

BEST PRACTICES

# What Enterprises Must Seek in a Commerce Partner in 2022

How Innovative Partners Can Help Accelerate and Sustain  
Digital Businesses



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## EXECUTIVE SUMMARY

This report is for e-commerce companies that are looking to stay abreast of the evolving online shopping space to maximize sales and growth in 2022 and beyond, particularly in the area of digital payments.

Heads of online commerce, e-commerce site owners, and chief digital officers looking to maximize the sales potential of their online properties and mobile experiences can use this report to discover how strategic partners can help them more rapidly innovate and meet new customer expectations.

### Business Themes



New C-Suite



Digital Marketing &  
Sales Effectiveness



Matrix Commerce



Technology  
Optimization



Next-Generation  
Customer Experience

# ONLINE SHOPPING TO BECOME THE COMMERCE PACESETTER IN 2022

The global retail market, long known for high customer service expectations, will likely be eclipsed by the online shopping market in 2022. This sets increasingly high expectations that most enterprises may struggle to meet on their own, compelling them to look to external assistance from those that have proven the way and have readily deliverable solutions to meet these high expectations.<sup>1</sup>

However, for the typical online commerce operation to meet such consumer needs and desires—all while competing with the leading online shopping giants—they will now have to seek best-in-class partners that can meet and even sustain such expectations “out of the box.”

As COVID-19 lockdowns and restrictions over the past two years forced consumers to “go digital” for all their basic needs, online commerce services suddenly improved rapidly after years of technological development that did not always consistently deliver new conveniences or options to consumers.<sup>2</sup> In addition, the world of online finance has become more risk tolerant and begun adopting new innovations that consumers are demanding.

## The New Online Commerce Expectations

There currently are three leading digital consumer expectations in commerce scenarios that partners can help enterprises meet faster and more cost-effectively:

- **Store “discoverability”:** The ability to quickly locate merchants in directories and searches that meet their financial and other needs
- **Maximum convenience:** “Anything, anytime, anywhere” shopping, shipping, and product availability with maximum payment flexibility
- **Quality of experience:** Emphasizing product choice, easy sign-up, checkout, customer assistance functions, flexible payment options such as PayPal Pay Later, rapid fulfillment, and superior customer service before, during, and after the sale

With online commerce leading the industry in overall growth rate, the global market promises a vast and upward-moving sales opportunity for merchants that can follow these trends.<sup>3</sup>

Given the limited research and development investment of most e-commerce shops, the majority of them will not be able to meet these expectations without the help of partners.<sup>5</sup> Constellation Research finds that the typical e-commerce operation today will involve an average of seven partners, including an agency, digital ad partners, syndication, third-party data providers, supply chain partners, shipping suppliers, and customer support. As an example, the well-known payment partner PayPal has developed capabilities that can streamline the payment experience and can be readily plugged in.

Because of these trends, significantly more than 1 in 10 retail sales will be conducted online in 2022, a new high-water mark.<sup>4</sup>

## THE CORE CHALLENGE: COMPETING WITH THE TOP COMMERCE SITES

Pleasing online customers requires ever-more-sophisticated experiences, options, and proactive enablement. E-commerce firms now must “get a bewildering number of things right,” says leading consulting firm McKinsey & Company.<sup>5</sup> The level of investment and agility required to achieve this is more available to those who are prepared to leverage partners to do so. For independent commerce sites operating alone, the challenges of offering the rich capabilities and hard-to-deliver digital features consumers expect is often beyond their reach.

However, independent commerce sites do not have to do it alone: There are more choices in partners and more third-party capabilities that can be easily fielded than ever before. The key is to choose those capabilities wisely and from providers that are likely to remain in the business.

In fact, partners, if selected and used judiciously, can help with virtually all the challenges of competing with the top commerce sites. In particular, the primary trends in online commerce that partners can help enterprises address today are:

- **High experience maturity.** This is especially important in the United States, Europe, and Asia, where the e-commerce shopping experience is expected to be rich, detailed, highly responsive, and seamless.
- **The perfect online shop.** Consumers globally have very high expectations regarding price, delivery, customer service, and payment flexibility.
- **Smartphone-based shopping and payments.** These mobile capabilities are outpacing desktop growth at present.<sup>6</sup>

Delivering a strong mobile shopping experience with integrated and sophisticated yet streamlined and easy-to-use payments is now a strategic necessity, given that of all online commerce segments mobile is growing the fastest.

Payments for online commerce in particular are evolving more rapidly than in the recent past. Although credit cards remain the dominant payment method for now (55% of online sales, according to recent data),<sup>7</sup> alternative payments systems and digital wallets, which account for over a quarter of the market and growing (according to this same data), are reshaping the industry, offering more choice and convenience to the online shops that can accept them. Payment partners such as PayPal are accelerating their efforts, given the popularity of digital commerce during the COVID-19 pandemic.

## Advances Make Using Partners to Innovate Straightforward

In fact, it increasingly appears that alternative payment systems have the potential to disrupt the card segment due to several key innovations in areas such as flexible payments, numberless payment identities, and other innovations that can unlock pent-up demand and increase key performance indicators for online commerce—indicators such as average order value (AOV) and customer lifetime value (CLV).

E-commerce merchants will need to be capable in virtually every single dimension mentioned above at once to compete effectively, much less grow market share, at least to keep overhead low and achieve a reasonable cost of sales back to the digital shop.

The most rapid and cost-effective way to meet all of these expectations is by carefully selecting and onboarding one or more long-term partners that can deliver on some or all of these capabilities in an easily integrated and realized fashion. What's more, integrating third-party capabilities in online shops is now easier than ever with today's lightweight yet reliable integration technologies based on APIs and plug-ins.

### **Sidebar: An Example of Digital Commerce Partnerships**

Adopting new payment partners and the capabilities they bring to a given commerce site has become simple and straightforward, thanks to today's latest integration techniques. A recent example is PayPal, whose Pay in 4<sup>\*</sup> offering can add a flexible new payment option to an online shop at no additional cost, with one minor code change followed by the usual regression tests. This also allows consumers to more simply access easy-to-use pay-over-time options with no credit score impact or interest charged—helping to increase conversion rates and AOV.

It's well known in the digital world that organizations must build upon the giants around them, avoiding reinventing the wheel whenever possible. Partnering and integrating smartly is now an imperative in the commerce space for those businesses that want to catch up and stay abreast of today's shopping innovations, trends, and expectations.

## **THE STRATEGIC PARTNER ADVANTAGE IN ONLINE COMMERCE**

Today's online shops aspiring to join the ranks of the leading commerce firms have a few clear options for sustainably evolving and growing. Capable and proven partners in particular can help maximize consumer convenience and therefore sales in a high-growth, high-competition app-first mobile e-commerce market.

E-commerce partners must bring the following capabilities to the table for enterprises looking to raise the bar in sales and growth:

\* About Pay in 4: Loans to California residents are made or arranged pursuant to a California Finance Lenders Law License. PayPal, Inc. is a Georgia Installment Lender Licensee, NMLS #910457.

Figure 1. How a Payment Partner Can Help Better Meet Customer Needs



Source: Constellation Research

- **Mobile commerce solutions that are easy to deploy and use.** This includes within both shopping and non-shopping sites. Mobile commerce is steadily outpacing desktop sales, with an expected growth rate of 13.8% to 2023 compared with overall e-commerce's 10.5% prediction.<sup>8</sup>
- **Solutions that work specifically within mobile apps of any kind.** Apps are now the preferred way to shop via smartphone, taking 54% of successful mobile commerce payments in 2020.<sup>9</sup> Contextual shopping connected to relevant moments in content-based apps is becoming a leading growth vector for digital commerce.
- **Streamlined end-to-end shopping and payment.** Making in-app commerce as simple, fast to use, payment-friendly, and versatile as possible to attract and retain shoppers is an absolutely key digital commerce partner discriminator.



- **Payment systems that go beyond credit cards.** Alternative payment systems are particularly key to growth in the market and are the only growing segment, but only a few strategic partners can deliver on them successfully long-term.<sup>10</sup>
- **New avenues for economic flexibility.** Traditional open-ended, pay-at-time-of-purchase card payments<sup>11</sup> in e-commerce will remain static or fall in most markets over the next five years. The growth current is in payment systems that allow users to buy now and pay later via more-limited and well-defined options that are easier for consumers to use and repay.
- **New avenues for growth.** The main growth in payments, for example, will be in alternative systems such as PayPal and others, according to Statista.<sup>12</sup>

Payments in particular offer a great deal of interest for online commerce evolution and growth, primarily due to new capabilities and innovations. These include flexible payment models such as “buy now, pay later” options, support for cryptocurrency, one- or two-action purchasing, and other trends. Another key evolution has been payment models trusted by consumers that also don’t leak payment information such as credit card numbers and expiration dates, which is always of concern to online shoppers purchasing from sites they perceive as smaller and therefore potentially less rigorously or securely operated.

Consumers are also still worried about storing their card information with merchants, fearing identity theft, which makes alternative payment systems without card information increasingly more appealing.

Finally, as mobile commerce grows, accepting the widest possible range of smartphone-optimized payment options is now essential for higher sales conversions and direct in-session increases in AOV.

### **Sidebar: Case Study: PayPal and Destination XL Group**

One of the leading examples of partners offering payments innovations that online shops can easily adopt and sustainably use is the payment firm PayPal. Destination XL Group, also known as DXL, an

online commerce site that sells big-and-tall specialty products, incorporated PayPal's buy now, pay later solution known as Pay in 4.

PayPal Pay in 4 allows eligible consumers to split a purchase into four equal interest-free payments right within the well-known existing PayPal payment checkout process used by millions every day, making it easy for merchants such as DXL to incorporate it with minimal effort, given that PayPal was already a trusted partner for the firm.

In response to the dramatic shift in customer habits and behaviors brought on by COVID-19, DXL decided to rapidly roll out Pay in 4, which helped the company increase sales, acquire new customers, and lift AOVs throughout its e-commerce site.

DXL took to social media to advertise use of Pay in 4 on its site. Usage of Pay in 4 from both millennial and Generation Z customers grew 25% in a single quarter, but the real value was in the significant 3.5x incremental lift in sales growth for DXL's online commerce shop.\*

The lesson here is that organizations can quickly meet today's consumer expectations for anything, anytime, anywhere shopping by using and taking full advantage of existing partners.

To learn more about PayPal Pay in 4, visit [paypal.com/us/business/enterprise/buy-now-pay-later](https://paypal.com/us/business/enterprise/buy-now-pay-later).

## USING EVERY ADVANTAGE: TIME TO VALUE IS THE REAL CURRENCY OF COMMERCE

Wisely selecting and effectively using partners to meet the expectations of the ever-more-demanding e-commerce customer journey currently is the most rapid and straightforward route to growth and sustainability for most online shops today.

The following are key considerations for getting the most from online partners:

\* Results are based on internal PayPal data from October 21, 2020 - December 31, 2020. Results may not be typical and may vary substantially by business.

- Employ a strategic partner that has ready-to-go digital capabilities that can be onboarded and rapidly used to ride trends and emerging expectations.
- Use potential partners that offer a range of competitive payment options not generally available from other partners to maximize conversions and sales.
- Prefer trusted partners that show the most promise for providing access to their ongoing innovation streams in the customer journey.

It's key to remember that online shops aren't alone in forging ahead into new capabilities that can drive sales growth. Most important to consider is that the effort to adapt to market shifts can now be spread out with shared investment by partners and with easy access to the new developments those partners create.

E-commerce firms that are newer to the digital commerce space can also use the partner's brand to help build trust and a sense of assurance they don't yet foster with consumers on their own, creating a halo effect that will ensure familiarity as well as providing well-known features and user experiences for capabilities such as checkout and payment.

With the right partners, e-commerce companies today have a clearer long-term roadmap for significantly increasing wallet share, customer retention, and CLV via concerted adaptation of ongoing trends that help them swiftly meet expectations as the online shopping market continues to expand, evolve, and mature.

## ENDNOTES

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<sup>1</sup> “The State of E-Commerce in 2021,” Catalyst and Kantar, 2020. <https://www.catalystdigital.com/wp-content/uploads/The-State-of-eCommerce-2021.pdf>

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<sup>2</sup> “How COVID-19 Triggered the Digital and E-Commerce Turning Point,” UNCTAD, March 15, 2021. <https://unctad.org/news/how-covid-19-triggered-digital-and-e-commerce-turning-point>

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<sup>3</sup> Jessica Young, “A Decade in Review: E-Commerce Sales vs. Total Retail Sales 2011–2020,” Digital Commerce 360, February 19, 2021. <https://www.digitalcommerce360.com/article/e-commerce-sales-retail-sales-ten-year-review/>

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<sup>4</sup> Daniel Keyes, “E-Commerce Will Make Up 17% of All U.S. Retail Sales by 2022—and One Company Is the Main Reason,” Insider, August 11, 2017. <https://www.businessinsider.com/e-commerce-retail-sales-2022-amazon-2017-8>

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<sup>5</sup> Arun Arora, Julien Boudet, Michael Bucy, Hamza Khan, Rafael Montilla, and Kate Smaje, “Think Fast: How to Accelerate E-Commerce Growth,” McKinsey Digital, November 19, 2020. <https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/think-fast-how-to-accelerate-e-commerce-growth>

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<sup>6</sup> “2020 E-Commerce Payments Trends Report: U.S.,” J.P. Morgan. <https://www.jpmorgan.com/europe/merchant-services/insights/reports/united-states-2020>

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<sup>7</sup> See note 6 above.

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<sup>8</sup> See note 6 above.

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<sup>9</sup> See note 6 above.

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<sup>10</sup> See note 6 above.

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<sup>11</sup> See note 6 above.

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<sup>12</sup> “What Are Alternative Payment Methods? [Quickstart Guide],” Monei, March 24, 2021. <https://monei.com/blog/alternative-payment-methods/>

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Dion Hinchcliffe is an internationally recognized digital thought leader, industry analyst, business strategist, enterprise architect, transformation consultant, and keynote speaker. He is widely regarded as one of the most influential figures in enterprise IT.

Currently a VP and principal analyst of Constellation Research, Hinchcliffe is a well-known industry expert on the topics of digital transformation, CIO issues, digital workplace, ecosystem strategy, digital business, and next-generation enterprises. His thought leadership can be found on *ZDNet*, *ebizQ*, *On Digital Strategy*, and *Enterprise Irregulars*. He is co-author of the bestselling *Social Business by Design* (John Wiley & Sons).

Hinchcliffe is an executive fellow at the Tuck Center for Digital Strategies and was recently identified as one of the top three people most mentioned by IT leaders. Industry analytics firm Onalytica ranks Hinchcliffe as the No. 2 influencer globally on the subject of digital transformation. He has keynoted or spoken at hundreds of leading industry conferences, including CeBIT, KMWorld, IT Roadmap, Dreamforce, CIO Perspectives, AIIM Conference, IBM Connect, and other industry events.

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Constellation Research is an award-winning, Silicon Valley–based research and advisory firm that helps organizations navigate the challenges of digital disruption through business model transformation and the judicious application of disruptive technologies. Unlike the legacy analyst firms, Constellation Research is disrupting how research is accessed, what topics are covered, and how clients can partner with a research firm to achieve success. Over 350 clients have joined from an ecosystem of buyers, partners, solution providers, C-suite, boards of directors, and vendor clients. Our mission is to identify, validate, and share insights with our clients.

## Organizational Highlights

- Named Institute of Industry Analyst Relations (IIAR) New Analyst Firm of the Year in 2011 and #1 Independent Analyst Firm for 2014 and 2015.
- Experienced research team with an average of 25 years of practitioner, management, and industry experience.
- Organizers of the Constellation Connected Enterprise—an innovation summit and best practices knowledge-sharing retreat for business leaders.
- Founders of Constellation Executive Network, a membership organization for digital leaders seeking to learn from market leaders and fast followers.



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