

Growth, Marketing & Sale Practice

# Growth sprouts for SMEs in e-commerce

Small and medium-size enterprises (SMEs) can capture a share of Europe's booming online home-and-garden market—if they fine-tune customer insights and build new capabilities.

*by Neira Hajro, Paul Roche, Katharina Schumacher, and Illya Symonenko*



## Key takeaways

- The home-and-garden market is the next retail vertical to transition to e-commerce with over 50 percent of consumers in the United Kingdom and Germany participating in home decor and furniture shopping online, and over 40 percent in gardening.
- Home decor and furniture SMEs have historically been slower to move online, but they have unique assets for success at e-commerce.
- SMEs should capitalize on consumers' desire for unique choices and varied inventory, and their growing demand for sustainability.

**In the proliferation** of e-commerce across the European Union, the first wave included nonfood categories such as books and electronics, commoditized and uniform items ideal for packing and shipping. Footwear and apparel followed, also buoyed by ease of shipping. Next in line is the fragmented, competitive landscape of home and garden, whose unique and often bulky products significantly increase the complexity of fulfillment, including such tasks as installation and removal.

To date, small and medium-size enterprises (SMEs) in home and garden have been slower to move online: only about 20 percent of the industry's SMEs in Germany and the United Kingdom participate in e-commerce, compared with 40 to 45 percent of large companies. However, the increased availability of tech tools and easy access to online marketplaces enable SMEs to participate in the increasingly dynamic home-and-garden market.

To capture this opportunity, SMEs must first become more familiar with the specific tastes and behaviors of online consumers and recognize their own built-in advantages in fulfilling customer desires.

## The home-and-garden landscape

The size of the online home-and-garden market—which for the purpose of this analysis includes furniture; home decor including wall decor, rugs, or lighting; and garden decorations such as plants or pergolas—has gotten too big to ignore. It is currently worth \$25 billion to \$30 billion across Germany and the United Kingdom in the three listed categories

alone, and growth is forecast at 6 to 10 percent a year through 2025.<sup>1</sup>

In their march toward e-commerce, home-and-garden's SMEs must find ways to translate their distinctive attributes to an online setting. For example, SME's have already set themselves apart from big-box retailers by offering products that showcase unique style, artisanal quality, and an assortment of vintage, niche, small-brand, and other goods that consumers can't find elsewhere. In addition, SMEs are often defined by personalized service and approach, and they traditionally excel in curation, customization, and advice on physical layouts, attributes that are a particular draw for Gen Z and millennials.

It's now possible to replicate these high-touch, in-person elements in the online environment via dedicated digital storefronts, attractive visual design, and augmented-reality features that can create an immersive experience. Similarly, education and advice are important parts of the customer experience in traditional home-and-garden markets—shoppers in gardening often need advice on the care and feeding of plants, for example—so SMEs are well positioned to find ways to offer personalized service online. Retailers that do so will find a ready and receptive audience.

## A diverse playing field

Home-and-garden SMEs seeking to enter the e-commerce market will encounter a range of models, each offering different value propositions. Some might be valuable partners, either as suppliers

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<sup>1</sup> Forrester Research.

or sellers of SME products. Others, such as vertical marketplaces or local gardening centers, could be direct competitors. All of them are valuable points of reference, and SMEs should consider borrowing successful strategies to develop a “best of breed” approach. It is critical for SMEs to consider the importance of combining customer-centricity with the ability to work effectively with large sellers. The latter entails mastering B2B complexity and developing managerial accounting to understand and help grow each seller relationship.

The following includes potential partners or competitors for SMEs to consider:

- *Horizontal marketplaces*, such as Amazon and eBay, provide consumers with a comprehensive shopping experience in a wide array of categories in addition to home and garden. They can also provide SMEs with support in logistics and payments.
- *Vertical marketplaces* focus on a single category, where their expertise enables them to create a better customer experience by providing knowledgeable recommendations. Examples include Etsy (home decor) and Patch (gardening).
- *Specialized pure digital players*, such as Made.com or Westwing, emphasize storytelling and manual curation, effective approaches for products driven by design and personal choice.
- *Omnichannel, big-box retailers* such as Hornbach and IKEA have dominated the brick-and-mortar category and are now catching up in e-commerce.
- *Local gardening centers*, particularly in the United Kingdom, build on their depth of expertise and local personalized relationships.
- *New types of inspirational players*—think Houzz and Pinterest—feature elements of social commerce.

## Consumer insights

To understand consumer tastes and priorities, we conducted a survey of 5,300 German and 5,500 UK consumers during summer 2021. These two large markets are generally representative of the European Union as a whole—and thus a natural next step for SMEs considering expansion—but they differ in key ways. Overall, the United Kingdom has achieved an impressive level of online penetration, while German consumers have been slower to embrace e-commerce.

Over the past two years, the pandemic has reshaped customer behavior. Now, more shoppers are willing to consider online channels for home and garden—although interest differs by category. According to our survey, more than 50 percent of shoppers in home decor in the United Kingdom and Germany make the majority of their purchases online. This share rises to 64 percent of furniture shoppers in the United Kingdom and 56 percent in Germany. In gardening, 43 percent of UK shoppers and 31 percent of German shoppers buy through e-commerce channels.

### Top factors for shoppers

Across the two markets, the following findings stood out in the voice of consumers:

*Inventory is king.* Across home-and-garden categories, a great selection of items is a top factor for consumers. A look at the home-decor category in both the United Kingdom and Germany reinforces its importance (Exhibit 1). Also high on the list are the ability to shop for other unrelated items, and the availability of stock, select styles, and hard-to-find items. Overall, factors related to inventory account for four of the top five purchasing criteria analyzed.

*Home projects can be a catalyst.* UK consumers indicate that more than 60 percent of their spending on home decor is linked to projects, such as home rehab. This share is even higher

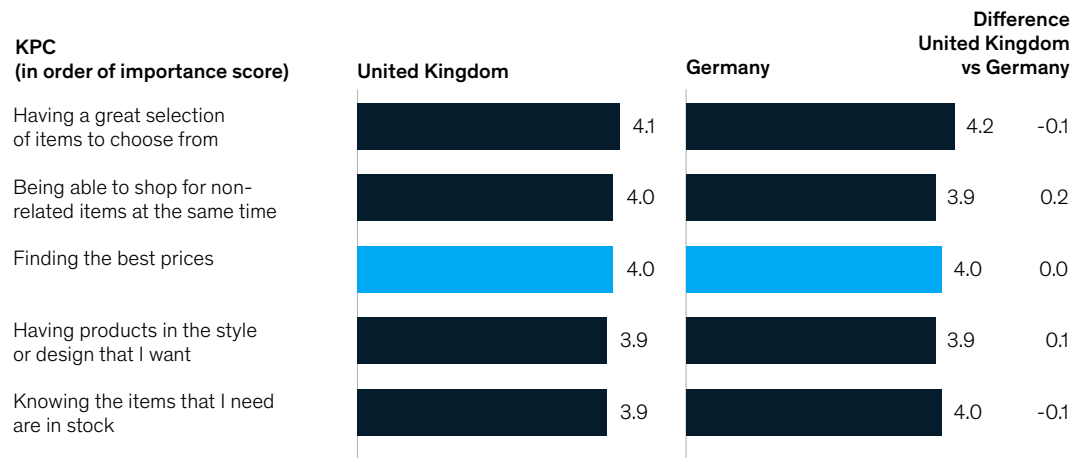
## Exhibit 1

### Inventory is the most important purchasing criterion for UK and German shoppers.

#### Key purchasing criteria (KPC) importance score for client home decor

n = 2,206, who shopped at client (scored 1 [not at all important] to 5 [very important])

■ Inventory ■ Price



Source: McKinsey consumer survey; UK respondents (n = 3,678) and German respondents (n = 3,093).

for the gardening and furniture categories. Creative projects, a desire to decorate, and key milestones, such as a new house or the birth of a child, are also frequent triggers for purchases.

*Seasonality presents opportunities.* Most smaller home-decor purchases peak right before Christmas, reaching levels two to three times higher than during the rest of the year. In gardening, the busiest period is March through May, as consumers prepare for planting season.

*Sustainability matters more and more.* More than 65 percent of shoppers across Germany and the United Kingdom indicate that sustainability is important or very important to them. SMEs are in a good position to cater to these consumers by providing a clear alternative to big-box retailers, whose business model is built on scale and sourcing items at the lowest cost.

#### Personal tastes and preferences

To establish a foothold in the online home-and-garden market in the United Kingdom and Germany, SMEs must gain a better understanding of consumers—their preferences, priorities, and motivations. Customer segments in these two countries exhibit similar behaviors, even though the size of segments differs by country (Exhibit 2). For example, an in-depth look at the furniture category, based on our consumer survey and statistical analysis, suggests the following four distinct customer segments:

1. *Craft-inspired shoppers* look for a broad inventory, including high-quality and artisanal products, and prefer to buy from craftspeople rather than big-box retailers. Shoppers in this segment are enthusiastic about building things themselves and are not too price sensitive.

Exhibit 2

## Furniture shoppers' preferences range from inspirational to functional and vary in terms of features and styles.

### Segmentation of home-and-garden shoppers with emphasis on furniture traits

Primary type		<div> <div>←</div> <div>Inspirational</div> <div>→</div> <div>Mixed</div> <div>→</div> <div>Functional</div> <div>→</div> </div>			
		All markets			
Persona		Craft-inspired shoppers	Decoristas	Sustainable shoppers	Functional consumers
Share of market <sup>1</sup> (% population)	United Kingdom	18	23	28	31
	Germany	14	27	11	48

<sup>1</sup>McKinsey consumer survey; UK respondents (n = 3,678) and German respondents (n = 3,093).

2. *Sustainable “decoristas”* are creative, style-focused shoppers who share attributes with craft-inspired shoppers: they are handicraft enthusiasts and not too price sensitive. Where this segment differs is in assigning greater importance to sustainability.
3. *Sustainable seekers* demand an inventory of sustainable products that includes craft products and is transparent on sourcing; they want detailed supplier information and like to up- and recycle products.
4. *Functional customers* are price sensitive, not concerned with sustainability, and prefer to shop directly from trusted big-box retailers. Approximately half of these customers enjoy handicraft and building furniture themselves.

These four segments also appear consistently across other home-and-garden categories.

### Making the leap to e-commerce

Home-and-garden presents a tantalizing opportunity for SMEs looking to expand their reach. These companies should consider the

following three main strategies when developing their e-commerce strategy as well as a set of enablers:

#### 1. Make marketplaces your partner.

Marketplaces are an easy way to get started with e-commerce and complement an SME's own e-commerce channel. These online platforms are widely available and offer a channel to sell products locally, nationally, and across Europe. Many have seller services to help SMEs think through their assortment, pricing strategy, fulfillment, and customer care. Yet it's important to consider unit profitability after accounting for marketplaces' take rates, as well as the company's level of control over inventory, display, and other areas. For example, Period Pine Doors, based in Yorkshire in the United Kingdom, specializes in vintage and antique doors. It used eBay to accelerate its growth.<sup>2</sup>

#### 2. Use uniqueness as a valuable asset.

Assortment is customers' top need. SMEs should ensure they offer a wide-ranging inventory with unique attributes, such as handcrafted products. Refurbished vintage furniture sits neatly at

<sup>2</sup> eBay website, March 2022.

the intersection of uniqueness and sustainability, factors that are valued by specific consumers. It's critical for retailers to target customer segments that would be most receptive to a given offering.

### **3. Keep sustainability close to your heart.**

Customers increasingly take sustainability into account when choosing products and merchants. Factors such as origin of products, local pickup or nearby shipping, refurbished goods, the resale value of end-of-life products, and new business models such as subscriptions can all be a source of growth. SMEs such as Narchie in home decor and AptDeco in furniture have an advantage over larger competitors in their perceived sustainability and should seek to build on it.

To support these online strategies, SMEs must be prepared to invest in the development of the

necessary capabilities to excel. These include sales and consumer analytics, inventory planning, product presentation, and structured product data to enable findability. Companies such as Berlin Brands Group, Razor Group, and Heroes have built their business model to provide small brands with these capabilities. Marketplaces also offer tools and support to help SMEs scale.

Thanks to a growing market, engaged consumers, and easy-to-use platforms and tech tools, home-and-garden SMEs have never had greater access to the online market. Now the main hurdle is finding ways to stand out in a crowd. Companies that play to their strengths and cultivate the consumer segments most aligned with their products can extend their reach—and significantly boost their revenues in the process.

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