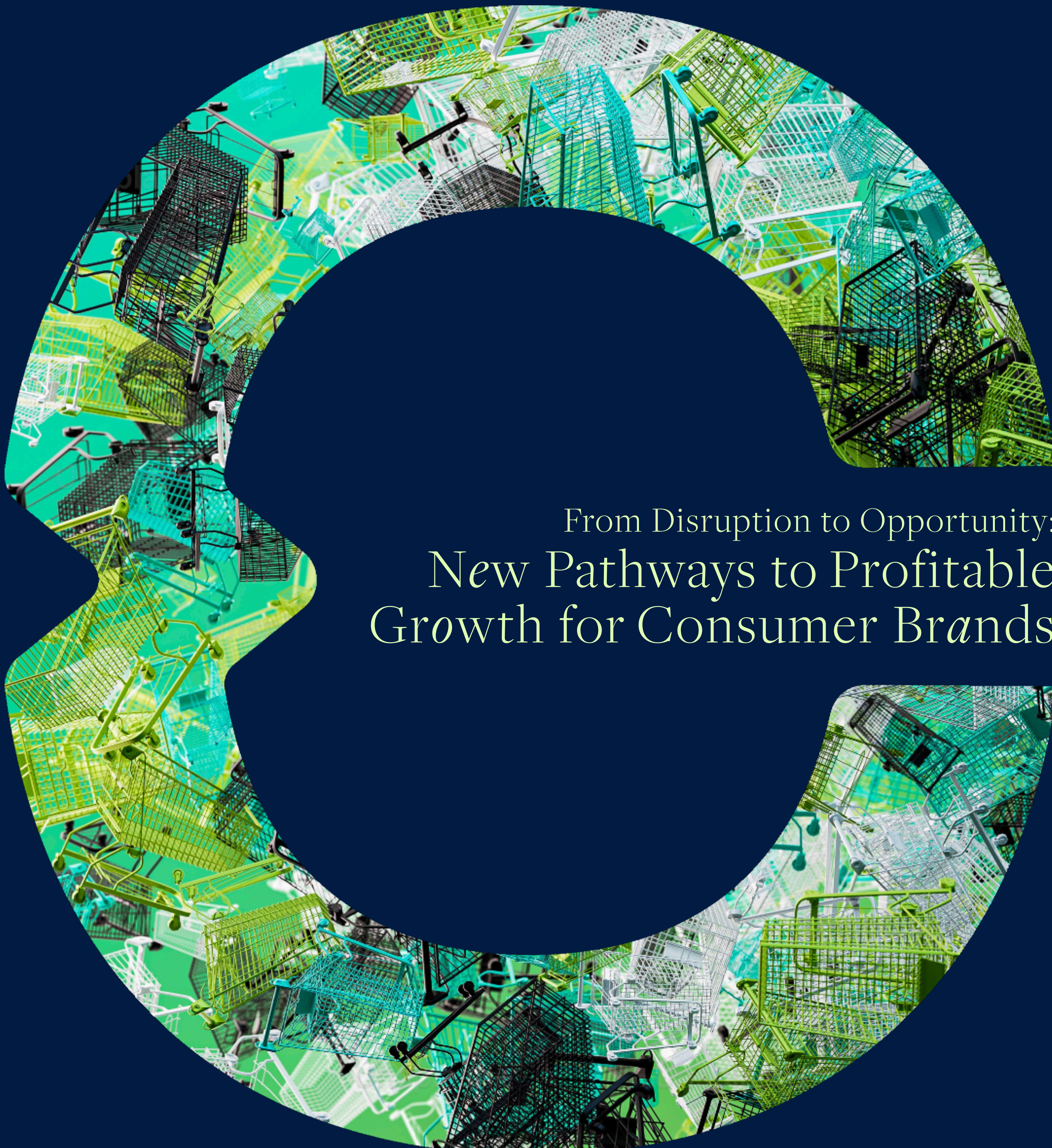

From Disruption to Opportunity:

New Pathways to Profitable Growth for Consumer Brands

IPG COMMERCE

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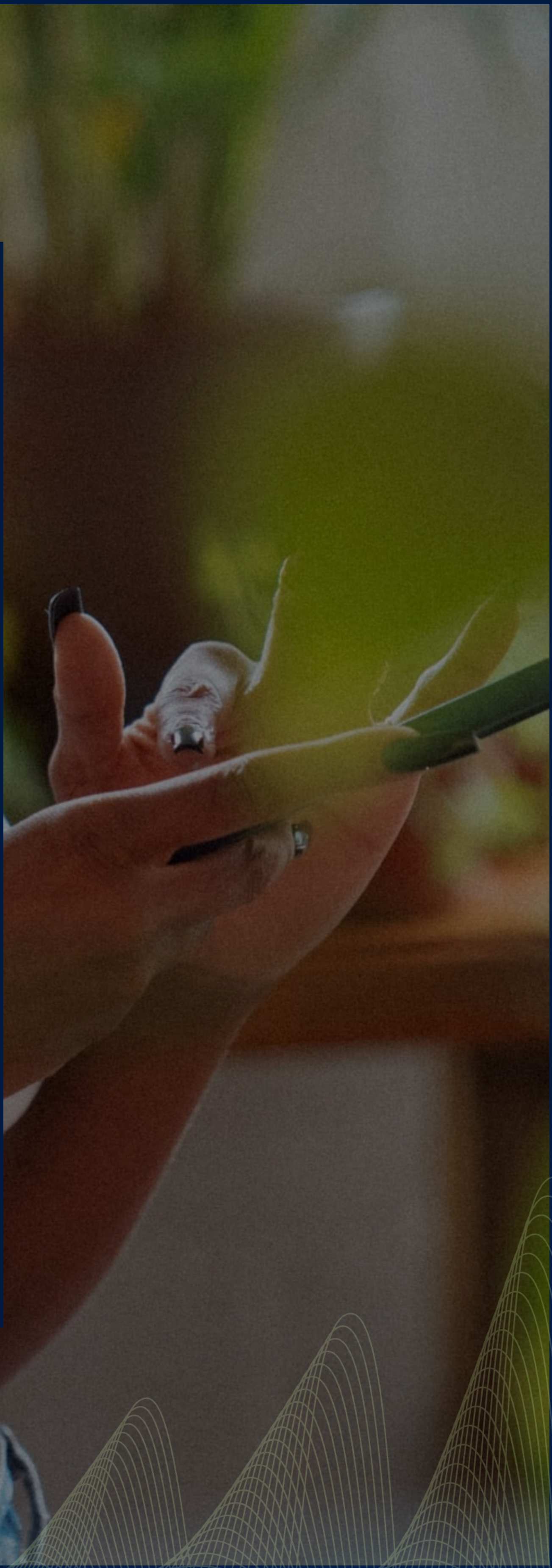


Introduction

The golden rule of commerce is to never make it hard for someone to give you their money. It's a simple rule yet staying true to it has become much more complex in the last couple of years. Changes to consumer behaviors are accelerating, yet internal changes at most brands can't keep pace. That's leading to a gap between commerce experiences and expectations, but more importantly, it's creating a risk to market share, margins, and competitive differentiation.

Brands that can foresee the disruptions that are coming and craft an enterprise strategy that enables ongoing agility will have the ultimate competitive advantage. To help bring clarity and guidance to this challenge, we've focused on the three trends driving a major disruptive cycle in commerce and what brands need to do about it. In addition, we are highlighting a demographic segment to track as the North Star of Commerce to clarify where to invest in the future.

Emergence of Invisible Commerce

How many of us use buy-again or similar features to reorder groceries, a past restaurant order, or even to ensure you buy the exact item from a previous purchase, like lightbulbs? According to our recent IPG Commerce Consumer Research Study, 65% of US consumers use buy-again features, which goes up to 71% when we factor in consumers who also use subscriptions for ease of purchase.

Commerce historically required a drive to the store, the shopping of aisles, sometimes the effort to remember what type of cereal, toothpaste, or detergent your family preferred, the checkout, and the transport home. All of which can now be replaced by the click of a button.

Why does this matter? Because with that button you don't see the competitor products, promotions, displays, or new product launches that walking the aisle provides.

> "The commerce steps didn't *disappear*... they just became *invisible* to the consumer.

Someone is still shopping the aisle, checking out, and occasionally transporting it to your house. This is the first disruptive trend of commerce: **The Emergence of Invisible Commerce.**

The loss of trips to the store due to this disruptive trend is creating a growing intimacy gap with brands and shoppers. These trips were a way for brands to introduce new products to shoppers where foot traffic could be material and consistent. The in-store promotions and displays were also used to try and win share from competitors. However, suppose you're the brand in the basket for this buy-again purchase. In that case, you've already earned an incredible loyalty opportunity driven by convenience that is extremely valuable from a LTV perspective. One that you can't afford to lose due to out-of-stocks, SKU changes, etc. But if you're not in the buy-again basket, you need to be ready to act in real time, down to the store level, to try and win that share, especially as that in-store opportunity to grow share shrinks. That's not to diminish the value of in-store experiences, but to recognize that the future will require new capabilities across more channels.

You need to be ready to *act in real-time*, down to the store level, to try and win that share.

Success going forward will require investment in data-driven agility across a connected enterprise, not just from a media perspective, to try and win these baskets down to a store level. Brands can't afford to go out of stock, especially given how digital commerce penalizes out-of-stocks, while trying to win share from competitors.

Success going forward will require investment in *data-driven agility* across a connected enterprise.

Plus, brands need to ensure their digital commerce, supply chain, and retail media systems & operations are in lockstep to protect the baskets they own while trying to steal others. Shifting to a more systematic and integrated approach will also allow brands to speed up and slow down demand for products down to the store level, something that wasn't possible even a few years ago.

This was one of the driving factors for launching our Unified Retail Media platform and Kinesso Commerce agency, which create enterprise agility and provide a system for managing audiences, performance, and investments across retailers to ensure optimal media performance while growing profitable share.

Cascading Costs of Convenience

Similar to the adoption of buy-again features, many of us are also using curbside and last-mile delivery options, such as Instacart, to receive products that were bought online. According to our recent IPG Commerce Consumer Research Study, 70% of US consumers have used one or the other to fulfill products in the last 30 days.

As a consumer, this now provides you with four ways to have your purchases fulfilled. You can check-out at the store, pick up curbside, have it locally delivered, or have it shipped to your home or business. As consumers we now have more convenience than ever. Yet, those additional conveniences do not lead to a material growth in sales volumes for most brands.

Just because a retailer ads curbside doesn't mean you need additional face cream, laptops, or diapers.

> “The addition of *curbside doesn't create more parents, babies, or baby poop*, so there isn't going to be an increase in diaper sales for the retailer or brand.

What does change materially is the cost of the additional convenience and someone has to pick up that tab. This leads to the second disruption, which is **The Cascading Costs of Convenience**.

The costs of shopping have begun to shift from consumer to retailer. Many of them taking on the role of shopping the aisle and performing the in-store transaction to fulfill the order for curbside or local delivery. This isn't just the resource cost of the person picking the products, but all the technology investments and store operational changes to support these new responsibilities. In turn, the cost of managing the digital shelf and advertising has shifted from retailer to brands. Brands are now responsible for the creation and management of the digital content in the product pages and storefronts, the retail media, and even responding to consumers in reviews and Q&A sections.

> Success going forward will require brands to invest in *operational efficiencies* and the rebalancing of demand across commerce channels.

The silver lining is that brands now have greater and more direct access to consumers if they can effectively lean into these channels. Yet, to do so they much create hyper-efficient operations as the costs are again not limited to resources, but include the technology and analytics investments needed to serve the unique needs of each retailer's digital store. We also must keep in mind that retail media is projected to grow for many years to come, which implies that many of these costs have yet to stabilize. Therefore, it's the challenge of a growing burden for brands in a market where the consumers and occasions haven't significantly grown in kind.

Success going forward will require brands to invest in operational efficiencies and the rebalancing of demand across commerce channels. Margins are under immense pressure and will only become more challenging as costs continue to grow. Many brands did admirable jobs surviving the chaos of Covid as it significantly accelerated the adoption of digital commerce. Yet, most brands neither had the time or investment to develop a holistic commerce strategy that would address the rapidly rising costs that came from this accelerated shift. As retail media costs climb, so will the need to automate and streamline commerce operations for the channels that brands own, as well as the channels they sell through. It is the latter driving many of the challenges, which is why those commerce operations will be the most important to address. Brands will also look to lessen that burden by investing into their B2B commerce channels to efficiently reach more small businesses across broader geographic regions where margins haven't been similarly impacted.

> Most brands neither had the time or investment to develop a *holistic commerce strategy* that would address the rapidly rising costs that came from this accelerated shift.

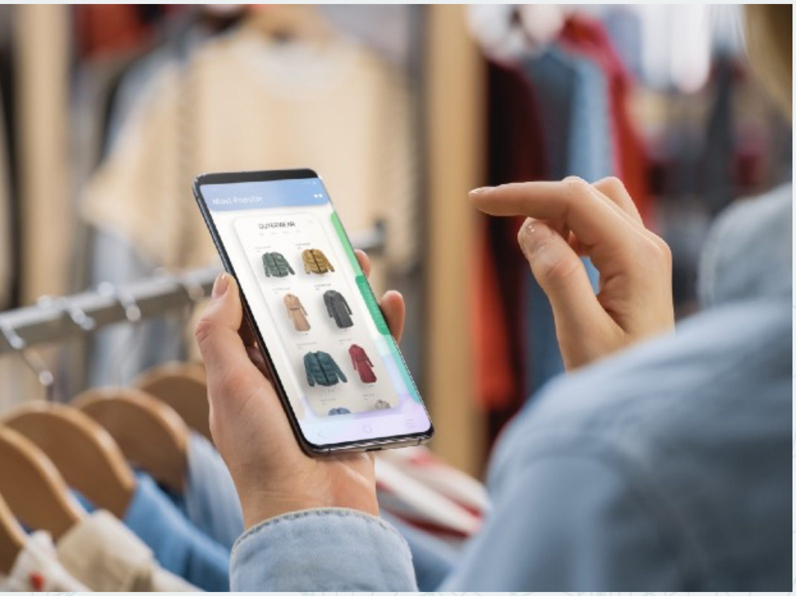
This was one of the driving factors for why we launched IPG Engine, our proprietary operating system, and our Commerce as a Service (CaaS) solution from MRM and RafterOne for B2C and B2B businesses. The former orchestrates demand to commerce channels for optimal performance and greater operational efficiencies, and the latter enables a rapid and inexpensive way for brands to grow their B2B digital commerce channels with a foundation built for scale and automation.

The Rising Power of Product Communities

Consumers aren't just embracing convenience features. They're also using digital commerce platforms to have conversations with brands. To move beyond the one-directional marketing communications of the past to share feedback, ideas, and concerns with brands. Our recent IPG Commerce Consumer Research Study shows that 43% of US consumers have written a product review in the last 30 days. In addition, more than half (53%) are using reviews to provide constructive advice, such as product suggestions, new product uses, product enhancements, or advice to other consumers on how to best use the product.

A simple thought exercise can help illustrate why this is so important. Imagine that 20 years ago, you told someone that you had bought a product online and eaten it, put it on your skin, plugged it into a wall, or gave it to your children from a brand you never heard of, all because some strangers said it was a good product.

It is fair to say that most people listening would have thought you had lost your mind. Yet, we all do this today. This highlights the third disruption, **The Rising Power of Product Communities**.



One of the greatest risks is that product communities also create a *new avenue for brand trust*, which is powering a private label engine for marketplaces.

These product communities are a growing and influential social media presence wrapped around a single product, in a single market, and often in a single channel. For one brand recently seen on Amazon in the health nutrition space, their premier product had over 40k reviews. That is 40k instances of someone sharing advice on use, recipe ideas, product improvements, problems with fulfillment, complaints about flavor, etc. If a brand isn't leveraging these voices for innovation, they can be assured that someone born on Amazon this morning is.

> We are in an age where we often trade off a *perception of authenticity* in a product page for known quality and accountability.

Do you know if that company you've never heard of is doing what they say they are doing related to employee well-being, sustainability initiatives, or proper sourcing and manufacturing standards? That's not to say there aren't great small brands doing all of this, but we often hold big brands to a different set of standards, meaning that smaller brands will take advantage of this disconnect. One of the greatest benefits of product communities is that these consumer voices provide an innovation pipeline for brands. One of the greatest risks is that product communities also create a new avenue for brand trust, which is powering a private label engine for marketplaces.

This is why success going forward will require tapping into this innovation pipeline and learning to leverage your brand's scale. Operating as the small brands do in a system designed for them to succeed only guarantees risk to your market share.

Plus, the power of product communities combined with the growth in marketplaces and Gen AI capabilities means the market will get even more crowded. More reasons for companies to stop simply dumping brand assets into commerce channels and instead learning to build brands within and for commerce channels.

> Success going forward will require tapping into this innovation pipeline and learning to *leverage your brand's scale.*

This is why we launched our Creative Commerce Labs and why agencies such as FCB, MRM and R/GA began running hackathons last year. Creatives need to lean into these channels to help brands maintain and grow share, but they also need to learn about commerce channels. They aren't simply shopping sites anymore. The growth of "emerging media ecosystems" (EMEs) such as Amazon can combine TV, music, gaming, podcasts, IOT, and retail advertising in a single connected media ecosystem powered by first-party data and commerce. They are also an opportunity for brands to find new ways to win share and differentiate in an ever-crowded market.

Millennials as The North Star of Commerce

Retail experiences 20 years ago were mostly driven by shopping experiences designed by retailers or individual stores, which included the curation and display of the merchandise.

Then marketplaces such as Amazon came along and shifted that model. It was less about navigating their site (do you even know where site navigation is on Amazon.com?) and instead searching for your individual needs. The results of the endless aisle could overwhelm consumers at times, but the platform model enabled new business to form around dynamically forming consumer needs. Now we've entered the age of the algorithmic selection, which is less about search and more about the experience determining what you should look at next.

> This is leading to a *generational fragmentation* of the commerce experience.

As consumers, we go through life stages of shopping. For example, Gen Z is in the developmental phase. Still figuring out what they like, less about loyalty than experimentation. Like a piece of pottery still being shaped.

Millennials on the other hand are in the *pressure cooker of life.*

They are pressed for time and financially challenged due to work commitments, career ambitions, family obligations, housing, etc.

They are the piece of pottery in the oven getting baked and starting to settle into more stable behaviors. The generations after that stage are generally set in their ways. They are still very open to new channels and features but are more firm in their expectations and behaviors, having moved past much of the pressure cooker stage. This shows up dramatically in the data for countries like the US. For example, we talked about the adoption of buy-again or subscription features of US consumers being 71%.

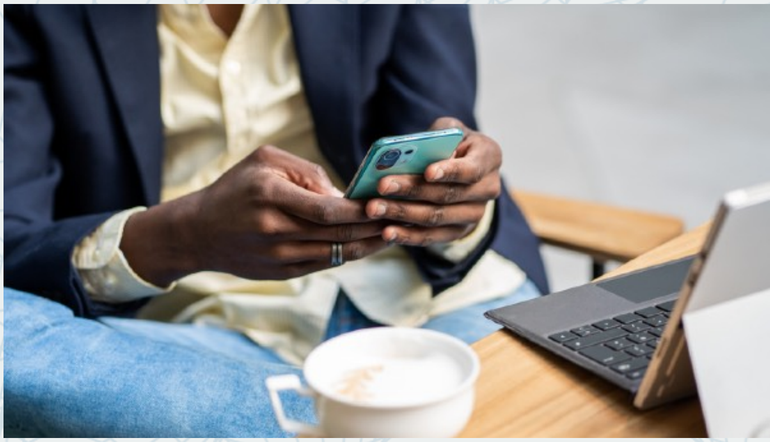
Success going forward will require *nuanced commerce strategies* that factors which consumer profiles are shopping the channel.

That number jumps to 86% for Millennials. For curbside and local delivery, 70% of US consumers had used them in the last 30 days. Again, that number jumps significantly to 87% for Millennials.

And for those leaving reviews in the last 30 days, which was 43% of US consumers, that number jumps to 61% for Millennials. In each case the adoption percentage for Millennials is 15% to 18% higher and is also the highest adoption rate of all age groups.

Success going forward will require nuanced commerce strategies that factors which consumer profiles are shopping the channel. This is on top of factoring in the unique role different channels play in curating shopping experiences either through merchandising, search, or algorithmic approaches. That is not to say Millennials are the only group to focus on, but it does shed light on where to focus the short and medium-term investments.

This will obviously shift as Gen Z moves into the pressure cooker stage of life and become the North Star for Commerce for the next phase.



Conclusion

It wasn't too long ago that the acceleration of digital commerce adoption was a primary topic for brands. Yet, there has been very little discussion about the longer-term foundational impacts of that acceleration. How that industry-wide ripple will impact margins and share, which will only get worse until brands redesign their systems and operating models and integrate commerce with other business units to create greater enterprise agility. There is a need to see commerce for what it is. Not a transactional channel but an evolving landscape that will require new strategies, capabilities, and skills to grow share and to do so profitably.

To compete in today's commerce environment, foresight and adaptability are not just advantageous, they're essential.

The insights in this paper are a starting point, a glimpse into the evolving dynamics of brand/consumer relationships. We invite you to join us in a conversation about shaping the future of commerce – a future where brand agility meets consumer expectation through continual innovation. Let's pioneer this journey together with the creativity and strategic thinking your brand deserves, with the understanding that the next big shift is always just around the corner.

At IPG we are focused on, investing in, and passionate about commerce, so please don't hesitate to reach out to discuss these trends, our commerce research, and any of our world class solutions.

About IPG Commerce

IPG Commerce, part of Interpublic (NYSE: IPG) (www.interpublic.com), is a global team of 1,000+ visionaries, makers, designers, and unicorns, rewriting the commerce playbook to help leading brands around the world win in commerce and drive sustainable growth and profits. Its universal framework for Total Commerce is designed for the modern brand, and at its core it comprises four elements: Creative Commerce, Unified Commerce, Personal Commerce and Connected Commerce.

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About the IPG Commerce Consumer Research Study

The global research study was conducted in November 2023 with a sample size of 13,000.

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