CommerceIQ

Leveraging Retail Ecommerce Management (REM)

to Win in the Algorithmic World of Ecommerce

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Executive Summary

The 2020 COVID pandemic created a fundamental shift in consumer buying behavior that has resulted in a dramatic increase of ecommerce sales that industry experts are predicting will be permanent. As a result, the old world of brick-and-mortar sales managed by relationships between consumer brands and retailers is rapidly giving way to a new world of ecommerce led by Amazon that is controlled by machines and algorithms.

In order to succeed, leading consumer brands are embracing a new approach called Retail Ecommerce Management (REM) that combines data analytics, machine learning, and automation to tune ecommerce algorithms and win at the moment of purchase. In this paper, we'll cover best practices of high-performing brands that leverage real-time search and sales data and inventory-aware advertising to drive incremental demand, accelerate annual growth rates 25-30%, eliminate lost revenue from out of stock products, and recover promotion and advertising spend previously wasted on low inventory items.

PART 1

The Birth of Amazon and Algorithms

Before Amazon, the world of retail was dominated by physical brick-and-mortar stores where consumer brands and retailers collaborated on selling products. The key to success for brands was to ensure that their products had optimal location and share of shelf space within these physical stores to ensure winning at the moment of purchase. Deciding which products occupied the most desirable shelf space was determined largely by personal relationships and joint business plans between retailers and brands. Those relationships were valuable and carefully managed because they could be used to control shelf space as the key physical constraint and keep competing brands away from consumers. Consumers themselves weren't really a part of the equation. All the emphasis was on stores and brands.

But in 1995, the world of retail changed forever when Amazon launched a software platform designed for selling directly to consumers over the Internet. In doing so, Amazon introduced a new era of commerce that operated with a very different set of rules, fundamentally changing the relationship between consumers and brands. Amazon's focus is on helping consumers buy products and not focused on helping consumer brands sell products. With Amazon, consumer behavior controls the shelf instead of the relationship between brands and retailers. What's on a shelf reflects what consumers want to buy, not which brand has the best relationship with a retailer.

How does Amazon determine what's popular with consumers? Algorithms. All of Amazon's decisions are based on algorithms that process data. Brands have no personal relationship with Amazon. Winning on Amazon means beating competitors for shelf space and exposure, such as appearing in search returns or the Buy Box, and that can only happen when consumer brands make Amazon's algorithms work to their advantage.

"The most important single thing is to focus obsessively on the customer. Our goal is to be earth's most customer-centric company."

Jeff Bezos
CEO, Amazon

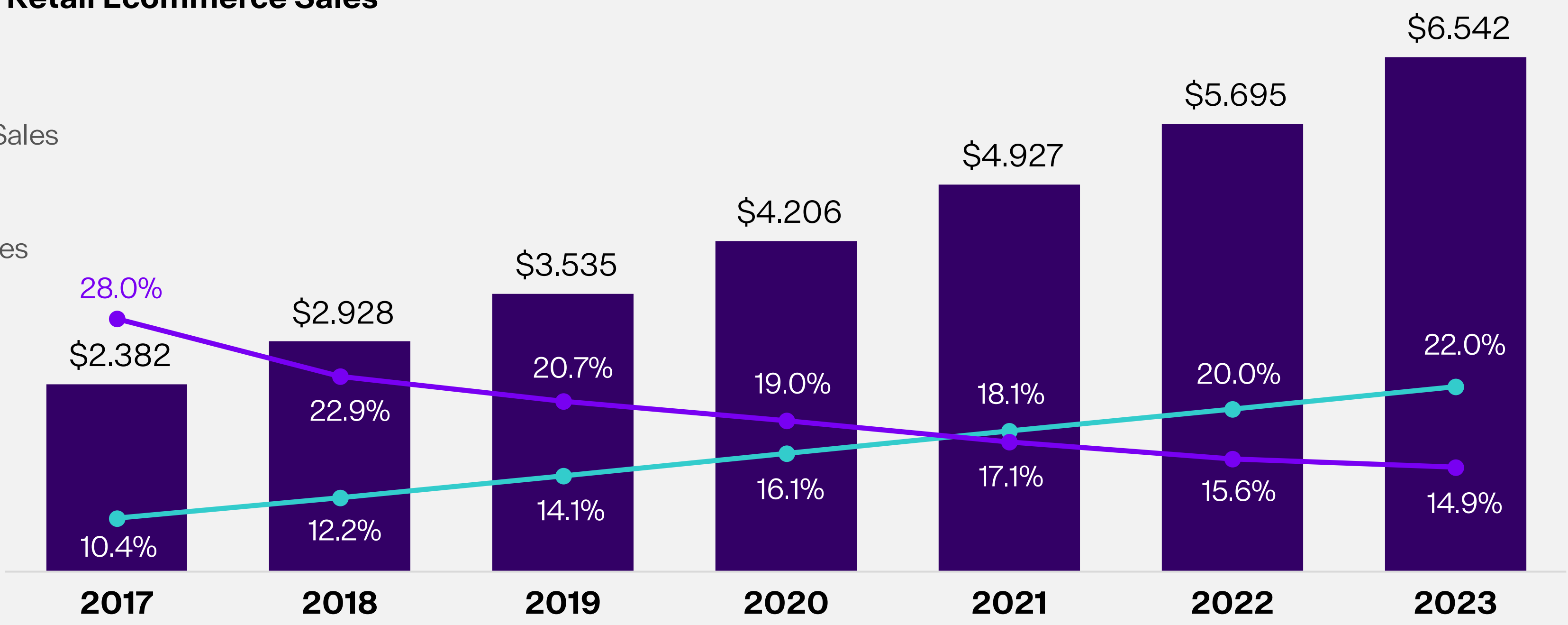
PART 2

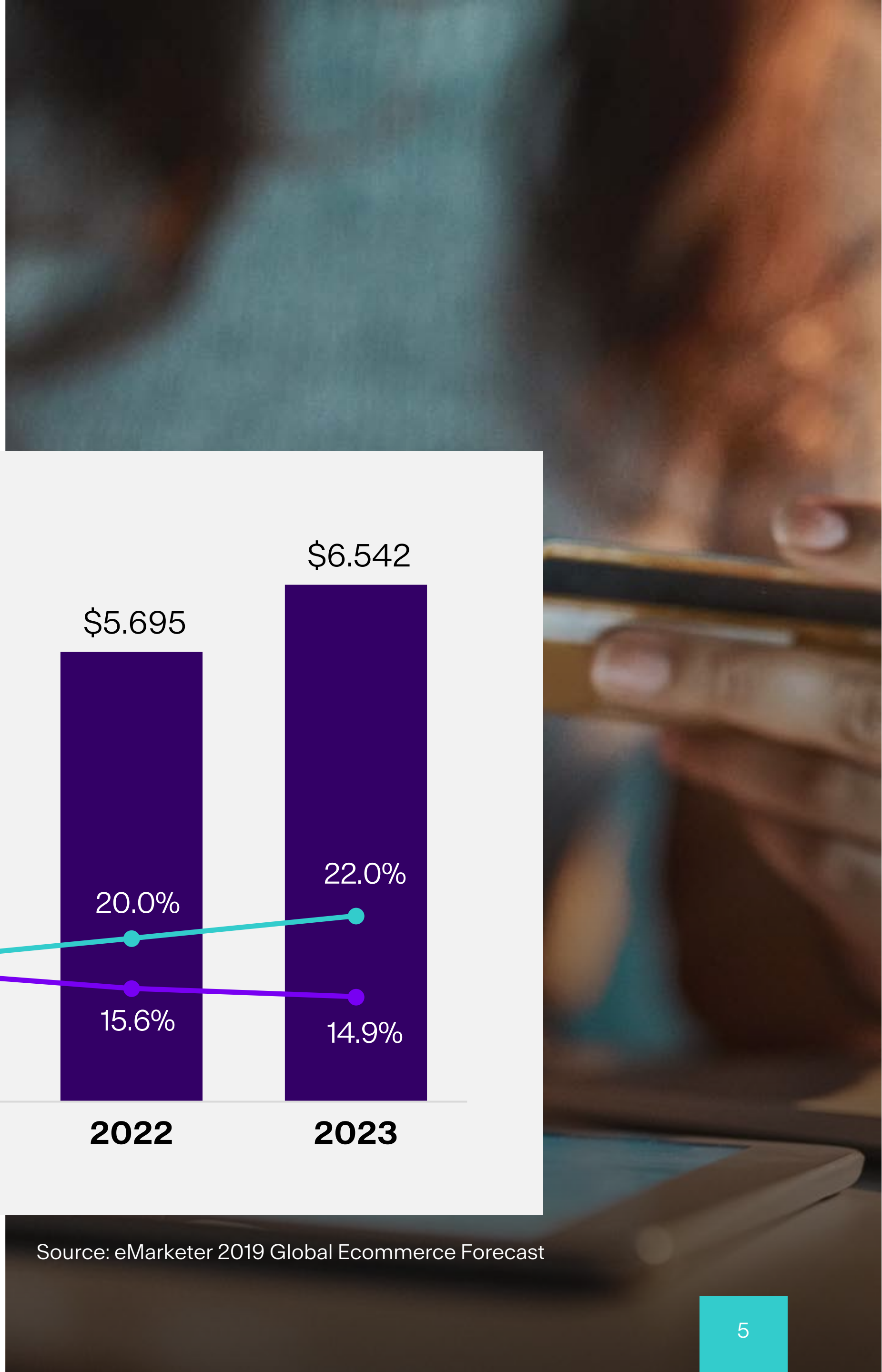
The Rise of Ecommerce

Before the COVID pandemic, ecommerce was already a well-established and fast-growing industry. Back in June of 2019, eMarketer projected retail ecommerce sales to increase from $3.54 trillion in 2019 to an estimated $6.54 trillion in 2023 growing from 16% of total retail sales in 2020 to 22% by 2023.

Figure 1: Worldwide Retail Ecommerce Sales

2017-2023 ($ Trillions)





Source: eMarketer 2019 Global Ecommerce Forecast

PART 3

Ecommerce Acceleration

Within months of appearing in Wuhan China in December 2019, COVID became a full-blown pandemic. Non-essential workers were ordered to work from home. School closures sent hundreds of millions of students home as administrators scrambled to put online curriculums in place. Retail stores were closed and severe restrictions were placed on restaurants. Countries all over the globe ordered their citizens to shelter in place with widespread bans on gatherings and travel.

COVID changed the world in ways not seen for generations, and it fundamentally changed the way consumers shop with a dramatic shift from physical brick-and-mortar stores to ecommerce retailers with Amazon carrying much of the load. Consumers who had previously shopped online expanded their purchases to include essential items such as health and personal care, beauty and household items, pet supplies, baby products, and groceries. Figure 2 to the right shares data from the CommerceIQ Ecommerce Sales Tracker™ from March, 2020 which highlights the dramatic impact on sales of some of the largest categories at Amazon.

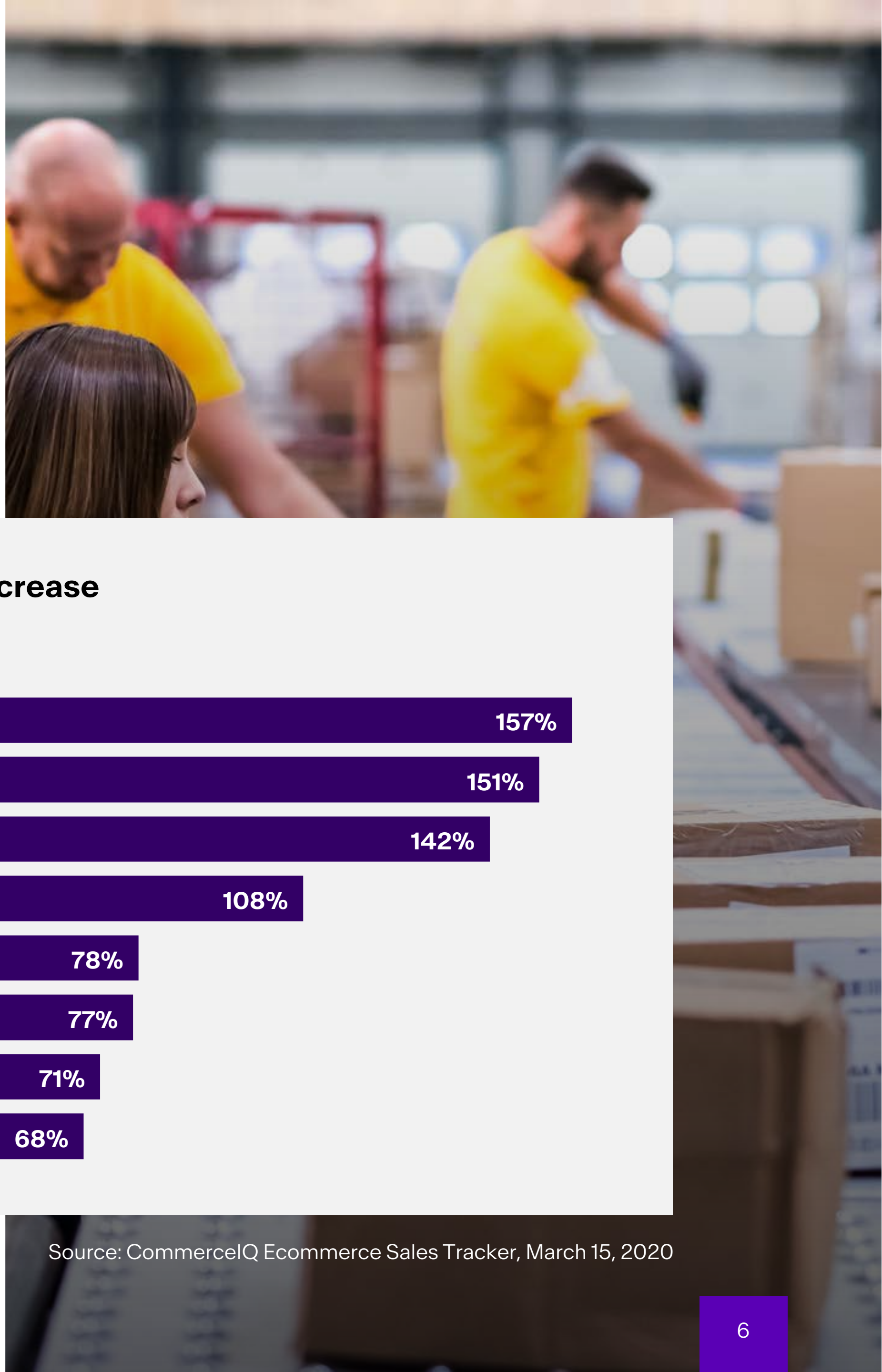
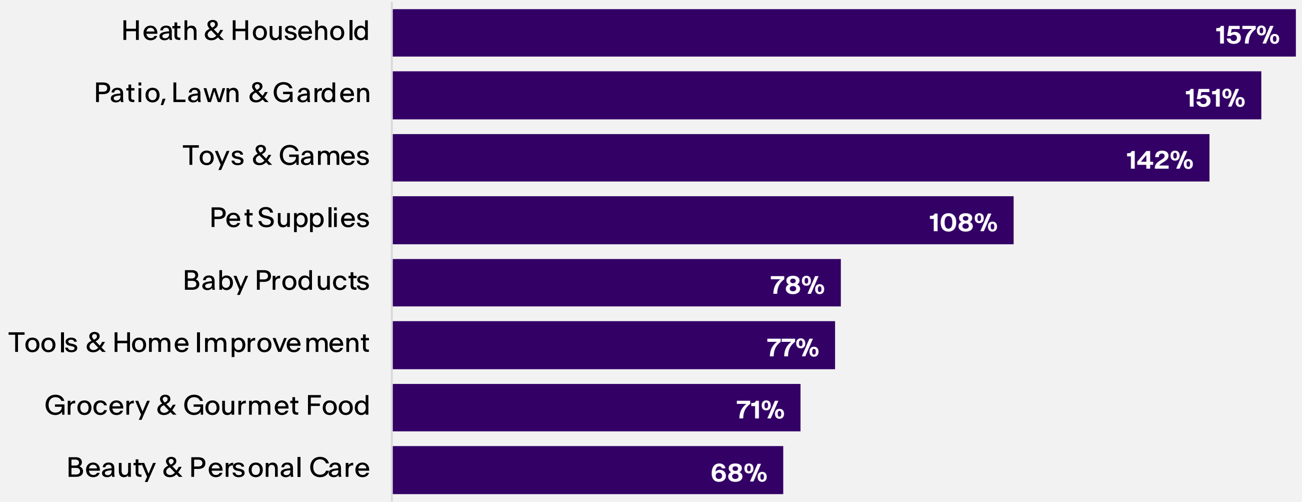


Figure 2: Amazon Year-Over-Year Sales Increase

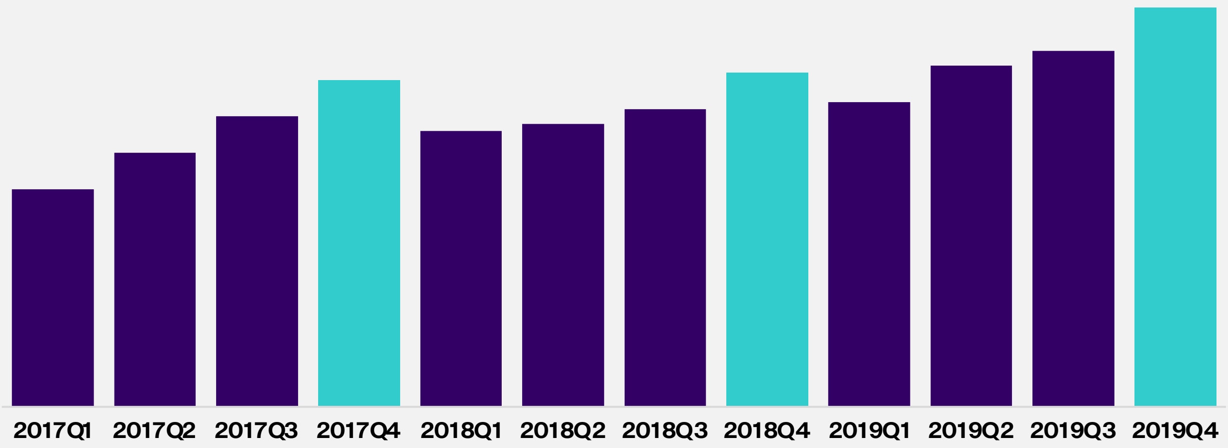
February 20 to March 15, 2020



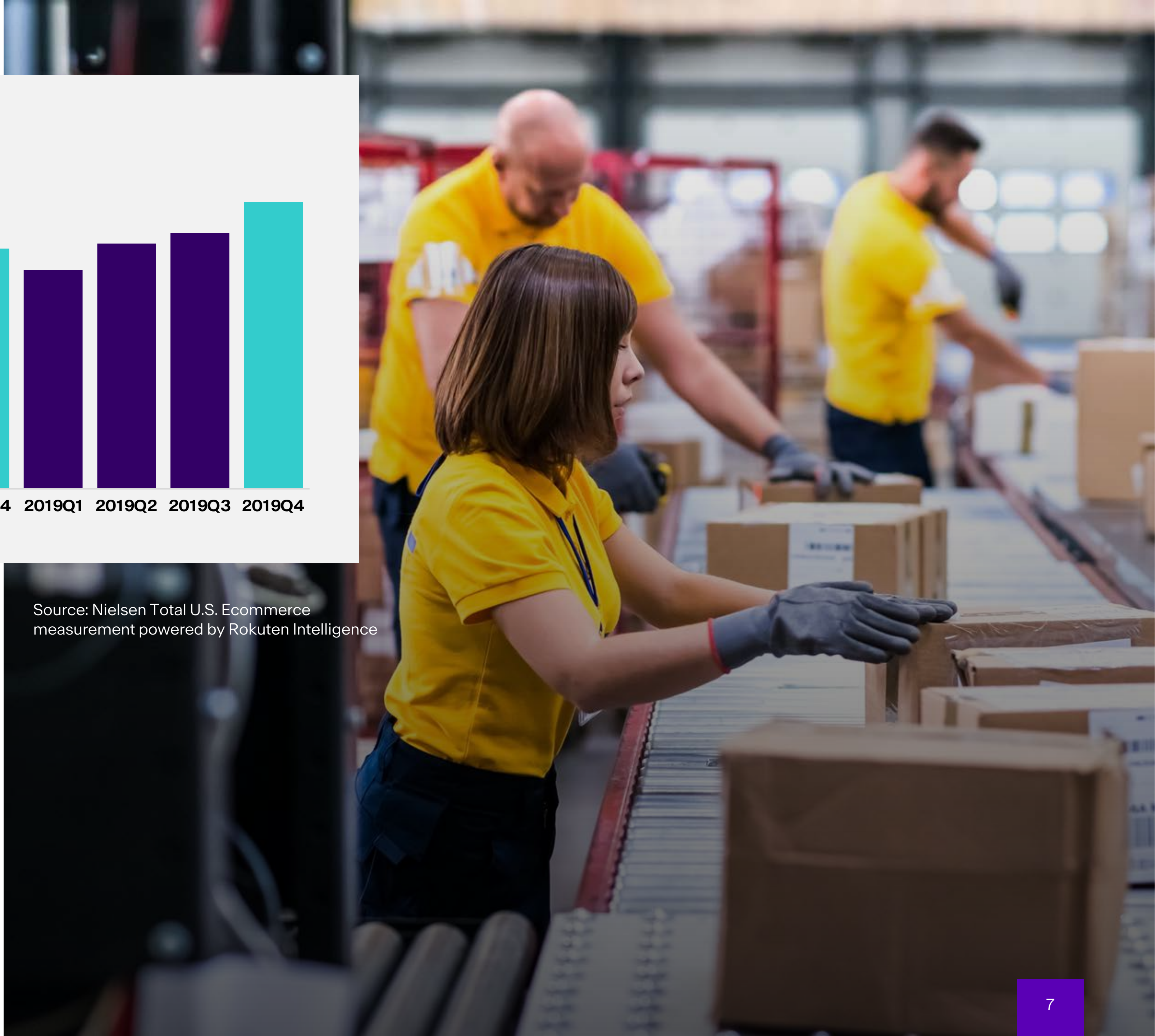
Source: CommerceIQ Ecommerce Sales Tracker, March 15, 2020

Figure 3: Total Consumer Online Buyers

Q1-2017 to Q4-2019



Source: Nielsen Total U.S. Ecommerce measurement powered by Rokuten Intelligence



This sudden and dramatic shift from brick and mortar retail to ecommerce has put tremendous pressure on consumer brands and is creating issues across sales, operations, and marketing. The unpredictable nature of demand is leading to uncontrollable Out of Stock (OOS) issues and a lack of coordination between operations, sales and marketing is resulting in wasted dollars in promotions and advertising. It’s also resulted in a large increase of third-party (3P) seller activity with many 3P sellers taking advantage of spikes in demand by price gouging and causing additional brand protection problems.

PART 4

The Challenge for Consumer Brands

As previously discussed, the world of ecommerce is controlled by algorithms. For consumer brands, winning in the world of ecommerce is not about maintaining relationships with retailers; it's about tuning algorithms to work to their advantage. If the dramatic shift to ecommerce sales from the effects of COVID becomes permanent as many experts predict, understanding how to tune these algorithms will become more critical for consumer brands than ever before.

The challenge for brands is these algorithms are constantly changing based on consumer behavior. For brands that have hundreds or even thousands of products each with dozens of variables such as inventory, promotions, and advertising that are changing every day, the situation becomes untenable. Figure 4 below shows a real-world example of a consumer brand that was faced with this exact challenge. They had 400 products on Amazon each with 30 variables changing every day. This means their team of 10 people needed to make 84,000 decisions every week. Even if they were to work long, 12 hour days, each team member would need to make 2 decisions every minute.

As you can imagine, they were overwhelmed just trying to prioritize tasks, let alone trying to make timely actions. It was impossible to monitor more than a few of the top-selling ASINs. The manual processes simply couldn't keep up. The sheer amount of data also made it difficult to get an end-to-end view of the business. The company realized that adding more people was futile. Just as the challenges that ecommerce pose are algorithm-driven, so too is the solution.

Challenges Compounded by Demand and Supply Chain Shocks

The sudden supply and demand shocks during COVID magnified lingering issues across sales, supply chain, operations, and marketing for all consumer brands. For brands selling consumer essentials such as health and personal care, beauty and household items, pet supplies, baby products, and groceries, these challenges show up as the following:

1. **Uncontrollable out of stock leading to large increases in lost revenue.**

   Consumer brands are struggling to keep up with consumer demands and the issue impacts the entire supply chain from logistics to manufacturing to raw materials.

2. **Lack of coordination leading to wasted ad spend.**

   The lack of coordination between supply chain and marketing combined with increasing out of stock issues is leading to a large amount of advertising and promotion spend being wasted on products with increasing organic demand and low inventory products.

3. **Increasing third party seller (3P) activity.**

   A large spike in 3P activity including frequent price gouging is leading to further revenue leakage and impacting overall brand perception.

Consumer brands selling non-essentials such as furniture and office supplies are facing a different set of challenges:

1. **Ecommerce retailers not cutting POs.**

   Amazon and other ecommerce retailers have stopped cutting POs for non-essential products to preserve warehouse space for essential products. Because most consumer brands have not invested in developing direct fulfillment capabilities, they are struggling to get their products to consumers.

2. **Non-optimized ad campaigns.**

   Many of these brands haven't optimized their ad campaigns to really take advantage of increased consumer activity in general.

3. **Revenue leakage due to false out of stock and increased 3P seller activity.**

   Even where these brands do have demand, they are facing increasing revenue leakage due to false out of stock issues and increased 3P seller activity.

PART 5

Requirements for Winning

Successful consumer brands invest to win on Amazon, understanding that Amazon is attracting the largest percentage of online shoppers and ultimately writing the blueprint for the future of commerce that other retailers are emulating. These brands implement technology and business processes purpose-built to tune Amazon's algorithms to be closer to the consumer and drive profitable growth. Ecommerce teams use machine learning and automation to respond in real-time to changing variables across hundreds of SKUs requiring tens of thousands of decisions and actions per week to win at the moment of purchase.

Using a common technology platform that provides a single source of truth, teams spanning sales, operations, and marketing collaborate to share data-driven insights as well as automate the thousands of decisions and actions per week. These teams coordinate efforts and manage interdependencies for multiple variables spanning assortment, search advertising, promotions, content and fulfillment, tuning Amazon's algorithms in real-time and optimizing the entire demand generation and fulfillment cycle.

By investing in the technology and business processes to enable cross-silo team collaboration, successful brands continually improve their operations to ensure sustained revenue, profit margin, and market share growth. In addition, these brands optimize their Amazon presence to influence growth across all channels, understanding that sustained growth on Amazon is required to drive overall omnichannel growth.

PART 6

Introducing Retail Ecommerce Management

A new approach called Retail Ecommerce Management (REM) has emerged to help consumer brands win in the algorithmic world of ecommerce. REM is the practice of combining analytics, machine learning, and automation to tune ecommerce algorithms and win at the moment of purchase.

There are five fundamental principles of REM:

1 Understand Performance.

Get near real-time collection of data across marketing, sales, operations, supply chain, and competition to deliver visibility to Key Performance Indicators (KPIs) and competitive benchmarking.

2 Identify Issues and Opportunities.

Understanding performance across the entire organization and competitive landscape allows brands to anticipate and remediate potential issues – such as automated anomaly detection and trend analysis – before they occur.

3 Prioritize and Decide.

Prioritizing issues and making effective decisions in the world of ecommerce requires machine learning. Doing this right allows brands to prioritize strategies across supply chain, assortment, and advertising to improve demand capture, demand conversion, and profitability.

4 Implement Strategies.

Use closed-loop automation to replace manual tasks and make data-driven decisions that minimize out of stock, improve assortment, and optimize advertising.

5 Power Growth.

Unite teams around a single source of truth, organize teams around a common set of KPIs, and focus teams on retail ecommerce management moving at the speed of algorithms.

PART 7

Best Practices of High Performing Brands

The business impact for consumer brands who master these principles is significant. As high performers embrace machine learning and automation and begin to pull away from competitors, the gap low performers face continues to widen. Here are key areas where high performing ecommerce teams invest their time and effort to differentiate from low performers.

Take an Algorithmic Approach.

As previously discussed in this paper, owning the digital shelf to win at the moment of purchase in ecommerce is controlled by algorithms that are constantly changing to adapt to buyer behavior. High performers understand this and take an algorithmic approach that allows them to tune ecommerce algorithms with frequently changing variables that are dictated by buyer behavior.

Automate as Much as Possible.

High performers understand how to operate at the speed of ecommerce and automate all repetitive tasks including forecasting, paid search keyword selection, bidding, budgeting, order fulfillment, and trade spend allocation. They focus manual efforts on creating new products, testing new content, reducing packaging costs, and building a direct-fulfillment footprint.

Capitalize on Real-time Trends.

High performers are constantly generating new shopper and category insights in real time. They understand ecommerce retailers led by Amazon are the largest source of data on consumer behavior and purchasing patterns, as well as a leading indicator of market direction. They have a data driven understanding of consumer preferences, leveraging consumer search trends that are constantly changing. They then leverage that understanding to generate insights on consumer preferences by using machine learning to mine reviews, track competitive innovations, and new product introductions.

Integrate Advertising With Sales, Inventory, and Competitor Data.

Successful brands go beyond advertising campaign performance data and integrate their advertising with retail point of sales data, inventory data, and competitor search rankings to measure and optimize the effectiveness of advertising in driving incremental sales growth.

Use Retail Media Advertising as a Key Lever To Achieve Business Objectives.

High performers use ecommerce advertising to help achieve business objectives including driving incremental revenue, driving awareness of new products, improving market share in a product category, or improving profitability. High performers optimize for these objectives and track appropriate KPIs (incremental revenue, awareness on new products, share of voice, profit margin) rather than optimizing just for RoAS.

Lead the Market on Share of Voice.

Share of Voice (SoV) is a measure of the market share a brand owns compared to its competitors from a consumer view point and is the leading indicator of future sales. Tracking and building SoV is key to driving sustained revenue growth and long term category leadership. On Amazon, this requires dynamic harvesting of thousands of trending keywords that are product relevant. Successful brands track their share of search against competitors and optimally allocate advertising dollars to boost their presence on highly important, but low ownership keywords. Connecting advertising spend to share of search based on consumer behavior drives incremental sales as brands can capture new segments of traffic where previously they had little to no exposure.

This approach of using ad spending to boost search ranking also enables brands to increase sales to the point that they reach escape velocity and gain the flywheel benefits of Amazon's organic rank algorithms, providing long-term category leadership while reducing advertising spend over time.

Dynamically Adjust Advertising Spend When Consumer Intent To Buy Is High and Pace Spend According to Seasonality, Promotional Schedule, and Key Times Throughout the Day.

Successful brands know when their customers are shopping and optimize bids throughout the day to win every placement for top keywords without overpaying or running out of budget which can result in paused campaigns and getting penalized by Amazon.

Only Spend Advertising on SKUs Driving Profitable Growth.

High performers ensure they understand a SKU's real-time organic search ranking, inventory level, and margin before promoting. They use automation software and a single source of truth across teams to shift spend from SKUs that have high organic ranking, low inventory, or low margins to SKUs with lower organic rank, healthy inventory levels, and high margins.

Prevent Lost Sales Due to Out of Stock Inventory.

High performers understand the importance of preventing lost sales due to out of stock inventory. In addition to lost sales, lack of product availability can negatively impact online search rankings due to algorithms that detune out of stock products. Because of this, high performers actively forecast and frequently monitor stock levels for every SKU at their warehouse as well as at ecommerce retailers, and actively work with vendor managers to prevent lost revenue due to out of stock inventory and overstocking costs. They alert supply chain teams on forecast spikes and shortfalls, and marketing teams about potential out of stock to prevent wasted ad and promotional spend.

Identify and Report Unauthorized Third-party (3P) Sellers.

High performers manage the brand experience across 3P sellers in real time using automation to identify 3Ps, and control 3P compliance to brand representation, product quality, and pricing. They have an automated process to report and remove unauthorized 3Ps that create pricing, margin, and brand protection issues.

Know Important Search Terms Driving Traffic for Best-selling Products.

High performers understand the search terms consumers are using to discover and buy products in their category. They then adjust their advertising spend on those search terms, improve their content to meet changes in consumer behavior reflected in search terms, and continuously optimize to capture consumer attention. Rather than just learning about how consumers are discovering and purchasing their own products, they also learn from competitors to drive continuous improvement.

Weed Out Poor Performing Search Terms and Campaigns in Real-time.

Poor performing organizations are not aware of the effectiveness of ad spending, with 15%-20% of spend going to waste. In contrast, high performers weed out poor performing ad spend and redirect that spend to drive growth. They identify search terms that are resulting in clicks and are not converting and automatically suppress them as negative keywords so that non relevant searches do not result in ad spend.

They also identify successful search terms for specific SKUs and automatically convert them to an exact match so the majority of paid search spend goes towards high performing search terms resulting in high conversion.

Discover and Capitalize on Competitors' Missteps.

High performers Implement real time tracking, alerting, and automated strategy activation to take actions to either defend or exploit competitor actions including out of stock, promotions, AMS on brand terms, and sales rank.

Create Content to Drives Sales.

Content is optimized based on changing consumer preferences informed by a number of factors including SEO terms, reviews, and competitor content. As a result, high performers create content that conforms to best practice guidelines including Amazon A+ content best practices to have 4 or more images, 3 or more bullet points, 40 character titles. They also regularly audit to ensure that the right content gets reflected on Amazon, and send an alert when Amazon/3P seller content changes. They actively identify search terms that are driving traffic to bestselling SKUs in the category and recommend adding content. They also perform daily content audits to ensure accuracy and correlate changes in content to increased conversions.

Influence Retailer's Ordering.

High performers take revenue lost from out of stock and are constantly working to predict out of stock at an SKU level which allows them to use predictive data to work closely with their vendor managers to avoid running out of stock.

Establish and Monitor Fill Rates.

High performers establish and monitor fill rate benchmarks by category and SKU. They use fill rate benchmarks to analyze and identify the root cause, along with sales and inventory data, of fulfillment shortfalls.

Monitor Customer Reviews in Real-time.

High performers monitor and analyze customer ratings and reviews to develop insights into consumer perceptions of products in a category. They use these insights to address product issues, drive product innovations, and improve conversions and share of voice.

Track Real-time Pricing.

High performers know in real time which retailer or seller is starting a price war for any SKU in their assortment. They have ways to track and alert on Minimum Advertised Price (MAP) violations for quick resolution.

Leverage Integrated Business Planning.

High performers have implemented integrated business planning processes including daily standups between ecommerce, supply chain, marketing, and sales to review incoming orders, unavailable products, content changes, competitor promotion presence, and share of voice, focusing on specific ASINs that are responsible for revenue loss in each of these areas.

About CommerceIQ

CommerceIQ is the leading Retail Ecommerce Management Platform, unlocking profitable market share growth for consumer brands through intelligent automation. Its unified platform applies machine learning and automation across marketing, supply chain, and sales operations to help brands boost share-of-voice (SOV), minimize out-of-stock (OOS), and prevent revenue leakage. With worldwide retail ecommerce growth expected to reach $7.4 trillion in 2025, mastering operational scale and unit economics through retail ecommerce channels is essential. Nestle, Colgate, Whirlpool, and more than 2,200 consumer goods leaders use CommerceIQ as the single source of truth for their retail ecommerce. CommerceIQ has raised $200 million from venture investors including Softbank, Insight Partners, and Madrona Venture Group. For more information, visit https://www.commerceiq.ai/