



eCommerce Insider Quarterly EQ Report

Q2 2022



Table of Contents

- Industry Updates
 - Demand
 - Inflation
 - eCommerce Penetration
 - Key Retailers
- Trends
 - eCommerce Trends
 - Shopper Trends
 - Manufacturer Trends
- Predictions
- Takeaways
- Suggested Reading List



Empowering eCommerce success through knowledge and community



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Community

Manufacturer and retailer share groups

“ I loved the thought leadership and the "predictions" piece. It really gave me some ideas to think about in working with Amazon (what's in it for them? what are their underlying goals, outside of beauty)?”
- L’Oreal

 The Emerson Group
A Consumer Products Equity Organization

 Johnson & Johnson

 Kao

 L'ORÉAL

Industry Updates

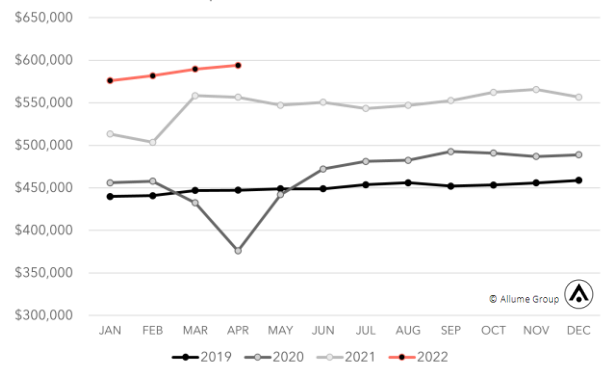


Demand Update

INFLATION-AFFECTED DEMAND

Demand increasing linearly in 2022, partly inflation-driven

Monthly Retail Sales by Year
(US Department of Commerce)



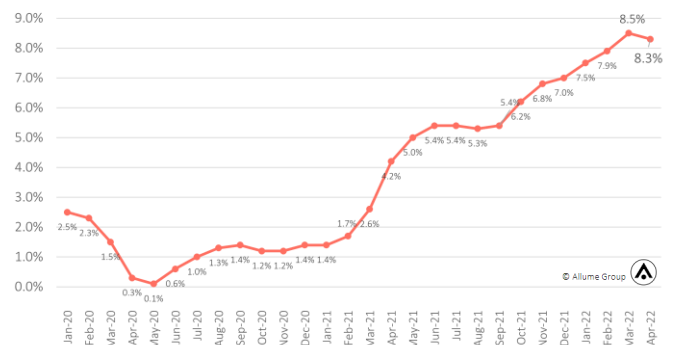
Sources: US Census, <https://www.census.gov/retail/marts/www/timeseries.html>

Inflation Update

INFLATION SETTLING, BUT STILL AT RECORD HIGHS

April 2022 inflation down slightly from March high of 8.5%, but still at all-time high for ~20 years

Inflation: CPI % Change Y/Y

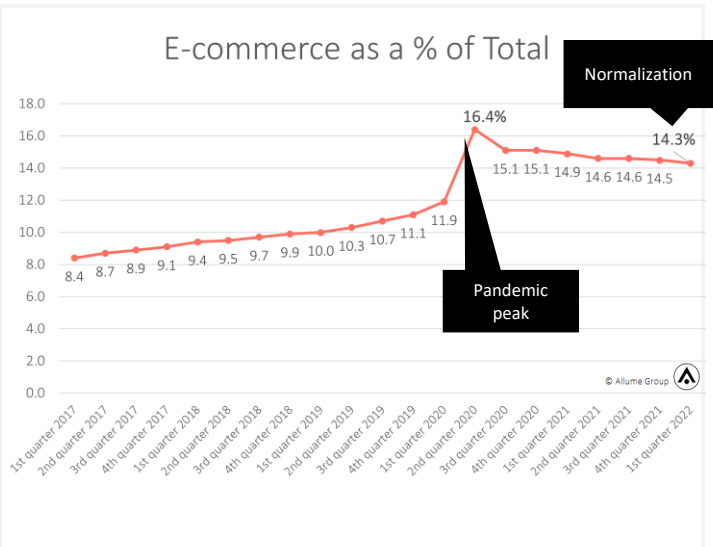


Sources: Bureau of Labor & Statistics CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS (CPI-U), not seasonally adjusted

eCommerce Penetration Update

The COVID-19 pandemic created an eCommerce spike, but demand has normalized

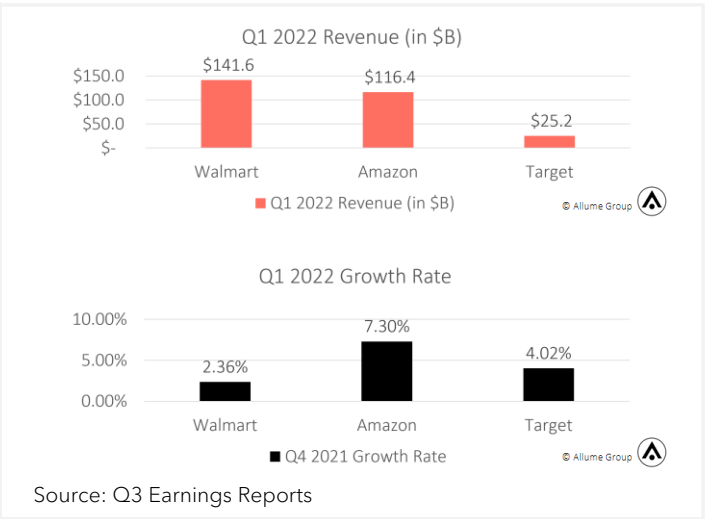
The “settled” eCommerce as a % of total retail sales is 14.3% in Q1 2022 vs. a pandemic peak of 16.4%



Key Retailers Update

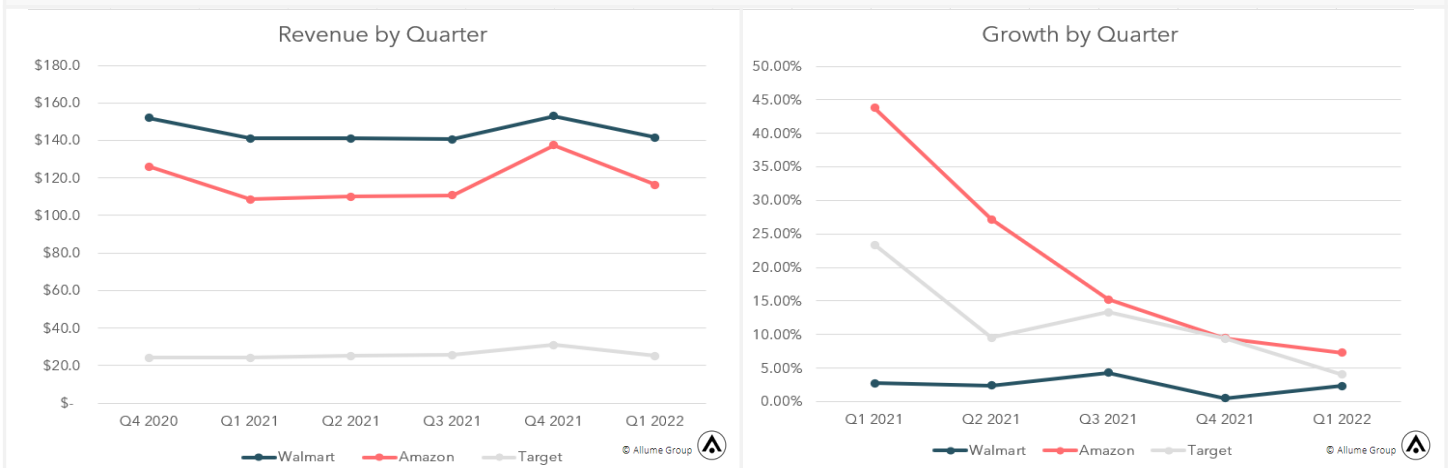
Inflation and supply chain disruptions continue to impact all retailers, with Q2 guidance

Amazon’s leads in growth rate, but growth is largely fueled by non-retail business units



Source: Q3 Earnings Reports

Retailer Revenue and Growth by Quarter



Trends



Shopper Trends

About FACE.

Younger, more diverse, and income-challenged shoppers expect companies to do more.

Nearly half the US population is now under 40 (+18ppts since 2014). This is not about Gen Z necessarily. It's about **Millennials, with families, who are time-pressed, and "values" driven.** They are **digitally engaged and bringing new shopping behaviors**, across channels and retailers, and technologies - **even in this inflationary environment.** Fairness (how well companies treat their employees and the environment) is now a value they expect. It's not a reason they come to the brand or retailer, but it is a reason they'll stay.

JOURNEY First

Forget product! For now.

It may seem like heresy, but for the foreseeable future it's more critical to understand not what people consume, but **where, when and how they want to buy it. The new shopping efficiency is "anywhere I am".** And that means more places, more often, just to get things off the list and leave time for other things.

HEALTH & WELLNESS FOR ALL.

Wellbeing has many levers and expectations.

Being well and wanting to live a well life existed before 2020. The last two years have merely heightened and redefined shoppers' focus on health and wellness. Yes, it's about healthier products, better ingredients, more sustainable practices. As importantly, it's about less stress, more control, and greater social wellness. Shoppers' **expectations of brands and retailers are now grounded in affordable, holistic, healthy access for all.**



By Wendy Liebmann

CEO & Chief Shopper
WSL STRATEGIC RETAIL

SOURCES: Shopper Trends contributed by Wendy Liebmann, WSL Strategic Retail

Trends



eCommerce Trends

RETAIL MEDIA EXPLOSION.

As sales shift to eCommerce, retailers scramble to open new revenue streams.

"It's not difficult to understand why retailers are so enthusiastic about retail media networks. Selling ads is far more profitable than selling goods." - Jason Goldberg, Chief Commerce Customer Officer, Publicis Groupe, on Forbes.com

Expect to see more advertising innovation, including ad types, targeting, metrics, and more.

A PROFIT SCRAMBLE

Retailers look to cut costs to manage inflation.

"To boost profits, retailers' investment priorities include digital customer experience and omnichannel commerce in the top spots; supply chain modernization and marketing tech/data monetization in the middle; and customer service, digital store, and strategy at the bottom." *Daphne Howland, RetailDive*

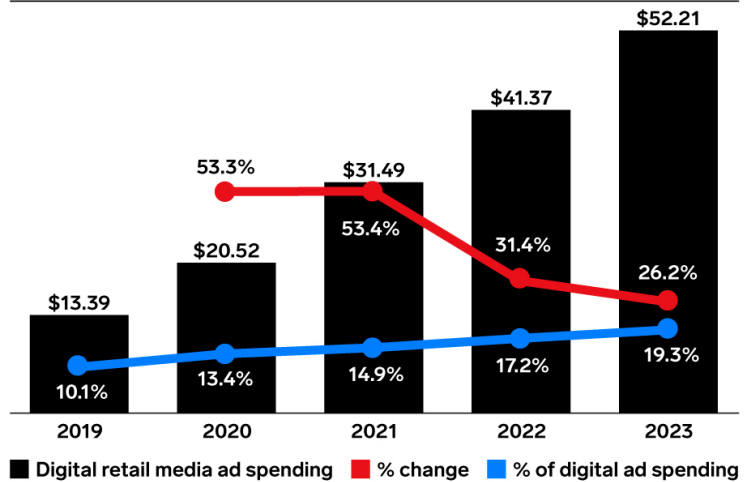
VALUE-ORIENTED RETAIL WINS.

Retailers with a value-oriented message will win in this inflationary environment.

"[T]he importance of 'getting the products you want' has dropped from the top consideration to the bottom when ranked against the elements of cost and convenience, and this holds true for both Pickup and Delivery services" - David Bishop, partner at Brick Meets Click on GroceryDive

SOURCES: Forbes, RetailDive, GroceryDive

US Digital Retail Media Ad Spending, 2019-2023 billions, % change, and % of digital ad spending



Note: digital advertising that appears on websites or apps that are primarily engaged in retail ecommerce or is bought through a retailer's media network or demand-side platform (DSP); examples of websites or apps primarily engaged in retail ecommerce include advertising on Amazon, Walmart, and eBay; examples of retail media networks include Amazon's DSP and Etsy's Offsite Ads; includes ads purchased through retail media networks that may not appear on ecommerce sites or apps
Source: eMarketer, Oct 2021

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eMarketer | InsiderIntelligence.com

Trends



Amazon Trends

THE SCIENCE OF SAFETY.

Approaching warehouse safety as a technology (vs. people) problem.

Amazon's workplace safety problem, exacerbated by their +300K inexperienced new hires in 2021, reaches a tipping point with labor unions and activist groups crying "uncle". Amazon approaches workplace safety as a scientific problem to be solved, citing better algorithms and biometric monitoring as long-term solutions, while labor unions seek less monitoring, lowering standards, and greater empathy.

A SERVICES COMPANY, NOT A RETAILER.

Services overtake Amazon's retail business in both size and growth.

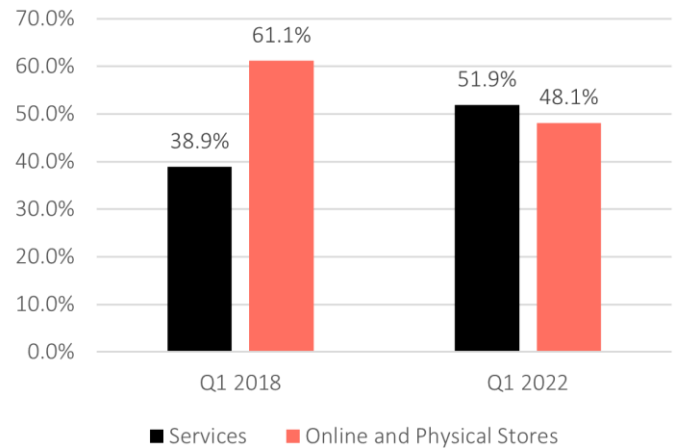
Services (subscription services, third party seller services, advertising, and AWS) grow to more than half of total net revenue in Q1 2022, growing at an average of 17% y/y, while online stores net revenue declined 3.35% y/y. AWS remains the clear darling, growing at 37% y/y with a significantly higher profit margin and a LOT of room to grow, with 95% of corporate IT spend still happening locally (vs the cloud).

EXTRA CAPACITY, EXTRA COSTS.

Amazon focuses on profit as they grow into too-much capacity.

Amazon doubles transportation and warehouse capacity over the course of one year's time, significantly increasing their cost structure and driving the company to cash flow-negative for the first time in years. Expect serious belt-tightening as they grow into their higher cost base. And Dave Clark, CEO of Amazon's Retail division, quietly and abruptly leaves the company.

Amazon Net Revenue % of Total by Business Type



SOURCES: Amazon's Quarterly Earnings Report (Q1 2022), Amazon's 2022 Shareholder Meeting

Trends



Manufacturer Trends

DEMAND FORECASTING WOES AND #SUPPLYAGEDDON.

With demand patterns nearly impossible to predict, manufacturers struggle with out-of-stocks.

"Forecasting is hard in the best of times. It requires you to predict demand, which means you have to predict the future and predict your product lead times. When you introduce variability to that, it makes the forecasting problem even harder."

- Dave Glick, CTO, Flexe | ex-Amazon Supply Chain Leader

"Supply-chain constraints continue to rank among the top headaches for US businesses, two reports showed, generating more anxiety about the outlook for the economy." - Bloomberg Business

ESG INVESTMENTS (ENVIRONMENTAL, SOCIAL, AND GOVERNANCE) TAKE CENTER STAGE.

Brands become more transparent on their social and environmental journeys.

"Almost 4 in 10 (39%) executives said that environmental sustainability is a top priority for them today, and more than half (53%) said it will be a top priority in 3 years." - IBM Institute for Business Value

From recycling goods to investing in worldwide broadband internet access to promoting ethnic and gender diversity, brands emerge from the pandemic with a voice...and a plan. It's not enough to be an advocate, brands must activists.

A PIVOT TO DIGITAL-FIRST MINDSETS.

As sales shift to eCommerce, a digital-first vs. digital-later

"Shoppers go online first in over 60% of shopping occasions. Half of shoppers that went in-store first went online after." - Think With Google

"The ability to reach a retailer's audience is a different competency than how to activate on a retailer's platform." - Bryan Gildenberg, the CPG Guys Podcast

SOURCES: Deloitte, Bloomberg, IBV, Think With Google, the CPG Guys Podcast, Dave Glick (CTO, Flexe)

Industry Predictions

A SHARE SHIFT TO VALUE-FOCUSED RETAILERS (VS. CONVENIENCE).

As inflation climbs and buying behavior changes post-pandemic, retailers of all types face a reckoning. Call it the anti-buying revolution: we've got enough Pelotons and stand-up desks; let's get outside and play. Expect a series of retailer bankruptcies and massive assortment overhauls. And rapid delivery? Well, let's just say it had its moment.



THE LAST MILE GETS AUTOMATED.

As last-mile delivery companies face off, one thing is clear: the need for automation to keep costs in check. Expect more drone delivery, dark warehouses, picking automation, and other means to shrink the costs of that last mile to shoppers' homes.

RETAIL MEDIA CONSOLIDATION.

You know what's powerful? A retail media network that works across ALL retailers. Retailers aren't technologists, and we can expect efforts to stall in keeping pace with brands' needs in media partnerships. Consolidation across retailers is likely.

Takeaways

A DIGITAL-FIRST MINDSET IS CRITICAL FOR BRANDS TO BE SUCCESSFUL.

As retail media grows and a sustained shift to eCommerce has occurred, brands must build digital strategies first, vs retro-fitting physical store (and media) strategies for eCommerce later.

PLAN FOR BELT-TIGHTENING ACROSS RETAILER PARTNERS (AND CHOOSE INVESTMENTS WISELY)

Given inflation and changing shopper behavior, place your bets carefully on this year's retailer relationships and investments. Expect - and plan for - increased costs of doing business.

MAKE YOUR ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PLANS KNOWN.

Even income-challenged shoppers expect brands to do and say more, and even in this inflationary environment. Brands must share where they are on their journey, and it's not enough just to be an advocate.

Suggested Reading List



Articles

- The New Yorker: [The Shape of Things to Come](#)
- The Robin Report: [Walmart & Target Canaries in the Coal Mine](#)
- Forbes: [Retail Media Networks Are One Of The Most Important Trends Of 2022, But They Need To Evolve](#)
- RetailDive: [Retailers grapple with e-commerce's drag on profits: report](#)
- GroceryDive: [Online Grocery Sales Bump Up in May as Inflation Benefits Mass Retailers](#)
- Fast Company: [The 10 most innovative companies in corporate social responsibility in 2022](#)



Podcasts, Videos, and Events

- WSL Strategic Future Shop podcast: [Amazon, Omni-commerce, the Metaverse and What Comes Next?](#)
- Jason & Scot Show: [Episode 292 - Quarterly Recap](#)
- WSL Retail Safari®: [Humanizing the Store in a Digital World](#)
- The CPG Guys: [Retail Media Deep Dive With Omnicom Commerce Group's Bryan Gildenberg](#)



Data & Reports

- [US Census](#) - Demand Update
- [US Department of Commerce](#) - eCommerce Penetration Update
- [Bureau of Labor](#) - Inflation Update
- World Economic Forum Report: [Net-Zero Challenge: The Supply Chain Opportunity](#)



Thank You

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