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## The Digital Commerce Revolution

A new study is revealing the opportunities and challenges in today’s marketplace, and how marketers, retailers, media companies, and other key industry players can compete to win.

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The Target Corporation launched its fall 2012 apparel collection with a bit of romantic comedy. The retailer partnered with ad agency Space150 to create a four-part “shoppable” short film called Falling for You. As consumers watched the story unfold, they could purchase the clothes that the characters wore—along with their accessories and home furnishings—from a side reel in the same window. Each episode became a virtual runway for Target’s collection, complete with social sharing tools to increase buzz. By seamlessly integrating content and advertising with an engaging experience, Target drove both traffic and commerce to its site.

Shoppable content like Falling for You is just one example of how digital commerce is transforming the marketplace, specifically in the space where advertising and marketing meet retail. Growing sophistication in content, mobile integration, comparison shopping, and the use of reviews is creating new norms for key industry players. Some of these norms are already familiar: Media companies are investing in iPad and mobile apps in an effort to extend into curated commerce—leveraging consumers’ past purchase history to provide them with personalized product collections—in order to tap new revenue streams. Technology companies, including Google, and e-commerce companies, such as Amazon and eBay, are increasingly focused on powering end-to-end solutions. And marketers, in areas including consumer electronics, apparel, and consumer packaged goods (CPG), are investing in direct-to-consumer relationships to drive value across the path to purchase and close the loop between engagement and sales.

But with these developments also come unknowns. How much will industry changes affect your investment priorities as a marketer, technology player, e-tailer, retailer, or media company now and in the long term? How will the leading players, faced with an imperative to build and sustain winning digital commerce capabilities, stay relevant? Will second- or third-tier players build similar capabilities to stay competitive? Answering these and other looming questions is the focus of a new survey from Booz & Company and the Interactive Advertising Bureau (IAB).

As part of this effort to explore how the new world of digital commerce is unfolding, Booz & Company and the IAB convened an industry roundtable in December 2012 with executives from retail, CPG, media, and technology firms. The conversation led to some telling insights:

Mobile engagement, with differentiated approaches for the tablet and smartphone, is critically important to leadership in digital commerce. But adopting “mobile first” strategies is a more complex undertaking than many marketing leaders expect, requiring significant investments in technology, content, and people, and in identifying new partners to work with. Companies such as Starbucks, Nike, and eBay are taking this holistic view of mobile engagement and making real strides. Nike, in particular, has harnessed the mobile fitness experience with its Fuelband. This personalized wristband tracks your physical activity, automatically syncs with your personalized fitness profile, and seamlessly introduces you to other Nike products that can supplement your fitness experience.

Integrating deals and social sentiment into advertising is rapidly emerging as a way to magnify ROI and create “next generation” ad units for marketers, retailers, and technologists. Understanding social sentiment, which helps differentiate between positive and negative social feedback, is helping marketers more effectively capture their consumers’ “pulse,” and use language their consumers are using to deliver marketing messages. For example, Rubbermaid saw a 300 percent increase in digital coupon redemption when ads included quotes from recent reviews.

New technologies are enabling leading marketers to build branded experiences. Whether it’s with market-leading e-commerce hosting platforms by Demandware and GSI Commerce, or engines that capture and deliver consumers’ ratings and reviews, such as Bazaarvoice, these marketers are making use of content, insights, personalization, and smarter platforms to deliver strong emotional impact during e-commerce experiences across any format or device the consumer chooses.

Data and analytics are a key source of targeting and conversion advantage, charting a new frontier for collaboration between brands and retailers. If a retailer can deliver tailored messages and product personalization better than its competitors, consumers will choose to return there again and again (the retailer will “win the trip”). And those same messages and recommendations will lead consumers to buy more each time (they will “grow their basket”). For example, Amazon’s highly effective product recommendation engine is powered by transaction data and insights across its entire customer base. This keeps consumers returning to Amazon for each incremental purchase, and purchasing more at each visit as complementary products are showcased along the way. The access to shared data across partners is expanding this value even further.

Integrating team priorities and strategic objectives within marketing organizations, as well as across other ecosystem partners, is paramount to unlocking the potential of digital commerce. The more fluid the organization, the more results players are capturing in the market.

The roundtable discussion and early survey results also revealed some of the most pressing pain points. Many are tied to ROI measurement for digital advertising strategies and the integration of e-commerce solutions across platforms and marketers’ campaigns. During the next two to three years, most tangible investments in e-commerce will be focused on driving more effective digital promotions, developing compelling original content, and using “big data” and analytics in more sophisticated ways. But for most retailers and brands, determining which ROI metrics are the most reliable (for example, click-through versus page visits versus time spent), or which ad formats will persist into the future (for example, display, banner, rich media, and shoppable) remains a struggle. High rates of innovation and experimentation across both fronts are creating a wide variety of options, but little informed insight on what is really working—and few, if any, standards.

Moreover, both technology and retail players are expected to drive the next wave of innovation in these key investment areas, with specific focus on solutions that will power data and insights, mobile commerce, and advances in shoppable content. Yet, which of the two players will lead the effort is still unknown. Retail players, now placing greater attention on their owned websites and ad inventory, could come to define what types of marketing are most effective online and how they are managed. But technology players, with ongoing investments in platform technologies and audience aggregation tools, could define the underlying norms simply through customer acquisition and expansion—much as Google has become an underlying norm for search, and Facebook for social interactions.

Finally, new relationships are creating new pressures. E-tailers, in particular, are making big investments in their own ad platforms, focused exclusively on creating more incentives for brands and marketers to funnel advertising through them versus other marketing vehicles. They are also investing in user data and merchandising capabilities to capture more of the digital advertising and promotion spending that brands would typically disperse among other publishers, ad networks, search engines, and social media sites. The critical mass of visitors, transactions, and insights that large e-tailers control is creating tension between these e-tailers and their brand partners. E-tailers are trying to steer a higher share of digital advertising dollars to themselves, and their brand partners are striving to reach their core consumers at the right digital place and time.

Executives will need a set of best practices and standards to manage these challenges and drive digital commerce growth—standards that are applicable across ad formats, media platforms, and devices. The insights gathered from industry leaders through our survey can provide the building blocks. And the timing is critical: A focused digital commerce strategy can be a game changer for most businesses, and can become the foundation for multichannel revenue expansion that is enabled across devices and powered by compelling content and insights.

The Booz & Company/IAB E-Commerce Survey is free, and takes only 10 to 15 minutes to complete. It asks about your company’s approach to digital commerce, your perspective on the future moves of key players in the ecosystem, and your most important investment and organization decisions going forward.