fabric

5 Major E-Commerce Trends Quietly Driving Online Retail in 2024

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Introduction

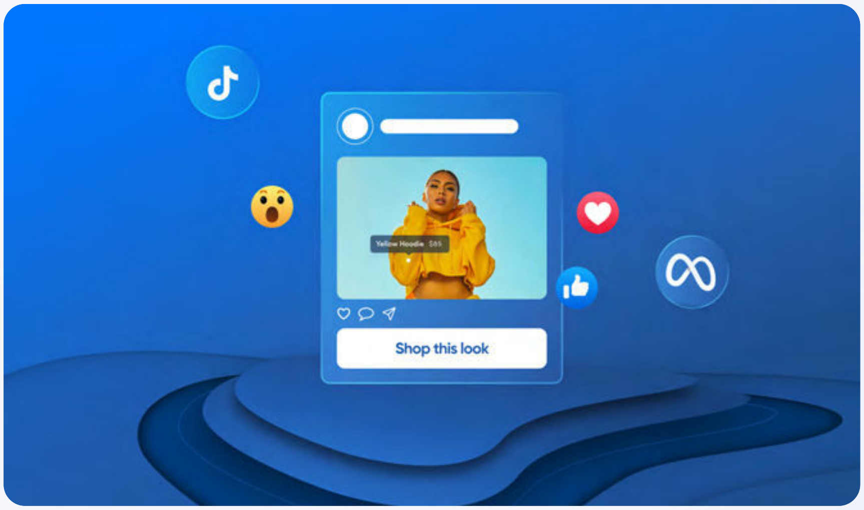
With the furious pace of innovation in e-commerce, trends and fads regularly come and go as surely as the changing tides. Whether it's the "extraordinarily exaggerated" death of brick-and-mortar, or the crashing dreams of drone delivery, or the early struggles of domestic live shopping, we've gone through more twists and turns over the last few years than anyone could've imagined.

That being said, truly disruptive forces influence business decisions across wide swaths of industry. Hard-hitting trends can have a huge impact on e-commerce strategies, shaping the future landscape in ways that are both significant and transformative.

This report aims to cut through the usual talking points about speed, efficiency, and personalization, to take a deeper dive into some of the major trends that are driving online retail sales today.

01

The Social Commerce Breakthrough has Arrived



"As a $36 billion market, social commerce is already too big for US brands to ignore."

McKinsey, Social commerce: The future of how consumers interact with brands

Social commerce refers to the integration of social media and e-commerce, allowing users to seamlessly discover, shop, and make purchases within a platform. It leverages the power of social media to enhance the shopping experience and drive sales.

Meta, the parent company of Facebook and Instagram, has never been able to crack the code.

The other major player is TikTok. With close to 2 billion active users worldwide, retailers are realizing that TikTok—not Meta—is the future of social commerce.

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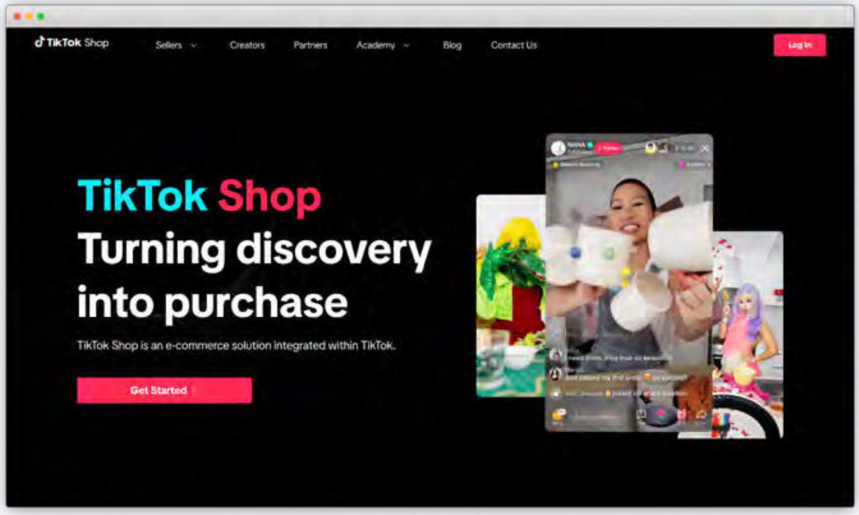
TikTok aims for total social commerce domination



- Unlike Meta, TikTok has continued to invest and accelerate its plans for social commerce—launching TikTok Shop in November 2022.
- TikTok Shop has built-in performance analysis, order management, and campaigns and promotion management tools for retailers to manage their backends.
- According to Nikkei Asia, TikTok Shop has aggressively gained traction in Southeast Asia against large competitors such as Lazada, Shopee, and Tokopedia. It grew its gross merchandise value (GMV) from $600 million in 2021 to $4.4 billion in 2022.
- TikTok aims to quadruple its GMV to $20 billion in 2023.
- TikTok is launching TikTok Shop Shopping Center in the U.S. to sell Chinese-made goods, intensifying its growing rivalry with PDD Holdings’ Temu and fast-fashion retailer Shein.

Similar to Amazon's "Sold by Amazon”, the marketplace will store, ship, market, and handle transactions for items on behalf of Chinese manufacturers and merchants.

Bottom line

The social commerce breakthrough has finally arrived. Retailers now have a unique opportunity to tap into TikTok's massive user base and leverage its unique blend of video content and social engagement to drive sales and brand exposure.

02

Sustainable Commerce: Gen Z has Entered the Game

"Although, as a population, they won't peak for another ten years, we're really looking at them as the core influencers today that have a really big impact on both millennials and Gen Xers in terms of what they buy. In size, they will definitely reach scale in the next ten to 15 years, but it's about their influence today—that's what's so important."

-Bo Finneman, Partner at McKinsey

The fashion industry emits roughly the same amount of greenhouse gasses as France, Germany, and the UK combined. Cotton production uses 23% of the world's insecticides, and less than 1% of it is recycled. The industry produces 92 trillion tonnes of waste and about 10% of global CO_2 emissions per year. And less than 1% of the clothing produced is actually recycled.

But Gen Z, defined as those born from 1997 through 2012, is a digitally-native and environmentally conscious generation that is reshaping the commerce landscape by prioritizing sustainable and ethical practices. Their growing size, wealth, and influence are the driving force behind trends like sustainable commerce, recommerce, and the circular economy.

The rise of Gen Z

Gen Z demands a "circular economy", where clothing materials are reused, recycled, or upcycled to minimize waste and promote a more sustainable fashion industry. The potential value of the circular fashion industry could reach $5 trillion.

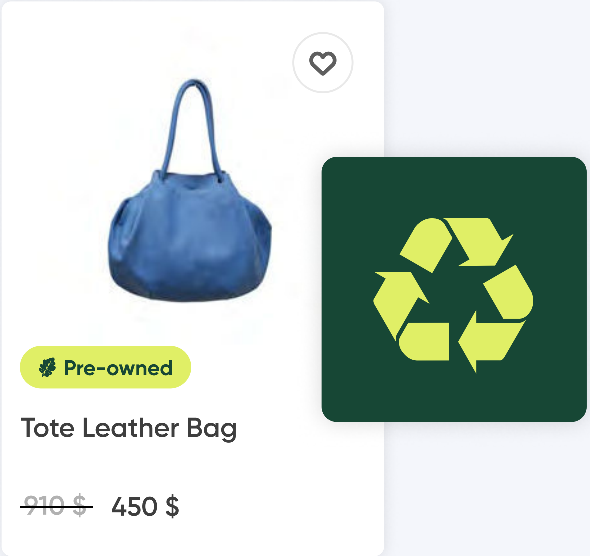
- The Business of Fashion estimates that roughly 100 brands and retailers have launched their own resale channels in the last two years.
- Leading sustainable pioneers such as Patagonia, Reformation, Rothy's, and Everlane are being further propelled by rising Gen Z demand.
- Retail brands like Lululemon, Levi's, and REI are turning to startups like Trove, Recurate, and Archive to enable trade-in and resale experiences.

02 (cont.)

- Poshmark, The RealReal, Depop, Goat, and ThredUp are online marketplaces that are leading the second-hand fashion resale market.
- Headless and modular commerce technologies are allowing retailers to create custom digital experience platforms with products like order management systems (OMS), pricing and promotions engines, and dropshipping marketplace platforms.
- Additionally, a robust, extensible, and attribute-driven product information management (PIM) system allows retailers and brands to call out all of the sustainable features their products have.

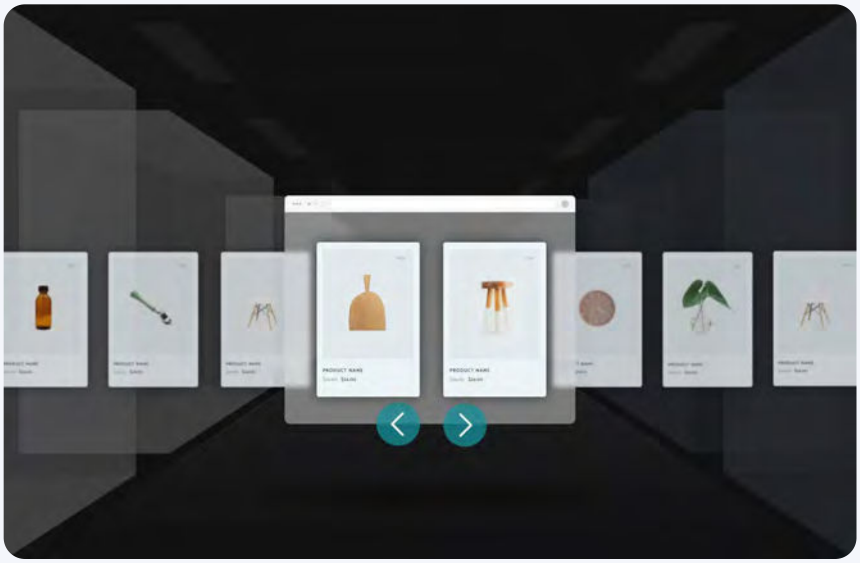
Bottom line

Gen Z's support of brands that emphasize sustainability will have lasting effects on their success. Retailers can leverage modern commerce technologies to shift to a circular economy model that resonates with this influential demographic.



03

The Death of SKU Proliferation



SKU rationalization: (noun) Short for stock-keeping unit rationalization, this is a complex business decision retailers make in trying to maximize profits while manufacturers try to lessen shortages.

More SKUs don't equal more sales.

For years, retailers expanded choices and got caught up in the Fallacy of the Long Tail, adding unnecessary variety that either rarely sold or never sold at all.

Today, high interest rates, supply chain challenges, and inflationary pressures have finally killed SKU proliferation. Companies are now slashing product lines, eliminating zombie SKUs, and focusing on maximizing overall sales throughput with top selling, high velocity products.

Zombie SKUs are not worth the trouble

- Helen of Troy, the consumer products supplier that owns Osprey and Hydro Flask, recently trimmed 18% of its product portfolio to overhaul its supply chain and offset rising costs.
- Funko, a toy company known for its pop-culture-inspired vinyl figures and collectibles, just rationalized its product lines after surplus inventory forced the brand to destroy between $30 million and $36 million worth of unsold inventory.
- In 2022, Nestle SA embarked on a SKU rationalization program to optimize production, improve customer service levels, and free resources for more impactful projects.
- Consumer goods giants like Proctor & Gamble, Mondelez, Unilever, and Newell have launched massive SKU rationalization initiatives. Meanwhile, Utz Brands is leaning into its "power brands" while trimming its offerings.

03 (cont.)

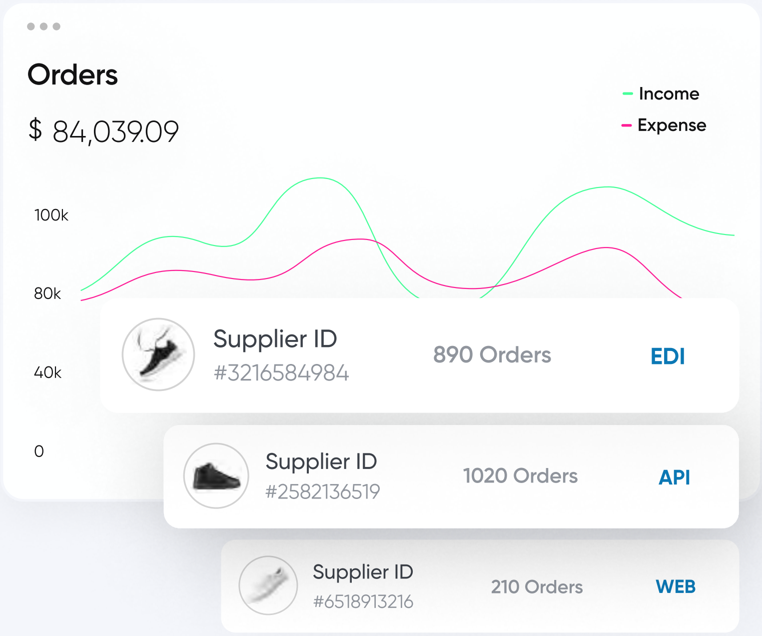
- Amazon, the poster child for “endless aisles” of SKUs, is eliminating dozens of its private-label brands. In an effort to rein in costs, the e-commerce giant will soon be left with fewer than 20 bestselling house brands.

Bottom line

The death of SKU proliferation does not mean the death of choices for consumers. It signifies a shift towards bestsellers and more thoughtful curation, where retailers prioritize a well-selected assortment of products that align with customer preferences and needs.

Dropshipping is a retail fulfillment method where a store sells products that it doesn't keep in stock—a vendor or supplier directly ships the products to the customer. This enables retailers to create a first-party marketplace and provide meticulously curated "extended aisles" of products.

Retailers can also seamlessly connect with global vendors, test products and categories, gain valuable customer data, retain control over pricing and the customer experience, maintain an optimal mix of owned and dropship inventory, and swiftly adapt to market trends.



04

The DTC Reckoning and the Pivot to Omnichannel Retail

"The pandemic exposed a big flaw in the DTC model: nobody, in all this time, had actually figured out how to make money selling products directly to customers without the middleman. Investors are saying, 'Wait a minute, you told us you'd get big enough, and the profits would come. Where are the profits?'"

Brian Baskin, Business of Fashion Deputy Editor

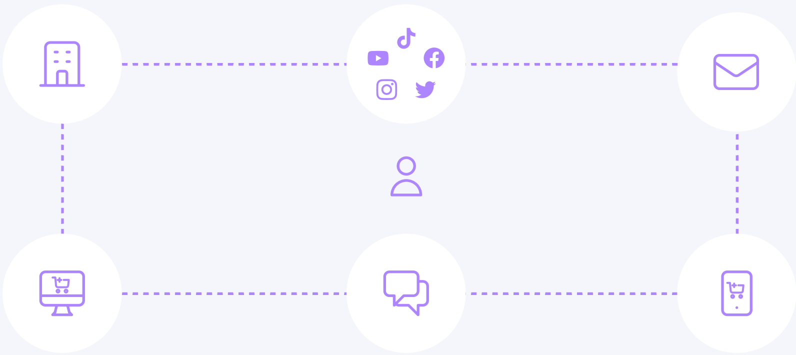
In recent years, the world of retail witnessed a dramatic shift in how products are sold to customers.

The rise of direct-to-consumer (DTC) brands transformed the traditional retail model by eliminating the middlemen. Companies could go straight to consumers and offer premium products at competitive prices by avoiding the markup of multi-brand retailers and wholesalers.

DTC struck a chord with consumers looking for convenience, value, and unique branding.

The strategy worked… until it didn't.

The DTC implosion and the pivot to "digital-first" omnichannel retail



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- The once high-flying DTC industry was built on the positive customer acquisition cost (CAC) to customer lifetime value (LTV) ratio, which caused valuations to soar.
- However, rising competition, soaring advertising costs, Apple's App Tracking Transparency (ATT) privacy changes, and the global pandemic exposed the vulnerability of businesses that relied heavily on a single online channel for sales.
- Product-based businesses started "falling out of favor" with venture capitalists because of mounting losses, lackluster expansion potential, and an inability to handle market fluctuations.
- DTC brands like Warby Parker and Allbirds have turned to physical retail stores to create omnichannel shopping experiences. They're capitalizing on Hotelling's Model of Spatial Competition which explains why similar businesses cluster together and capture more customers at lower CAC.
- The traditional wholesale model has attracted DTC brands as well.
- This blended strategy of digital, owned physical retail, and wholesale requires powerful technology to manage product, inventory, and orders across multiple channels.
- Integration and synchronization of systems is critical for complex omnichannel retail operations.

Bottom line

Businesses need to adapt to the new normal. Digital-native DTC brands need to diversify their distribution channels, leverage partnerships, and take a scrappier approach to marketing to respond to changes in consumer behavior and market dynamics.

Successful brands will have to pursue online and offline strategies and leverage the right commerce technologies to create superior shopping experiences for today and tomorrow.

WARBY PARKER STITCH FIX FIGS allbirds

05

Enterprise E-Commerce Platforms Reach an Inflection Point

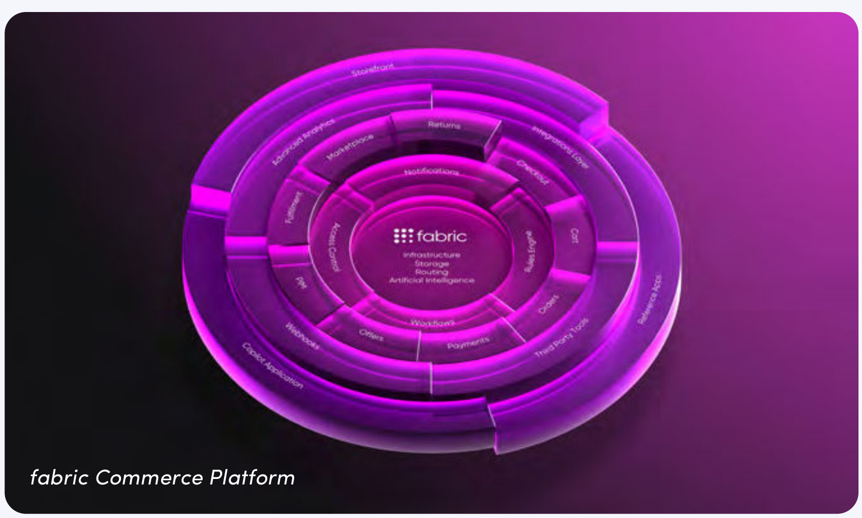
"I've talked to many businesses out there that have been sold the composable MACH vision and about half of them are suffering from the same woes of the older technical projects from the past: increasing costs, increasing complexity, timelines expanding, and project risks increasing."

John Williams, CTO of Ampliance

Customer experiences are not what they used to be. Today, enterprise e-commerce platforms that power customer experiences must be flexible and scalable to keep up with the increasing complexity of consumer engagement.

However, the drawbacks of legacy monolithic e-commerce platforms are well documented. And while MACH (microservices, API-first, cloud-native, and headless) architecture is supposed to offer greater flexibility and system improvements, the SaaS industry is experiencing a MACHLASH right now.

For many companies, finding new e-commerce solutions to handle the added complexity of retail operations boils down to a business decision where the potential pros of migrating to a better e-commerce platform will far outweigh the cons. Speed, flexibility, extensibility, security, better UX, and scalability can all be achieved, but organizations require the right mix of solutions to suit their individual needs.



fabric Commerce Platform

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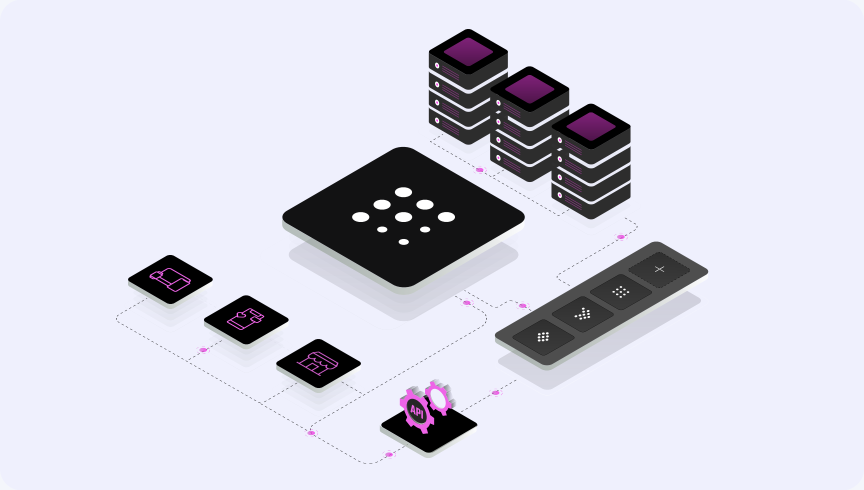
- When businesses face constraints to their growth or seek to update components of their tech stacks, they frequently need adaptable and powerful solutions to manage the growing complexities of their operations.
- A monolith is a single, rigid, all-in-one unit where all the commerce functions are built into one system. These platforms can be inflexible, complex, slow, and expensive to maintain, and may hinder the ability to scale or innovate.
- Although headless commerce and microservices offer advantages, they are not perfect, and the process of replatforming from a legacy platform to a modern one remains challenging, costly, and fraught with risk.
- Platform providers often bundle, package, and build solutions that don't always benefit the customer, resulting in unnecessary complexities, dependencies, and delays that actually hamper growth.
- A software agnostic "platform-of-platforms'' complete with core commerce services gives companies the freedom and flexibility to simply choose solutions they need.
- It not only supports other e-commerce platforms through the use of APIs, but services can be broken down into modules and used on demand.
- The strangler pattern can be used to modernize only the components of the software stack that are needed, rather than trying to integrate and manage dozens of disparate systems through a wholesale replatforming project.



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Bottom line

Making the switch to a headless or microservices architecture is not a panacea. It's almost always more trouble than it's worth when businesses take on redundant and unnecessary migrations, or they embark on risky replatforming projects. However, companies may never need to replatform again.

fabric is a fully-composable and extensible platform that can work with any e-commerce platform and offers a full suite of core commerce solutions and APIs. Businesses can compose their ideal solution by simply strangling and modernizing components as needed, giving them the ultimate flexibility to build truly customized digital experience platforms for today and the future.

Conclusion

The 5 major e-commerce trends discussed in this report are influencing global brands and how they interact with their customers. Challenges today differ from those of the past due to the rapidly evolving changes in consumer demand, market conditions, and new commerce technologies.

Perspectives have also shifted. As omnichannel retailers navigate increased operational complexities and adapt to changes, businesses need to stay laser-focused on building better, faster, and more engaging shopping experiences for customers. These insights highlight the dynamic nature of e-commerce in 2024, emphasizing the importance of staying nimble and flexible in today's rapidly changing market.

fabric is a flexible and headless platform that helps retailers build modern e-commerce experiences. To learn about fabric's core products for a complete and connected commerce solution, book a demo with us.

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