RMW Commerce Consulting

Breaking Up Is Hard To Do

The Journey of the Mid-Market Merchant

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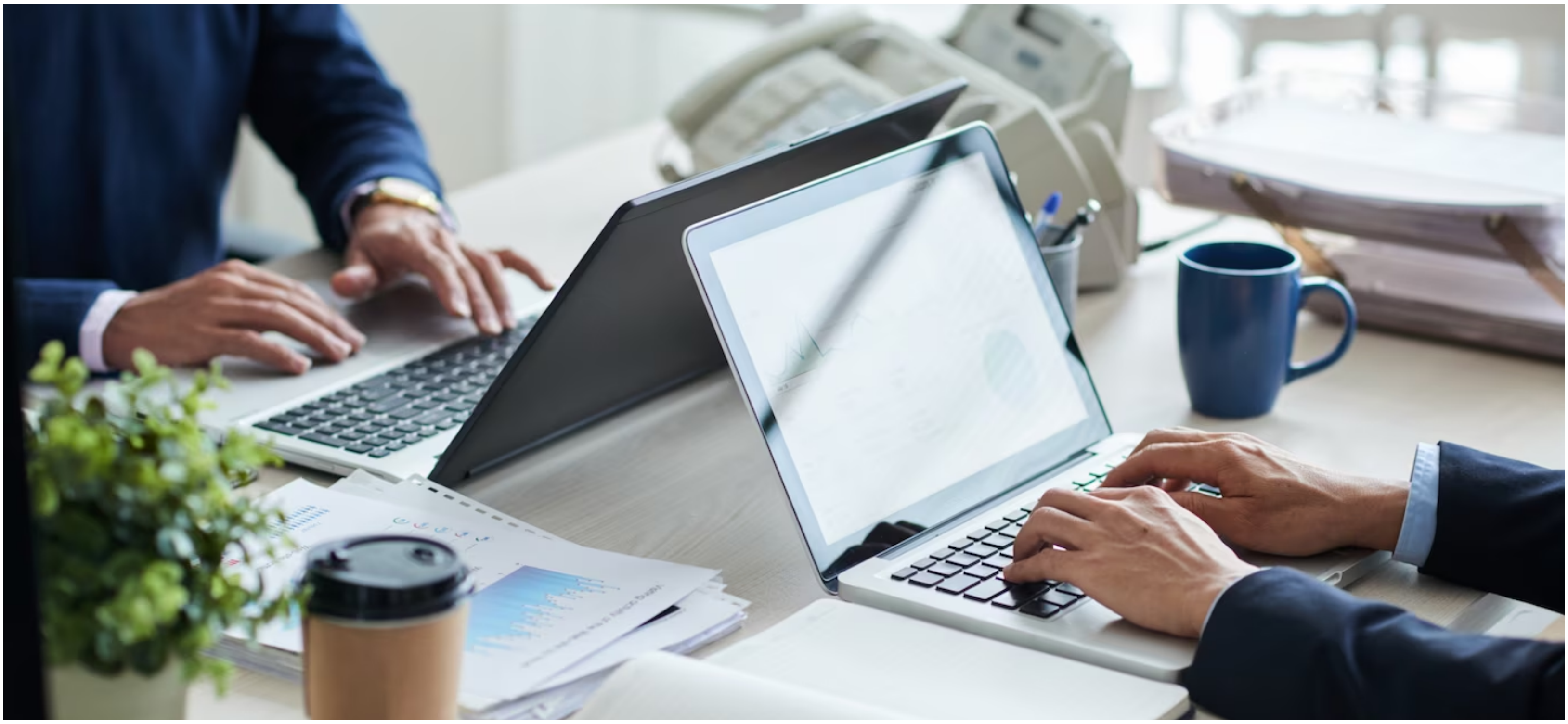
This report has been commissioned by shopware

Executive Summary



> *The US mid-market eCommerce platform sector is a wasteland.*

Few new, major deployments are happening, and the brands that re-design appear to stay with the technology they already have, choosing to repurpose their development dollars into top-of-funnel marketing initiatives to help attract a larger customer base. Based on RMW Commerce research, the risks of making a platform change are viewed as greater than the prospects of staying on a current platform, and there is a widespread belief that the options for change are very limited.

Fueling the belief that options of platform change are limited is the apparent decline over time of major players like Salesforce and Adobe. Adobe has seemingly forgotten about Magento, and its clients are slowly moving away. On the Salesforce side, the costs associated with deploying on Demandware and its lack of innovation are opening up opportunities for new mid-market providers.

Still, merchants seem unconvinced. Despite this malaise in the platform market, when RMW Commerce speaks with merchants about their eCommerce platforms, they almost universally report dislike for what they have. Delving into this dislike, the comments are very consistent: the platform is too expensive to maintain, and the total cost of ownership is much higher than they ever expected. The platform is too hard to change, and when built on top of it, previously working components are broken.

This report dives into the needs of the mid-market merchant stuck with a legacy platform, and discusses how to evaluate solution providers and approaches, and which to consider in a selection set.

What is the Mid-Market?

The "mid-market" is defined in many ways; the simplest and perhaps least sophisticated is based on the business's gross merchandise value (GMV). RMW Commerce has found that most modern industry observers view the range between $10 million and $250 million as the "mid-market." However, facts suggest that the definition should be based on more than just GMV.

In addition to GMV, the complexity of the business must be considered. Here are just a few elements that could make even an SMB merchant feel like they are part of the mid-market:

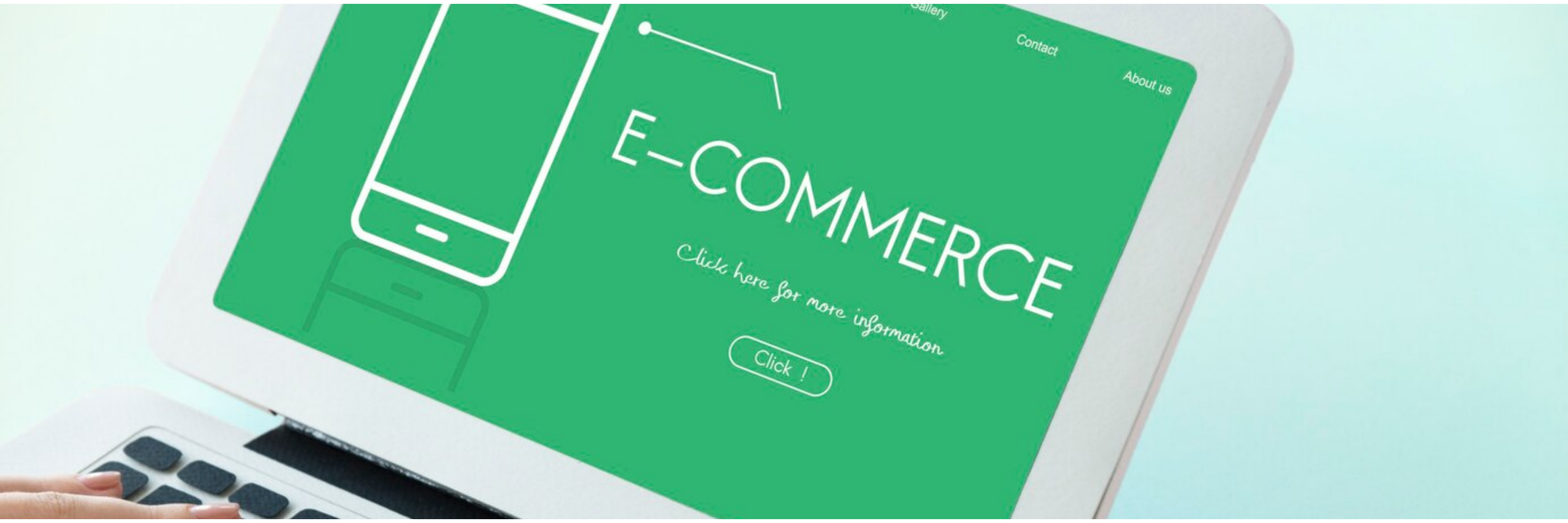
Elements	Business Complexity
Company Structure	Directly operating in multiple locales, with landed inventory and complex tax, data, and security requirements in these regions
Brand Complexity	Complexity increased by a multi-brand portfolio, particularly involving the combination of brands, catalog, and locales in different combinations
Catalog	Over 100,000 products, complex kitting/bundling, or involves detailed fitment
Channels	Omnichannel scenarios, especially those involving owned retail stores which adds POS complexity
Customer Experience	Moving beyond "standard templates," particularly in industries where the buyer journey must be customized

If this sounds like a complex enterprise business, it should!

> *Mid-market merchants have almost all the requirements and complexity of an enterprise business with no margin dollars to pay for it.*

This ongoing tension between requirements and margin creates pain in a growing business. Additionally, every dollar spent on technology is a dollar not spent elsewhere, and CEOs are acutely aware of this opportunity cost.

The eCommerce Platform Market



The short-list of eCommerce platforms in the middle market has historically been dominated by Adobe Magento and Salesforce Commerce Cloud. On a go-forward basis, neither platform is winning much new business, particularly in the direct-to-consumer segment. Shopify, of course, has garnered most of the attention. Other Magento and Salesforce agencies interviewed by RMW Commerce are shifting to other players like commercetools, and more broadly headless, in addition to companies like Shopware, to make up for the deficit left by Salesforce and Magento.

Avoiding the Decision

> *No one ever got fired for not replatforming, but plenty of people have been fired for botched replatforms.*

In our experience, the primary reasons for replatform failures include loss of organic traffic, lack of flexibility, integration issues, and failure to uncover hidden build and maintenance costs. Finally, there are only so many dollars to go around, and most merchants are pressured to maximize those limited dollars. These reasons are why the average merchant does not consider a replatform, even when they probably should. Ultimately, merchants have tended to spend those limited dollars towards their existing roadmap, rather than create a new one.

Management teams have little patience for building towards tomorrow; most executives have their hands full fighting today's fires.

Demandware Case Study

A survey of top merchants corroborates this. In 2012, Demandware IPO'd with 101 customers. In its Form S-1, the company mentioned 10 of its merchants. Four years later, when it was acquired by Salesforce in 2016, Salesforce mentioned three additional unique merchant names. It's instructive to follow these names and where they ended up:

#	Merchant	Current Platform
1	Barney's New York	Salesforce (acquired by Saks)
2	Burton Snowboards	Salesforce
3	Columbia Sportswear	Salesforce
4	Crocs	Salesforce
5	House of Fraser	Custom
6	Jewelry Television	Oracle
7	Jones Apparel Group	Shopify (post-bankruptcy)
8	Lifetime Brands	SAP
9	L'Oreal	Salesforce
10	Neckerman.de	Custom
11	Design Within Reach	Salesforce
12	Lands End	Custom
13	Marks & Spencer (M&S)	Salesforce (main site is HCL)

Of the 13 names mentioned in over the past 10 years, seven – or more than 50% – are still on Salesforce. This is a solid and unexpected ratio, especially over such a long period of time. These names are public to any platform provider worldwide, yet they have stayed. In many cases, these Salesforce websites have also remained the same for a decade.

All potential platforms still have a long way to go. Even the darling of the eCommerce world, Shopify, has not gained as much traction in referenceable top accounts as widely believed. Jones Apparel Group had to emerge from bankruptcy with new leadership to adopt the platform. Additionally, no other single provider has penetrated even two of these top accounts. The top platform that these merchants have left Salesforce for is *"do it yourself."*

Magento Case Study

Magento has been through a tough journey in its history. eBay acquired Magento in 2011 only to sell it in 2015 to private equity firm Permira. Adobe then acquired Magento from Permira in 2018. That's three owners in less than 10 years. Even despite this tough journey, merchants persist and still do not choose to replatform.

When Adobe acquired Magento in 2018, its press release mentioned seven names, five of which are merchants: Canon, Helly Hansen, Paul Smith, CocaCola, and Nestle (Rosetta Stone and Cathay Pacific were the other two names). Of these five names, all are still with Magento today. In many cases, they have the same implementations put in place 10 years ago.

Regardless of why, all of these facts point to one inescapable solution: it's hard to convince anyone to leave an existing platform.

Making the Decision

For merchants that take the leap into a re-platform, deciding which eCommerce platforms to include on that short list is one of the first questions to answer.

The First and Second Slots

Merchant after merchant in the mid-market that RMW Commerce interviewed has Shopify as the top of the shortlist to consider in the market, primarily its Shopify Plus offering. Merchants are still evaluating Salesforce, even though they are skeptical of the total cost of ownership and the long-term GMV commitments required. With regards to Adobe Magento, many merchants have scratched Magento off the list entirely for new initiatives, given its troubled ownership and development history.

What Else is There to Evaluate?

> *The core problem merchants are trying to solve is simple: which is the other player to evaluate?*

Into the breach, four names have emerged: BigCommerce, commercetools, Shopware, and VTEX.

BigCommerce
Despite its Enterprise messaging, BigCommerce is more popular in the lower mid-market — particularly in B2B scenarios.

commercetools
commercetools has become more popular in the enterprise retail market, with designs to move into the upper mid-market. commercetools, and its MACH Alliance, gained traction as a preferred solution for a more technically-oriented audience with its microservices and headless core.

Shopware
Shopware, with its 20-year lock on the German eCommerce platform market and open-source roots, could in some ways be viewed as what might have been for Magento were the company to have stayed independent. The open-source nature of Shopware could be very friendly and flexible for budget-minded, growth-oriented merchants.

VTEX
VTEX is another mid-market multi-tenant SaaS platform with dominance in Latin America that has been working to make more inroads into the North American market.

Despite these four options, merchants still do not perceive a clear choice for that coveted third RFP slot. Many merchants are not even aware these other platforms exist.

Pains of the Mid-Market Merchant

The needs and challenges of the mid-market merchant are different from both SMB and Enterprise. Whereas Enterprise is incredibly focused on scale and experience, and SMB is focused on proving the business, the mid-market is focused more on going from here to there.

Here are a number of the biggest challenges that RMW Commerce has found with this segment:

01. Rising costs
02. Poor customer experiences
03. Lack of talent
04. Technical complexity
05. Declining traffic
06. Missing data opportunities
07. Channel complexity

Rising Costs

The total cost of brand ownership continues to rise; as a business moves further away from the original code base, making changes is more costly. As the complexity of the business grows, the need for new features increases that complexity. For example, merchants want to add emerging concepts like Artificial Intelligence (AI) on top of already unwieldy platforms.

Poor Customer Experiences

Everyone knows that faster sites improve conversion so businesses look for ways to integrate all of the functionality they want without bogging down the site. Being able to plug in seamlessly presents challenges for merchants.

Offering real-time personalization and segmentation quickly and efficiently is also a challenge for retailers in the mid-market segment. Third-party applications can achieve it, but those are expensive to implement and maintain, and they are still somewhat limited based on the quality and structure of a retailer's data.

Lack of Talent

Over time, the more projects an eCommerce team takes on, the fewer employees they have to manage each individual initiative. At the same time, many companies are unwilling to pay for third-party resources to help assess, implement, manage, and transition a project.

There is usually such a long roadmap that a replatform project often never makes the list. Additionally, in mid-market companies, enterprise IT is often running the eCommerce tech as well, and if digital commerce is not the core of the brand, enterprise IT projects often get the bandwidth.

Technical Complexity

For digital operators, managing a complex technology infrastructure is a challenge. In addition to an eCommerce platform, there is Product Information Management (PIM), Content Management System

(CMS), customer service, Digital Asset Management (DAM), an email provider, SMS provider, search and merchandising, A/B testing, and the list goes on. Making these technologies work seamlessly is a major pain point and a barrier to change. The lack of solid admin tools is yet another major pain point.

Declining Traffic

Search Engine Optimization (SEO) is traditionally improved by having faster site speed, more relevant content, and the right technical structure. All of these elements can be hindered by being on the wrong platform. For most merchants, organic traffic does not decline suddenly. Instead, traffic declines slowly as competition increases and Google updates its algorithms.

Missing Data Opportunities

Many businesses report not being able to get the data needed to run the business. The lack of a solid, low-cost, attribution tool embedded in platforms today is a problem. Brands want to limit data moving out of one system into another because it causes them to lose the ability to have a "source of truth." Customer Data Platforms (CDPs) are available, but they are a new piece in a technology stack, increasing cost, complexity, and work for the merchant. Businesses need better data within the platform to activate, which in turn drives more business. Many merchants must work across multiple channels to get their product and customer data to and from the right places for optimization, causing further complications.

Channel Complexity

Brands want customers to be able to interact with the brand when they want and where they want, so any brand must offer customers this experience. Customers want to go online and see their store purchases and might even want to see their digital purchases in-store. A retailer should offer a unified brand experience – regardless of whether the customer interacts with it in-store or online. As part of a re-platform decision, brands must consider the omni-channel capabilities and the ability to ultimately support buying online, reserving online, picking up in-store, and returning to the store.

Merchant Decision-Making Criteria

For the decision maker, RMW Commerce recommends consideration of several criteria to find the best partner:

01. Vendor stability
02. Implementation
03. Total cost of ownership
04. Site performance
05. Payments flexibility
06. Customizability
07. Hosting

Vendor Stability

Merchants must look at their chosen vendors' track record, customer base, and financial stability. Given the difficult nature of financial markets, this is easier said than done.

Questions to Ask

Q1	Q2
Is the vendor public or private, and when was the last time it raised funding?	Who are the top customers on the platform, and can I speak with them? How many have been acquired in the past year, and from which platforms?

Implementation

A growing set of system implementation (SI) partners is critical to any merchant's evaluation criteria. If a technology team is in place, the SI is usually the first person to train the team on the new platform. Without a technology team, then the SI becomes the de-facto technology team.

Questions to Ask

Q1	Q2
Do you have merchant references I can speak with regarding previous implementations?	Has the vendor completed integrations from the target platform to the brand's ERP system, or does the brand need another integration partner for that part of the project?

Total Cost of Ownership

One of the big reasons merchants change platforms is to reduce their total cost of ownership by going with a new provider. These decisions include the cost of implementation, ongoing maintenance, as well as any percentage of GMV charged by the platform provider. Third-party application provider costs must also be considered. If one platform excludes modules you might have to acquire in another platform, this must be included in your financial analysis.

Questions to Ask

Q1	Q2
What are the triggers for price increases as the number of brands, GMV, users, and storage scales to new levels?	Are the platform's built-in modules for functions like product, content, and order management sufficient to run the brand's business, or does the brand need to budget for additional third-party software?

Site Performance

Faster sites generally help improve conversion rates. But the more apps a brands, the slower a site gets. The ability for brands to kick the tires here is critical. The following questions are often better directed at the chosen system implementor than the platform itself.

Questions to Ask

Q1	Q2
How does the brand gain the needed functionality (which requires more plugins) while at the same time maximizing performance (which necessitates fewer plugins)?	What techniques can been employed to improve a merchant's site performance as the business grows?

Payments Flexibility

Several players like BigCommerce, Salesforce, commercetools, and Shopware are payment-agnostic. Other vendors like Shopify have tipped the scales in favor of their own Shop Pay service, even though it is technically possible to integrate other providers. As a merchant, ownership of the payment token is another consideration, as payments can be integrated into new customer experience flows.

Questions to Ask

Q1	Q2
What features of the solution depend on a particular payment provider?	Are there any platform restrictions on ownership of the payment token?

Customizability

Although many merchants want flexibility, most merchants don't want those customizations to hinder the ability to upgrade the platform in the future. Using low- or no-code solutions to improve the platform and business operations is critical.

Questions to Ask

Q1	Q2
Are there any low- or no-code tools to power operational workflows, or are those typically provided by a third party?	What AI-based tools are available to allow platform improvement without outside assistance?

Hosting

While SaaS is the future, single-tenant cloud-based hosting models are still popular, particularly in domains where merchants need to control data flow for security, privacy, customizability, or other compliance reasons. Legal and regulatory concerns regarding data ownership and transfer only continue to increase. To manage such situations, some merchants should consider hosted cloud options as they approach the upper mid-market.

Questions to Ask

Q1	Q2
What cloud deployment models are supported? (Multi-tenant SaaS or single-tenant SaaS to the cloud of choice?)	Is it possible to deploy the site using networks like Netlify or Vercel, or is it limited to the provider's hosting platform?

Takeaways For Your Journey

Most merchants are not focused on making major re-platform decisions right now.

Instead, they are focused on optimizing their tech stack and adding components strategically. They are taking the dollars and time that might have gone to a re-platform and investing in marketing, analytics, and omni-channel solutions.

Even so, merchants are still facing technical challenges.

Brands are increasingly realizing that they are not technology companies and should not focus on optimizing their web stores. Instead, brands should focus on what they are good at – designing great products and marketing them

For those considering change, there are a few players to consider, and each of them has its pros and cons.

Some at the higher end come with high ownership costs and have failed to keep innovating. In the mid-market, platforms have been acquired by larger "Marketing Cloud" providers and after they were acquired, the owners seemingly forgot about them. They have simply stopped innovating. When mid-market merchants are asked who they would start any e-commerce platform evaluation with, all roads lead to Shopify — even though they have few merchants with sales over $100 million. Newer players entering the North American market, like commercetools and Shopware must be ready with a store targeting Salesforce at the higher end, and Shopify everywhere else.

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