THE MARKETER'S GUIDEBOOK TO BRAND DIGITAL COMMERCE

STRATEGY, TECHNOLOGY & CAPABILITIES

IN COLLABORATION WITH

ADWEEK INSIGHTS
RESEARCH AND WHITE PAPERS

BERINGER CAPITAL

TABLE OF CONTENTS

BRAND DIGITAL COMMERCE

Consumer goods brands are increasingly asking: what do we need to do about e-commerce now – particularly direct-to-consumer – to prepare ourselves for the next decade?

To answer that question, we conducted the most current and extensive online survey of consumer goods marketers and ecommerce professionals, publicly available. Additionally, we interviewed more than 30 senior executives at brands, agencies and technology vendors. Findings from that research are found in this report.

» 4 AREAS COVERED IN THIS REPORT «

1

Why brand digital commerce matters

2

How to define a brand digital commerce strategy

3

The essential role of technology and partners

4

What does success look like

WORD FROM OUR EDITOR

"As the consumer journey continues to be rerouted by rapid digital disruptions, and interaction with brands becomes more omni-screen and untethered by constraints of time and space, commerce for brands is becoming the new creative, the new media, the new everything. Marketers must be brave and nimble enough to embrace commerce as the most direct line to understanding and serving consumers' needs."

JAMES COOPER, EDITORIAL DIRECTOR, ADWEEK

EXECUTIVE SUMMARY »

Consumer brands used to rely on the twin pillars of mass advertising and brick-and-mortar retail to sustain and grow their business. In the last decade, as traditional retail has been upended and the pace of change in digital accelerates, brands can no longer survive by counting solely upon those traditional go-to-market approaches.

Moreover, as consumer behaviors and expectations have radically altered, so has the way the game is played; raising the bar for brands to hold onto their revenue base.

These changes can be disruptive and fraught with risk, as companies are challenged to build new digital commerce capabilities, all the while maintaining a delicate relationship balance with their channel partners.

Brands stepping-up to the challenge will benefit in multiple ways, leveraging the power of data and consumer experience to market more effectively, build loyalty, increase margin and find new avenues of growth; while those that don't, risk losing market share and consumer relevance.

TERMINOLOGY

DIRECT TO CONSUMER (DTC)
When a brand directly controls both the online inventory and consumer price, the transaction is DTC, regardless of the specific channel or e-commerce platform through which it's sold.

BRAND DIGITAL COMMERCE (BDC)
Initiating and executing DTC transactions through a brand's owned e-commerce platforms, through its website or extending to other digital channels, such as email or social.

CHAPTER 1 WHAT IT MEANS TO BE A BRAND IS CHANGING

Key takeaway: Consumers value brand experiences, which means every touchpoint with a shopper is a branding opportunity.

As companies that offer experiences (like Uber or Airbnb) and social connection (like Facebook and Instagram) continue to climb up the ranks in consumers' hearts, it's become clear that being a "brand" today is more about the experience a company creates for its consumers.

If branding is more than just a label on a can of soda, but also every interaction with a company, then every consumer touchpoint, from shopping to social, becomes a brand touchpoint. This means consumers, trained to expect seamless, personalized experiences from companies like Amazon, require a very different relationship with brands than a generation ago.

COMPETITORS ARE CHANGING

Key takeaway: New players are carving out share across all categories, including traditionally "safe" ones, at an alarming rate.

Historically, brick-and-mortar retailers acted as gatekeepers for consumer goods companies – the brand's goal was always to "land and expand" on the store shelf.

But online, the shelf is limitless.

E-commerce has opened the field up. The new competitive set is unencumbered by legacy distribution models or slow-moving company policies, and often backed with significant VC money.

Digitally native consumer goods brands are increasingly carving out market share from traditionally "safe" categories, like razors,

DATA POINT

A 2017 Havas study found that

74%

of brands could disappear tomorrow and consumers wouldn't care.

KEY TAKEAWAYS

- > IT'S A DIFFICULT TIME TO BE A BRAND
- > CONSUMERS VALUE EXPERIENCES OVER PRODUCTS
- > RETAIL PARTNERS ARE EITHER FAILING OR MOVING ONLINE
- > DIGITAL-FIRST COMPETITORS ARE UNENCUMBERED BY LEGACY DISTRIBUTION BARRIERS AND BACKED BY FREE-FLOWING VC MONEY
- > TECHNOLOGY IS EVOLVING FASTER THAN BRANDS CAN KEEP UP AND WILL SOON REQUIRE MORE CONSUMER DATA THAN EVER

mattresses and glasses. Companies like Dollar Shave Club, Casper and Warby Parker, all show how more-nimble and digitally-focused models can work; and they're giving legacy brands, like Gillette, who haven't been seriously challenged in decades, a run for their money.

Without retail or distribution partners, these businesses can capture 100 percent of the margin, but more than that, they capture 100 percent of data. They're able to scale customer acquisition easily, and since they aren't spending their marketing dollars on shopper marketing programs or defending their shelf real estate, these startups can focus on creating an amazing online shopping experience.

These companies use e-commerce to create "customer intimacy," as Andrew Dunn, founder of Bonobos puts it. By letting their customer data inform all aspects of their business, these companies create personalized content and products based on the real-time feedback from their audience, and their e-commerce websites become more than just places to sell products, but rather a system by which they can communicate and connect. The result is a transaction that feels valuable to the consumer.

"All these new players are data rich," says former Mondelez chief media and e-commerce officer-turned-chairman of Bonin Ventures. "Traditional brands are data-poor. That chasm is huge."

RETAIL PARTNERS ARE CHANGING

Key takeaway: Traditional retailers are suffering, and growth has stalled. The result is a drastic shift in online transactions.

The Atlantic dubbed 2017 the year of the "Great Retail Apocalypse," with more than nine major companies filing for bankruptcy by mid-April. By year's end, more than 8,000 stores across the United States closed their doors. Meanwhile, consumer growth in major domestic markets, has slowed to

TK Adweek Insights survey proprietary data >>

ADWEEK INSIGHT

81%

of brands believe that those that do not sell DTC on their websites are more likely to lose share to a digital competitor.

ILLUSTRATION

CHANGING COMPETITIVE LANDSCAPE

INCUMBENT BRAND MARKETERS CHALLENGED BY NEW DIGITAL PLAYERS

DIGITAL CHALLENGER		INCUMBENT
DSC	→	Gillette
WARBY PARKER	→	LUXOTTICA
Casper	→	Sealy

SOURCE: ADWEEK INSIGHTS

EXECUTIVE POV

"IT'S HARD TO BE A BRAND.

Retail has been really hard to navigate. Traditional brick-and-mortar, with all of their demands – in-store display, private label, everything you have to do in order to stand apart – are shrinking because stores are closing. That's reducing the opportunities for scale, which has given birth to the monster called Amazon, where you can continue to have scale at a global level. And you've got the compounded problem of challenger brands who've become competitive – a problem that really didn't exist 20 years ago."

BONIN BOUGH, MONDELEZ CHIEF MEDIA AND E-COMMERCE OFFICER-TURNED-CHAIRMAN OF BONIN VENTURES

a crawl, hampered by low population growth and price power.

Amid this, e-commerce is booming. More trust in online retailers, better return policies, and even easier methods of payments have given the category continued growth. In the last quarter of 2017, online sales surpassed $119 billion in the U.S., according to the Census Bureau. A report by Forrester found that e-commerce made up 12.7 percent of all retail sales in 2017, with that number expected to rise to 17 percent by 2022.

Amazon alone took 40 percent of e-commerce share in the U.S. 2017, according to eMarketer. Traditional retailers are also committing deep resources to digital: for example, Walmart's $3.3 billion acquisition of Jet.com

BIG NUMBER

During the last quarter of 2017, online sales in the U.S. surpassed

$119b

TECHNOLOGY IS CHANGING

Key takeaway: The rapid pace of technology change means companies are struggling to fill data voids.

A big challenge brands face is that retailers keep sales data close, sharing only the bare minimum on shoppers. It's not a new dance: companies have long struggled to get retail partners to part with customer information. Yet, with the digital upstarts making extreme headwinds, the fight for actionable consumer information has taken a renewed sense of urgency.

It doesn't matter how much third-party information companies are buying, without a line-of-sight into the transactional data , brands will be left scrambling to fill holes in their insight pool.

This lack of information culminates in brands being unable to adapt to a changing technological reality. As brands continue to grow their e-commerce presences, many will struggle to keep up with the rapid evolution of technology. (Case-in-point: mobile e-shoppers made up 40 percent of all digital commerce in 2016, but eMarketer found 84 percent of shoppers struggled to complete their transaction on their smartphones.)

There is a positive side. Technology makes it easy

ADWEEK INSIGHT

91%

of brands believe Amazon is a major competitor as well as a retail channel.

ILLUSTRATION

FORCES AT WORK IN THE BRANDED CONSUMER GOODS INDUSTRY

SOURCE: ADWEEK INSIGHTS

to track consumers at a pixel level – from Google searches, to websites visited, to products bought - with hundreds, if not thousands, of data points painting a fuller picture of exactly who is and who should be buying your product. When done right, data collection can help fuel more efficient media buys, create more effective advertising campaigns, and drive product sales at all levels of retail.

As technologies like artificial intelligence, internet of things and augmented reality converge, poor data collection will make keeping pace a huge struggle for brands because these technologies require massive amount of information to be used effectively.

THE CONSUMER IS CHANGING

Key takeaway: The digital consumer is driving a new "path to purchase" where the brand website represents a critical avenue.

This is all being underscored by the reality that consumers are changing, and how they enter the path to purchase has been thrown in flux. Consumers, through their smartphones, can enter the shopping funnel whenever it is convenient for them.

"Because everything starts on the phone today, e-commerce is actually 100 percent of your revenue," says Anthony Long, global e-commerce lead, Kimberly Clark. "That is a digitally driven path to purchase."

Drilling down, a shopper might enter the funnel through an Instagram or Facebook post; a virtual show room; a promotional spot online; an Alexa recommendation and, importantly fellow reviews.

"People go out of their way to find another consumer – who they don't know, but who they think might be like them – and see what that person is interested in," Long says. "In the end, our customers don't care what our agency copywriter says about a product."

In a search and social-sharing world, research is becoming increasingly important to consumers. Eight in 10 shoppers consider independent research to be important to making a purchase decision, according to a study from KPMG. Importantly, three out of four shoppers turn to a brand to fill in that information gap.

This is where companies are falling down.

While more and more consumers turn to brand websites for their research, nine in 10 expect to be able to buy direct from these companies. Yet, only a quarter of leading brand websites across major consumer categories offered a "buy now" function. Even when provided, less than 10 percent of consumers made their last purchase from a manufacturer, largely because brands did a poor job meeting shopping expectations or sent them elsewhere to actually make the purchase. The result is that companies are losing control over the path to purchase, with shoppers heading to Amazon (where the experience has been made frictionless) or competitors who have richer online presences.

BIG NUMBER

Mobile e-shoppers made up

40%

of all digital commerce in 2016.

ADWEEK INSIGHT

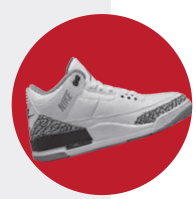
91%

of brands believe consumers with strong brand affinity would purchase from their websites.

SPOTLIGHT

NIKE AND L'OREAL AHEAD OF THE CURVE

The shift to digital isn't only affecting traditional retailers, but also brands. **Nike, for example, expects to sell $7 billion in product on e-commerce platforms by 2020** – a goal it is well on the way of meeting, having grown its online sales 30% in 2017 reaching $2 billion.



L'Oreal CEO **Jean-Paul Agon** told investors in 2016 that the company is investing aggressively in e-comm, which had grown more than 33% that year. **"As I keep explaining to our team, e-commerce is not the cherry on the cake. It [is] the new cake."**

SOURCE: BRANDSHOP DIGITAL CONSUMER PREFERENCES SURVEY; KPMG; ADWEEK INSIGHTS.

BRANDS ARE ABDICATING A MASSIVE OPPORTUNITY TO ENGAGE WITH CONSUMERS ON THE PATH TO PURCHASE.

75%

75 percent of consumers believe it is important or very important to **conduct research before making a purchase decision.**

47%

47 percent visited a company's website to **research products or buy online.**

70%

Other than friends, a company's website is the **most trusted channel for product information** according to 70 percent of consumers.

80%

When on a brand website, 80 percent of consumer expect to be able to **complete a purchase there and then. YET...**

25%

Only 25 percent of leading consumer goods brands offer a **shopping cart on their website. AND...**

39%

Only 39 percent of consumers were highly satisfied **shopping directly with brands** versus 65 percent with retailers.

SOURCE: BRANDSHOP DIGITAL CONSUMER PREFERENCES SURVEY; KPMG; NIELSEN; RETAIL DIVE; ADWEEK INSIGHTS.

CHAPTER 2 THE CASE FOR BRAND DIGITAL COMMERCE

While traditionally, e-commerce has been dominated by retailers, companies are increasingly turning Brand Digital Commerce (BDC) to address those brand challenges identified in Chapter 1.

Going direct to consumers without the backing of traditional retail partners' or marketplace volume can seem daunting; but the benefits cannot be overstated.

"A lot of brands have wholesale and channel relationships to sell their products, but their ability to sell direct to consumers is what's going to ultimately determine their success – for obvious reasons," says Drew Green, CEO at bespoke suit maker Indochino. "You get to establish a direct relationship with consumers. You get to control the experience. You get to control the post-purchase experience with consumers. That's really important."

A) RICHER CONSUMER EXPERIENCE

Key takeaway: BDC can create a hub for loyal and new consumers to learn.

When you think about your BDC strategy, are you thinking through the shopping experience or the buying experience? Discovery and purchasing are different behaviors, and it's important to understand the difference, as consumers are inundated with choice and information with few filters to help guide them through the process. Marketplaces and retailer sites, with their breadth of brands, can't provide that same level of detail as a company can for its own product offering.

Brand Digital Commerce can help companies create fuller shopping experiences, becoming a single point of reference for consumers trying to make their purchase decisions.

Yet many brands abdicate this responsibility to retailers, who in turn don't have the ability to present the brand or product information in the most comprehensive or compelling manner for each unique brand.

More than that, BDC can be a place for brands to showcase a wider variety of

KEY TAKEAWAYS

- > E-COMMERCE HAS TRADITIONALLY BEEN DRIVEN BY RETAILERS
- > BRANDS ARE INCREASINGLY SEEING THE VALUE IN SELLING DIRECT TO CONSUMERS
- > BRAND DIGITAL COMMERCE CAN PROVIDE A RICHER CONSUMER EXPERIENCE, MORE ROBUST DATA AND INSIGHTS, A PLATFORM FOR TESTING AND LEARNING AND A WAY OF ENHANCING REVENUES AND PROFITS.

products, such as items that might not be available at partner retailers, special editions or hard-to-find sku's; or offer unique ways to buy, such as offering auto-refill subscriptions that make it easier to purchase everyday goods.

"We realized, if we owned the complete customer journey on Rachio.com, we could curate the exact buyer experience we want customers to have from awareness to purchase and beyond," says Eric Petrak, director, consumer marketing at home-automation service Rachio. "The Rachio.com store gives our customers the option to buy at the same place they're learning about our products, which is a seamless customer experience and has ultimately led to increased conversion rates."

More succinctly put: "If you own the conversation, you own the relationship," adds Bough.

Since nine in 10 consumers already expect to be able to purchase direct from a brand, when companies don't offer that "buy now" feature, they fail to live up to consumer expectations. What's more, companies that provide the purchase feature can offer their loyal customers a more direct line of access – the same BrandShop study found that, of people who shopped direct with a brand, 74% said they did so out of loyalty because they "loved the brand."

B) MARGINS AND SALES

Key takeaway: Going direct to consumer allows brands to capture significant margin that has traditionally accrued to retailers and middlemen.

According to a survey by Digital Clarity Group, it's not uncommon for the net margins to double when going direct to consumers.

Not only does it cut out the retail margins and drive down distribution costs, Brand Digital Commerce opens a brand's potential reach. Companies fight over shelf space and are limited by the physical locations of their retailers. Now, national and global shoppers can access a brand's offering with the click of a button. In turn, companies can bring in products from their international line up to new markets without needing to carve out new shelf space for otherwise low-yield items.

C) ANALYTICS

Key takeaway: As data and insights becomes more important, transactional data, first-party data will become essential in a company's analytical arsenal.

Underscoring the benefits of BDC is simply the power of insights brands can collect via first-party transactional data.

If you know who is actually making the buying decisions and conducting the transaction, it'll give you greater clarity whom to target. If your primary target is women, but you learn through online sales that your primary buyer is men, that might change your approach to messaging. It can also further inform your media buy: brands can use this information to draw clearer lines from digital advertising views and clicks to actual purchases (or abandoned carts). Knowing

BIG NUMBER

Of people who shopped direct with a brand,

74%

said they did so out of loyalty because they "loved the brand."

EXECUTIVE POV

"COMPANIES WHO HAVE ACHIEVED LASTING SUCCESS IN DIGITAL

commerce have a vision and mindset their competitors lack: they have a passion for consumers and are not afraid to put them at the heart of their business model. They use every touchpoint, every opportunity, to turn consumers into raving fans by creating unique value on their terms. No category or industry is exempt from this new immutable law of business – own your consumer's experience, or someone else will."

TONY ROBBINS, ENTREPRENEUR, INVESTOR, NEW YORK TIMES BEST-SELLING AUTHOR, PHILANTHROPIST, AND THE WORLD'S NO. 1 LIFE AND BUSINESS STRATEGIST

who made a purchase, companies can then re-target their audience or take them out of the advertising funnel entirely.

But importantly, BDC can provide the backbone for a brand's personalization efforts – and not just the ability to engrave or order a customized product.

The way brands communicate with their audience can be more customized, with consumers only seeing relevant information to what they are most likely to be purchasing. L'Oreal, for example, is getting better at predicting a person's skin-tone, hair color, eye color, based on the images he or she clicks when browsing their site. Malik Abu-Ghazaleh, VP digital marketing and e-commerce at Lancôme, says the goal is to eventually provide content geared exclusively at that shopper – the beauty category, after all, is such a personalized one already that it makes sense to be able to provide information tailored to the consumer (See L'Oreal's BDC journey on pg. TK).

While these are still far-off ambitions for many brands, without that base data collection ability, the valuable insights will be forever out of reach.

As Jon Suarez Davis, Chief Strategy Officer from Salesforce Marketing Cloud observes, "Brand Digital Commerce allows marketers to start having a much deeper understanding of consumer behavior along the path to purchase. With the advent of big data, machine learning and AI, marketers are unlocking rich insights that enable them to ask much better questions, eliminate a lot of waste and ultimately increase the effectiveness of their marketing investment."

ADWEEK INSIGHT

93%

of brands believe consumer data collected in BDC sales can be used to improve the effectiveness of the brands overall marketing strategy.

D) TEST AND LEARN

Key takeaway: BDC offers a relatively low-risk platform on which companies can try new products or business models.

Coupled with richer customer experiences, BDC also offers brands the opportunity to build out innovation funnels, driving new and unique brand touchpoints for customers.

Take for example Mondelez, which views BDC as a sandbox for testing and learning new items before scaling out with retailers. The company launched online gifting stores in several markets and last year, ahead of the holidays. These sites offered consumers the opportunity to buy holiday-themed Cadbury or Oreo products unavailable at retail. Ultimately, the most popular items were added to store shelves, says the food company's VP global head of e-commerce Jeffery Jarrett.

It's also a platform by which companies can offer unique and new services at a scale unavailable at traditional retailers. Computer manufacturer Lenovo, for example, gives consumers the ability to create a fully customized, high-end computer at a marked-up rate. Lancôme's offers lipstick engraving services, while Softsoap has launched a fully customizable gift offering.

These test-and-learn features not only have internal benefit, offering a scalable way of seeing what works and what doesn't, but can also elevate the entire brand experience, providing a unique value proposition for consumers to come visit. Suddenly, in a sea of computers, lipstick or handsoap theirs is unique – and as a result, so is your site.

INSIGHT

MYTHBUSTING: CHANNEL CONFLICT

IT'S EASY TO THINK RETAILERS MIGHT PENALIZE BRANDS FOR VENTURING INTO THE DIRECT-TO-CONSUMER SPACE. >>

The reality is that most retailers find true value out of these brand ventures. The data brands collect can be turned into meaningful marketing or sales efforts that can drive more effective targeting. According to Forrester, nine of 10 brand executives believe their DTC online channel has actually had neutral or positive impact on their retailer relationships, with a significant number reporting that it created incremental sales for those channel partners. In the end, e-tailers provide the scale and speed to market, while BDC creates brand loyalty and enhances the experience of the brand and category, ultimately boosting sales of retailers who carry the products.

BIG NUMBER

90%

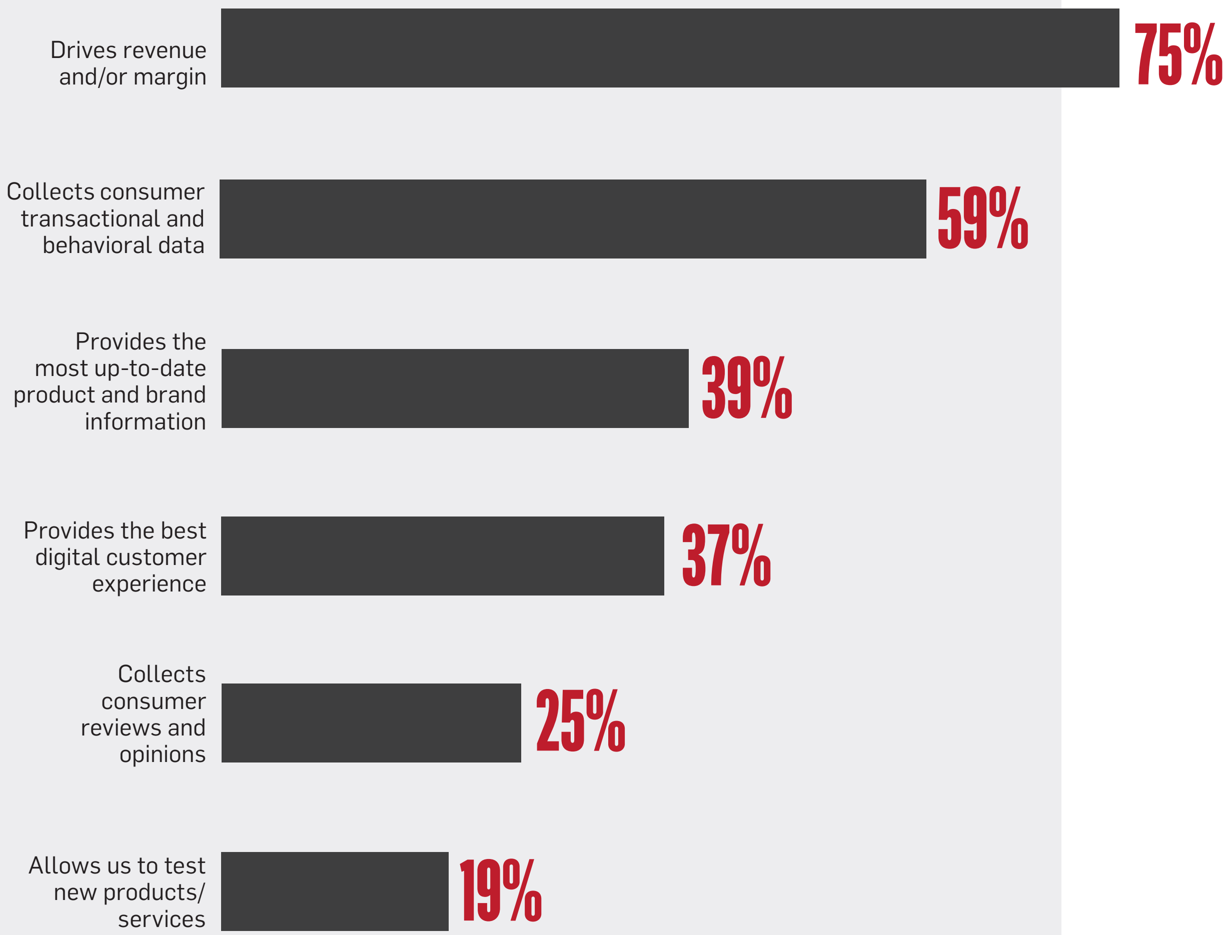
of brand executives believe their DTC online channel has actually had neutral or positive impact on their retailer relationships.

SOURCE: FORRESTER

DATA POINT

WHAT ARE THE MOST IMPORTANT BENEFITS OF SELLING DIRECT TO CONSUMER ON YOUR WEBSITE?

ADWEEK INSIGHTS & INTERNET RETAILER: DTC SURVEY

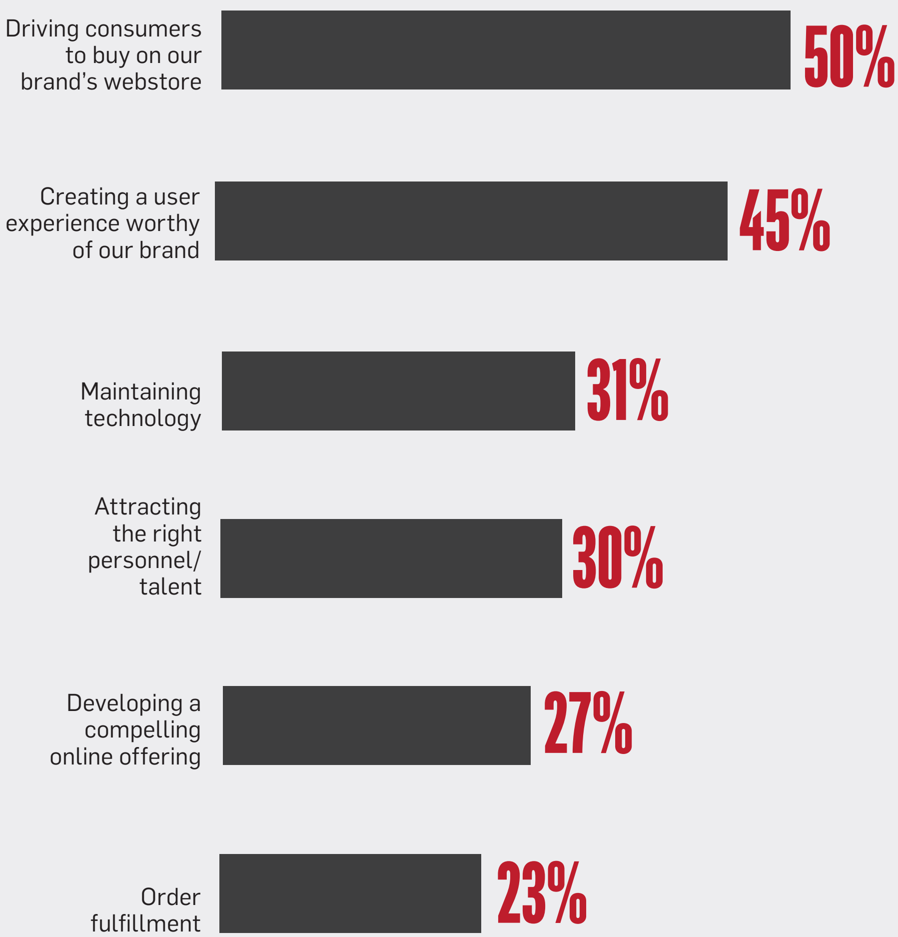


ABOUT THE SURVEY: ADWEEK INSIGHTS COLLABORATED WITH INTERNET RETAILER TO CONDUCT A SURVEY OF EXECUTIVES AT BRANDED CONSUMER GOODS MANUFACTURERS, WITH AN E-COMMERCE RELATED ROLE. THE MAJORITY OF RESPONDENTS WERE NORTH AMERICAN BRANDS AND HAVE TOTAL BRAND REVENUES (FROM ALL CHANNELS) >$50M. APPROXIMATELY HALF OF THE C. 120 RESPONDENTS WERE ABOVE DIRECTOR LEVEL. ALL MAJOR CONSUMER PRODUCT CATEGORIES WERE REPRESENTED.

DATA POINT

WHAT ARE THE BIGGEST CHALLENGES YOU FACE IN GROWING OR ESTABLISHING YOUR DTC E-COMMERCE SITE?

ADWEEK INSIGHTS & INTERNET RETAILER: DTC SURVEY



EXECUTIVE POV

"RUNNING AN E-COMMERCE CHANNEL IS A COMPLETELY

different business model that requires a different set of internal skills, processes, and technology. Brands who sell online not only need to become online merchants; they need think and act like retailers. This new approach requires top-down executive buy-in and planning, with investment dedicated to organizational restructuring, new front-end and backend technology implementations, infrastructure, logistical operations, and resource allocation toward marketing the new channel to the end-consumer".

BERNADINE WOO,
CEO, FITFORCOMMERCE

CASE STUDY

MATTEL

Two years ago, after seeing a decrease in traffic from kid audiences to its youth-focused websites, Mattel changed its target demo towards parents, while strengthening the e-commerce element of the website by allowing consumers to buy direct, says Joseph Park, former chief global e-commerce officer, Mattel, who spearheaded the company's move into e-comm.

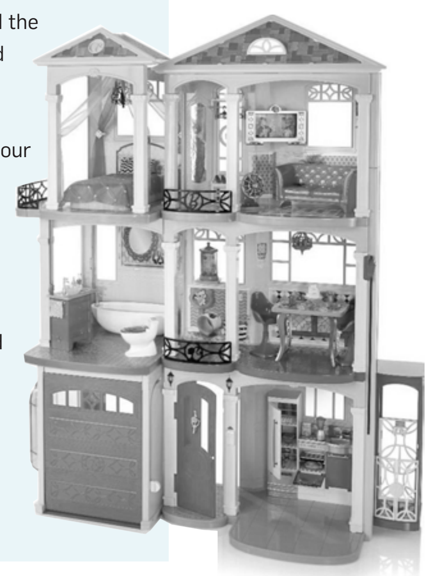
"That really unlocked opportunities for us," he says. "It allowed us to start collecting data about mom and dad, which enabled us to do some more advanced digital marketing, and gave us an opportunity to start interacting and developing a deeper relationship with consumers throughout the path to purchase funnel."

He gives the example of **Barbie's Dream House** – a perennial holiday staple – that, should parents want to buy for their kids, they can go to Barbie.com, read reviews from fellow mom and dads, and buy direct from Mattel or be redirected to another retailer's site. But even if they don't complete the transaction, the data allows the company to programmatically target the parents with tailored information and ads about the Dream House. If they have made a purchase, they can be excluded from seeing future marketing about the product, but instead are advertised the ancillary toys other parents have also purchased when buying a Dream House.

"It's had a massive ripple effect," Park says. "It allowed us to optimize our media spend, improve our scale, increase our ROI and deliver great lifetime value to customers. When we do digital media buys with first-party data like this, we're seeing up to a 10-times lift in ROI."

When he left the organization, Mattel was still very early in its e-commerce journey, he says, and the hope is to continue increasing the effectiveness of the brand's data collection and targeting.

"Our key tenant is to go where our consumer is shopping," he says. "We just need to be part of that consumer journey."



BIG NUMBER

"When we do digital media buys with first-party data like this, we're seeing up to a

10x

times lift in ROI." Joseph Park, former chief global e-commerce officer, Mattel,

CASE STUDY

L'ORÉAL

A decade ago, L'Oréal saw the writing on the wall: consumers were shifting their habits and heading online for purchases. As social media, with everyone wanting to be "selfie ready" and digital influencers gaining traction, they knew they had to adapt to this new consumer reality.

To address these shifts, L'Oréal created an online BDC store with its luxury range, figuring higher price points and strong brand recognition would support its e-commerce play.

It was a slow-moving process, and really only kicked into high gear five years ago when senior leadership began to take notice of the rapidly increasing sales coming in from digital (in comparison, brick-and-mortar stores were beginning to see stagnating or declining sales).

Today, the beauty company is a leader in the direct-to-consumer space, anchored by a strong, content-heavy BDC store, says Malik Abu-Ghazaleh, VP digital marketing and e-commerce at Lancôme. Today, e-commerce makes up a significant portion of the company's sales, which are higher-margin than traditional retail channels, with 24 percent of that coming from mobile orders.

The not-so-secret secret, Abu-Ghazaleh says, is putting the customer experience first.

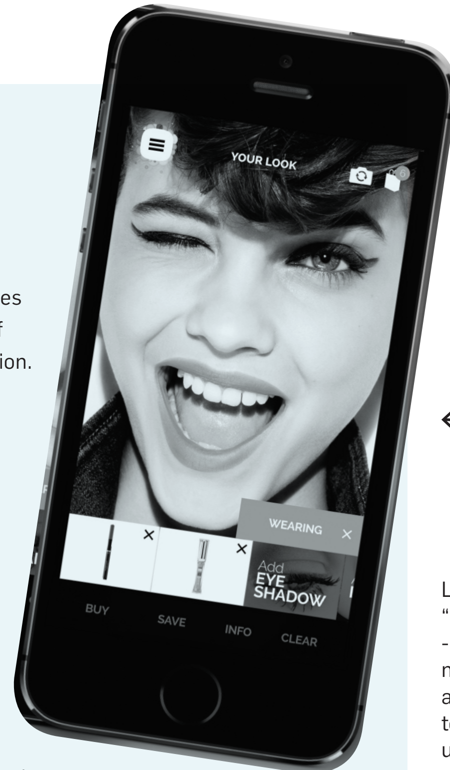
"For us, e-commerce is a content play," he says. "We've done all the work through SEO or SEM or influencer seeding to capture the audience, now we have to educate. I have to create content, content, content – and I still don't have enough. Whether it's tutorial videos on how to use our makeup or articles explaining how our skin care line works, now that you're on our site, I need to figure out how to make you feel comfortable so you don't have to go to store to buy a product."

Going forward, the biggest opportunity lay in fine-tuning the overarching brand experience, which will be largely driven by the data and insights collected by the BDC sites across the entirety of the L'Oréal organization. Even better insight gathering (such as being able to better predict someone's ethnicity based on the images they gravitate towards), coupled with growing organizational understanding and support of e-commerce, unlocks the potential for L'Oréal to hyper target consumers within the e-commerce sites themselves.

"If you're a skincare shopper, we know you're less likely to cross over into fragrances," he says. "I don't need to waste my time on the site trying to funnel you into a different product line up I know you're never going to go after. I can give you content about the latest multi-masking trends, or how-to's for getting the most out of your nighttime routine, but I don't need to give you content about makeup.

"AS RETAILERS DELVE DEEPER INTO THIS SPACE, WE NEED TO HAVE A WAY TO DIFFERENTIATE OURSELVES. CONTENT – REALLY PERSONALIZED CONTENT – IS HOW WE CAN DO THAT."

MALIK ABU-GHAZALEH, VP DIGITAL MARKETING AND E-COMMERCE AT LANCÔME



L'Oréal introduced "Makeup Genius" - the 1st virtual makeup tester app. Exclusive technology allows users to try products and see them move with them in real time.

CHAPTER 3 THINKING THROUGH YOUR BDC STRATEGY

Key takeaway: To develop a successful BDC strategy brands must clearly define the value in BDC for their company and the unique selling proposition for consumers on the brand website.

To begin, there are two fundamental questions a brand must answer:

1) WHAT'S THE VALUE FOR YOUR COMPANY?

Are you hoping to drive sales and margin? Deliver the best consumer experience? Garner insights from consumer data? These are not, by any means, mutually exclusive – and it's always best to aim to do all three. But depending on your priority, your path to market might differ.

If you're looking to drive margins, perhaps BDC lives under the sales team, and efforts are made to optimize the buy rate. Your attention is focused on ensuring abandoned baskets are the exception, not the norm. Your KPIs are driven by products moved. And your repeat customer base becomes your most important target.

In comparison, if you're hoping to drive a deeper consumer experience, you might put marketing front-and-center, delivering a beautifully designed sight robust with content. The actual purchase information is less important – with "more ways to buy" featured heavily – you don't care where people make that final purchase, so long as they make it. Your KPIs are informed by engagement with content – time spent watching product videos – or click-throughs to other retail partners.

2) WHAT'S THE VALUE FOR YOUR CONSUMERS?

Second, you need to ask, what is the value for the consumer coming to your website?

Are you offering products they can't find elsewhere, or are they able to participate in a loyalty program that gets them exclusive access to content or promotions? Do they get to try personalized goods or subscription services?

Competition in online retail is fierce and visiting multiple retailers to buy a single product isn't convenient, and unless you want to compete on price, there needs to be a reason for shoppers to visit – and buy – from your site that they can't get off your competitors.

Everything else is execution – and that will depend on categories, brand, retail distribution, price points, and current market channels.

"The **path to purchase** has evolved to the point where online activity and offline transactions are now **converging**. Brands need to make sure they can **connect the dots** and **integrate logistics** and data on the back end, if they truly want to be aligned with consumer behavior and **build deep, loyal brand affinity."**

ANDREA WARD, CMO OF MAGENTO

INSIGHT

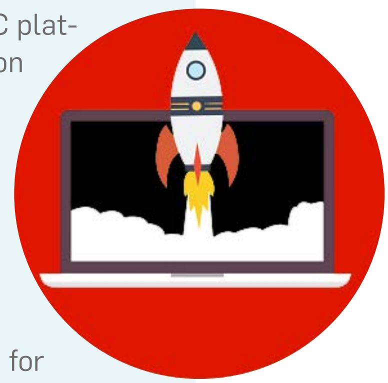
THE START-UP INCUBATOR APPROACH

KEY TAKEAWAY: INSULATING A BURGEONING BDC INITIATIVE CAN PROVIDE THE NECCESSARY RUNWAY AND FLEXIBILITY TO BE SUCCESSFUL.

Via conversations with a half-dozen top industry leaders, we learned an often effective pathway into brand digital commerce for CPG companies is to adopt a start-up or incubator approach.

A comprehensive study about brands selling direct from McKinsey found that companies that adopted a venture capital mentality around their BDC businesses were able to successfully scale up their e-comm operation. Part of the reason is that, as an independent department that operates on its own P&L, these BDC hubs are given a bit of insulation from the broader marketing and sales organization, and all the legacy structures in place that often prevent new ventures from succeeding.

We spoke with one major food manufacturer, for example, which launched its BDC offer via a product incubation hub. Originally created to test new products – and not originally conceived as a way of testing new business models – the incubator realized it needed a way of getting those goods directly into the hands of consumers, prompting it down the BDC path. Digital sales often outpaced those from the broader legacy food company. It was such a successful model, that within a few years, the incubator's BDC platform included a distribution and warehouse as well as its own customer care center and was helping inform marketing for some of the food giant's biggest brands.



Other consumer goods manufacturers have opted for the start-up approach. For example, one CPG company rolled out a new product extension for an existing brand online only. The product was launched on less than $200,000 by using a smaller full service e-commerce agency outside the traditional company roster, as well as spending little to zero on media buy, operating on word-of-mouth and digital influencers to help sell the product. Considering the cost-to-launch ratio, the product line was highly successful, but more importantly helped provide a roster of insights into how consumers shop for products online.

SOURCE: ADWEEK INSIGHT

CHAPTER 4 THE CRITICAL ROLE OF PLATFORMS AND PARTNERS

Key takeaways: Brands need to build e-commerce technology stacks based on a careful evaluation of their e-commerce strategy, current capabilities and current, as well as future, needs.

Given the complexity of e-commerce, there are innumerable related technologies and systems that need to integrate and work together, that it can sometimes be overwhelming for a brand on how to approach it (see chart on page tk). Building a BDC program is a major company initiative, and while not an easy path to market, it is getting easier to get a store up online.

Today, packaged software and cloud-based services have robust offerings, accessed through an annual fee rather than the capital expenditure required to build out an entire platform and the ongoing development costs to keep it up.

The two most critical factors on developing your own e-commerce solution are selecting the appropriate platform, and the type of professional services partners with whom you engage.

PLATFORMS

Key takeaway: Platforms make up the back-end infrastructure of e-commerce. There is no one-size fits all. A brand's choice of platform is a highly strategic one and needs to be thoughtfully considered.

These are the engines powering e-commerce sites, and they offer core functions, including a content management system (whereby you can list your product offering, divvy them into categories, etc.) and a checkout function (which usually offers a cart, checkout feature and ensures security compliance).

The majority of leading solutions in the market -such as those offered by Magento, Salesforce and Shopify - will offer basic add-on features, such as email or loyalty programs, more sophisticated tax calculators, or product review features. But there are also a host of third-party software that provide more specific or high-powered functionality as well.

There are pros and cons of each platform, depending on what's right for the brand to achieve their strategy, as well as live within

KEY TAKEAWAYS

- E-COMMERCE IS A DISTINCT BUSINESS DISCIPLINE WHICH REQUIRES THE DEVELOPMENT OF A HOST OF UNIQUE CAPABILITIES THAT NEED TO WORK ACROSS THE ORGANIZATION TO BE EFFECTIVE.
- DEFINING A SERVICE PARTNER APPROACH IS ABOUT DETERMINING WHICH CAPABILITIES SHOULD BE OUTSOURCED VS. HOME GROWN, AND THE TIMING OF THOSE DECISIONS BASED ON A BRAND'S E-COMMERCE MATURITY.

SOURCE: ADWEEK INSIGHTS

THE DOS AND DON'TS OF PICKING A PLATFORM

√ **DO** consider the cost of implementation. Software price and pricing models vary on vendor - some charge annual fee or a percentage of gross merchandise value transacting on the site.

√ **DO** consider how well it will integrate into existing business systems such as CRM or ERP.

X **DON'T** underestimate the level of complexity you will need or the functions you want on the site, such as personalization or loyalty programs.

X **DON'T** buy more capabilities than you realistically need, however...

√ **DO** try and think through your needs two, three or four years down the road, and make sure your platform supports that functionality and provides stability for longer-term growth.

BIG NUMBER

According to a study by Fit For Commerce more than

60%

of platform partnerships end in divorce. Re-platforming can be a major project, so measure twice and cut once.

SOURCE: FITFORCOMMERCE IN COLLABORATION WITH ADWEEK INSIGHTS

FRAMEWORK

CAPABILITIES NEEDED TO SUPPORT DIGITAL COMMERCE

SOURCE: FITFORCOMMERCE IN COLLABORATION WITH ADWEEK INSIGHTS

EXECUTIVE POV

"FOR BRANDS THAT ARE RELATIVELY NEW TO THE GAME,

the key is to recognize your core competencies versus limitations and how to scale quicker by leveraging external capabilities. The brands we've seen achieve the most success in the fastest period have a clear vision of when to build or partner. They lean heavily on partners in the early days to get their footing and drive efficiency. As they mature, they should increase the capabilities of their in-house teams and outsource those functions where the internal build economics don't work or they cannot maintain the expertise."

REUBEN HENDELL, CEO, BRANDSHOP

their budgets. It's also important to note that buying a platform is not "set it and forget it;" there will be continual development and design projects to make it do what you need and evolve with your brand, your products and desired consumer experience.

PARTNERS

Key takeaway: Partners help brands build, operate and grow their BDC programs. They include full-service firms and e-commerce specialists. Which partners to use and how to use them depend on the capabilities of the brand and which are core to their strategies or should be outsourced.

Partners help brands execute their BDC strategies. This might be full-service, end-to-end providers, which integrate a platform into their solution as well as help manage ancillary services like demand generation, fulfillment and after-sales support. Or, it might be specialist providers in unique disciplines, such as systems integration (SI), UX design, strategy, analytics/insight gathering or fulfillment. Often partners are aligned to a platform ecosystem, and are given official partner status within Magento or Salesforce's network, for example.

A McKinsey report found that maintaining resources and capabilities in house provided companies flexibility to find supply partners on an as needed basis and control spend. "Decisions about which parts of the value chain to control, and which to outsource should be informed by current in-house capabilities," the report found. "For example, large manufacturers don't have set up tools for 'kitting' [creating kits] or fulfilling orders, so they may choose to outsource these particular parts of the e-commerce chain."

However, Forrester found that ad-hoc approach often means in "too many cooks," resulting in "headaches of incompatible technology architectures, starkly different business user tools and [having to] manage multiple relationships at once."

In turn, full-service providers are evolving, becoming more modular, unbundling their packages to give clients that same flexibility they'd have received with multiple vendors from a single source provider. For example, according to FitForCommerce, a consultancy that helps brands develop their ecommerce strategies and evaluate vendors, "companies like BrandShop make it easy because they can provide everything the brand needs or just what is needed, all depending on the brand's stage of maturity."

In the end, companies will need to determine where in their e-commerce journey they are (see chart on page TK).

Companies that are new and evolving may be more effective starting out with an integrated or end-to-end solution provider to get them to up and running quickly, ensuring a smooth operational roll-out. As companies mature along that e-commerce journey, building out internal teams and achieving economies of scale on their own, they will likely start looking for more tailored solutions that can give them expertise specific to their growth strategies. For example, Blue Acorn is a major Magento and Salesforce SI, with UX and optimization capabilities.

ADWEEK INSIGHT

The majority of brands with total revenue (from all channels) >$50 million believe the most effective way to launch a BDC site is to outsource development and operations to a third party.

FRAMEWORK

WHERE ARE YOU ON THE E-COMMERCE MATURITY CURVE?

BRANDS WILL EXECUTE THEIR BDC INITIATIVES CONSISTENT WITH THEIR LEVEL OF GMV AND DIGITAL COMMERCE MATURITY

	NEW	EVOLVING	SCALING
GMV (GROSS MERCHANDISE VALUE)	**NA**	**$1-10 MILLION**	**$10+ MILLION**
BDC KNOW-HOW	**Still learning about BDC vs. other channels.** Want to experiment with BDC.	**Well informed with strong executive endorsement.** Applying initial learnings to improve site functionality.	**Core to business strategy.** Maturing use of data from BDC to drive business impact.
INTERNAL CAPABILITIES	**Limited dedicated resources.** Lack key functional areas such as development or fulfillment.	**Small internal team up and running.** Typically comfortable with 2 or more core functional areas.	**Strong internal team.** Resources across merchandising, operations and marketing.
COMPLEXITY OF TRANSACTION AND TECH REQUIREMENTS	**Low.** Typically a simple transaction with limited system integration.	**Low-middle.** Typically introducing loyalty or advanced marketing. Need to integrate with older systems.	**Middle-high.** Second order capabilities, including personalization or customization. Multiple integrations with other systems.
TYPICAL LEVEL OF OUTSOURCING	**High.** Should consider full service provider.	**Medium-High.** Should outsource majority of capabilities.	**Medium-low.** Most capabilities in-house other than non-core or where best in class expertise needed (e.g., systems integration, fulfillment)

CHAPTER 5
WHAT DOES SUCCESS LOOK LIKE AND HOW DO YOU GET THERE?

Key takeaway: KPIs that define success should take into account the standalone profitability of the site, but also include the ancillary benefits and the long-term strategic value to the brand.

Success will inevitably look different based on different categories, price points and brand goals. If driving sales is the primary purpose of your BDC site, then actual units moved will be the key objective.

While these sites often have higher margins than traditional retail models, it's important to factor in the added cost of operating your own retail channel – from customer acquisition to maintaining the technology required to operate a site. Inevitably selling through BDC will cost a company money. Most companies do expect an eventual path to profitability and often assign the e-commerce division its own P&L or profit metrics to track against.

Companies need to be thoughtful about how to define those profitability KPIs upfront. If insight and data collection are the primary goals for a brand site, then it's vital to assign dollar figures to that learning gathered. For example, efficiency in media buying as result of better consumer targeting. Similarly, if pushing a deeper brand experience is the key driver, companies need to find that value in how long people interact with the site. If you don't quantify the key performance indicators of these ancillary benefits, it becomes ever-more difficult to credit BDC with delivering on its ROI.

"No one takes the time to lay those out and value KPIs," says Bonin Bough. "If you're looking at the P&L, you might ask, 'Why am I doing this? It's not margin accretive, it's dilutive.' What's not being taken into account is a brand's value proposition on that customer data, that experience, that insight. There's no value equation [on those KPIs] and that's hard because you can't show it on a balance sheet immediately."

There is no single roadmap for success when it comes to BDC.

While operating with a startup structure can help insulate the BDC site and give it room to grow, it needs to be a microcosm of the whole business, interwoven within the entire organization.

Says Leonardo Trautwein, VP e-commerce and strategic development, Vista Outdoor. "Going BDC gives companies the opportunity to better engage consumers and better understand what they want through data, analytics and insights. That not only impacts how we are serving them but also improves internal operations from product development to fulfillment, and warehousing. The entire organization can be rebuilt around a more consumer centric angle."

This is where companies often run into trouble. For an organization to benefit from BDC, executive leadership needs to buy-in; it also needs someone's complete attention – it can't simply be a side project for someone on the marketing or sales teams; and finally, it needs to reach into every other aspect of a company's operation – from innovation to product development to supply chain management to pricing.

Some of the most successful BDC cases we've seen of brand digital commerce have been a result of e-commerce having a voice in the C-Suite. Having that cheerleader can make the difference between a winning strategy, and something destined for failure.

INSIGHT

REAPING THE REWARD OF E-COMMERCE

At what point can a brand expect to reap significant strategic benefits of selling on their BDC channel? According to Adweek Insights research, FMCG brands need to see between **three percent to five percent** of total transactions on their site, while more expensive, highly considered products should have **10 percent or more.**

SOURCE: ADWEEK INSIGHTS

›› FIVE WINNING FACTORS IN BRAND DIGITAL COMMERCE

1

Clear vision and goals – Define what you want to set out of your BDC initiative and establish metrics so you know when you set there.

2

Dedicated ownership – Even for brands that are new there should be at least one dedicated resource to champion the initiative and ensure its success.

3

Runway to grow – BDC is an investment in a new channel. These programs take time to set off the ground and hit their stride. Expectation of short-term profitability usually dooms it from the start.

4

Core to the organization – Data and insights must trickle out to other functions such as marketing and product development, to get full strategic benefit.

5

Support from the top – None of the above can be achieved without clear backing from the c-suite and signal that this is key part of the brands long-term vision.

CONCLUSION

As Mark Bergen, Head of Sales for Shopify Plus, has observed, "In the past year, the conversation regarding brand digital commerce has changed – brands are no longer asking "whether" or "when," but "how." And this reflects a huge mindset shift, particularly among large conglomerates who have lagged behind and are feeling the pressure to act." Based on our research for this report and frequent conversations with consumer goods marketers, we concur. The pull from technology changes, the retail environment, disruptive competitors and shifts in consumer behavior are just too strong. In fact, we've noticed an acceleration of brands facing up to the challenge and launching these capabilities on their own websites.

The good news is that the barrier to get a storefront up and running in the digital sphere is much lower, and while that's true for established brands, it's equally true for competitors. As the monumental shifts described in this paper take hold, if you aren't already considering the importance of going direct to consumers on your website, the time is now to be investing in the same or risk being left behind.

SOURCE:

ABOUT ADWEEK INSIGHTS

Adweek Insights' mission is to identify the most critical issues affecting in the brand marketing ecosystem, educate readers about trends that drive marketing today and deliver in-depth insights to empower executives to do their jobs better and bring value to their companies.

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