E-commerce Opportunities: What, When and How to Achieve Growth in the Digital Space

September 2018
**Huge Opportunity!**

E-commerce presents tremendous opportunity for CPG manufacturers. With a strong online presence and strategy focused on the entire path to purchase, e-commerce has great potential to earn shopper awareness and become a powerful growth lever.

For CPG manufacturers and brand marketers looking to reap the benefits of this opportunity, e-commerce must become a key digital pillar within CPG strategy. It must have a top-down, cross-organizational commitment, with nimble, innovative strategies built around consumers’ desires, demands and behaviors. Many firms already experience the power of this growing marketing channel. But for the CPG industry to keep up and maintain relevance with consumers, e-commerce must advance via collaborative CPG-retailer go-to-market strategies that are driven by a new mindset.

The shopping journey today is more complex than ever. Shoppers still visit brick-and-mortar stores, but trends indicate online visits influence online and in-store shopper behavior. Consumers seek information online for:

- Latest product introductions
- Trends
- Money-saving opportunities
- Insight into customer expectations from other consumers

"Digital will influence 77% of all retail sales this year."
Retail value = $2 trillion¹

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**EXHIBIT 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total CPG Sales ($B)</th>
<th>E-com as % Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$813</td>
<td>2.0%</td>
</tr>
<tr>
<td>2018</td>
<td>$835</td>
<td>2.7%</td>
</tr>
<tr>
<td>2019</td>
<td>$860</td>
<td>3.6%</td>
</tr>
<tr>
<td>2020</td>
<td>$889</td>
<td>4.9%</td>
</tr>
<tr>
<td>2021</td>
<td>$923</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

Source: IRI E-Market Insight™, IRI Strategic Analytics

An understanding of how consumers navigate e-tail trips online is critical to ensuring retailers and brands deliver the right message at the right time. Brick-and-mortar brands must establish a presence along shoppers’ paths to purchase to become an integrated part of shopping journeys today and in the future.

This report highlights opportunities and mishaps in e-commerce today, seeking to better define how e-commerce can—and should—be part of innovative and progressive CPG strategy. Further, we’ll examine best practices and garner insights from the leaders in e-commerce today.

Finally, this report defines the key roles of advanced technology and know-how for retailers committed to working with CPG manufacturers and brand owners to identify and build on e-commerce opportunities. The market has access to big data, insights, tools and resources, all invaluable tools in leveraging this growth driver.

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¹ Source: IRI Consumer Network™
Small, But Mighty and Growing

Even though e-commerce accounts for less than 5 percent of total CPG sales in the United States today, its influence and potential have far greater value. E-commerce is the fastest-growing channel in CPG, outpacing brick-and-mortar in most categories. E-commerce can provide momentum, but growth is more challenging as often online sales come at the expense of brick and mortar. If brick-and-mortar retailers don’t compete online, they’ll lose sales, opportunities for future growth and momentum that an online presence creates.

Projections indicate total e-commerce sales will double in the next two to three years, catalyzing growth that is pacing an average increase of 12 percent annually since 2013.

To succeed in the digital world, CPG marketers must completely rewire their go-to-market strategies. Historically and in the brick-and-mortar environment, innovation and SKU proliferation catalyzed growth—pushing products into market and then supporting them with marketing and merchandising. In this push model, CPGs invest millions of dollars to build out inventory on retail shelves and then turn on marketing spend to drive consumer awareness and engagement. Retailers have to maximize the in-store experience with secondary placements for more product exposure and to spur shopper experiences.

E-commerce is a pull environment. Virtual shelves are populated with virtual products. There is no preliminary inventory build-out investment. Online, CPGs need to spend at product launch to create awareness and consideration before the possibility of a purchase, allowing demand to pull products through the system. Once demand is created, manufacturers need to be reactive in this model in order to fulfill demand quickly, thus efficiency in the supply chain is more critical than ever.

The approach to e-commerce also needs to consider that the online marketplace is an equalizer. Niche brands can drive awareness and engagement by marketing along the digital path to purchase. In this space, smaller players benefit from agility and know-how, leaving leaders that are stuck in the traditional brick-and-mortar mindset scrambling to catch up.
Perspectives

Fully embracing opportunities online demands an in-depth understanding of how brick-and-mortar and online retailers compete, co-exist and complement each other simultaneously. In the Path to Purchase Institute’s Shopper Marketing Trends Report 2018, industry experts captured the impact e-commerce is having on the in-store environment.

From the panel discussion:
Just how big of a factor is e-commerce in the retail landscape?

“Our e-commerce investments enhance our shoppers’ path to purchase because, as we know, prior to purchasing, they are researching products digitally at home or even while at the store shelf. E-commerce enables consumers to jump straight from discovery and inspiration to having products delivered within an hour. This change is compacting the path to purchase and making it less linear.”
— Leslie Danford, Director of E-commerce, Beam Suntory

“The dollars are still obviously much higher in-store today, so brands should not forget that. However, growth online is not projected to slow down anytime soon, and the more you invest now and the more you develop a history and relationships with e-retailers now, the better your chances of long-term success. This likely means overinvestment and poor returns for a few years, but if you wait, you’re dead.”
— Megan Harbold, Vice President of E-commerce, The Mars Agency

Tim O’Connor, CEO and founder of Retailer Performance Solutions, emphasizes the importance of navigating the digital landscape and collaborating to earn shoppers’ business. At a recent Path to Purchase Expo, he said marketers must be creative, proactive and persistent over time because of the complexity in the e-commerce landscape. He added that while retailers have a good grasp of shopper insights given high levels of customer engagement, brands and e-tailers can make inroads as long as CPG brand marketers consider shopper insights and re-evaluate their path-to-purchase process in the digital space.

E-tailers have the understanding of how consumers move online. Visibility into the online path to purchase illustrates where shoppers were before they landed on a retail site—their journey tells a story.

For retailers, the key is significant investment to build out capabilities online and grow e-commerce for grocery, in particular. Today e-commerce for grocery is largely in urban areas and on the coasts. Walmart continues to make strides in building out its click-and-collect offering, but it is not yet available at all locations.

The key to figuring this out is balance—create great in-store experiences and provide the customer service today’s consumers want in-store and online. Positive experiences in either channel will provide benefit and competitive advantage.
Course Correct

Brand marketers are well-equipped to influence shoppers through e-commerce, but they have to ensure strategies accurately reflect the integrated nature of today’s omnichannel environment. They can—and should—help retailers drive more engagement and better shopping experiences online. To do this, brands must have a compelling presence at strategic points along the path to purchase.

Path-to-purchase points include:

- Search
- Social media interactions
- Specific digital domains

Search patterns are often misunderstood. Google accounts for 46 percent of U.S. digital ad revenues, representing $39.9 billion, according to eMarketer. U.S. digital ad spending is increasing at a high rate, but are dollars being appropriately allocated? While Google earns huge share, retail sites get the lion’s share of product searches. Thus, another critical element to collaborative e-commerce relationships is CPG-retailer partnerships to build a bold presence on retail sites, attract ad spend and execute search engine optimization.

To win, retailers must give CPGs the opportunity to build a brand experience on their e-tail site, then engage the brand’s qualified audience with digital media and make a strong call to action to inspire shoppers to click through to see the brand presence on the retailer site.
Cast a Broad Net

E-commerce strategies built around the digital path-to-purchase should have a basis in 360-degree consumer insights in order to dive deep into shopper motivation and purchase drivers. Consumer and market insights will identify key factors that serve as a strategy foundation, identifying who makes purchases online and when and why they make those purchases.

CPG marketing undoubtedly has changed and will do so even more dramatically as shoppers move online more frequently. E-commerce is a marketing funnel. The digital marketplace has turned the tables:

- Today is less about what you own, more about where you BUILD your brand presence.
- It’s not about linking consumers to your properties, but DRIVING shoppers down the path to purchase.
- Integrate your messaging to EARN performance online and in-store.

It’s important to cast a broad net—retailers need to employ a customer base and use media to drive a more qualified audience to the retailer site. Then, strategic digital marketing campaigns can retarget shoppers once they’re off the site, building an ecosystem and expanding the retailer-specific customer base.

Integration of data and insights requires significant investment in resources and access to best-in-class data, which is often a heavy burden for most CPG companies. Also, many key online retailers don’t contribute to the broader data ecosystem, leaving gaps in understanding capabilities and methodologies necessary to build a holistic e-commerce strategic platform.

Strategies build on a 360-degree understanding of the digital path to purchase will support an ecosystem that drives shopper engagement.

**EXHIBIT 3**

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**eShopperLink Segment Sizes**

- **eShopping Enthusiasts**: 8%
- **Variety Seekers**: 19%
- **Review Seekers**: 29%
- **Selective eShoppers**: 22%
- **eShopping Resistors**: 11%
- **eShopping Avoiders**: 10%

**Median Age**: Tend to be younger. Nearly one quarter are 18–24 years old.

**Presence of Kids**: More likely to have kids than all other e-commerce segments.

**Race**: Most racially diverse segment. Nearly one-third are non-white.

**Median Income**: Household incomes are in line with the overall population.

**Household Size**: Highest proportion of 3+ member households; 42% have 3 to 4 members.

**Ethnicity**: Largest concentration of Hispanics resides in this segment.

Source: IRI eShopperLink Segmentation
Learn from the Trailblazers

Retailers are moving quickly to establish a firm foothold in the explosive e-commerce world. There is no time to waste in engaging and exciting shoppers who are in the early stages of creating their e-commerce behaviors. Winning over shoppers now will reap long-term success as they realize the benefits of e-commerce and settle into a new shopping journey.

To start, it’s imperative to build a strong online presence in order to tap e-commerce growth opportunities. Strategies need to hone in on a broad group of factors—from subject matter to target markets and every consumer need in and around the category, CPG teams have to recognize the unique, personalized approach necessary and implore retailers to build the brand presence on the retailers’ own sites. In repositioning spend against e-tail sites rather than Google, search engine optimization, distribution plans and aesthetics of the site are imperative. Everything contributes to an overall image and the ability to engage productively with shoppers online.

As retailers establish their strategies to embark—or build upon—their e-commerce business, two approaches have emerged: Build it or buy it.

Walmart.com has propelled efforts to establish presence and make connections online and the efforts have been successful! With major gains in its online business and modest gains in its stores, Wal-Mart Stores Inc. recently announced a strong first quarter of its fiscal year 2019, by posting rising comparable U.S. sales (+2.1 percent), driven by an increase of 1.3 percent in average ticket and a 0.8 percent jump in traffic. E-commerce soared, with sales growing 33 percent versus the prior year.

Wal-Mart has made big bets in e-commerce, spending more than $19 billion to acquire Jet.com, ShoeBuy.com, and a controlling stake in Flipkart, India’s largest online retailer.
Jet.com’s Kerrie Lopez, senior manager, Fresh Category Management, shares some insight on best practices in e-commerce:

Q. How should manufacturers and retailers approach goal-setting for e-commerce?
A. E-commerce brings a wealth of data and technology, and it can sometimes be very overwhelming. Keep your goals simple and focused on time-bound results.

Q. What do you anticipate will challenge e-tail over the next five years?
A. For one, perfecting the omnichannel delivery experience – from data through strategy and execution. Second, building credibility and trust with customers to move more grocery sales online, and also effectively collecting and using data for personalization.

Q. With a “limitless shelf” and the need to rewire go-to-market strategies, how can brands and retailers shift from a push to a pull strategy?
A. Personalizing the customer experience with recommendations. In an increasingly competitive landscape where customers demand more convenience and control, the brands that strive to guess what a customer is looking for before he/she even realizes will win.

Q. What are some of the keys to shopper engagement online?
A. Optimizing your browse and search capabilities to reduce friction is key – a seamless and consistent interaction with your website will retain customers in the long run. Site analytics and competitor data are at the core of this exercise. Constantly find opportunities to surprise and delight your customers. At Jet, we believe in “tiny touchpoints” as critical components to win over the hearts of customers, and ultimately, their whole network of family/friends.

Q. What do you think shoppers want the most of out of their e-commerce experiences?
A. They want to be empowered. This manifests itself in two main ways: convenience and transparency.

Q. What do you think frustrates shoppers the most when shopping online?
A. When we waste their time, for example browsing out-of-stock products, the inability to find what they want quickly/easily, a poor checkout experience, hidden fees, etc.

Q. How can your relationship with the CPG industry be improved?
A. Online retail can take cues from traditional brick-and-mortar strategies but it is very far from the same. Our most successful CPG partners are those that realize this and can be open and flexible to testing and learning with us.
Amazon Paves New Paths, Sets Standards

Amazon’s growth trajectory compares to Wal-Mart’s growth in the 1990s—monumental. Given Amazon’s position as a trailblazing e-tailer, the incredible growth sent waves through the entire retail industry and disrupted the brick-and-mortar marketplace in irreversible ways.

As a business structure, Amazon has benefited from a number of incremental cash-flow streams, including a media group, marketing services, third-party seller fees and membership fees. But what’s most compelling for CPG manufacturers and brand owners seeking to establish an e-commerce presence is how Amazon continues to raise the bar for e-commerce and shoppers’ expectations of what it means to shop and buy online.

CPG brands that capitalize on Amazon shopper engagement and traffic can utilize the site as a marketing platform, rather than only a sales platform. Consumers today look for shopping experiences that reflect their unique needs and wants, and Amazon has mastered the art of delivering. Also, when shoppers visit Amazon.com, they’re in a shopping mindset, ready to make easy, efficient purchases.

Having outlined the opportunity, mishaps, and successes thus far in the e-commerce world, it becomes evident that a new mindset is necessary to succeed in this space. If retailers and brand marketers want to grow, they have to engage key tools and resources to drive growth and create opportunities.

### EXHIBIT 4

**Most Popular Multi-Platform Web Properties in the United States**

<table>
<thead>
<tr>
<th>Web Property</th>
<th>Unique Visitors (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google Sites</td>
<td>249,024</td>
</tr>
<tr>
<td>Microsoft Sites</td>
<td>213,641</td>
</tr>
<tr>
<td>Oath</td>
<td>212,217</td>
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<tr>
<td>Facebook</td>
<td>212,053</td>
</tr>
<tr>
<td>Amazon Sites</td>
<td>204,743</td>
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<tr>
<td>Comcast NBC Universal</td>
<td>169,743</td>
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<tr>
<td>CBS Interactive</td>
<td>164,770</td>
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<tr>
<td>Twitter</td>
<td>159,630</td>
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<tr>
<td>Apple Inc.</td>
<td>152,151</td>
</tr>
<tr>
<td>Meredith Digital</td>
<td>150,026</td>
</tr>
</tbody>
</table>

June 2018, Based on Number of Unique Visitors (millions)

Source: comScore
Solutions and Insights to Drive Progress in E-commerce

To serve the CPG community as it navigates the e-commerce marketplace, IRI has built the industry’s leading e-commerce suite of solutions.

E-commerce data sources are fragmented and data quality is inconsistent. Integration requires significant investment in resources and access to best in-class data, which is simply too heavy a burden for most CPG companies. Additionally, with key online retailers not participating in the data-sharing ecosystem, very few insights providers have the capabilities and methodologies to accurately fill the data gaps.

To provide a framework for solid online strategies, IRI’s E-Market Insights® – Custom enables the integration of multiple e-commerce data sources either supplied by or customized for each client.

Key benefits include:

- Secure integration of IRI and client data
- Visualization on the IRI Unify® Visualization platform
- Broader metrics based on custom projections:
  - retailer-level views
  - additional product granularity
  - digital shelf causal factors (pricing, assortment, search rank, reviews)

With integrated IRI and client data and digital shelf data from Clavis Insight, users generate a true omnichannel market view customized and calibrated to meet specific and unique needs, based on the client’s strategy and goals.

On one platform and in a fully harmonized fashion across dimensions including time, geography, product and measures, users achieve seamless, efficient, in-depth data sets and insights. They can more easily and more accurately build the foundation for successful e-commerce execution through:

- Accurate category views and cross-category benchmarking
- In-depth brand performance reviews
- Monitoring key online indicators
- Ability to make real-time adjustments
- Reaching and activating online shoppers

At the heart of IRI’s solution is IRI’s E-Market Insights®, which offers an unparalleled view of the online market. Offering a complete read of the U.S. e-commerce universe, IRI’s E-Market Insights reports online dollar sales and brand shares projected to represent the total U.S. e-commerce channel. With four years of back data (2015–2018) and more than 150 categories, these comprehensive data and insights provide a solid and in-depth foundation for e-commerce strategic planning across segments and markets.

IRI also delivers a comprehensive suite of shopper diagnostics solutions to complement the market measurement-focused E-Market Insights:

- **Omnichannel Insights** – Identify top-performing and emerging shopper segments.
- **Path-to-Purchase Insights** – Illuminate websites most frequently visited prior to an online purchase of specific categories, which allows users to recognize key points of shopper engagements; quantify conversion success rates when certain retailers are present in the path to purchase, allowing for an assessment of lost sales opportunities and competitive threats.
- Consulting-style engagements to address broader organizational strategies.
To build a road map to execute, win and grow with e-commerce, contact IRI.

www.IRIworldwide.com  866-262-5973

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