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WINNING IN ECOMMERCE:

THE FOUR CORE CAPABILITIES REQUIRED

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## THE FOUR CORE CAPABILITIES REQUIRED

By: Robin Sherk

Shoppers' shift to digital is accelerating. In the U.S., more than 10% of retail dollars are spent online versus in store. By 2022, that figure will be 19%.[1] Amazon is on track to surpass Walmart as the most widely shopped destination in the country.[2] And the U.S. is by no means the most developed when it comes to online sales. In China, 29% of retail and food service sales take place online. The level of online spending in this market indicates just how dominant digital can become in retailing.

The rise of eCommerce clearly reflects shoppers' changing preferences. Already more than half of all U.S. primary household shoppers view online channels as the best way to discover and research a product and to have a simple, stress-free shopping experience.[3] Among the 45% of primary household shoppers who are Amazon Prime members, 31% say they are shopping some stores less often.[4]

Moreover, new devices continue to shift how households shop online. Today, 77% of household shoppers own a smartphone, up from 39% five years ago.[5] These devices give shoppers a constant connection to the Internet, allowing them to shop anywhere. And mobile shopping is rising. The share of eCommerce done on mobile devices reached 23% in Q3 2017, up from 16% two years earlier, according to comScore.[6]

Voice-driven platforms are also rising. The Echo and Google Home are experiencing fast uptake, with nearly 1 in 5 (18%) of U.S. households owning one by December 2017, according to ShopperScape® data. With both featuring eCommerce capabilities, shoppers are starting to use them as part of their path-to-purchase. For instance, nearly 1 in 5 Echo owners use the devices to build shopping lists, and nearly 1 in 5 have already used them to make a purchase.[7] These stats indicate how dynamic online shopping is, and how it requires constant learning and adaptation to meet shoppers' fragmenting and ever-changing behaviors.

Primary household shoppers' shift to digital is accelerating.

45%	77%	1 IN 5
OF HOUSEHOLDS ARE AMAZON PRIME MEMBERS	OWN A SMARTPHONE	U.S. HOUSEHOLDS OWN AN ECHO OR GOOGLE HOME
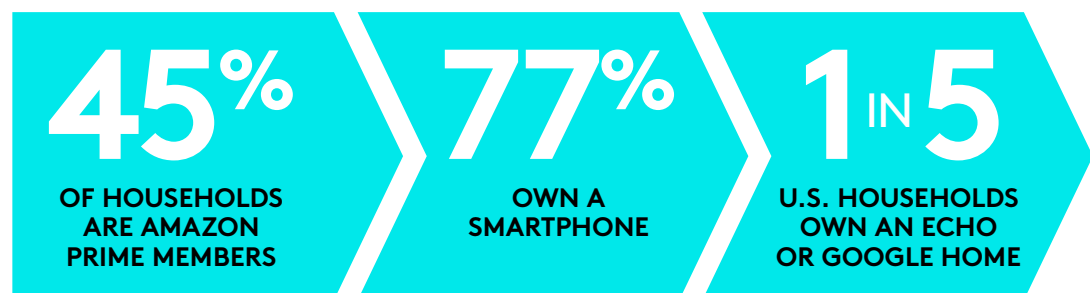
At the same time, eCommerce continues to open cross-border access and competition, and online giants are increasingly positioning themselves to expand their reach. Alibaba's Tmall Global is a way for international brands to access China's growing middle class. eBay now asserts itself as a place for manufacturers to reach its 168 million active shoppers globally, expanding access to otherwise inaccessible audiences.[8] Likewise, Amazon has recently focused more on its global store, opening access to shoppers in India and facilitating access to shoppers in China through the launch of Prime. These developments underscore how success online can deliver outsized rewards as the shopping stage scales to new audiences.

==eCommerce is fast-growing and very dynamic. To keep up with shoppers' ever-evolving demands and become leaders in digital selling, manufacturers must master four core capabilities:== company culture, operations, shopper connections, and partnerships *(Figure 1)*.

Figure 1. The four core capabilities needed to win in eCommerce
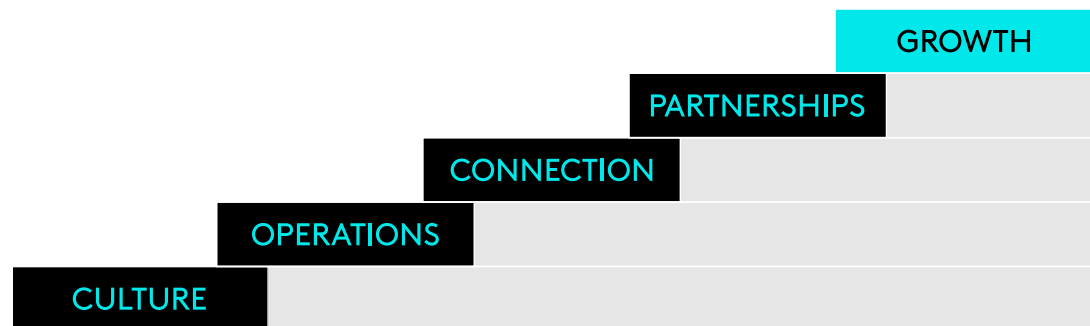
Source: Kantar Consulting

1. Team culture: It all starts here

Leading in eCommerce starts with having a company environment that will respond to the dynamic nature of digital commerce. Companies must be agile enough to recognize changing shopper behaviors, have senior leadership buy-in, and invest in the talent and resources needed to respond. These areas are generally understood today. However, changing existing habits is hard. According to a 2016 McKinsey Digital Survey, the most widespread barrier to meeting digital priorities is internal cultures and behaviors.[9]

To overcome internal barriers to embracing digital, companies should focus on these three steps:

==Encourage risk-taking and learning.== Most large organizations emphasize consistency and process to build efficiency. Companies often do not reward — and sometimes they even penalize — employees who try something untested or different and fail. This is not how emerging challenger brands work. These brands often embrace new digital approaches that require experimentation, creativity, and a fail-fast mentality. Management must reward calculated, thoughtful risk by setting clear learning objectives and metrics. As such, companies should give employees a bigger stake in the success (or failure) of exploratory projects, create more of an upside to trying out new ideas, and encourage well-thought approaches. Startups naturally lend themselves to this way of working, with early employees having a clear stake: Meaningful growth means managing a larger team and having more responsibility. Failure may mean bankruptcy.

==Support cross-functional thinking.== Because the lines between sales and marketing overlap online, barriers between these two departments must erode for companies to succeed in eCommerce. An example of this overlap is a digital display ad incorporating a "shop now" button *(Figure 2)*. As more marketing shifts to digital media and as shopping capabilities on social media platforms continue to be introduced, this blurring between brand and trade will accelerate and require cross-functional

teams. Increasingly, these cross-functional teams also need supply-chain members, since online sales growth will impact the cadence of inventory forecasts and create distinct packaging requirements. Designing cross-functional groups that openly share perspectives will help the broader team anticipate challenges and capitalize on new selling opportunities faster than competitors.

Figure 2. Online display ad with a 'shop now' button
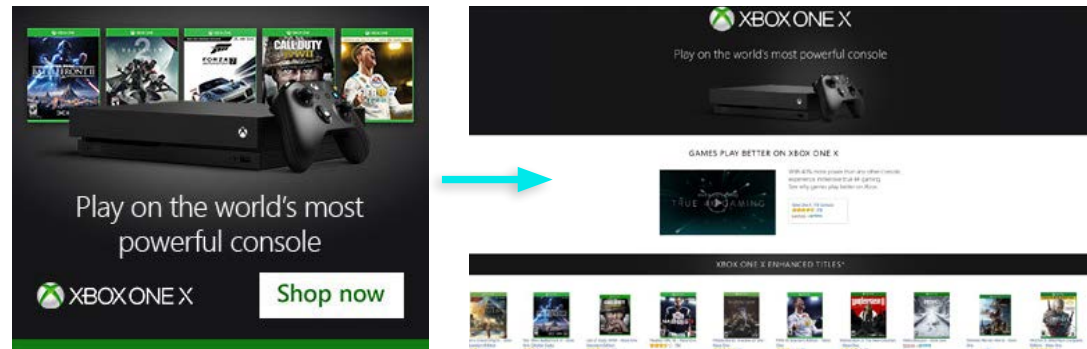
Source: Amazon website

Taking this integrated approach also helps companies identify competitive blind spots faster. For instance, digital marketers may notice a new company competing for the brand's keywords or product reviews critical of a certain feature. Rising digital brands build their shopper visibility through search and capitalize on insights from critical reviews. Ensuring that these early signals are communicated to product development, brand, and sales teams will help the company address offer gaps and emerging threats sooner.

==Decentralize decision-making authority.== Instead of requiring top-down approval and extensive discussion for every decision, employees across levels should be able to make decisions and respond to their circumstances. Digital evolves quickly, so companies that let employees act fast may learn how to respond to shoppers sooner and better. A famous example of this responsiveness is the ad that Oreo developed and released on Twitter when the lights went out for 34 minutes during Super Bowl XLVII. The ad, which referenced the blackout, became one of the most talked-about of the event.

Across each of these areas, smaller companies and startups have an advantage over large organizations with legacy processes and entrenched departments. Being responsive is critical to keeping pace with nimble competitors that are ready to serve changing shopper expectations.

2. Operations: Integrate supply chain and attune packaging to eCommerce

==Evolve inventory planning from mass to modular.== Most organizations matured in the mass-merchandise store environment, where the scale and efficiency of shipping pallets was key. Shipping orders online involves managing smaller custom packs, to the point where each shipment can be its own unit. Lead times also tend to be shorter and inventory demand less predictable, since changes in search visibility and other variables can quickly and erratically spike demand. To help predict inventory needs, eCommerce forecasting requires greater communication of changing demand signals (such as shifts in page rank, reviews, or marketing tactics) and shopper insights around adoption of new services (such as on-demand delivery). Past cycles are less useful in this environment.

Today's digitally native brands are more adept at focusing on individual items because they do not have the baggage of legacy supply chains and systems. They think in rapidly iterative design and launch sequences that can bring an idea to the digital shelf in a matter of weeks compared with

the quarters it takes incumbent brands. Fast-fashion retailers ASOS and Boohoo, for instance, are renowned for bringing a concept to market in as little as two weeks.[10] Larger companies that similarly adapt and embrace this rising complexity and invest in automation technology to help manage case picking and unique bundles will succeed in the longer term.

Focus packaging on shipping and shopper connection. Traditional store packaging focuses on preventing theft and damage, while designs help sell the package and make it visually pop on the shelf. In contrast, eCommerce-specific packs focus on shipping efficiency, meaning that they are lighter, smaller, and durable. Digital-first brands, such as AmazonBasics and Harry's Shave Club, embody these foundational eCommerce packaging principles *(Figure 3)*.

Figure 3. eCommerce-first packaging by AmazonBasics and Harry's Shave Club

Source: Retailer websites

eCommerce package design is also advancing into brand building and shopper education. Package designs may now include thank-you notes, suggestions to join an online community, information about complementary items, or ideas on various ways to use the product. With gift tissue and a note, Stitch Fix packaging gives the impression of opening a present, an approach designed to create a sense of connection with the shopper *(Figure 4)*.

Figure 4. Stitch Fix's eCommerce package

Source: Stitch Fix

3. Shopper connections: Search visibility coupled with media and message relevance are the keys

Be strategic about search visibility. Every established eCommerce team should have a search strategist. At a basic level, this person helps the team mine brand and category reviews for jargon and phrases related to the product, ensuring that product descriptions, keywords, and titles are honed to support their search rank. Referencing these terms in marketing will further reinforce the brand's relatability and visibility.

Going a step further, the team should understand how shoppers search for their categories and brands differently on the biggest search platforms — Amazon, Google, and YouTube. The distinct role each one plays in the shopper's path-to-purchase can vary by category, so honing messages to the particular role is key for relevance. Keywords may differ as intent changes, along with the type of content the shopper is seeking. Also ensure that how teams drive visibility through each platform is tuned to the platform's unique algorithm metrics. For instance, Amazon's A9 search platform accounts for product in-stocks, reviews, and sales conversion. Google focuses on factors such as site links and website loading time. YouTube will take video views and video length into consideration.

Search can also be used as an offensive play. One way to do this is by developing campaigns that encourage shoppers to use a brand term or unique phrase, which helps a specific product appear at the top of search results. Iconic brands such as Swiffer or Kleenex may inherently accomplish this, while other brands rely more on creative taglines or references to distinct product characteristics.

Find your voice. Looking forward, as shoppers' behavior shifts from searching by text to voice, brand teams need to understand how best to optimize for Echo, Google Home, and other voice assistants. Over time, companies must prioritize this new practice of voice engine optimization and specifically hire and train for it.

Build shopper relationships with meaningful messages. The brand content that shoppers self-select to consume online reflects their values and interests. Connecting with shoppers in this manner requires telling a compelling, relevant narrative. Popular brands online, such as Casper or Dollar Shave Club, have distinct personalities and missions. For Casper's mattresses, it is about design and purchase simplicity. Dollar Shave Club asserts a fun personality, ease, and no-nonsense value. Building this relationship with shoppers requires brands to zero in on a trait or cause (such as sustainability or charity support) or to address a friction point that their shoppers relate to and value.

Be mobile-centric. Increasingly, shoppers spend as much or more time online using their devices as they do using traditional computers. As this happens, the small screen is becoming a shopping destination. ComScore finds that more than 23% of U.S. eCommerce was transacted through mobile devices in Q3 2017, up from 16% two years ago.

Smartphones matter because they represent an entirely different type of communication. This communication is individual, interactive, self-directed, specific to time and place, and on a smaller screen. To engage shoppers in this environment, manufacturers must provide more personalized and contextualized appeals, as well as use shorter, simpler, and more visual (versus text-based) messages. Product pages, trade marketing, and brand advertising must each be tailored to win in this environment.

Master social media to drive connection. In addition to understanding where shoppers are connecting (mobile), understanding how they want to engage is vital. Part of this understanding includes identifying what, where, and how shoppers consume social media. According to the 2017 Kantar TNS Connected Life study, 88% of Americans, 87% of British, and 91% of South Koreans use social media platforms at least weekly. This wide reach underlines the extent to which shoppers across

generations use social media. For instance, in the U.S., 60% of Baby Boomers and 54% of Seniors use Facebook, according to ShopperScape®.

Leading social platforms, such as Facebook, Snapchat, and Instagram, are becoming increasingly visual and mobile-centric. Building content for this scrollable, sharable environment requires elevating episodic images over narratives and constantly adapting messages to current happenings and trends. Leveraging social influencers also matters, since they often direct audiences' attention. In honing to this environment, brands must audit their media spending plans and evaluate how they line up with where and how their target audience engages today.

This audit may involve reviewing established agency partners to confirm whether they have the expertise to drive connection in this social environment. Questions to ask internally include:

- If and how do we connect with social influencers?
- Is our content for them and from them authentic for the audience target?
- What does our team do to keep up with digital media's evolution?
- How do we optimize content for search?
- How frequently do we adjust based on the results of key performance indicators (KPIs)?
- Are we mining what consumers say in social media about our brands and products and leveraging that content into our product detail pages for search engine optimization?

4. Partnerships: Proficiency requires strategic partnerships across touchpoints

Be thoughtful about picking internal data management partners. As digital retail grows, a handful of emerging digital management service providers are competing to serve the market. When navigating partners to manage images, content, and performance reporting, start by outlining internal needs rather than focusing on the features touted. These needs may include cross-market scalability, responsiveness and service levels, investment budgets, and the providers' innovation pipeline.

Look laterally for ways to elevate the shopping experience. This concept reaches across digital and traditional selling. Digital may involve connecting to social media platforms, augmented reality packaging features, or media entities to create an entertaining and informative experience. An example is Diageo's partnership with Amazon Video to create a series in the U.K. and Germany called World Class List. These 20-minute videos introduced viewers to cocktails from around the world and ended with an opportunity for viewers to buy the ingredients.

Stores, on the other hand, are leaning on their ability to provide physical services. At the same time, center-store brands are looking for ways to further excite and connect with shoppers. The Nutella cafés that have opened in several Canadian grocery stores, including Sobeys and Loblaws Great Food, are a good example of efforts in this area *(Figure 5)*. These cafés create a stark brand statement and suggest new ways to use the product based on menu items that feature Nutella spread. The stores also benefit by featuring a strong national brand and traffic-driving service.

Figure 5. Nutella Café in Loblaws Great Food

Source: Kantar Consulting

Stores are also digitizing the brick-and-mortar experience to elevate it. Retailers and brands are innovating their use of in-aisle digital displays and interactions to drive decisions, engagement, and conversion. Current examples include free sample machines in the aisle and eye-catching digital endcap signage being testing in a Walmart Supercenter *(Figure 6)*.

Over time, the rising use of augmented reality, beacons, and virtual reality will continue to make these experiences more immersive and more personally relevant.

Figure 6. Digital sampling kiosk and digital endcap in a Walmart Supercenter
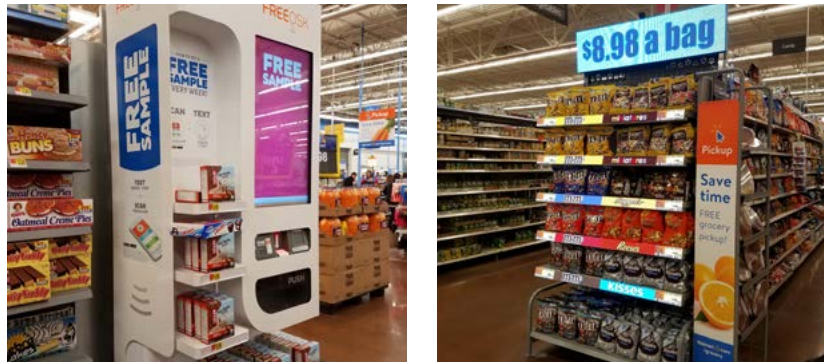
Source: Kantar Consulting

Identify connection to shopping immediacy and ease demands. As the trip evolves to become more flexible and on-demand, leading brands are identifying their relationship to these new technologies and platforms. Many are already connecting and driving visibility through same-day delivery services, such as Instacart. Others are looking to add convenience by connecting to other on-demand services. For instance, Coca-Cola recently connected a discount to adding Coke drinks to orders through the restaurant delivery service DoorDash. It is only a matter of time before more service providers, such as Airbnb or Pandora, start deepening partnerships with retailers and manufacturers to round out the experience.

5. Closing considerations

Embracing digital is a mind-set that requires teams to question assumptions, act fast, stay curious, and look broadly at the shopper experience. Underpinning that mind-set are culture, operations, shopper connections, and partnerships.

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Robin leads Kantar Consulting's research on digital retailing. She is instrumental in developing the research and framing analyses within the Retail, Sales & Shopper practice of Kantar Consulting. Robin helps suppliers navigate digital's impact on traditional retailers, shoppers' evolving demands and behaviors, and online retailers' strategies and positioning. She is a thought leader on Retail IQ, frequent contributor to Canadian Grocer, and in-demand expert to guide in-person trainings for Fortune 500 CPG companies.

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