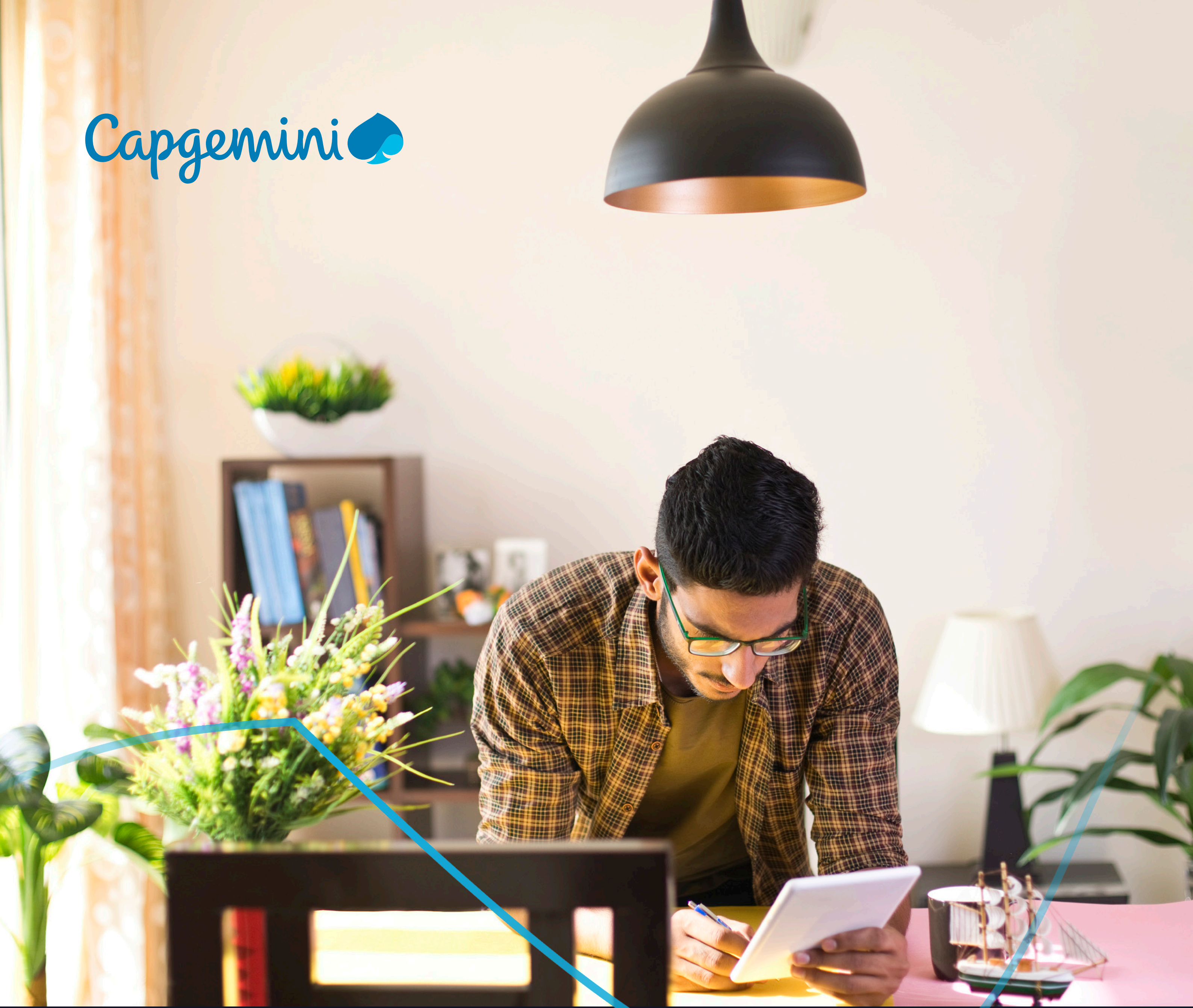
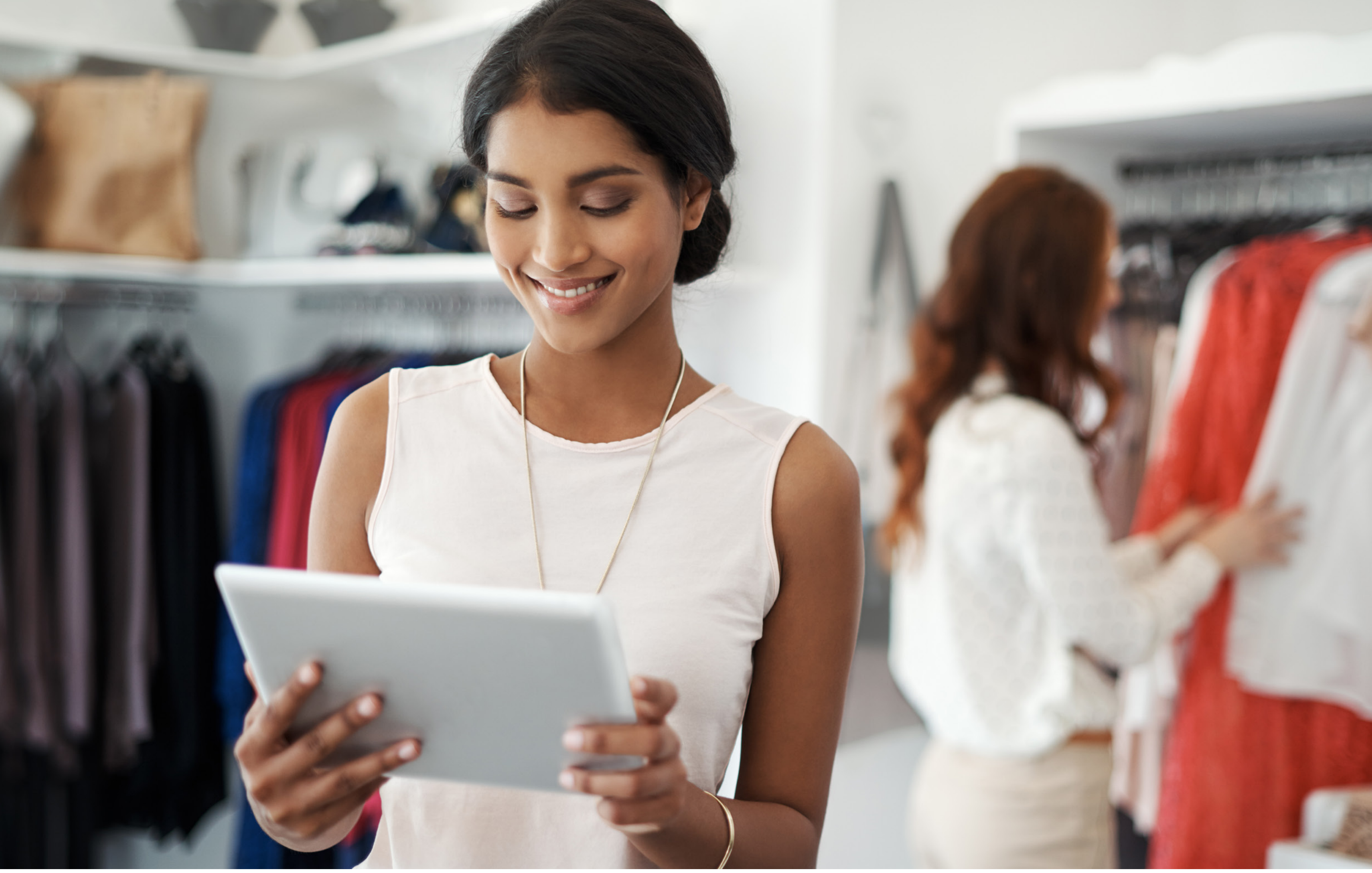


HUNTING PROFITABILITY

6 opportunities to reduce costs and increase revenue from your digital commerce



The volume of digital commerce has grown significantly in recent years due to several reasons, notably the pandemic, growing customer digital maturity, and an increase in quality of the overall customer experience at each step of the customer journey. But does growing volume necessarily equate to growing profits?

It's an important question because the quest for profitability has been a constant issue in digital commerce, which is sometimes perceived as one of the less profitable channels. That's despite it also being a proven way to reduce the cost of certain activities, especially in the B2B market. Now, recent crises (geopolitical unrest, inflation, cost of raw materials) are putting further pressure on companies' profitability, overshadowing the ongoing growth of digital commerce.

So, what is the solution – how can companies ensure their digital commerce really does add to their bottom line? Increasing profitability is about having it both ways: reducing cost of sales and improving revenue per sales.

AREAS FOR IMPROVEMENT

In our experience of working with companies in both the B2C and B2B arenas, the following six areas of improvement will help to increase profitability:

Reducing cost of delivery

Delivery: it has always been one of the key issues for commerce. It's a building block of an efficient end-to-end customer experience but at the same time organizations have to square the circle: customers expect speedy delivery, yet also want free shipping. In tandem, these two make a big impact on profitability.

One way to help address this is to implement cost-to-serve analytics to design specific strategies for products that are expensive to deliver (heavy or bulky goods, like furniture) as well as for low-margin products (such as beads or pencils). In these instances, a business can then impose minimum order quantities or specific delivery charges associated with those items based on the generated data insights.

Online shopping is not discount shopping

Customers are demanding but can be educated for a more sustainable delivery; reliability will stay the major criteria

Pick-up instore or click & collect are other good ways to reduce the cost of delivery, even though they increase the cost of in-store management and require a mature IT infrastructure (Point of Sale and Order Management Systems) that allows a real-time view of store inventory. The necessary process redefinitions and training of store staff should also not be underestimated. Organizations that want to fully leverage the cost reduction effect should incentivize their customers to use click & collect by investing a share of the savings in discounts for self-pickup.

Bringing the products closer to the customer and thus reducing shipping distance is another efficient way of reducing shipping cost. This can be achieved, for example, by adopting a ship-from-store model or by adopting a micro-warehousing concept to decentralize fulfilment. When adopting such concepts, it is important to ensure you are not limiting the availability of products to only what's available in the store or warehouse in closest proximity to the customers.

Finding the right pricing to avoid unnecessary markdowns

Dynamic price-matching algorithms are an efficient way to avoid unnecessarily steep discounts. Those matching algorithms are based on multiple internal or external data sources, such as a competitor's pricing, stock availability, target margin, social conversation, product attractiveness (customer reviews, number of Product Detail Page views), and aim to either undercut or match the competitive pricing within designated margin brackets and other parameters.

The same approach of dynamic adaptation can be applied to promotions to ensure sales are maximized without the loss of too much margin. The question of whether a promotion is over- or underpriced, for instance, might be answered when sales skyrocket at the start of a promotion, indicating the discount could be going too far.

Promotions are generally a tricky topic and can have a huge impact on margins. At Capgemini, we conducted an analysis of the efficiency of promotions for a big gardening retailer a few years back. After an in-depth analysis of the 150 promotions running over a period of six months, we discovered that the design of several promotions was too complex for users to understand and even negatively impacted the conversion rate. As a result, we drastically reduced the number of promotions and eliminated the over-complicated ones.

After a similar analysis for a B2B client also running a high number and variety of promotions, we were able to convince the company to run a trial with a reduced number and frequency of promotions. After reviewing the business performance during this trial, it turned out that sales were still continuously increasing with no noticeable impact from reducing the volume of promotions.

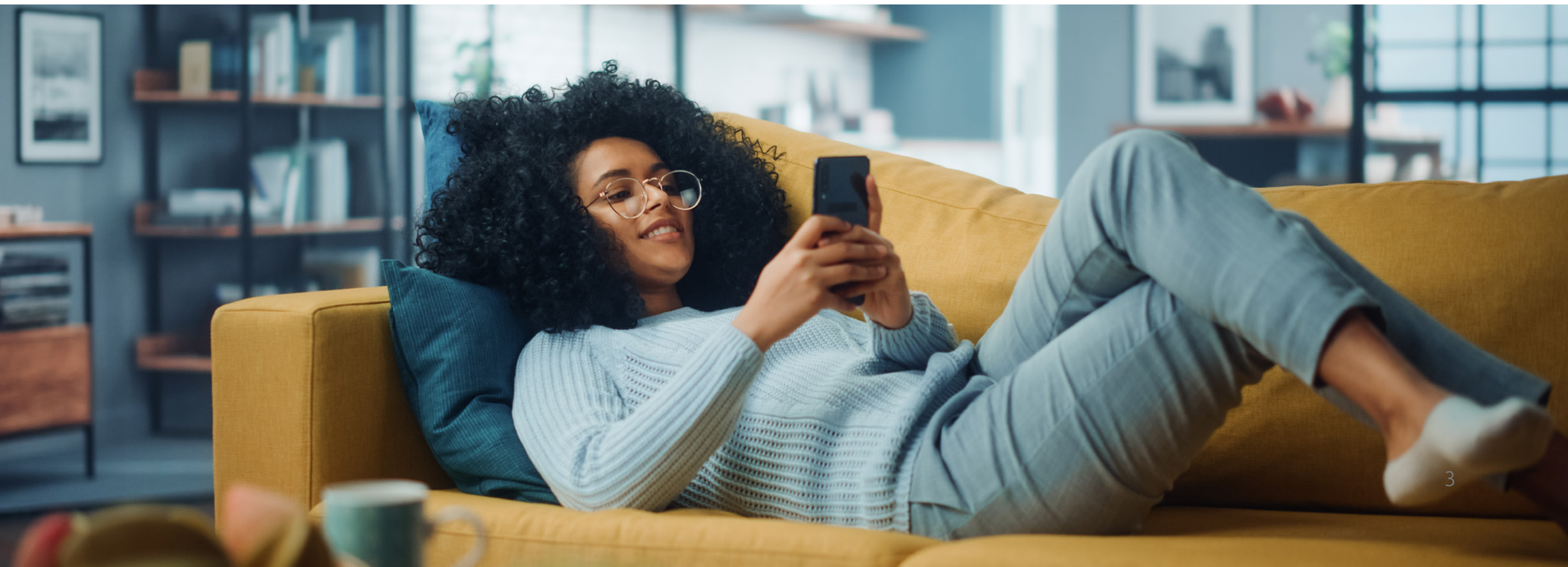
Last but not least, subscription models can help increase sales and reduce the cost for customer acquisition and traffic generation. A customer buying a subscription will typically order again and again without the need to spend a single additional marketing Dollar on driving them back to your commerce site.

Avoiding returns: reaping the double reward

Returns are a plague: you lose the sale and incur the cost of shipping back and processing the return. Every return that can be avoided directly increases your profitability.

There are some proven ways to reduce the number of returns due to non-matching sizes. One option is to collect user feedback on the product fit and then surfacing this feedback to other customers to give guidance on the sizing (take a size bigger / smaller than normal). Some merchants also test their products internally to give their customers guidance on sizing.

> *Subscription is the new face of loyalty*



Using AI to drive loyalty increases speed and efficiency in gaining right customer insights and personalized recommendations

Revisit your end-to-end customer journeys and verify if any new pain points were introduced through added features or messaging.

The quality of product descriptions is key to reducing returns and one should not underestimate the willingness of customers to read this content. Good quality product descriptions not only help in reducing returns of product not meeting customer expectations, but also increase customer confidence and thus conversion rates. Therefore, implementing a product information management (PIM) solution in the digital landscape and making sure the product information is accessible in all channels is crucial.

What is true for online is true for any channel. During the pandemic (and still today), customer service and sales associates have been instrumental in remote sales (video demos, order on behalf). It means that customer service and instore sales associates must have (at least) the same quality of product information at their fingertips as that available in the online store. This is why "Omnichannel Product Discovery" is now one of the key strategic pillars that we focus on when designing commerce projects.

Some industries also take full advantage of innovative new solutions, such as virtual try on. This is a key feature not only for conversion but to ensure customer satisfaction and limit the risk of return.

Increasing customer loyalty

We've all known for decades that it's five time more profitable to build a loyal customer than to recruit a new one. We also know that omnichannel customers are more loyal and spend 30% to 60% more on average than a single-channel customer.

Gaining customer loyalty is based on two key pillars: providing a best-in class end-to-end customer experience and offering the right product at the right time at the right price through the right channel. This hyper-personalization has been mostly used by luxury brands but is getting wider traction today through the rise of Customer Data Platforms (CDPs). Brands can implement a high level of personalization based on data insights generated through the CDP and thus increase customer loyalty by providing a highly personalized "luxury" user experience.

Optimizing traffic conversion

Many organizations observed a slight conversion dip during the pandemic due to various factors and as traffic starts to normalize conversion in these organizations is not recovering to pre-pandemic expectations. Typical reasons behind conversion issues in today's market range from stock issues, pricing pressures, and lack of promotions, but many have failed to guarantee that their core experience is not adding to the conversion dip.

Revisit your end-to-end customer journeys and verify if any new pain points were introduced through added features or messaging. Whether it's new product categories, features, content, or as simple as payment options, there can be new friction to the customer experience. In one example, a client introduced a Buy Now, Pay Later (BNPL) option on their site but some product categories were not eligible for BNPL. Deep analysis showed that the lack of BNPL on those products reduced conversion.

Conducting a deep dive within the analytics and performance statistics can yield some interesting perspectives around conversion optimization. Many organizations added new pages, graphics, or features as small as optimized image loading only to find that the end-result slowed down the performance to some end customers. Other organizations have observed a major shift from web to mobile traffic and failed to optimize the mobile experience. No matter if it's web, mobile or other channels, end user performance will be one of the major impacts to conversion.

Other areas that should be in focus to optimize conversion should be around understanding new personas obtained over the past few years, comparing marketing sources over time, and a review of an organization's evolving customer technology habits.

Reducing technical operating costs

During the pandemic organizations also conducted rapid investment into new solutions, features, and capabilities. As a result, some organizations built up a significant amount of technical debt or additional costs with licenses that may not be optimized.

To realize cost savings, you should first look at your development performance and review code quality, defects, and your debt index. If there are signs your organization has increased its technical debt, you can take several standard approaches like increasing automated testing, refactoring code, and review your program management approach, but you must approach technical debt with a realistic near term goal to achieve success. Sometimes, it takes more than the standard technical debt reduction approaches and requires you to review core architecture. This may seem like a drastic approach to save costs, but with the right initiative you can bring the right architecture for your business and strangle out functionality or solutions that are causing the highest amount of debt.

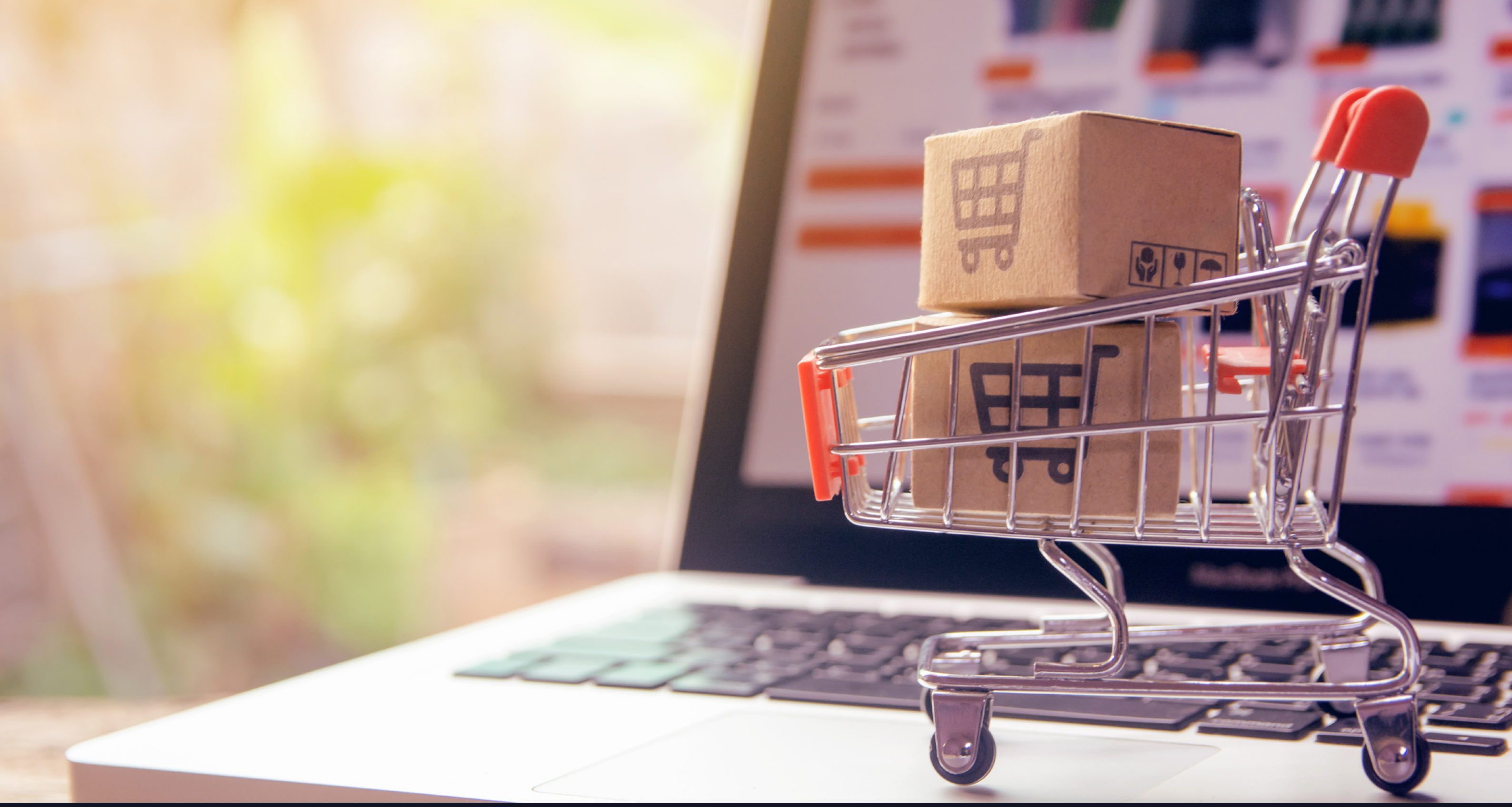
Also bring license costs into focus which can sometimes yield incredible savings. You might be paying for licenses on applications that no longer provide value, find savings by moving functionality to the cloud, or discover other solutions that provide the same capabilities at a fraction of the cost.

Increasing profit doesn't stop here

There are, of course, many further opportunities to increase profitability beyond those cited above:

- Think about implementing a **marketplace** to take advantage of the traffic you already have on your site. It will increase average order value, customer satisfaction (positive word of mouth), share of wallet, and frequency of visits
- **Monetize your data** by opening additional revenue streams and generating (end-)customer insights for your suppliers or the manufacturers of the goods that you're selling.

Improving commerce profitability is a journey that impacts the entire company. It demands a review of organizational structures and ways of working. And it needs process automation, while retaining the necessary flexibility to meet ever-changing customer behavior and expectations.



ORDER MANAGEMENT SYSTEM (OMS)

The job of an Order Management System used to be relatively simple. It was all about keeping track of the status of an incoming order until it was fulfilled and routing it to the most efficient delivery location (normally the distribution center with the necessary inventory in closest proximity to the customer). Order Management was often a module in the ERP (or later in ecommerce) system and used to be up to the task. In today's world with an increasing number of sales channels as well as fulfilment scenarios (buy online – pickup in store, ship from store, partial dropshipping, etc.), the formerly simple task has become increasingly difficult to deal with. At the same time, customers have become far more demanding in regard to delivery speed and status information on their orders. This has led to the rise of specific Order Management Systems designed for supporting such complex order orchestration scenarios.

PRODUCT INFORMATION MANAGEMENT SYSTEM (PIM)

PIM started to gain importance in the early 2000s when an increasing number of companies ventured into ecommerce. They quickly discovered that their product data was scattered across multiple systems, partially of poor quality and partially non-existing. PIM systems were introduced to solve this challenge and act as the single source of truth for all (customer facing) product information. This consistency and quality of information is even more important in today's world of more and more channels and the increasing convergence of digital and physical brick-and-mortar worlds.

POINT OF SALE (POS)

The first POS systems were introduced back in the 1970s along with the introduction of electronic cash registers. Their functionality is centered around everything needed to manage a brick-and-mortar store. From cashier management to receiving and transferring goods, to submitting transactional information back to the ERP at the end of the day. This worked well until the emergence of omnichannel ecommerce. Buy online & pick up in store, shipping from store, and similar scenarios require a real-time view of store inventory and additional functionality to process incoming online orders. Today, there's an increasing number of cloud-based SaaS offerings in the enterprise space that try to address those areas where traditional POS systems fall short.

CUSTOMER DATA PLATFORM (CDP)

Customer Data Platforms are a relatively young type of software used to aggregate all a company's customer data. This can range from purchase history to interactions with your ecommerce website (which products did the customer look at) or even with your Facebook page. The resulting data pool can then be used to create a far more granular segmentation of your customers. This makes it possible to run targeted marketing campaigns that have a much higher degree of personalization. Going one step further, the insights captured can lead to offers and communication personalized specifically to an individual customer (hyper-personalization).

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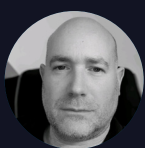

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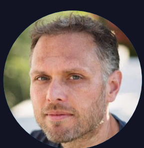

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