

THE ECOMMERCE OPPORTUNITY FOR FMCG BRANDS: SALES AND HALOS

FMCG products have long watched ecommerce from the sidelines, but with ecommerce sales set to hit \$1.7 trillion in 2015, there is the rapid realization that it is as important to FMCG as it is to categories like travel or electronics. There is however still little understanding of what the true impact of ecommerce is on mass distributed brands that have been available on the high street for years and are practically institutions themselves. There is a lack of clarity on how brands sell to consumers online – whether directly or viaetailers. Clearly, there is more to ecommerce than simply giving consumers a place to enter in a credit card number.

For FMCG brands, the growth of ecommerce comes from not just a shift – but also the opportunity to grow incrementally. In just two years after its launch, Dollar Shave Club has cornered an 8.8% of the US razor blades market.

Their clever use of media and technology to solve a consumer problem means that this ecommerce startup has upended the status quo of a category that hadn't seen significant evolution in decades. For mass products, ecommerce represents a dual growth opportunity: capitalizing both on consumer shift as well as the ability to deliver a new service.

While it is an area of immense innovation, selling direct to consumers is not without its challenges. Not only does it open up a distribution and packaging challenge, brands have to invest in the technical backend to manage secure transactions and consumer data. The larger conceptual problem however, is that for most products, consumers go to one destination – virtual or real – to see which shampoo they want and don't visit each shampoo maker individually.

The alternative – selling throughetailers is also a wrinkle in the logistics chain FMCG manufacturers have perfected. Etailers such as Amazon generally operate on an inventory light model and place small, if frequent orders. This upends the efficiency manufacturers are able to achieve at a scaled operation. Besides, why bother with the tiny number of people who buy shampoo online when there are millions who flock to the supermarket? How then, do mass market brands seize the opportunity that ecommerce presents?

RETHINKING THE ROLE OF ECOMMERCE

For FMCG brands to focus on ecommerce just as a distribution channel is to use a meat cleaver to slice a shallot. Consumers increasingly rely on ecommerce, irrespective of how they make the actual purchase: via clicks, bricks, or a mix. Using MEC Momentum, a proprietary approach for understanding how people make purchase decisions, we can quantify how ecommerce fits into the non-linear journeys that consumers make on the path to purchase. MEC Momentum uses a custom designed quantitative questionnaire that gives a detailed picture of what buyers think and do in a specific category, and which communications and behaviors influence them. Momentum data makes it clear that the true potential of ecommerce is not just in the immediate transaction it facilitates, but it is just as important as primary destinations during consumer decision making. The distinction between ecommerce and mcommerce has effectively disappeared, and the explosion of mobile usage means that consumers now carry these decision tools with them at all times, right up to the moment they are walking into a store. Consumers expect brands to provide them with the information they need to make a purchase at any time and in any place. While the raw number of mobile transactions remains small, the impact of mobile on consumer purchases is undeniable. In some categories, MEC Momentum surveys revealed that as many as 25% of buyers compared prices while in store using mobile phones.



FMCG PURCHASES AND ECOMMERCE. BEYOND THE TRANSACTION

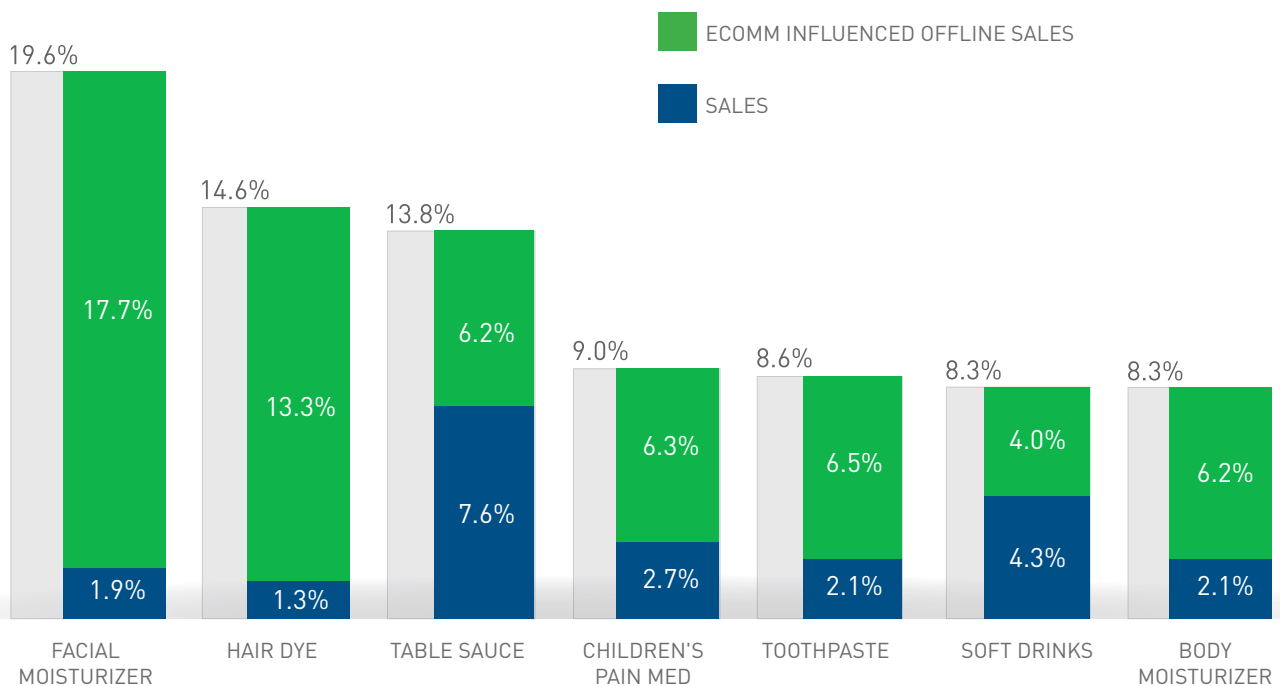
We looked at all the FMCG Momentum studies conducted in Europe, and we found that while almost all of these sales were offline, on average 12% of shoppers conducted an ecommerce action to make their decisions once they were in active shopping mode. With high involvement products such as moisturizer, we found that as many as 20% of Spanish shoppers performed at least one ecommerce action such as looking up price, product information or reviews online. Consumers are looking for information everywhere – on brand sites, social networks, and from retailers. With major retailers, there is the benefit of the transferred equity of the merchant: amongst pain medication buyers in the UK, pharmacist websites were ranked as one of the most influential touchpoints – ahead of brand websites and even physical pharmacist recommendations. Within FMCG, the health and beauty category, unsurprisingly, is one where online reviews are the most important – for a product like hair dye, 8% of buyers relied on online reviews.

THE HALO EFFECT OF ECOMMERCE

A world where a majority of shampoo is purchased online is some days away. However, it is increasingly clear that there is a halo effect of ecommerce on offline sales. Consumers use ecommerce in many ways to make a purchase decision. While the transaction may be completed in store, consumers rely on ecommerce to decide what to buy by looking up product information, price, reviews etc. The chart below shows that depending upon category, the halo effect of ecommerce is as much as 10x the number of direct sales. Even in the category with the smallest halo effect – soft drinks in Italy – ecommerce influenced nearly twice as many sales as it directly facilitated.

Please see fig 1.1

1.1: ECOMMERCE HALO EFFECT



UNDERSTANDING THE ONLINE BUYER AT A CATEGORY LEVEL

The power of MEC Momentum is that it allows us to get to specific product level detail instead of mass agglomerations. To surface some of these insights we decided to focus on a product as far removed from endemic to ecommerce as possible: ketchup. It's inexpensive, widely available, and difficult to ship. And yet, a survey of British ketchup buyers found that **8% had bought the product online**. However, this is not the subset of consumers that sauce makers need to consider. Focusing just on offline buyers from a media influence perspective, we find that online shopping was as influential as digital ads – and both more so than newspapers or magazines. It's hardly surprising, given that 55% of offline ketchup buyers say they love the internet and can't imagine life without it. TV love? Lagging behind at only 40%.

More fundamentally though, we wanted to test if there was something fundamentally different about the way the two groups, online and offline buyers, make ketchup related decisions. Looking at the most common category considerations such as taste, ingredients, price etc. – we find that they rank nearly identically.

This tells us that the online buyers aren't an idiosyncratic subset, but are representative of British ketchup buyers overall. We found this trend was present in every single product and across all the European markets.

Please see fig 1.2

MANAGING THE DIGITAL SHELF RETAILER PRESENCE MANAGEMENT IS CRITICAL

For mass market brands, the presence on retailer websites takes on a whole new dimension and is as important as their own websites. Product detail pages are an invaluable opportunity to develop a presence in a shopper context and provide content to those who seek it most. Peer reviews on product pages are vital for shoppers and also have a more immediate impact: the SEO bump. Effective visibility of product pages is extremely important – especially since consumers search for problems (“clean wine stains”) and not solutions (“Ariel 3in1 PODS”). And if as Forrester says, more product searches start on Amazon than on Google, why aren’t brands focusing on SEM and SEO within retailer websites?

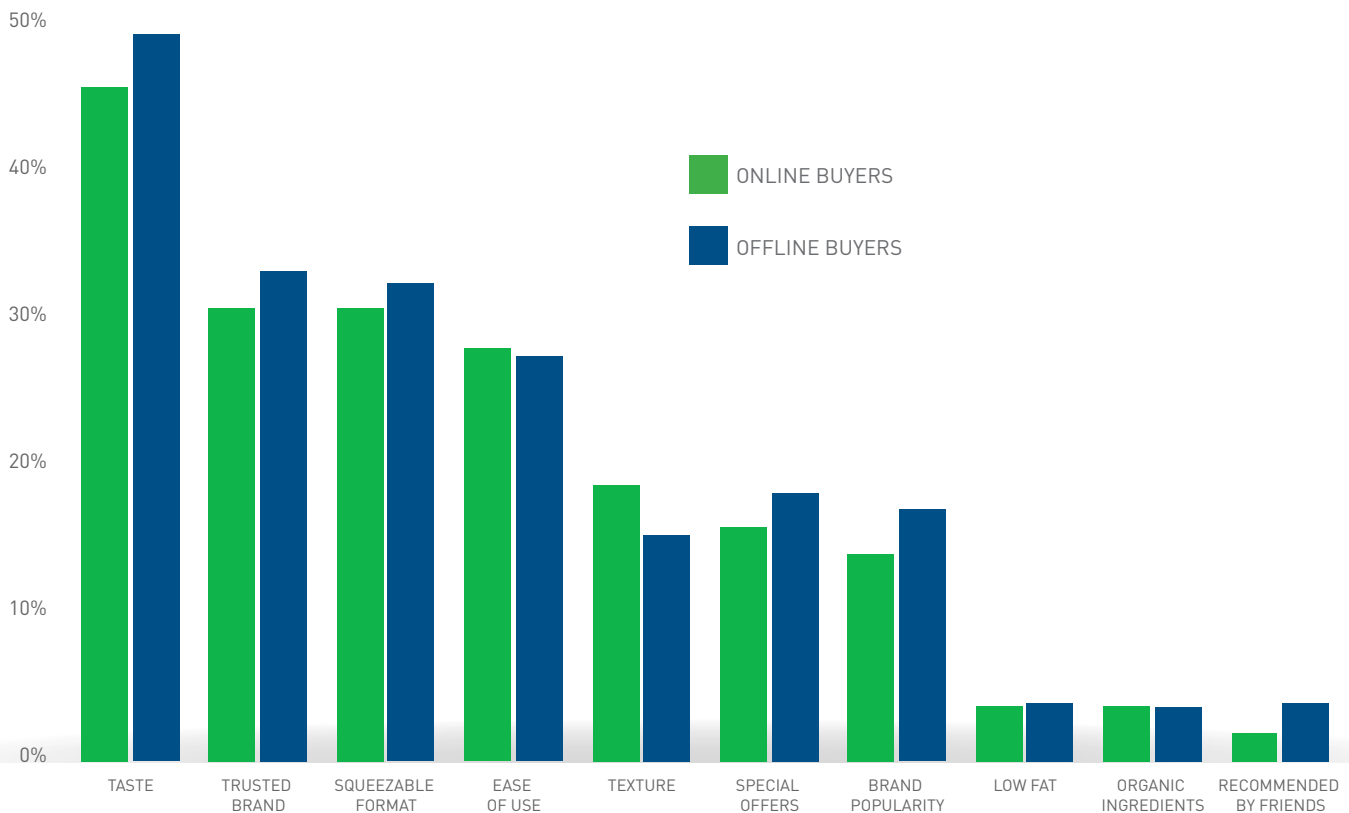
These pages are very important to shoppers, and brands need to think of them as companions to brand websites. Given the effort spent developing brand sites, it is tempting to continue viewing traffic to them as success metric. But if success is ultimately getting product off the shelf, virtual or real, driving traffic to a product detail page would be just as significant to the bottom line. Retailers and third party technology companies are developing solutions that allows brands to tap into this and manage their presence on retailer sites more efficiently.

THE HOLY GRAIL: MEASUREMENT

Brands are understandably concerned about the costs of executing an ecommerce strategy. For this, we need to rethink attribution modeling for in-store sales and evolve it to include digital and ecommerce influence. The KPI for a successful ecommerce strategy cannot be simply how many click-to-buy purchases it led to, but how it is one of the many elements of a larger communications strategy, inextricably linked to the entire consumer contact map.

We have the beginnings of this - Google, for instance, has recently started to include store visits in its Estimated Total Conversions measure for AdWords campaigns. There isn’t a default measurement system because what ecommerce means for each category is very different, as we have seen. However, the time is now right for brands to start to test and learn what ecommerce means for them and be prepared when the retailers and tech companies start calling. Game theory tells us that to gain value in an evolving marketplace, both sides need to make many small, coordinated moves. The retailers have made theirs... and now it’s up to the brands to respond.

1.2: SHOPPER CONSIDERATIONS ARE IDENTICAL



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