Commerce Trends 2023
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Unexpected is the new normal

The only constant in commerce is change. And the only way forward is to adapt. In the past year, we’ve seen millions of businesses display resilience in the face of the unexpected, contributing to over $27 trillion USD of retail sales worldwide. But 64% of global businesses are still recovering from the negative impact of the pandemic.*

Economic obstacles from the pandemic were compounded further in 2022, when the Russia-Ukraine war led to sanctions that delayed or halted trade altogether. The fiscal instability is driving the highest inflation in 40 years.³

Online shopping jumped 77% year over year just months into the pandemic, accelerating the innovation and adoption of digital commerce by half a decade.⁴ Shopping, working, and socializing online became commonplace.

But after years of lockdowns and restrictions, people now crave meaningful connection across all facets of life—including commerce. Physical spaces make those points of connection between merchants and customers possible, including online and offline commerce.

As brands grapple with the challenges in 2023, they’ll need to respond by adding flexibility to their products, plans, and policies. With an economic recession on the horizon, being agile has never been more important. This report outlines the global trends equipping brands to confront the unexpected.

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*All values are in U.S. dollars.
The economic outlook forces ecommerce businesses to brace for a sluggish economy

While commerce growth is slowing, total retail sales in 2022 have climbed 15% since 2020, and they’re projected to reach more than $31 trillion in 2025. But it will be a slow climb.

The World Trade Organization became less optimistic about trade growth volume as 2022 progressed. The organization’s estimate for 2023 was a growth rate of 3.4% in April. By October, the forecast for the year had plummeted to a dismal 1.0%.

As commerce growth slows down, worries around inflation are ramping up. Business owners aren’t the only ones with higher costs on their minds. The average person is 102% more concerned about inflation than the coronavirus, which has dropped down the list of global worries while inflation rose to the top. Worry about rising prices isn’t likely to go away in 2023.

Although some say the recession fear is overdone, let’s face it—even the possibility of a recession affects how businesses spend, how venture capitalists invest, and how people shop.
Consumers have more options than ever, and in today's economic climate, they're ready to exercise that freedom of choice. More than seven in 10 consumers bought from the competitor of their go-to brand between May 2021 and May 2022. And, if spending power decreases as expected in 2023, consumers will continue to shop around for better deals.

But shoppers aren't just aware of the price tag. Environmental, social, and governance concerns influence about half of global consumers. Buyers want to support more ethical businesses with more sustainable supply chains—even though consistency in freight, distribution, and especially fulfillment are nearly impossible for many businesses to control. That's why product shortages motivate nearly half of all brand switching: 46% of consumers move to competitors who have the products they want in stock.

Discovering new brands to try is also easier for consumers—and most are ready to buy. More than seven out of 10 like the convenience of instantly purchasing products where they're browsing. And they're browsing on social media: 60% of the globe is already on social media, so they need only go to the platforms they're already on to find new brands and products.

That same expectation for seamless immediacy is seeping into physical retail too. "While we see customers really interested in coming back into the store space and having a personal approach, they've also gotten used to having everything immediately," says Shaza Mahmoud, head of retail at Daily Paper. "They want it now. This is just the era we're living in. Everything available at the click of a button."

Consumers want their shopping to be personal, instant, and responsive—and they want that high-value experience anywhere.

That's why, aside from growing revenue, improving customer experience is the top priority for global businesses. This attitude of ultimate flexibility and interconnectivity is hitting all aspects of commerce—including employment. Employees are moving their talents to the companies that will benefit their wallets, lifestyles, and values. For one out of five employees, flexible schedules and locations are keys to retaining them, something that brands with a strong retail presence will need to keep in mind.
The Commerce Trends 2023 report is a compilation of some of the most powerful insights that emerged from our research across five areas: supply chains, inflation, marketing, social commerce, and retail.

Methodology

We partnered with global market research firm Ipsos to explore where the commerce industry is, where it’s going, and how leading brands are pivoting to keep up with the ever-changing commerce landscape. The study includes responses from 900 business owners and commerce decision makers based in the United States, Canada, the United Kingdom, France, Germany, Ireland, Italy, Spain, Japan, Singapore, India, China, Australia, and New Zealand.

We combined survey results with third-party data, proprietary research about brands that sell on Shopify Plus, as well as qualitative insights from two dozen interviews with industry leaders, investors, and subject matter experts. Together, these findings form the foundation for the trends report. Here’s a snapshot of what each chapter will cover.
Supply chain

The supply chain crisis forces brands to accelerate long-term growth plans

Experts had predicted supply chains would normalize in 2023, but the Russia-Ukraine war has further pressured supply chains still in the squeeze of the pandemic. Some studies show disrupted supply chains can cause a 62% financial loss.

Effects of the supply chain crisis on businesses vary widely, but brands should recognize the vulnerability of their own supply chains and prepare for uncertainty—especially as 60% of global consumers expect same-, next-, or two-day delivery.

Business owners are responding to supply chain challenges by rethinking single-sourcing and how much inventory they keep on hand. Such shifts might cost more in the short term, but they create more robust supply chains that can adapt to a turbulent logistics landscape. Brands are also digitizing more of the supply chain so they can catch disruptions as soon as, or even before, they happen.

Read the supply chain chapter →
Strategies to cut costs during inflation also raise customer loyalty

Global trade hit a record high of $28.5 trillion in 2021, an increase of about 13% from before the pandemic. But commerce growth slowed in 2022. And as the war in Ukraine contributed to surging oil and gasoline prices, the cost and time associated with transporting small packages went up—and not just in the region.

Several countries like China, The Netherlands, Germany, and Italy import staples like fuel, oil, wheat, wood, and metals through and from Russia, so prices are going up along with lead times worldwide. Product shortages are putting greater financial strain on an already-weakened economy. Interest rates and borrowing costs are also rising, along with commodity prices.

Exaggerated growth during the pandemic also contributed to overzealous investments in hiring by some direct-to-consumer brands. Now higher costs and slower business is making it difficult to keep up with expenses. The result: significant layoffs.

Fears of recession loom large, souring investor sentiment, which will be a challenge for 73% of brands that are planning to rely on external investors this year.

As brands and buyers continue to see their spending power decrease in light of inflation, both are finding ways to reduce expenses. Shoppers are doing that by seeking cheaper options—which means the 81% of brands that plan to raise their prices (or already have)—need to emphasize their value to keep customers.

For some brands, raising prices has meant introducing new products at a higher price, instead of making existing products more expensive. Others are making plays for long-term loyalty by freezing prices or introducing budget-friendly product lines. Savvy brands are betting on their customers by investing in them now, in the hopes it pays off in a future recovery.
Brands overcome third-party data woes through collaboration

Unstable markets are pushing consumers to try new brands. During the pandemic, three out of four consumers\textsuperscript{26} tried a new brand, product, or purchase method. Once lockdowns eased up and borders opened, 41\%\textsuperscript{27} of buyers broke with brand loyalty in favor of new options.

But converting these potential customers is challenging: Already-high customer acquisition costs are on the rise as return on ad spend (ROAS) declines. On top of this, tighter privacy regulations are forcing brands to rely less and less on third-party data to get in front of the people most likely to buy. In response, brands are turning to collaborations.

Brand-to-brand collabs, where non-competing brands co-create products or experiences to tap into each other’s audiences, allow for reciprocal exposure at a low cost. Collaborating with influencers will also benefit brands in 2023 and beyond.

Lockdowns catapulted the popularity of influencer marketing\textsuperscript{28}. In the absence of being able to touch, feel, and test products in store, consumers watched livestreams of unboxings or product reviews to experience products by proxy. Now, more than seven out of 10\textsuperscript{29} businesses expect online influencers to become even more important in the future.
Top five customer acquisition and retention strategies brands are using to drive growth

- Using social channels more for marketing and promotions (28%)
- Offering more premium products and services (28%)
- Using ecommerce marketplaces more (27%)
- Offering more payment methods (like Apple Pay) (26%)
- Using customer data for better targeting, customer segmentation, and personalization (26%)


Ecommerce

Social ecommerce gets more interactive

Ecommerce might be growing at a slower pace than during pandemic times, but it’s still taking an increasingly larger slice of total retail sales worldwide. By the end of 2023, one in every five retail sales will be made online.

Although these numbers are significant, commerce has always been more than a transaction. And there’s no place we’re seeing that more than in the world of social selling.

Nine in 10 people buy from brands they follow on social media. Social commerce reduces friction between discovery and conversion, simplifying one-on-one engagement and potential sales. According to our global survey results, using social channels for marketing and promotions is the most important customer acquisition and retention strategy for businesses to drive growth in the next few years.

Read the ecommerce chapter
Brands diversify and differentiate their in-store experiences

The job market is in flux. Retaining staff has been a struggle for many employers, and 59% of brands attribute their challenges to human resources. Four in 10 workers around the globe say they might leave their jobs in the near future. Half say higher pay might persuade them to stay, but as brands tighten their belts under today's financial pressures, layoffs are becoming more likely than pay raises.*

Still, stores need teams ready to serve today's customers who are used to blending multiple channels—and often expect retailers to do the same. Such expectations are changing the role of the retail worker, and the role of the retail store.

Brands are learning from the audiences they're attracting to redefine their store objectives. That also means differentiating their in-store experiences from the growing competition.

Shopify Retail senior product marketing lead Kevin MacGillivray points out a recent trend of making in-store experiences truly experiential. “Let's assume it's a soap store,” says MacGillivray. “Try the soaps, smell them, use them—do what you can only do in store and add that bit of magic you can't get from buying on a website.” He adds, “You can now shop from exercise equipment, the car, the couch. All things you can't replicate in a digital world. There's no good way to do that yet because it's so tied to your personal experience as you use it. More and more successful in-person retailers are doing this.”

Value can't just be a buzzword in the future of retail. It's more and more important for store owners to understand consumers at a local level. If they want more lifetime value from and for customers, it starts with incentivizing them to buy in on the brand experience, not just the products.

The more we can connect online and offline, the better the customer experience. And that ultimately gives retailers and main-street brands a chance to survive and thrive going forward.

Arpan Podduturi
Director of Product Retail and Messaging, Shopify

Read the retail chapter
The commerce and technology landscape is in perpetual motion. Brands need to respond in real time just to stay relevant.

Powered by data from millions of Shopify brands, our proprietary report provides the tools and insights businesses need to drive growth in the next year.
The supply chain crisis forces brands to accelerate long-term growth plans.

Brands battle unreliable and pricey supply chains with investments in logistics—hoping demand will keep up.
Key takeaways

Consumer expectations are getting higher

Fast and free shipping is the new standard, but supply chain issues make that hard to meet

Brands pivot to meet consumer demands

Resilient brands are holding more inventory, diversifying product sourcing, cracking down on return rates, and leaning into digitization

Adapting now could lead to stronger logistic networks

Slower and less consistent supply chains are transforming how brands think about and strengthen them in the future
The pandemic bottlenecked supply chains across the globe, and many businesses are still feeling the squeeze. Just when businesses thought trade routes would open up, the Russia-Ukraine war hit. Supply chains are more congested than ever. Of the 900 global brands we surveyed, 66% expect supply chain issues to get even worse in 2023.

As costs and supply chain delays increased, so did customer demands. Yet massive marketplaces have set expectations for speedy delivery and easy returns that not even they can keep up with anymore.

Brands face the challenge of providing reliable shipping even beyond the current supply chain crisis. Significant disruptions to production—like pandemics, trade tensions, cyber attacks, and climate-related events—happen every 3.7 years on average. Global brands need logistics practices that can adapt quickly to a continually changing ecommerce landscape and attract the buyers of tomorrow.
Supply chain management hasn’t kept pace with commerce trends

Just-in-time (JIT) manufacturing became standard fare since Toyota modeled it as a way to cut down on storage costs and waste in a post-World War II economy. Like the name suggests, the JIT approach aims to get products sourced, manufactured, assembled, and shipped just in time to meet the customer’s demands. Companies across the globe adopted JIT principles over the last half-century.

Meanwhile, supply chains became more complicated and spanned more territory, quietly threatening the ideal of continuously flowing production. JIT relies on everything in the supply chain working without any hiccups. The more links in the chain, the more places it can break. The pandemic exposed that vulnerability on a massive scale. Global supply chain disruptions more than tripled from 2019 to 2021, and most companies were almost immediately unable to cope.

Some brands patched their supply chains, hoping to just get through the pandemic. But for many, the pandemic was just the beginning of the breakdown. Disruptions cost businesses around the world an average of $184 million USD in 2021 alone. Shipping ports are still backlogged in 2022, especially in China, where COVID policies remain in place. And since the onset of the war, millions of products are being rerouted by sea to avoid their usual path by train through Russia.

But it’s no surprise that JIT supply chains aren’t holding up under the weight of modern commerce. The JIT production model wasn’t developed with an interconnected and complex commercial world in mind. It was a culturally specific response to particular shortages: natural resources, space, and capital. Most brands today don’t face the same challenges of a young Toyota, struggling in a national market without much space or natural resources. But most brands do share Toyota’s motivation to keep cash flowing, and that’s where JIT fails modern brands the most.

The compounding crises of the 2020s have shown just how costly JIT supply chains are when they break. Nearly six out of 10 companies report lost sales from products being out of stock, according to a survey of global Shopify Plus merchants. Not to mention the damage to reputation and customer relationships that 23% of merchants report is even harder to recoup. Consumers are tired of being patient. Brands need updated solutions to succeed in the next era of commerce.

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$184M

Average loss in USD revenue for businesses due to global supply chain disruptions in 2021

Sourced from Interos Annual Global Supply Chain Report
How to future-proof logistics networks

1. Hold more inventory

Carrying more inventory is the most common way Shopify Plus merchants are battling the supply chain crisis. And eight out of 10 companies McKinsey surveyed in the spring of 2022 had already started upping their inventory in 2021. The world’s 3,000 biggest businesses now keep the equivalent of 1% GDP more inventory holdings compared to 2019.

More available stock makes it easier to meet customer needs, but there’s a balance: Cushioning inventory doesn’t mean overstocking. Brands that increase inventory holdings little by little (depending on cost, space, and demand) lower their risk of trapping funds in inventory they can’t sell.

Also, because most buyers have less spending power right now, brands need to watch how many higher priced items they keep on hand. In the second quarter of 2022, the inventory-to-sales ratio spiked for items priced over $100 for some Shopify merchants, probably because shoppers are responding to inflation by choosing cheaper options. So it’s crucial to manage inventory closely.
2. Diversify product sources

Low cost, high productivity, and dependable quality are no longer the main factors in creating a winning supply chain. Thousands of companies have learned the hard way that supply chains are graded on resilience.

Nearly one-third of Shopify Plus merchants are building shock absorbers into their supply chains by diversifying their product sourcing: 30% have found new suppliers and 29% now get their products from multiple suppliers or countries.

Another option is sourcing products or raw materials closer to home, like 31% of Shopify merchants began doing in 2022.

3. Shrink return rates

Brands are losing a record average of $29 for every customer they acquire—a 222% increase in the last eight years. Aside from steep customer acquisition costs, returns take a lot of the blame. Customers return 20–30% of online purchases, compared to only 8–10% of in-store purchases.

Whether the returned item ends up being resold in a brick-and-mortar store, repackaged in a distribution center, or sitting in a landfill, it matters as much to the modern consumer as it does to a business' bottom line. Fewer returns mean happier buyers, less pollution from transportation and packaging, and less strain on a key aspect of supply chains: inventory management.

To minimize returns, customers need to be confident what they see online is what shows up at their door. Detailed product descriptions, customer reviews, and 360-degree views of each product help set customer expectations and reduce return rates. Bringing products to life for customers through augmented reality is becoming a viable option as more consumers around the world adopt the technology.
The immersive and interactive nature of livestream shopping also makes customers more confident in what they’re buying and how to use it, significantly lowering return rates.50

Big brands like Target and Walmart let their customers keep small returns.51 But for many businesses, a refund-only approach is not cost effective. Instead, some brands like Zara are popularizing return fees.

Zara’s U.K. branch followed its European neighbors52 in 2022 by adding a fee to mailed returns. It’s only a £1.95 ($2.39 USD) deduction on refunds, but some analysts predict53 this trend will grow.

There are mixed opinions54 about charging for returns, with some concerns that return fees will negatively impact brand loyalty. But customers are likely to stay on board as long as a free option to return items in store exists. Either way, it's crucial to clearly spell out any return policy and then always honor it.

4. Digitize supply chains

The more volatile global supply chains are, the faster brands must respond. One-third55 of the brands we surveyed planned to digitize manual processes within their supply chains. That looks like using scanning apps or inventory management software, or relying on machine learning and artificial intelligence (AI)–based solutions to do everything from load pooling to dynamic rerouting.

Few companies have visibility56 into the deeper tiers of their supply networks, even though greater insight would help businesses anticipate disruptions and demand. According to McKinsey, early adopters of AI–enabled supply chain management can improve logistics costs by 15%, inventory levels by 35%, and service levels by 65%,57 compared with slower moving competitors.
Merchant spotlight: The Natural Patch

How The Natural Patch overstocks to add flexibility into their supply chain

Australian company The Natural Patch carries all-natural adhesives that stick to children’s clothing and act as an insect repellent, emotional wellness patch, or a sleep aid. They launched in 2020 at the start of supply chain woes and have seen 100% growth since.

Although The Natural Patch relies exclusively on air freighting—the fastest and most expensive shipping method—to move their products from manufacturer to distribution center, air freighting hasn’t spared them from supply chain challenges.

The Natural Patch has learned to leave a healthy buffer. For them, that’s 20%, or three months of inventory, to get through unexpected delays or surges in demand due to marketing promotions or around Black Friday.

“Our rule is we cannot run out of stock,” says Jankie. “It’s not just about turning off marketing for [a] product. It’s winding things down; it messes with our finances.”

Having three months of inventory on hand is their cushion from the time the product is put into manufacturing to being on the shelf, ready for picking, packing, and sending. There are, of course, risks to holding too much inventory—like cash flow being tied up in stock. For The Natural Patch, holding six or even 12 months of product means inventory goes “stale”: Buyers have to wait until the current batch of inventory sells out before seeing the latest updates to product or packaging.

In two years of being in business, they’ve grown from one SKU to six and have doubled their volume-based sales each year. That growth has allowed them to expand globally with Shopify Markets, which helps them localize their online store by calculating duties and taxes for their shoppers around the world. They won’t launch in a market unless they can do last-mile delivery domestically with a reliable 3PL, which 62% of survey respondents say is difficult to find. Their wholesale business fills in the gaps for the rest of the countries.

“You could get away with it a couple of years ago by saying, ‘Hey, there’s postage problems because of COVID.’ That’s no longer an acceptable excuse when consumers know that with an Amazon Prime membership, they can get something in the day.

Michael Jankie
Founder, The Natural Patch
How Shopify can help

Digitize your supply chain with Shopify APIs and automations

Whether you self-ship or outsource your fulfillment, managing more inventory can be made easy with the inventory states API. Get a real-time view of your stock at all times when you integrate your inventory management system with Shopify.

And with Shopify Flow, you can streamline and reduce the manual work that comes with managing the end-to-end fulfillment process. Some fulfillment automations include preparing draft shipping labels, tagging orders by shipping method, or sending follow-up messages for orders that didn't ship on time.

Turn shipping into a revenue generator

With Shopify Shipping, you can turn savings into earnings with a no-fee platform. Shopify Shipping offers:

- The best rates on shipping labels from top-tier carriers
- Pre-negotiated rates directly integrated in the Shopify admin
- Embedded insurance on every eligible label

Outsource your supply chain with a 3PL

For businesses looking to digitize and outsource their logistics, Shopify Fulfillment Network (SFN) is a software-based solution that offers fast, reliable delivery to help you scale your business. Using data across the national fulfillment network, SFN automatically positions your products closest to your buyers.

SFN also comes with Shop Promise by default, which means you can communicate expected delivery times to customers across your online store.
Strategies to cut costs during inflation also raise customer loyalty

Economic slowdown pushes brands to tighten budgets and deliver more value.
Key takeaways

**Merchants and consumers feel the weight of inflation**

Profit margins are getting thinner as prices rise and shoppers cut back on spending.

**Adapting to economic uncertainty is the only sure strategy**

Brands are responding with strategic pricing, timely discounts, new income streams, and cutting overhead costs.

**Customer loyalty is a win-win**

Businesses are building trust that can outlast a recession by investing in retention.
The aftermath of the pandemic, further lockdowns in some parts of the world, and the devastation of the Russia-Ukraine war all continue to bottleneck supply chains. The price of commodities, food and fuel especially, has surged. And now borrowing costs for companies and consumers are on the rise as central banks hike up interest rates, contributing to the highest inflation in 40 years.

The World Trade Organization (WTO) estimated a merchandise trade volume growth of 3.5% in 2022—down from the previous forecast of 4.7%. The WTO expects trade volume growth to drop to 1.0% in 2023, and the economic uncertainty and higher prices are causing buyers to spend less. Over 40% of shoppers switched to lower priced, private-label brands at grocery stores in 2022. According to a survey of global Shopify Plus merchants, 35% have seen shrinking average cart sizes, and 50% are seeing less site traffic and lower conversion rates.

Cash flow is particularly constrained for the 73% of brands that plan to rely on external investors in 2023. Investors are raising their ROI thresholds, which will be tough to meet when higher costs are already negatively impacting many brands, including over 90% of Shopify Plus businesses. More than one-quarter of businesses expect weaker economic sentiment to make raising capital in 2023 more challenging. But the top concern for 33% of brands when it comes to raising funds is interest rates, which have increased along with commodity prices. Investors predict central banks around the world will raise rates to almost 4% in 2023, double the rate from just two years earlier.
Strong brands are serving customers while fighting inflation

Most ecommerce businesses were prepared for sales to level off during the post-pandemic hangover, but the further descent of the economy in 2022 caught many brands off guard. Over 70% of businesses around the world are preparing for a potential recession in 2023. They’re adjusting their approaches to pricing, evolving operations, and shifting growth strategies to remain competitive.

Megan Sanchez, chief brand officer of Nature’s Select Pet Food, says “We do our best not to pass cost increases down to our customers, but in 2021 we had two price increases on our core products, which is very out of the ordinary for us. We decided to write something that would explain why that’s happening, with the cost of goods, fuel, trucking, and transportation.”

Other brands are slashing prices as a short-term way to boost sales. Although quick and deep cost cuts are tempting, brands should strike a balance between reducing immediate financial damage and investing in the future. The biggest key to flourishing beyond mere survival is investing in one brand asset: customer loyalty.

Loyal customers are worth far more than short-term sales. In fact, a 2021 study estimated that loyalty increases a customer’s worth by 22 times.8 It costs less to sell to loyal customers because they’re more likely to buy, with the probability of a sale jumping from 5–20% for a new customer to 60–70% for a returning one.

Strong customer relationships also make price increases more tenable. Almost 40% of loyal customers will buy the brand’s product even if cheaper options exist, and 60% of customers tell others about brands they’re loyal to.

Here’s how brands are keeping the cash flowing while amping up customer loyalty.

What research has shown is companies that have continued to establish and retain relationships with customers have flourished post-recession.

K. Sudhir
Professor of Private Enterprise, Management, and Marketing, Yale University
How to boost cash flow and customer satisfaction simultaneously in 2023

1. Price strategically

Some brands are changing product prices weekly, if not daily, to keep ahead of inflation. More than eight out of 10 businesses surveyed have increased or plan to increase product prices because of inflation. Because nearly 90% of shoppers will pay more for a product from trusted brands, strong brands can raise prices with less risk of customer churn.

Other brands are doing the opposite to stand out—by freezing prices. Old Navy infused empathy into its back-to-school marketing with the "Price ON-Lock™" campaign. The apparel brand initially promised to lock in prices for kids’ clothes to ease the burden of back-to-school spending, then soon extended it to all denim.

The United Kingdom’s leading health and beauty retailer Boots also froze prices on 1,500 of its own brand’s beauty products in response to customers’ budget concerns. In August and October 2022, French grocery chain Carrefour and Loblaw Companies Limited in Canada made a commitment to freeze prices on its private-label products to help customers make it through inflation. The move sends positive signals to existing customers and attracts new ones.

90%
Of shoppers will pay more for a product from trusted brands
Sourced from Salsify
Price freezes are a longer term investment in customer loyalty, but not every brand is in a position to absorb the cost of inflation on behalf of customers. In fact, 81% of businesses surveyed already have price increases as part of their inflation-response strategy. But if there’s one area brands should avoid the price hike, it’s shipping. Free shipping options, including local pickup or delivery, lead shoppers to order more often, buy more expensive items, and up their average order value.

The case for free shipping

- **People order more**
  - People order about 2.5 items with free shipping, compared to less than 2 items with paid shipping.

- **People spend more**
  - People spend over $3 more on the median average item with free shipping than with paid shipping.*

- **People buy more**
  - People buy over $22 more on the median order with free shipping than with paid shipping.*

*These results are likely related to conditional free shipping by online stores (e.g. “orders $x or more ship free”).
Sourced from Internal Shopify Checkout Data between 5/14/21 and 7/02/22
2. Discount to promote loyalty and spending

It’s still cheaper to drive sales with existing customers than to acquire new ones. Brands can reward loyal customers by offering exclusive discounts to encourage them to spend more.

Discounting products via product bundles or time-sensitive sales can be marketed as personalized recommendations to help hard-to-move products move fast.

Pay-now-buy-later promotions are another win-win for brands and customers. Store credit or coupons with a product or gift card purchase encourage higher average order values and better cash flow. The GapCash program capitalizes on limited timeframes by giving customers coupons to spend in specific “GapCash” periods.

Adapting a similar model with even a small discount is a simple way to give customers a price break and businesses a quick cash injection.

3. Add subscriptions or memberships

Online subscription services and auto-refills on products are becoming more popular in the face of economic instability. They offer customers better terms and more value, and the recurring monthly revenue appeals to external investors.

Amid inflation, direct-to-consumer brands are marketing their subscription plans as a money-saving play, particularly among pet and food brands. Some brands are even promising to lock in subscription rates for life to get shoppers to sign up.

Membership-driven, gated digital communities are also on the rise. A major draw is the feeling of exclusivity found in online communities, including front-of-the-line access to products and events. In fact, members-only benefits are so attractive to customers that athletic apparel brand Lululemon expects 80% of its customers to sign up for membership within the next five years.
Lululemon aims to create the most immersive fitness marketplace in the industry with its Lululemon Studio membership. The brand has a free tier to its loyalty program, which already includes perks that go beyond transactions: easier returns, early access to product drops, and virtual community events. But the paid membership takes the experience to another level.

Members get unlimited access to livestreamed coaching sessions with world-class instructors, invitations to experiential store classes, plus extra discounts at stores and partner studios. Although revenue from the connected-fitness element of the program shrank after the pandemic, chief executive Calvin McDonald says Lululemon Studio has helped draw new customers and fuel brand loyalty.

Brands are also using the economic downturn as an opportunity to trim inefficiencies and processes that don’t serve their brand mission. More brands will reduce fixed overhead costs, allowing them to operate lighter even after the recession ends.

McKinsey reports that the competition for warehouse and fulfillment labor has made automation in warehousing a necessity for sustainable growth. The global workflow automation market will have an estimated compound annual growth rate of 23.4% from 2022 to 2030, reaching $78.8 million by the end of the decade. Set-it-and-forget-it workflows based on relevant triggers, conditions, and actions simplify processes, reduce the risk of human error, and free up resources.
Merchant spotlight: Fable

How Fable triples year-over-year sales with funding through Shopify Capital

Fable launched in 2019 and quickly gained traction, regularly selling out of their aesthetic housewares with every restock. But like many other young brands, restocking inventory was a challenge for Fable.

CEO and co-founder Jon Parenteau says new companies get supplier contracts that cause a big capital constraint. Most brands rely on venture capital to launch and scale their companies: 73% of the 900 businesses surveyed said they plan to secure outside funding in order to grow. But this can be a time-consuming task.

For Fable, Shopify Capital was the solution. Shopify Capital provides businesses access to funding in the form of cash advances or loans, often available in as little as a few days, if approved.

With more money to use upfront, Fable could get more inventory from their sustainable factory partners in Portugal and Japan, further strengthening their relationship with suppliers. And over time, consistent sales and product restocking helped ease negotiations with those suppliers. In just one year, they doubled stock and tripled sales.

Although Fable had lots of options for funding, they chose Shopify Capital for its fixed cost, even with inflation. And using Shopify Capital didn’t come with any conditions about how they had to spend the money on their business. This year, the company utilized another round of funding and is planning on investing it in their U.K. expansion efforts.

“Without Shopify Capital, we’d probably move a lot slower,” says Parenteau. “Extra investment allows a business to move really quickly and seize on opportunities when they appear.”

It could be six months of full-time work trying to wrangle venture capitalists. It takes up a lot of time. Shopify Capital is easy; it’s a no-brainer. It frees up time to do more important things than dedicating two people to building models and reaching out to investors or debt lenders.

Tina Luu
Co-founder and CTO, Fable

Results may vary for every merchant. All loans through Shopify Capital in the US are provided by WebBank.
How Shopify can help

Get flexible business funding to unlock your adaptability

Shopify Capital lets you spend wherever you see fit for your business so you can stay autonomous. Skip writing business plans, pitches, and lengthy paperwork. Instead, invest that time where it’s needed most.

A predictable and fixed cost of funding through Shopify Capital can insulate you from the variability of rates and compounding interest—and remove some ambiguity from your investment planning.

Offer “buy now, pay later”

Buy now, pay later grew immensely in 2022, with more brands offering buy-now-pay-later options both in person and online. In fact, buy-now-pay-later spending was up a whopping 438% when compared to 2019 levels. Offering consumers the flexibility to pay for a purchase over time can make or break a sale—especially when consumers are watching their spending more closely than ever.

Are you a Shopify merchant?
Check your eligibility for Shopify Capital
Brands overcome customer data woes through collaboration

Sharing audiences helps brands reach new customers and win trust
### Key takeaways

<table>
<thead>
<tr>
<th>Cookies are out</th>
<th>First-party customer data is in</th>
<th>Brands are working together</th>
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<tbody>
<tr>
<td>Data privacy regulations tighten as acquisition costs continue to climb</td>
<td>Instead of looking to big data, brands are using first-party data to engage their audiences with more relevant and personalized content</td>
<td>Collaborating with other brands and creators opens up new audiences—and customer bases</td>
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The number of online stores doubled in 2021 compared to 2020.⁶ Six Competition was the biggest obstacle to achieving growth in 2022, according to the 350 global commerce decision makers we surveyed that year.⁷ More than 26 million⁸ ecommerce sites compete for their target consumers’ limited time and attention, with more retailers joining the competition daily. But the advertising tools brands used to rely on are getting less dependable. Since the peak of lockdowns, ROAS has continued its decline as the costs per click on the biggest advertising platforms seem to be in a race for the top.

The deprecation of third-party cookies has piled on to the advertising challenges. Apple and Mozilla have already done away with cookies, and Google is following suit in 2024.⁹ When Apple started letting its customers opt in to tracking in October 2021, advertisers lost 30% accuracy on targeting algorithms overnight, costing an estimated $10 billion USD in ad revenue. Big tech’s move toward more consumer privacy is making it harder for brands to reach their target audiences, generate traffic, and measure the effectiveness of their efforts.

But these companies are just responding to what people are asking for: more privacy. Only 33% of customers¹⁰ believe brands use their data responsibly, and regional governments are stepping up to protect their citizens. New and updated legislation around the world, such as in California,¹¹ China, Brazil, and the EU,¹² is adding to the growing number of privacy laws¹³ coming into effect.

There’s no denying that privacy regulations are strangling marketers’ ability to target potential customers. Boston Consulting group found that 95% of marketers¹⁴ have already experienced the downsides of these data privacy trends or expect to in the coming year.

For brands that depend on third-party data in their marketing, personalization at scale is one of the many downsides. But 71%¹⁵ of consumers still expect a personal touch, and 81%¹⁶ of brands agree that unique, personalized experiences play an important role in future commerce growth. So the challenge is finding new ways to replace the role of third-party data in marketing.
Can first-party data solve the data crisis?

Many brands are collecting their own customer data to fill the void left by third-party cookies. In some ways, this is an upgrade. Third-party data is getting more expensive, often only available for a limited period of time, and the accuracy is questionable at best. Some studies say businesses overestimate ad effectiveness upwards of 4,000%.100

In contrast, businesses have total control over their own customer data. They know exactly when, how, and why the data was collected, and it belongs to the business forever. And because this data comes from consumers who directly interact with the brand, the information is more likely to be relevant. What’s more, customers want an integrated, transparent, human experience, which third-party cookies are not cut out to give.

Some good news for customer acquisition out of the disruption is that more people are open to trying new brands. It didn’t look like consumers were willing to buy from new brands in 2020, when 38% of customers increased their spending with an individual retailer. But once the strictest lockdowns eased up and more options hit the market, 41% of consumers switched brands.

Whether new stores, new products, or new buying methods, 75% of consumers tried something different during the pandemic. And now, thanks to inflation, consumers are on the hunt for the best value, making them even more open to change. Two out of three shoppers abandon brands for better deals, and 58% switch in search of higher quality products.

But there’s still one big question first-party data can’t answer alone: How do brands find and attract these new customers? The answer that’s emerging for forward-thinking brands is collaboration.
Brands collaborate to win the marketing competition

Businesses are rethinking their paradigms around brand and fan building by turning competitors into collaborators.

Although collaboration is largely untapped in the digital world, the world of commerce has always been collaborative. Concerts showcase multiple bands to tap into each other’s fan bases. Car dealerships live on the same street to bring more of the target market to one space, increasing the odds of a transaction.

Collaborations give brands access to new audiences while crushing conversion costs. Like meeting someone through a mutual friend versus a cold call, the customers that brands reach through collabs are potentially more willing to start the sales conversation.

Asa Whillock, former director of product management at Adobe, says, “We also expect a greater focus on making the right business alliances or data partnerships both internally and externally. Companies across industries will partner up to share audiences with explicit permission from their customers.” He predicts the next trend will be “companies working closely together, brand to brand, to exchange resolved first-party audiences (with consumer consent, of course) in a secure, neutral environment.”
1. Collaborate with other brands

The buzz around a collab creates new excitement for long-time customers and ripples into hard-to-reach markets. Brands get new eyes on their products and a fresh take on their brand.

New Balance used collabs to completely transform its brand image from dad shoe to highly coveted hype shoe. After more than 100 years as a sneaker brand all about function, actors, rappers, and supermodels are now spotted rocking the footwear.

Partnerships in diverse markets, from music to acting to sports, give New Balance the clout to tell stories that resonate with more fashion-conscious audiences. In the United States, it’s only behind Nike and Adidas as the top brand in the performance footwear category. The brand also taps into regional markets through collabs with apparel brands like Parisian luxury label Casablanca and Japan’s WTAPS. This master of collabs is shooting for $7 billion in sales by 2023.

2. Work with creators

Consumers want to connect with people, not just businesses. Almost one-third of shoppers say influencer recommendations are more important than recommendations from friends and family, and 71% of businesses expect online influencers to become even more important in the future.

Content that customers create packs even more of a punch: User-generated content is 8.7 times more impactful than influencer content. Reviews, photos, videos, blog posts, comments, shares, and likes are seen as three times more authentic than brand-created content, and almost six times more authentic than official influencer content. Customers love to feel part of brands, and 30–40% of adult consumers under 35 years old already consider themselves content creators.

To capture Gen Z users, short-video platforms are the most popular places to partner with collaborators. Almost 40% of Gen Z use TikTok and Instagram for search over Google, and 61% say they’re even more influenced by user-generated content since COVID. Gucci is making bold strides to attract younger, eclectic audiences through social media. Train enthusiast and TikTok star Francis Bourgeois is one of the newest faces of the Gucci x The North Face collection, and social media is loving the collaboration.
Experience-driven, customer-centered loyalty programs aren’t yet the norm, but they’re likely to be within a few years. Almost 72% of the global brands surveyed by loyalty tech provider Antavo are already planning to revamp their existing programs. To get ahead of the trend, brands are putting their customers at the center of loyalty programs, instead of transactions. Customer engagement, satisfaction, and relevancy go through the roof when customers get to shop for perks anywhere in a brand’s network, not just in one store.

Brand loyalty takes a hit in times of economic crisis, which is why more loyalty programs show up across industries when spending is down. Six out of 10 companies had loyalty programs to thank for keeping customers engaged during the pandemic. But loyalty programs take many forms. It’s more important than ever to choose a model that meets current customer needs while paving the way for the future of brand-customer relationships.

How do I invite another brand’s fans into an offer or special discount or early access to a drop or a collab? What’s really amazing is if you can say, ‘Prove that you’re a fan of that merchant and I will give you something,’ customers can get something in their purchase from one merchant that has meaning in another store.

Alex Danco
Director of Blockchain and Systems Thinking, Shopify
Merchant spotlight: Doe Lashes

How Doe Lashes taps into influencers and other brands to grow

Doe Lashes, an everyday lash brand based in California, “built their brand on the backs of creators,” according to CEO and founder Jason Wong. When the company was founded in 2019 with $500, they gifted their products to influencers to get in front of as many people as possible at virtually no cost.

Today, they have the attention of 36 million hashtag views on TikTok, and their business has grown exponentially, with 60% of their revenue coming from organic social and influencers.

What started as two social media marketers manually project managing their influencer relationships in multiple tools has now led them to automate many of their processes with Shopify Collabs.

Shopify Collabs cut effort in half: Six hours in a day could now be spent reaching out to 200 influencers instead of 100. While staff used to have to hop into PayPal to pay their partners, then into a spreadsheet to update the numbers, Shopify Collabs has acted as a single command center to discover new creators, create coupon codes, track results in their CRM software, or communicate with and pay creators.

“Saving time means saving money,” says Wong. “Being able to do more with a small team was top priority for us.”

“The early stage of our business was trying to get as many eyeballs as we could. Now, we’re looking for conversions and are very much revenue driven.”

Jason Wong
CEO and Founder, Doe Lashes
How Shopify can help

Reach more buyers through influencers

Shopify Collabs is an all-in-one creator marketing app that helps brands recruit, collaborate with, and manage creators—and it’s free to install. Review applicants to your creator community, send gifts, assign affiliate links and codes, track performance, and send payments right from the Shopify admin.

Get your ads in front of people more likely to buy

Powered by unique insights from commerce data, Shopify Audiences provides custom audience lists for your digital ads to connect you with relevant buyers.

- Reach your audiences where they are: Connect with buyers across the marketing funnel, whether your campaign objective is to drive brand awareness, consideration, or sales. With multi-platform integrations, Shopify Audiences supports ad campaigns across the Meta and Google ad networks.
- Find buyers who want your products: Shopify Audiences uses a merchant-powered audience network to help you find new buyers.
- Get accurate reporting on audience performance: Running your business on Shopify means Shopify Audiences can accurately attribute and measure conversions from your audience lists.
Social ecommerce gets more interactive

Innovations across social platforms offer brands and consumers the blended connections they crave
## Key takeaways

<table>
<thead>
<tr>
<th>Online shopping growth steadies</th>
<th>Social media is taking over commerce</th>
<th>Digital advancements revolutionize social media</th>
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<tr>
<td>The dust has settled on the exploding ecommerce market, but brands now find themselves up against global competitors.</td>
<td>Brands are leaning heavily on social media to engage, convert, and retain customers.</td>
<td>Innovations that make the metaverse possible could give early adopters an edge over the competition.</td>
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Ecommerce growth stabilizes post-pandemic

The nearly $900 billion USD boost from store closures in the first year of the COVID-19 pandemic accelerated ecommerce innovation and tech adoption by half a decade. Around the world, new shoppers entered the ecommerce market for the first time in every category, but growth has now slowed, and 2022 saw the market recover from its breakneck rate of growth. But not all the momentum has evaporated, despite the economic situation. Ecommerce growth in 2023 is projected to be 5% higher than from before the pandemic, and will stabilize in the years following.

A healthy ecommerce market attracts stiff competition. Marketplace giants have dominated on convenience, speed, and low prices, while many independent digital retailers struggle to stand out in a saturated market. Cart abandonment rates are high, and consumer loyalty is harder to earn.

Brands are looking to level the ecommerce playing field by turning to social media, whose users nearly equal the number of internet users. Simply put, if someone is on the internet, chances are they’re also on social media.
Social media is taking over commerce. Every month, 95% of working-age internet users visit social media platforms. Gen Z now uses social media to research brands more often than they use search engines. The rest of the population isn’t far behind.

Social networks have become the second most popular method global consumers use to search for products to purchase. eMarketer estimates the social commerce sales in the United States alone will double its 2020 sales in 2023, exceeding $56 billion. Global sales will be well past the trillion mark in 2023 and break $2 trillion by 2025.

Almost one-third of businesses expect to increase social media marketing to drive company growth over the next few years. This is partly because having a good experience with a brand on social media makes 78% of consumers more willing to buy from them, 77% more likely to choose them over a competitor, and 72% to spend more.

Ad reach is creeping up on all the major social platforms, helping brands connect with new customers. But another upward trend is ad spend. Spending on social media ads worldwide went up more than 38% between 2020 and 2021, rising to almost $230 billion in 2022. The cost per thousand ad impressions (CPMs) rose 15% year over year in the second quarter of 2022. Advertisers found some relief as CPMs finally started to fall in the second half of 2022, but ad spend keeps going up.

Although social advertising is a commerce trend that’s here to stay, leading brands are also using digital platforms to interact with consumers in ways that transcend advertising. Jens Grede, co-founder and CEO of shapewear and intimates brand Skims, says that performance marketing is ineffective for them because they’re always running out of stock, and it doesn’t suit their long-term goals. Instead, they’ve attracted a growing audience that’s dedicated to creating user-generated content for their shapewear.

Social media–driven strategies create deeper connections and memorable experiences that will keep customers coming back for more.
Social commerce moves out of this world

Social media transformed how brands interact with consumers. Now web3 is bringing these interactions into a virtual environment, often called “the metaverse.” Seamless connection will be a hallmark of these virtual spaces, just as it has become a key feature of modern commerce. And a connected brand experience across channels will be even more important to the future of commerce than in recent years, according to 84% of the businesses we surveyed.

Few, if any, digital spaces do connectivity better than the gaming world, and Fortnite has led the way with innovative, immersive social experiences. More than a quarter of a billion players now use Fortnite every month. The game has created hype for non-players too, with Fortnite’s spectator mode and the many streaming services that support tens of millions of hours of Fortnite stream views.

Spectators and players alike are captivated by the shareable moments in a game design that blurs the lines between worlds: Game items extend into real-world environments, like a supply llama in a London phone booth, and real-world experiences like movie theaters and concerts meet the virtual world. Even before the pandemic made online events commonplace, 12.3 million people virtually attended the first day of Travis Scott’s Fortnite in-game concert.

Roblox, which boasts more than 200 million monthly users, is another gaming platform that creates metaverse experiences (and branded worlds) to engage their younger audiences. Nike built a space in the metaverse where customers can win points that translate to currency for digital apparel. The metaverse market is expected to explode over the next several years.

change title: Projected metaverse market revenue worldwide from 2021 to 2030

Sourced from Grand View Research

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
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<tr>
<td>2021</td>
<td>$38.85B</td>
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<tr>
<td>2022</td>
<td>$47.48B</td>
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<tr>
<td>2030</td>
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Trend 4 — Ecommerce
Nearly three-quarters\(^{31}\) of global business decision makers surveyed believe interacting with customers in the metaverse will become commonplace, and key pieces are falling into place to make that prediction come true. Unexpectedly swift investments\(^{32}\) are pouring into solutions for the notoriously high energy that blockchains require. The biggest tech giants are well into the battle to nab the market share\(^{33}\) for augmented and virtual reality gear, and many consumers expect\(^{34}\) our physical and virtual realities to be interchangeable within the decade.

The global augmented and mixed reality market is growing at a whopping 79.2\% compound annual growth rate.\(^{35}\) One in three\(^{36}\) shoppers already use virtual reality to shop, and soon consumers will visit pop-up shops\(^{37}\) in the metaverse. But the directions commerce takes on these platforms are still in construction mode, which means opportunity for brands that want to lead in the next generation of social commerce.

75% Of global business decision makers believe interacting with customers in the metaverse will become commonplace

Shopify/Ipsos Commerce Trends Study. A survey covering n=900 SMBs and Enterprises in 14 countries, Aug–Sep 2022
1. Chat with consumers in real time

Well over half of shoppers say it’s important to easily reach customer service in the channel of their choice. One billion consumers are now messaging brands on a weekly basis right on WhatsApp, Messenger, and Instagram to ask for support or interact with stories. In the second quarter of 2022, WhatsApp Business entered the ranks of top 10 most downloaded apps. Telegram now has over 700 million active global users—that’s almost 45% more than Twitter—and is gaining downloads even faster than TikTok.

But app popularity varies across regions. More social shopping happens in China than anywhere else in the world, but not on Meta-owned platforms. China’s most popular app, WeChat, evolved into both an electronic wallet and an online shopping hub, but its roots are a messaging app. The WeChat chat interface is similar to Facebook Messenger, but brand posts show up here instead of on a main social timeline, as with Facebook or Instagram. Brands can send customers promotions and updates as direct chats to keep them engaged.

But keeping up with the always-online customer is not feasible for most businesses. Turning to chatbots is one way to appease the 41% of consumers who want live chat while shopping online. Most customers are content to interact with chatbots, especially if they have simple questions or don’t want to wait for a human. Brands can keep interactions authentic by programming social media chatbots with their brand voice, as long as customers know they’re using a chatbot.

I’m expecting to see more experiments with chatbots and chat commerce. Consumers spend more when their shopping experience is personalized. AI powers chatbots on several websites that sell products or services to consumers. This technology is on an upward trajectory.

Jay Levitt
Founder and CEO, Lofta
2. Streamline social commerce with integrations

“Buy now” buttons and similar shopping tools on social platforms were a simple, friction-fighting addition that consumers quickly got behind.

Shoppable videos lower barriers to conversion even more, with some companies reporting conversion rates near 30%. Although live commerce in China is so big it eclipses almost every national ecommerce market, live shopping has also been gaining momentum in the United States and Europe since 2019. Facebook, Instagram, Pinterest, and TikTok each invested in livestreaming capabilities on their platforms over the pandemic.

Now integrations can bring the look and feel of the online store to social media shops. To make sure customers have a fluid, cohesive experience wherever they are, brands can sync inventory and customer care across social and non-social channels. Cross-channel analytics and content management will be key to success with social commerce.
Merchant spotlight: Superplastic

How Superplastic creates new ways of interacting with customers for deeper brand loyalty

Superplastic, revered for artist and celebrity collaborations on collectible art toys that sell out instantly, is creating an even more engaged community with the latest technology: NFTs. NFTs also provides a unique opportunity to build customer loyalty, which Superplastic is leveraging across its various marketing channels and activations.

Superplastic's tiered NFTs act as different levels of membership to the exclusive community. And exclusivity is baked into every aspect of the experience: Their NFTs are currently sold out but can be purchased on secondary markets.

Here's how it works. The highest tier of NFT collectors are called “Janky GAWDZ.” These collectors receive first consideration for everything the brand does, like access to high-value giveaways or real-life events.

“We're building a store in New York City, and at certain times, you're not going to be able to get in unless you've got one of our NFTs or tokens. It's the same thing with our website. There will be exclusive entry, things only you are able to buy,” says Budnitz. “Because if you're willing to make a commitment and join us, then we'll make a commitment back to you.”

Instead of simply owning a piece of digital art, NFTs for Superplastic have become a promise of community and belonging. NFTs will also get fans into Superplastic's latest sushi restaurant, planned for Miami.

“The blockchain is the world's biggest open-source mailing list. If you buy one of our NFTs, we probably know who you are. We can reach you and send you free stuff. All this is a great way to play games with [your consumer],” says Budnitz. “Our job is to sell you the NFTs, and then continually upgrade the artwork, so it seems more and more fun, connected with the other stuff we're doing.”

NFTs aren't just products—they're somewhere between a product, a game, and code. If you're not using all those things, you're really not using this medium to its full advantage. It's all about the interactivity.

Paul Budnitz
President, Founder, and CEO, Superplastic
How Shopify can help

Sell on the most popular social platforms

Shopify integrates with the most popular social media platforms on the internet, including Facebook, Instagram, TikTok, and Pinterest. That means you can reach millions of shoppers where they already are, reducing friction and driving sales.

- Streamline operations by tracking your sales, customers, orders, and inventory in one place—so you can focus on creating content, not performing manual updates. All while providing a seamless shopping experience for your customers.

- Start selling on the newest channels quickly by connecting your store and syncing your products from your product catalog. Shopify's recent launch of YouTube Shopping allows merchants to showcase their products across live and on-demand videos, building community and driving sales.
Brands are using immersive retail to stand out from the competition

More demand for blended shopping channels is redefining the purpose of brick and mortar
Key takeaways

The purpose of retail is evolving

Instead of being the ultimate destination, storefronts are now just one of several stops on a customer’s journey.

In-store experiences are trending

Competition is ramping up, so brands are captivating customers with one-of-a-kind, immersive interactions.

Happy employees mean happy customers

Today’s workers need more out of their role if brands want to keep the customer service bar high.
The post-pandemic shopper is changing the face of retail

Of the businesses we surveyed, 82% are confident physical stores will continue to play an important role in future commerce growth. In fact, as restrictions around the world loosened in 2021, physical retail grew faster than ecommerce. Even half of Generation Z shoppers, who famously spend more time online than any other age group, favor in-store shopping. And their spending power will only grow—even more than the $360 billion USD in their pockets today.

Although foot traffic is up, it's still at least a few percentage points below pre-pandemic levels.

But the positive effect physical retail has on online channels—dubbed the "halo effect" of brick and mortar—is persuading more digitally native brands to expand offline.

Foot traffic in 2020 is represented by the median value for the 5-week period from January 3 to February 6, 2020.

Sourced from Our World in Data.
Physical and digital retail are no longer separate lanes of business. A physical presence can supercharge an online one by doubling as an interactive billboard that builds customer trust. Brands get on average 37% more web traffic the quarter after opening a new physical store.

"Online and offline are effectively one continuous experience," says Shopify director of product retail and messaging, Arpan Podduturi. "Very few people walk into a retail store without having done their homework. They usually started on their phone. They’re following some brand and they go into stores with purpose."

About three-quarters of U.S. shoppers research products online before making a purchase either online or in person.

With the trend of blended channels upon us, many brands aren’t clear what role brick-and-mortar stores will play in the years ahead. How can they make the most of a physical location in an increasingly digital commerce world?

Now that shopping can happen anytime, anywhere, the primary function of retail stores is no longer transactional. Enjoying the experience is the primary reason 35% of consumers shop in store, and another 24% want to interact with products before buying.

"Before, customers went to brands. Today, brands must go where their customers are. Brands would be wise to start adopting this behavior now."

Harley Finkelstein
President, Shopify

But shoppers step into physical stores at various stages of their customer journeys, often already knowing what they’re looking for. For example, showrooming is a trend where consumers visit stores to touch and feel the products but opt to purchase them online.

The retail store in 2023 fills a wide range of needs—and gives brands unique opportunities to meet them.

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37%
More average online traffic the quarter after opening a new physical store
Sourced from Retailer Insider

35%
Of consumers shop in stores to enjoy the experience
Sourced from Chain Store Age

24%
Of consumers interact with products in stores before buying
Sourced from Chain Store Age
Diversifying and clarifying the role of the retail store

A store has multiple purposes that go beyond the transaction: giving visitors hands-on guidance on how to use products and services, hosting networking events and panels, or creating a collaborative space to build community, to name a few. These examples have one thing in common: a tailored experience. The growing demand for enhanced experiential value will be one of the most crucial needs to meet in 2023, according to 82% of the global brands we surveyed.

But such in-store experiences are only possible through employees, for better or for worse. Recruiting and retaining talent is an ongoing challenge around the world: 69% of surveyed brands say it’s difficult to find and retain talent in this market, and 67% say they’re short-staffed as a result.

The pandemic has shifted workers’ mindsets and priorities, and younger cohorts are demanding more from their jobs than previous generations. Gen Z and millennials want more flexibility, more benefits, more opportunities, and more money, in part because salaries aren’t stretching as far as they did even a year ago.

Of businesses say they’re short-staffed due to the current talent crunch in the job market

Of businesses say it’s difficult to find and retain talent in this market

Of brands believe enhanced experiential value is a crucial need to meet in 2023

We’ve seen ups and downs over the last year, in particular around staffing volatility. A lot of businesses are struggling to find enough workers to staff their stores. As things start to reopen, all industries are facing the same problems. I expect that to continue.

Kevin MacGillivray
Senior Product Marketing Lead, Shopify Retail

The Great Resignation of 2021 is continuing into 2022, with the “quiet quitting” movement adding to the pressures of inflation and rising energy costs. More people are seeking raises or changing jobs in search of higher wages. To combat staffing challenges, retailers will need to rethink how they view, pay, train, and offer growth opportunities to employees.
How to create a standout retail store in 2023

1. Design magnetic in-store experiences

The growing trend is to make retail even more experiential by appealing to the senses, and adding the magic that just can't be replicated online. Engage with customers beyond traditional in-person interactions, empower store staff to act as "experience hosts," and facilitate options like virtual shopping, live chat, and appointment shopping.

Look at these highly honed store experiences for inspiration:

- Use your store as a “third space”—a space outside of home and work where people go regularly—to boost foot traffic by hosting collaborations with coffee chains, art galleries, or other brands. Ralph Lauren and Uniqlo have set up a coffee shop and playground, respectively, as part of their stores.

- Offer a showroom experience, like the 46% of brands that planned to in 2022. Showrooming takes up less space than a traditional retail store, fosters relationship building, and helps brands better understand their customers. But there's a risk: Store visitors might learn about a product in store then go home to purchase a similar product online from a competitor. If you open a showroom, use technology like a portable point of sale so that high-intent customers can buy on the spot.

- Refresh your store theme or layout on an ongoing basis to attract and engage customers. While many brands change up their stores with each season, STORY, a retail gallery based in Manhattan, reinvents their store every month or two. Like a new gallery exhibition, the concept, design, and merchandise get a complete overhaul, keeping customers curious and engaged.

2. Harness the power of tech

Over 40% of brands planned to invest in tech to enhance the customer's in-store shopping experience in 2022. Here are some of the hottest tech advances in retail:

- Autonomous, cashierless shopping in commodity-based stores like Lifvs, which provides rural Sweden with better access to fresh food.

- High-tech, low-touch stores like Glossier appeal to shoppers who want flexibility. Customers do 90% of their research online through channels like TikTok, then pick up their products in store.

- Buy online, pick up or return in store. According to a commissioned study conducted by Forrester Consulting on behalf of Shopify in 2021, 59% of consumers say they're likely to browse online and buy in store, and 54% are likely to look at a product in store and buy online.

- Immersive experiences using augmented reality. More than 130,000 stores will be using this technology by 2023.
3. Attract and retain a team to deliver exceptional customer experiences

At least 60%\(^1\) of consumers purchase from specific brands because of excellent customer service in the past, so retailers that invest more in their staff will see more customer wins. An exceptional customer experience starts with the employee experience. Brands that attract and keep exemplary teams are the brands that provide flexibility, good pay, and competitive benefits.

Learning incentives are another perk that benefits everyone—employer, employee, and customer. When employees learn new skills or reach milestones, employers can and should recognize and reward the growth they see. Lack of recognition and respect is partly why 25%\(^2\) of employees say they quit their jobs.

Teams also feel more engaged when they find meaning in their work, which employers can reinforce by communicating how they contribute to the company's goals or to the community. Similarly, providing a clear plan for career advancement, including timelines and a consistent way to monitor progress, all contribute to retaining talent. When employees know the company is investing in them, they're more motivated to invest their time and do their best work.

We're seeing a big challenge in recruiting talent. Younger generations don't want to fall into patterns of always being available. They're demanding a lot more and rightfully so, but if you don't have the right people, you lose sales.

We're working on our benefit schemes—different allowances and commissions, things to keep them engaged and happy. That's a side effect of the pandemic: People are no longer willing to coast along, and you have to anticipate it.

Shaza Mahmoud
Head of Retail, Daily Paper
4. Customer service beyond the cash register

The human touch of clienteling across channels—including messaging apps, virtual shopping appointments, and home deliveries—will become a more popular trend in the future of retail. Training staff to use emerging technologies can make workers more efficient and “pandemic-proof” the store employee role. Employees carry these skills wherever they go, adding to the role’s attractiveness for young talent. Cross-channel training keeps staff engaged at a time when employees are demanding higher wages.

More business owners are getting immediate benefits from that training by putting idle store staff to work with online orders. Unifying the sales division into one “commerce” department, instead of separate online and retail departments, further encourages employee training.

Kevin MacGillivray
Senior Product Marketing Lead, Shopify Retail
Merchant spotlight: Lively

How Lively found success with physical retail using Shopify POS

Lively began selling bras direct to consumer in 2016—and their business took off. What started as a booming online store evolved into an organic community, fueled by retail pop-ups in partnership with Nordstrom and Target.

Lively was in a position that many digitally native brands find themselves in today: satisfied with steady sales and a loyal customer base, yet frustrated by high online customer acquisition costs.

Opening permanent locations helped Lively lower acquisition costs—about half of all Lively customers now discover the brand just by walking past one of their four storefronts. “Our stores operate like billboards,” says founder Michelle Cordeiro Grant. But operating both online and offline showed them the advantage of blending channels: Customers who booked fitting sessions online went on to spend 60–80% more than walk-ins.

Customers who discover the brand online and book a fitting appointment on Lively’s website are also much more likely to convert, become return customers, and refer friends and family to the brand. Unlike the clinical nature of traditional bra fittings, LIVELY’s staff tailors the recommendations and the experience to the customers’ unique needs—made possible by Shopify POS, which syncs their online and in-store system to track customer information.

Today, most of our in-store customers become repeat customers online. It’s much easier to repeat a purchase online once you’ve come in, done a fitting, and know your bra size.

Michelle Cordeiro Grant
Founder, Lively
How Shopify can help

**Deliver a world-class customer experience through Shopify POS**

POS Go helps your team drive sales on the go by giving them instant access to the information they need. From customer profile information to inventory tracking to accepting payments anywhere in your store, it’s all in the palm of their hands. And you can extend the power of POS Go to as many as 1,000 locations, available to all Shopify merchants in the United States.

**Enhance the discoverability of your retail store**

For today’s buyer, shopping locally is a priority, with searches for items “near me” **tripling in volume in the past two years**. Get discovered more easily by shoppers nearby with a local listing and display ads through the Google Local Inventory integration, which syncs your store’s inventory with Google.

**In-person selling made possible anywhere**

Apple Tap to Pay is included in the Shopify POS app and can accept contactless credit or debit cards and all digital wallets without payment hardware. Available to all Shopify merchants in the United States.
Credits

Thank you to the following people and brands we interviewed

Aaron Brown, Shopify
Alex Danco, Shopify
Arpan Podduturi, Shopify
Aurora Sánchez, Webmefy
Chelsea Fieldsend, BOYY
Christian Aachman, Shaping New Tomorrow
David Bijaoui, Colorz
David Boyer, Auctane
Jason Wong, Doe Beauty
John Lee, Shopify
Kevin MacGillivray, Shopify
Margot Hays, TSG Consumer Partners
Moon-Suck Song, Panagora
Megan Sanchez, Nature’s Select Pet Foods
Michael Jankie, The Natural Patch Co
Neil Madden, ECS Coffee

Nik Sharma, Sharma Brands
Paul Rogers, Vervaunt
Richard Ashley, Additional Lengths
Richard Liu, DSPTCH
Rob Wilson, Bathroom Warehouse
Saujanya Shrivastava, Shopify
Simon Kemp, Kepios
Shaza Mahmoud, Daily Paper
Stacy Kauk, Shopify
Takanobu Kouno, Fracta
Tim Bowring, Living by Design
Tina Luu, Fable
Yoshimasa Yamaoka, WEBLIFE Inc.
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