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E-Commerce and Consumer Goods *A Strategy for Omnichannel Success*



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EXECUTIVE SUMMARY

The rapid adoption of digital technologies and evolving shopping behaviors are transforming e-commerce into an essential element of omnichannel success in the consumer packaged goods (CPG) industry. To win over digital shoppers and enhance collaborative relationships with pure-play online and clicks-and-bricks retailers, CPG manufacturers need to build strong digital capabilities to drive engagement and conversion across the entire path to purchase. Indeed, the benefits of an investment in e-commerce include not only a larger share of the relatively small but fast-growing online markets in many CPG categories, but also a greater influence over traditional retail sales. Manufacturers should consider several key questions to prioritize the right opportunities in e-commerce and identify how e-commerce strategies best fit within their overall digital marketing agenda. Based on their specific strategic choices, they can then identify the partnerships, investments, and organizational structure best suited for successful implementation.

THE E-COMMERCE IMPERATIVE

E-commerce has already transformed a number of industries, including consumer electronics, apparel, and entertainment. It has had less impact to date on consumer packaged goods (CPG) categories overall, but that is changing quickly as the mass adoption of digital technology leads to fundamental changes in consumers' shopping behaviors. Tablets and smartphones are making it easy for consumers to shop for products whether they are on the couch, on the go, or in the aisle. These devices are blurring the line between browsing and

shopping by allowing consumers to access information, compare prices, and make purchases almost instantaneously. As a result, CPG manufacturers must take full advantage of new online platforms, including those owned by retailers, to get their products in front of shoppers earlier than ever before—in some cases, even before consumers explicitly express their intent to buy something.

Overall, e-commerce still represents a relatively small portion of retail sales, but it is growing quickly.

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In 2012, e-commerce is expected to account for more than US\$175 billion of the approximately \$2.8 trillion in U.S. retail sales (not including travel, auto parts, and movie and event tickets). This amount may still seem relatively small, but e-commerce is becoming a growth engine across CPG categories: Its share of CPG sales is poised to double over the next several years, while category growth is expected to remain near inflation levels. Between 2010 and 2015, more than three-quarters of the roughly \$100 billion in incremental growth in e-commerce in the United States will come from well-established online sales channels, but emerging channels such as mobile and social e-commerce are expanding quickly, and will contribute about one-quarter of the growth. In certain developing economies, such as China, e-commerce is expected to grow even faster, driven by

increases in demand that outpace retail infrastructure and the rapid adoption of mobile technologies for shopping and payment.

CPG manufacturers that successfully pursue the growth opportunity in e-commerce will reap many benefits. They will be able to develop more influential and collaborative relationships with their retail partners. They will gain a powerful means of driving sales growth and profitability. And, perhaps most important, they will obtain valuable data and a unique opportunity to directly observe consumers' shopping behaviors and discover new approaches to enhancing conversion all along the path to purchase.

To realize these benefits and ensure that their investments are properly aligned with the scale and pace of the opportunity, manufacturers must understand the role and potential

of e-commerce in their categories, develop an appropriate e-commerce strategy, prioritize their investments, and then, of course, execute diligently. As they consider these strategic imperatives, they should answer the following five questions:

- How big an opportunity does e-commerce represent for our company?
- What synergies exist between e-commerce and the broader digital marketing agenda?
- What will it take for us to win with online partners and retailers?
- Should we launch our own online direct-to-consumer (DTC) sales channel?
- How should we structure our e-commerce organization?

EVALUATE THE OPPORTUNITIES

E-commerce represents a substantial opportunity for the CPG sector as a whole, but penetration rates (the proportion of total sales transacted online) are still much lower here than in other consumer product sectors. In consumer electronics and appliances, for example, e-commerce is expected to account for as much as 34 percent of annual retail sales in the U.S. in 2012. Within the CPG sector, the current size of the e-commerce market and the speed with which it will grow vary widely by category. For example, certain categories, such as consumer (non-prescription) healthcare and beauty,

have relatively high e-commerce penetration rates compared to others, such as grocery (see Exhibit 1).

The level of e-commerce penetration within a category is dependent on several characteristics of the products being sold:

Consideration: Items that involve substantial research before purchase and have limited “high touch” retail options, such as consumer healthcare and beauty products, can benefit from thoughtfully curated online shopping experiences.

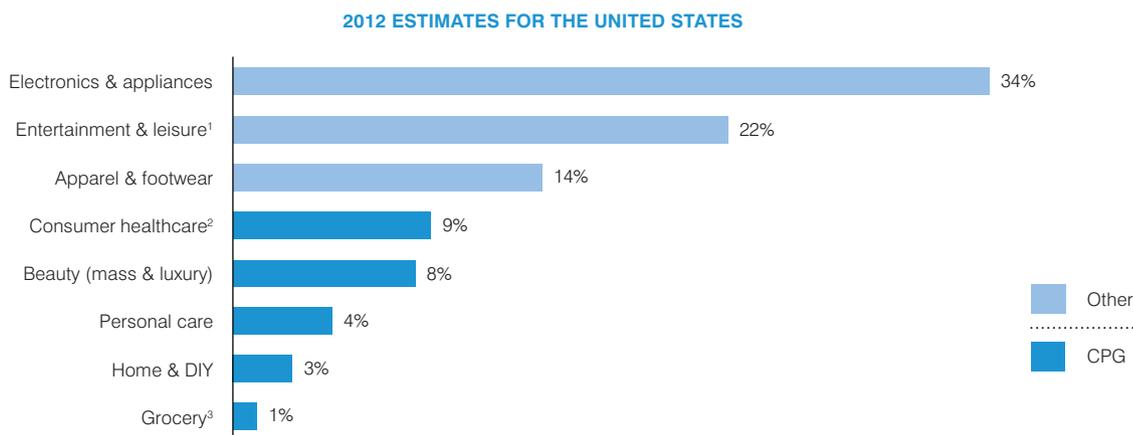
Timing: Even in the age of Amazon Prime and next-day shipping, the challenging economics of same-day delivery outside densely populated urban markets ensures that most immediate shopping needs will continue to be fulfilled offline. In addition, when shoppers make a trip to the store for certain items (such

as fresh produce), they may prefer to purchase the remaining items on their lists at the same time.

Ratio of price to shipping costs: Low-ticket items that do not qualify for free shipping will perform less well. Certain products may be aided by being part of an online market basket, stressing the value of selling products on sites that offer a variety of categories.

Physical handling and sampling: Products such as fashion apparel or impulse purchases in which seeing, feeling, and trying the product is a significant element of the shopping experience will tend to do less well online. However, creative ways to lower this barrier, such as sampling, free returns, and virtual do-it-yourself and dressing room technologies, can be effective, as is evident in the rapid growth of apparel and beauty e-commerce.

Exhibit 1
E-Commerce Penetration by Category



¹ Includes books, music CDs, hobby goods, etc.

² Does not include prescription drugs.

³ Includes cleaning/household supplies, packaged food, produce, and beverages (including alcoholic beverages).

Source: U.S. Department of Commerce; Euromonitor; Datamonitor; Forrester; eMarketer; Gartner; Morgan Stanley; Booz & Company analysis

Ease of transport: Products that are fragile or physically cumbersome, or whose quality can be hurt by shipping, such as carbonated soft drinks, will perform less well.

Shelf stability: Perishables and other products requiring temperature control are more difficult to sell online.

Given these characteristics, it is clear why the consumer health and beauty categories are experiencing the fastest online growth rates in the CPG sector and are likely to continue to grow quickly relative to other CPG categories. Cosmetics, for example, tend to be expensive relative to other everyday household goods. They are lightweight and easy to ship, and they have long shelf lives. They are also high-consideration products, which benefit from sales environments that allow consumers to perform extensive research to find the right products for their needs and, once they have decided, to easily reorder these products. Conversely, dairy products are among the categories with the lowest degrees of e-commerce penetration. They are expensive to ship in proportion to their price, require refrigeration, have short shelf lives, and represent relatively straightforward purchases that require little research.

Further, manufacturers should consider to what degree non-CPG consumer categories have shaped and will shape the learned behaviors of shoppers and the experiences they will expect in CPG categories. Regional warehouses and the rising availability of expedited and free shipping options are leading consumers to expect to receive CPG products quickly and inexpensively. The growing use of targeted relationship marketing and shopper solutions, as well as the integration of commerce into advertising, is not only driving higher conversion rates, but also raising consumer expectations for a sleek, simple browser-buyer conversion process. Finally, mobile applications on tablet and smartphone screens and ubiquitous connectivity, whether on the couch, on the go, or at the shelf, are raising consumer expectations for a more compelling, omnichannel shopping experience. Thus, while certain factors that drove e-commerce in the past, such as sales tax-free purchasing, are likely to erode, the e-commerce value proposition for consumers is rising overall.

The e-commerce penetration rates in certain CPG categories, such as food and beverages, are unlikely to match those in consumer categories, such

as electronics and entertainment, anytime soon. Nevertheless, as CPG manufacturers consider the e-commerce penetration rate in their categories, the characteristics of their products, and the expectations and behaviors of consumers, many will likely conclude that e-commerce will be an indispensable driver of profitable growth and a key determinant of their ability to attain and defend a leadership position in their categories.

Indeed, even in low-penetration categories, the increasing number of in-store purchases that are influenced by digital engagement along the path to purchase may lead manufacturers to conclude that e-commerce is an essential element of their shopper marketing strategy. For example, e-commerce can be a highly effective platform for delivering shopper solutions that provide value to consumers through combinations of new ideas, education, convenience, and targeted savings. And although many of the shoppers who engage in these solutions will not become e-commerce buyers, the time they spend online will influence their offline purchases.

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LOOK FOR SYNERGIES

Beyond the incremental growth directly attributable to e-commerce, CPG manufacturers should consider its role in developing the omnichannel engagement that is increasingly necessary to a successful digital marketing strategy. An omnichannel approach offers a solution to one of the greatest challenges facing marketers: how to replicate the scale of traditional mass media, such as television and print, in digital media.

In undertaking this challenge, many marketers are focused on social media platforms, such as

Facebook and Twitter, and a focused set of portals. But they tend to overlook the huge audiences generated by the digital assets of clicks-and-bricks and pure-play online retailers. These assets are fertile new ground for enhancing collaboration between brands and retailers, targeted advertising, and the content integration needed for many shopper solution programs.

Walmart.com, for example, has almost 60 million unique visitors monthly. It offers enormous reach in comparison to many media company assets. In addition, its audience is already in shopper mode

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with all the upside for conversion that entails. The same is true of Amazon, the leading pure-play e-tailer, with 132 million active customer accounts and a treasure trove of shopping basket data that it has effectively mined to create highly effective personalized offerings. The value of audiences of this size is not lost on retailers. Amazon created Adzinia, an ad sales group that is wholly dedicated to monetizing the site's position as a leading digital publisher. Other retailers are following suit, often working with intermediaries such as Triad Retail Media, MyWebGrocer, and Longboard Media.

As CPG manufacturers analyze the synergies between e-commerce and digital marketing, they should consider the potential of advertising and content integration on online retailers' digital assets to drive sales across channels. According

to leading e-tailers, consumer product advertisements on their sites generate a lift in offline sales of 5 to 10 percent and a brand lift of 10 to 15 percent. Other studies suggest that every dollar in online sales yields an offline sales influence that is five to six times greater. The engagement created as consumers use e-commerce sites to research products and hunt for deals not only drives online sales, but also influences offline sales and top-of-the-purchase-funnel metrics, such as awareness and consideration.

Additionally, CPG manufacturers will need to consider the internal changes that may be necessary to capture the synergies between e-commerce and digital marketing. In many cases, it will necessitate a far more collaborative approach between sales and marketing than has traditionally been seen. Media investments that might appear

exorbitant to an e-commerce team may make perfect sense when brand objectives are further up the marketing funnel and when shopper marketing programs designed to drive conversion in the store are added to the ROI mix.

Indeed, any assessment of the ROI of e-commerce spending should include its effect both online and offline. Best-in-class e-commerce players make a conscious effort to bring marketing representation to the negotiating table and to the design of pilot projects aimed at proving out benefits. Conversely, shopper marketing and category management teams—the bridges between sales and marketing—should participate in cross-functional strategy and planning efforts for digital marketing and media to ensure that the offline benefits are fully realized.

DEVELOP THE RIGHT PARTNERSHIPS

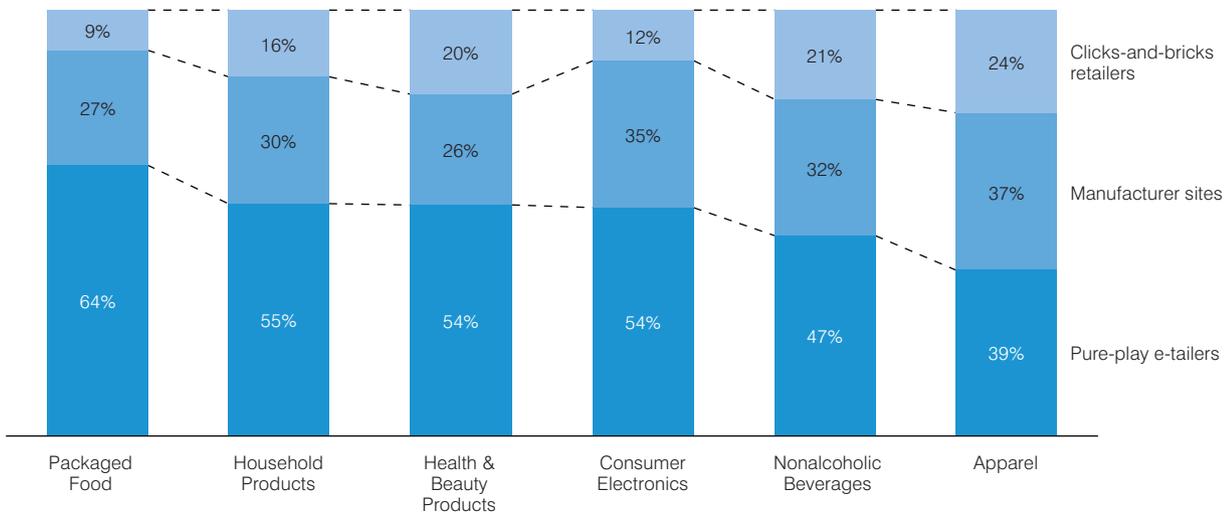
E-commerce offers CPG manufacturers a new direct channel to consumers, but online retailers are still a key element in a successful e-commerce strategy. As in the offline world, consumers prefer to shop at online sites with the widest selection, the best customer service and experience, and, of course, the most attractive prices. For these reasons, most consumers will continue to make most of their online

purchases through retailers' sites (see Exhibit 2).

In contemplating e-commerce partnerships with retailers, manufacturers should identify the most promising partners. Sales volume is an important criterion in this process, but it should not be the sole reason for choosing a partner. It is also important to determine how willing the online retailer is to

Exhibit 2
Consumers' Online Shopping Behavior

A SURVEY OF 1,000 U.S. CONSUMERS REVEALED THE MOST POPULAR E-COMMERCE DESTINATIONS



Note: Some numbers may not add up due to rounding.
Source: Booz & Company eSurvey, December 2011

build business collaboratively and its posture with regards to data sharing, content syndication, and experimentation.

Further, manufacturers will likely discover that their initial investments will bear the most fruit if they are heavily concentrated with a select few of the most relevant e-tailers and clicks-and-bricks retailer sites in their categories. The knowledge generated in developing those accounts can then be scaled across a broader set of channel partners.

The kinds of investments that manufacturers are called on to make to establish partnerships with online retailers typically fall into five buckets, listed in sequential order from initial forays to more robust e-commerce sales positions:

Content optimization: initial investments in search engine optimization,

keyword purchases, and descriptive materials and images that make it easier for consumers to find and learn about the manufacturer's products on the retailer's website;

Content integration and syndication: investments in the various forms of content (such as photos, videos, blogs, recipes, ratings, and reviews) that drive consumer engagement on e-tailer sites and manufacturer-specific subsites;

Targeted advertising and promotions: investments in retailer-targeted advertising (both on retail sites and more broadly to drive traffic to retail partners), seasonal and thematic promotional programs, and shopper marketing solutions that combine ideas, offers, and a clear call to action for specific shopping occasions;

Point-of-sale (POS) data and analytics: investments in purchasing,

capturing, and mining online sales data, including market basket information, search terms, site visitation patterns, promotional offer redemption rates, and loyalty card data; and

In-house resources: investments in account-dedicated resources, particularly those focused on online merchandising, assortment optimization, and online shopper basket analytics.

Over time, investment as a percentage of sales in online partners should decline, eventually reaching parity with bricks-and-mortar accounts. For instance, manufacturers that are serious about doing business with Amazon should be prepared to invest as much as 30 percent of gross sales initially, decreasing that figure to 10 to 15 percent of gross as the account reaches scale.

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CONSIDER A DIRECT-TO- CONSUMER WEBSITE

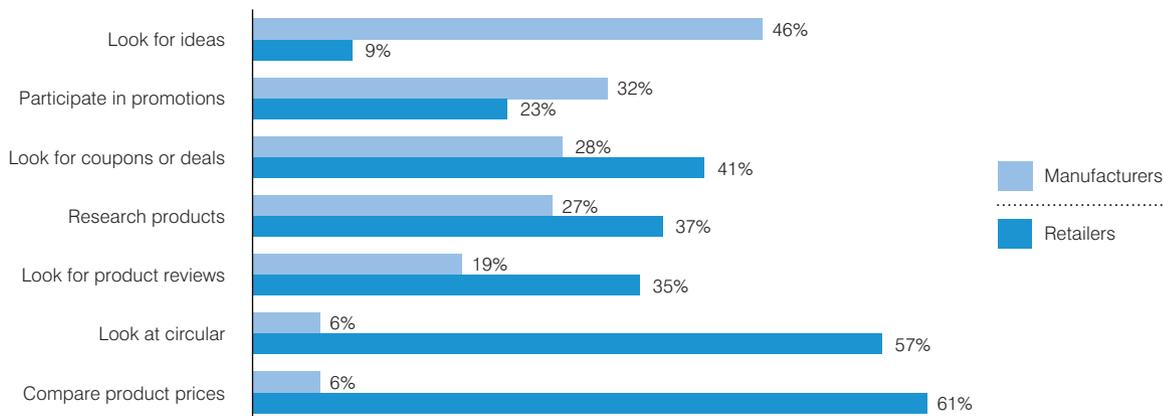
Manufacturers' brand websites are an essential component of an omnichannel strategy. As a proprietary means of delivering branded experiences and providing product information, they have proven to be highly effective at driving consumer engagement on the path to purchase (see Exhibit 3). Now, CPG manufacturers must also consider whether to directly capture the sales they are generating on these sites or, instead,

to drive conversion to retailers (either in physical stores or by providing a shopping basket handoff to online trading partners).

The primary benefit of online DTC channels is the direct access they provide to consumers. These sites are valuable learning labs and highly effective hubs for disseminating product knowledge, building brands, and creating and

Exhibit 3
The Value of Direct-to-Consumer Websites

1,581 U.S. FEMALE CONSUMERS WERE ASKED:
FOR WHICH OF THE FOLLOWING REASONS DO YOU TYPICALLY VISIT RETAILERS' AND MANUFACTURERS' WEBSITES?



Source: SheSpeaks iVillage Shopper Study, March 2011; Booz & Company analysis

testing one-to-one pricing, online assortment schematics, and shopper solutions. Moving from engaging shoppers around solutions to directly fulfilling their e-commerce transactions may seem like a natural evolution to deepen these shopper relationships and maximize sales revenue. More important than sales volume itself, however, is the opportunity for manufacturers to glean insights that can help them build engagement and sales across all their other sales channels, including those of their traditional trade partners. Since the launch of its eStore (www.pgstore.com) in 2010, Procter & Gamble has repeatedly pointed to this benefit. Online DTC sites are also valuable tools for building stronger, more loyal consumer relationships; creating category growth; and, when retailer consolidation is a concern, sustaining sales in the face of declining reach.

At first glance, manufacturers might not appear to be well positioned for processing shopping transactions; in the eyes of online shoppers, this remains the domain of retailers. Nevertheless, a few consumer companies have successfully created com-

selling and truly distinctive online shopping experiences that are capturing sales. Nike, for example, has fully integrated its online and social media channels to deliver unique content and allow users to customize orders. Other companies feature exclusive offers to increase the stickiness of their sites, such as Chanel's Déjà Vu, which sells "discontinued favorites."

Broad-based CPG manufacturers can also establish successful online DTC sites by offering larger category-wide and cross-category portfolios of products, as opposed to a single brand. For example, P&G's eStore features all the company's brands, with dedicated "brand shops" for its major brands. The company also offers discounts designed to encourage consumers to shop across brands.

When establishing online DTC sites, manufacturers must consider how they will reassure their retail partners about their competitive intentions. This can be accomplished by continuing to fund programs that drive traffic to retailers, as well as by leveraging the unique insights and content they develop through their own digital assets to enhance retailer

collaboration efforts. Manufacturers can also help to develop differentiated products (by using, for example, various packaging, sizes, and flavors) that enable major retail accounts to stand out from both proprietary sites and competitors.

Of course, manufacturers should factor in the complexities and costs of establishing and operating a DTC site, both of which are considerable. At the outset, marketing and promotional costs alone can run as high as 20 percent of sales, and fulfillment can cost upward of 10 percent of sales. There are ancillary recurring costs, such as customer service and payment authorization. Additionally, there are one-off costs, such as site back-end development and ERP and finance integration, which could cost as much as \$100,000 each.

Manufacturers must also consider the competitive environment. As more and more CPG manufacturers decide that the effort and investment in online DTC sites is worthwhile, their competitors will have to establish their own sites or risk being left behind.

BUILD A CAPABLE ORGANIZATION

Building the right organization model for e-commerce requires careful consideration of two questions: Should the e-commerce capability be built centrally or distributed within individual brands or business units? And given the high degree of overlap in shopper insights, data analytics, content development, and retailer-specific customization and execution required in both endeavors, should investments in e-commerce be integrated with retailer-based digital shopper marketing programs?

The answer to the first question is a function of the maturity and size of a company's e-commerce initiative. For manufacturers that are early in this journey or are planning smaller initiatives, leveraging existing teams, such as a digital center of excellence and customer teams co-located with specific retail customers, may be a good way to structure an e-commerce function without adding significant new head count and operational complexity.

For manufacturers whose initiatives are more mature or that are planning to make a substantial commitment to e-commerce, it will likely make more sense to create a separate, centrally run e-commerce team that is distinct even from existing digital marketing organizations. A dedicated

team offers enhanced focus, a means of nurturing new talent, and greater transparency and accountability for decision making. This alternative is also likely to provide greater coordination across brands and retail teams, as well as to drive stronger capability development (with the cross-functional involvement of insight, technology, digital center of excellence, and shopper marketing teams).

As e-commerce takes on added importance in a CPG manufacturer's growth agenda, companies may also want to reconsider how their shopper marketing organizations are structured. In most cases, shopper marketing is still sales-led and aligned closely with both trade promotions in the store and digital marketing in order to drive shopper engagement pre-store, in-store, and post-purchase. But, as digital platforms play a more central role in driving store traffic and growing the size of the shopping basket, companies will invest more in "digital first" shopper solutions. This will require greater coordination between shopper marketing and e-commerce, as well as more structure than informal teaming allows. One solution is to move some of the company's digital shopper marketing and insights resources into the e-commerce organization.

A WINNING E-COMMERCE STRATEGY

For most manufacturers, a fully fledged e-commerce strategy will eventually require an integrated omnichannel approach that includes investments in clicks-and-bricks retailers, pure-play e-tailers, and proprietary online stores. Success in these e-commerce channels will require significant investments in three core elements: content, data and analytics, and targeted media.

Content—such as ratings and reviews, how-to video tutorials, personalized match-finder applications, and digital shopper solutions—is the basis for differentiated online experiences that offer value beyond the product itself. The collection and mining of online data and analytics is the key to discovering consumer and shop-

per insights that can enhance and drive engagement across the myriad touch points in the digital world. And targeted media spend, both on e-commerce sites and across other media channels, is needed to reach mass audiences online and complement investments in owned and earned media in the quest to optimize conversion along the shopper's path to purchase.

CPG manufacturers that successfully create and execute e-commerce strategies that include all these e-commerce channels and foundational elements will be the category leaders in fast-emerging and valuable digital markets. In the coming decade, manufacturers that follow this path will enhance their right to win with retail trading partners. They will be the companies that embrace the e-commerce opportunity within the broader omnichannel agenda, and build an e-commerce capability that engages shoppers wherever they are, however they want to interact, and with a winning proposition that delivers a superior experience.

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