 2020 far exceeded those amounts paid in 2009 during the Great Recession. It goes mostly undiscussed, but a large majority of households we surveyed made out well in 2020 thanks to untargeted stimulus payments, while some of those who were hardest hit by the economic effects of the pandemic might not have been helped enough.

## Who Misses Store Shopping?

The key question confronting large retailers is whether consumers will stick to shopping habits they favored during the pandemic once stores are fully reopened. Forced/further adoption of online shopping during COVD certainly caused shoppers to buy online more than they otherwise would have. Will they revert to their pre-pandemic shopping ways now that they can shop freely in stores again? Our survey respondents provided encouraging news for online and omnichannel retailers.

Approximately 41% of respondents said that there's no going back; they will continue to shop online as often as they did during the pandemic, while another 25% said

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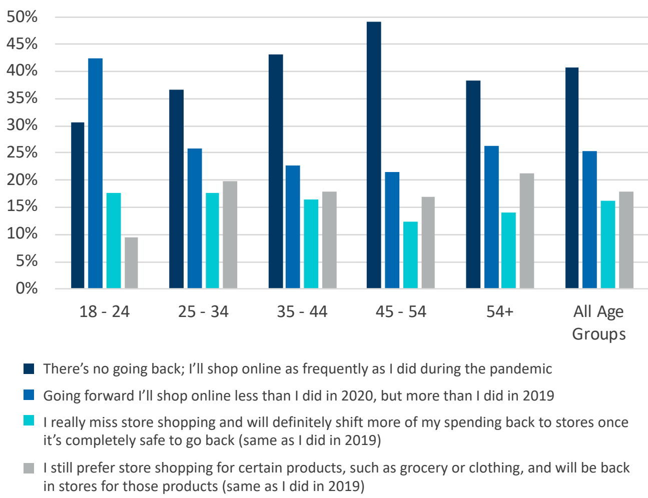
[13] National Conference of State Legislatures
[14] Flexjobs

they'll shop online less than in 2020 but more than they did in 2019 **(Exhibit 6)**. So overall, two-thirds of respondents said they will continue to shop online more frequently than they did pre-COVID. Less than 20% of respondents said they really missed in-store shopping. This response pattern was similar across all age groups and implies that online and omnichannel retailers will retain a large share of sales gains and market share won in 2020. Malls and other shopping centers certainly will see a return of shoppers in 2021, but it's hard to imagine that these venues will ever be the bustling places they once were, other than an initial burst of activity by stir-crazy Americans over the next few months.

### Exhibit 6 - How Will Your Online Shopping Habits Change Once the Economy is Fully Reopened?



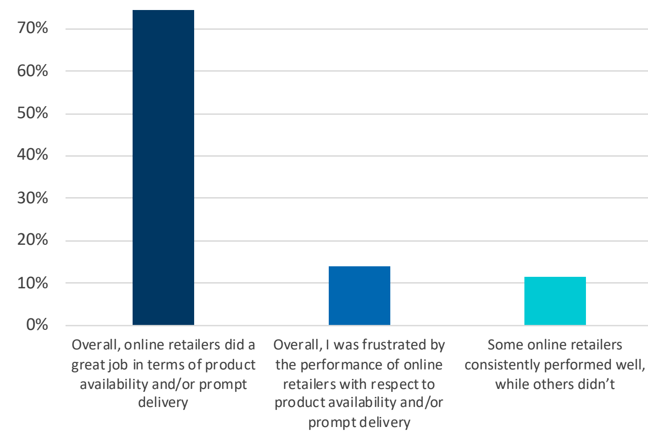

Source: FTI Online Retail Survey

### How Did Online Retailers Do During the Pandemic?

Perhaps one reason that most of our respondents will continue to favor online shopping going forward reflects how well the channel performed during the pandemic. Fully three-quarters of respondents said that online retailers did a great job during COVID with respect to product availability and/or prompt delivery, while only 14% of respondents had an overall negative impression of the performance of online retailers **(Exhibit 7)**. Such high marks for the performance of the online channel is especially impressive considering the huge ramp-up in activity during 2020. Many reluctant online shoppers who were forced to alter their shopping habits during COVID were likely left with an unexpected favorable impression of the online shopping experience that overcame their concerns and will keep them coming back.

A solid majority of respondents also told us that they did much/most of their online shopping on Amazon (62%) during the pandemic while nearly 40% tried to spread their shopping among several online retailers whenever possible (17%), preferred certain retailers for specific products (14%) or had no particular online preferences or loyalties at all (7%). Virtually no respondents said they avoided Amazon to support smaller or local businesses. It's good to be the king!

### Exhibit 7 - What Was Your Opinion of the Online Shopping Experience During the Pandemic?




Source: FTI Online Retail Survey

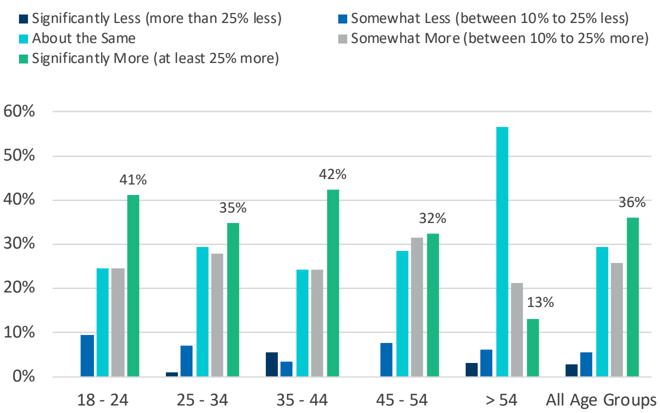
### Are Shoppers Ready for Prime Day 2021?

You bet they are. Consistent with shoppers' upbeat responses on their financial condition, a majority (62%) of respondents said they intend to spend more on Prime Day this year than they did in 2020, including 36% who said they intend to spend significantly more (>25%) this year **(Exhibit 8)**. Just 9% of respondents said they would spend less this year on Prime Day. Again, these results were generally consistent across age groups with the exception of the 54+ age cohort, only 34% of whom said they will spend more this year while 57% said their Prime Day spending would be about the same as last year.

In terms of spending preferences by product category on Prime Day, respondents said they intend to purchase clothing & accessories (72%), Amazon electronics (58%), household goods (54%), and footwear (51%). These spending preferences reflect pent-up demand for apparel after many months of stay-at-home living and the imminent return to office work in some form. (Many Americans no longer fit into their pre-pandemic work wardrobes!)

Also noteworthy, 93% of respondents said they would prefer a second Prime Day event held closer to the holiday season, and this response was highly consistent across age groups and genders. Did you hear that, Amazon? Respondents said they did more than one-half of their holiday shopping during last year's Prime Day. Knowing Amazon, we wouldn't rule out the possibility of another Prime Day this year.

### Exhibit 8 - How Much Do You Intend to Spend on Amazon During This Prime Day Compared to 2020?




Source: FTI Online Retail Survey

## FTI Consulting's U.S. Online Retail Forecast

COVID-19's impact on e-commerce will extend beyond 2020 and influence online retail sales going forward. This is because forced adoption of online transacting during the pandemic won over many holdouts and occasional users who might not have changed their shopping habits otherwise. Certainly, the biggest impact was in 2020, but there will also be residual effects in future years. Consequently, online sales, growth rates, and market shares in the years ahead will be greater than they would have been had the pandemic not happened **(see Appendix).**

We continue to utilize a logistic growth model (or S-curve) to forecast online retail sales and market shares in the decade ahead. The model was developed using historical online sales and market shares since 2000 to quantify a best-fitting logistic curve equation. The model is revised annually as an additional year of data becomes available. A logistic curve follows a generalized path of growth and maturity or saturation that is applicable to many natural phenomena and recognizes that exponential growth cannot remain uninhibited indefinitely and is subject to inherent limits that cause high growth to taper and eventually plateau. It is the most suitable growth model to apply to the trajectory of online sales.

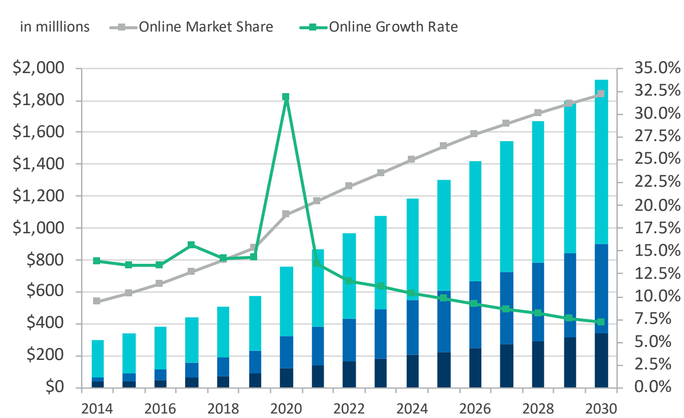
***We project U.S. online retail sales will hit $865 billion in 2021 (Exhibit 9), an increase of 13.5% over 2020 — an impressive growth rate coming on the heels of a near 32% increase in 2020. Our 2021 forecast represents incremental online sales of $121 billion above our pre-pandemic forecast model.***

***As for market share, our forecast model pegs the online channel's share of U.S. retail sales (excluding auto & gas) at 20.5% by year-end compared to 19.0% in 2020, a healthy gain of 154 basis points (bps) following a pickup of 360 bps in 2020.*** We now expect an incremental pickup in market share of approximately 20 bps annually over this decade compared to our prior expectations before COVID-19.

We project U.S. online retail sales will top the $1 trillion mark in mid-2023 and surpass $1.9 trillion by 2030 **(Exhibit 9),** while total online market share will approach 33% by 2030 compared to 20% currently. This sales growth represents a compounded annual growth rate (CAGR) of nearly 10% over the next decade.

Cumulatively, we expect online market share by 2025 will be 300 bps larger than it otherwise would have been without COVID — including 200 extra basis points of market share gained in 2020. The ultimate ceiling for U.S. online market share will approach 40% of total retail sales (excluding auto & gas) by 2040, approximately 500 bps higher than our pre-COVID model estimate.

### Exhibit 9 - U.S. Online Retail Sales




Source: SEC filings and FTI analysis

We expect Amazon's market share (1P+3P) of U.S. online retail sales will reach 50% by 2030 compared to 43% currently. The "good news" for other retailers is that Amazon's market share gains will moderate going forward — but at a level that represents one-half of all U.S. online retail sales.

## Conclusion

As our survey respondents have told us, there is no going back to pre-pandemic shopping habits for a large majority of consumers, and this will strongly tend to benefit large online and omnichannel sellers, most of whom are general merchandise retailers. Smaller specialty retail chains may not be as fortunate and could become afterthoughts in the minds of many time-pressed shoppers. It's hard to imagine most shoppers having the patience or desire to routinely browse the sites of a multitude of online sellers on a regular basis in the same way they might have once window-shopped. Consequently, online purchasing behaviors will be more need-driven rather than spontaneous or whimsical. As with other online offerings such as news media sources, we will tend to stick with our favorites and mostly ignore the others, thereby reinforcing our established preferences and diminishing the likelihood of discovery.

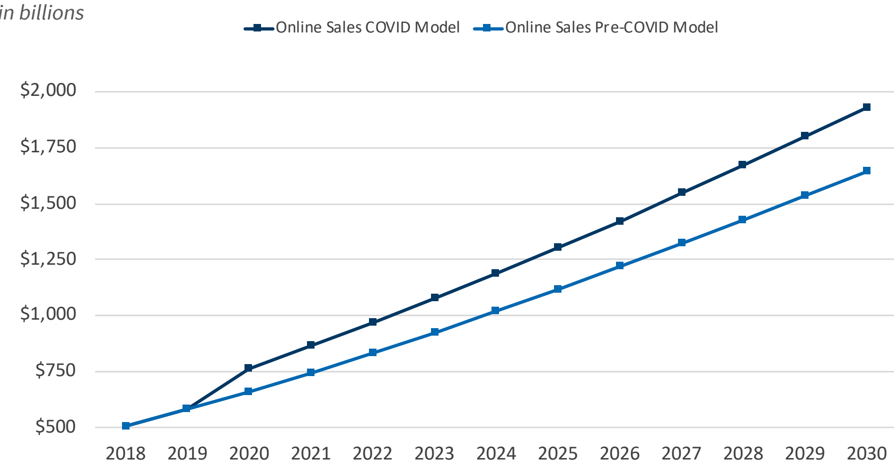
Another change in consumer shopping habits during the pandemic is the growing popularity of the Direct-to-Consumer (DTC) channel, which includes established consumer brands as well as newer digitally native brands. More than 60% of our survey respondents said they shopped DTC more often in 2020, including 36% who said they shopped DTC significantly more. This was especially true among younger age groups. Large retailers once had the clout to pressure or prohibit manufacturers whose goods they carried from going DTC, but in the aftermath of the pandemic it's unclear whether such strong-arming influence is still there or advantageous. Moreover, smaller digitally native brands also are making their mark. These tend to be niche products and sellers but collectively they are capable of siphoning sales from stodgy established brands and the retailers that carry them.

Let there be no doubt that the future has arrived in the retail sector with respect to the ways we shop. Many of our favorite go-to sites know when we need stuff and will be sure to remind us or make suggestions that are often spot-on. Corporate "Big Brother" is constantly watching us browse and shop, and — to the surprise of many social commentators — consumers are mostly okay with that.

# Appendix: Comparison of Pre-Pandemic and Post-Pandemic Forecast Models

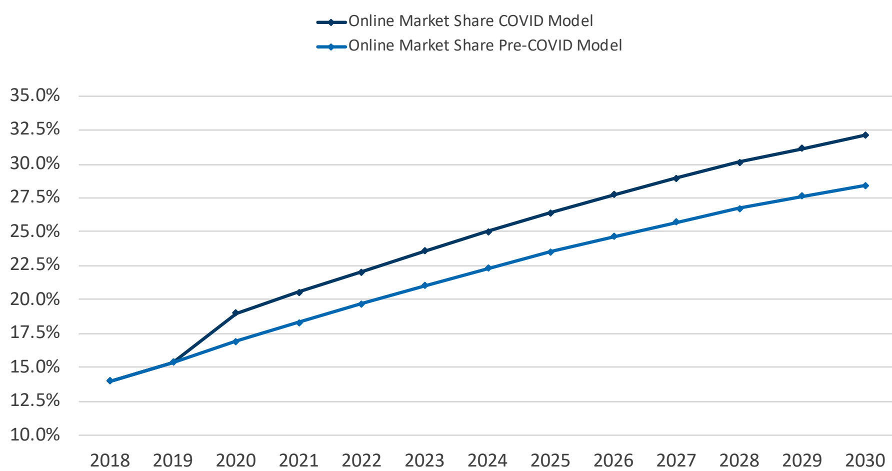
### Exhibit 10 - U.S. Online Retail Sales

*in billions*




Source: SEC filings and FTI analysis

### Exhibit 11 - U.S. Online Retail Market Share




Source: SEC filings and FTI analysis

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