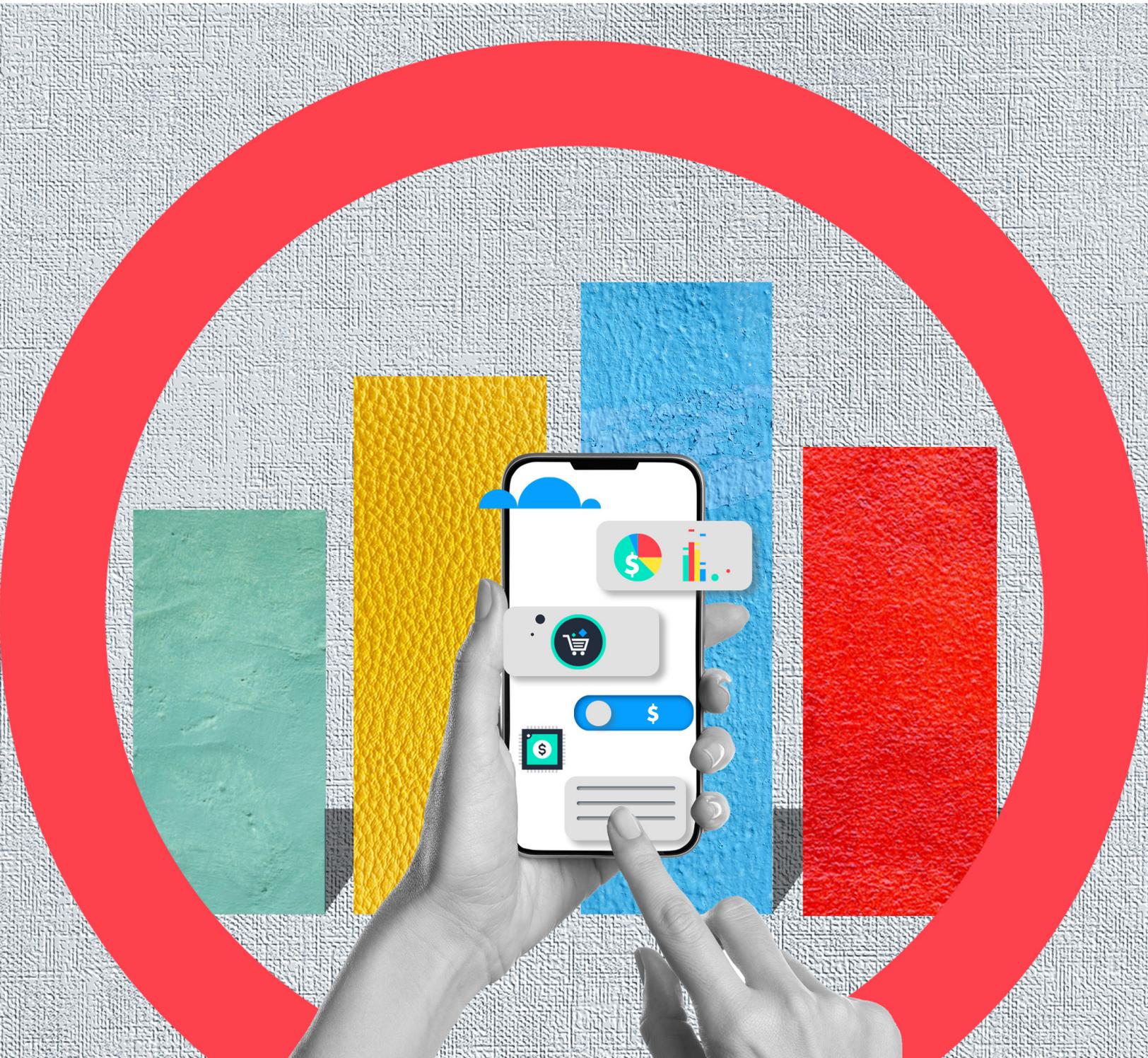


The Four Pillars of E-Commerce Profitability

How retailers can optimize digital channels to increase organizational efficiency, improve customer-centricity and drive growth



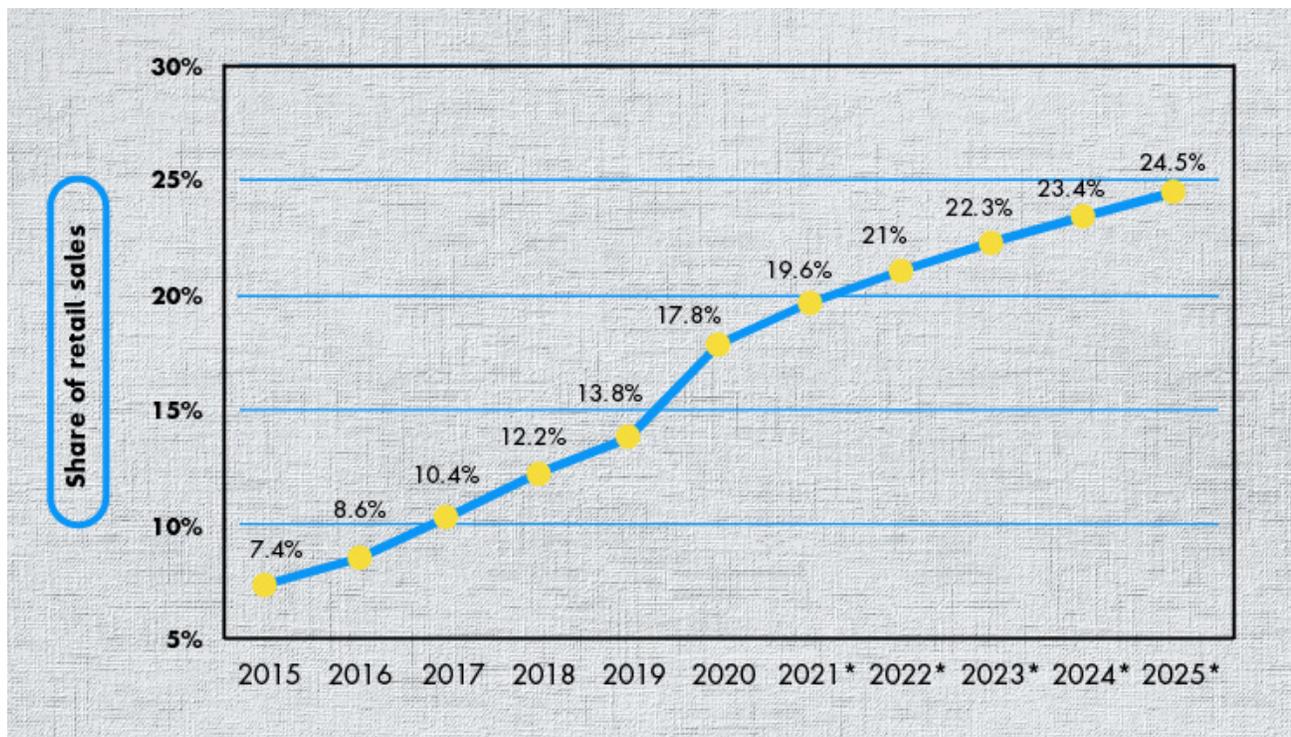
In less than five years, global e-commerce sales are expected to double,

accounting for [25 percent](#) of total revenue. For traditional retailers, this meteoric rise is no small concern. In many cases, the fastest-growing channel is the least profitable because features like same-day delivery, long-tail product assortment and hassle-free returns made popular by marketplaces and digital natives chip away at increasingly thin margins.

And yet, an opportunity exists. The shift from one channel to another calls into question everything retailers thought they knew about market share, growth forecasts and customer loyalty. As consumers re-evaluate their buying options, retailers have an opportunity to win over new customers and increase their share of wallet with existing shoppers.

What stands in the way of e-commerce growth, however, is the ability to scale the business in a way that accommodates new consumer demands, generates new revenue, balances costs and sustains profitability.

E-commerce as percentage of total retail sales worldwide from 2015 to 2025





To maintain profitability, retailers must continue to scale revenue drivers while optimizing costs.

Traditional retailers must consider how they can optimize e-commerce by lining up operations, people and technology across the value chain to unlock new efficiencies and build value for the customer and the business. To do so, organizations must assess each business function, identify areas for cost savings, and determine ways to improve the customer experience.

For most retailers, the path to e-commerce profitability does not resemble a straight line. Sustaining e-commerce profitability is a journey that twists and turns throughout the entire organization, evolving in tandem with changing customer needs, beliefs, and behaviors. Although it may appear simpler to examine and address each business function individually, true optimization requires a holistic approach—one that links efforts and compounds efficiency gains.

Here, we examine the four pillars of e-commerce profitability and how retailers can optimize efforts to generate new, sustainable revenue streams while optimizing existing processes for cost savings and efficiency.

REVENUE

Practices that help retailers bring in new revenue and maintain loyalty, like:

- Better merchandising
- Customer acquisition & retention
- Dynamic pricing
- Data monetization
- Platform transformation
- Exceptional customer experience

COST

Operations that erode profit margins that should be optimized, including:

- Supply chain
- Inventory & order management
- Returns
- IT transformation

1 **PILLAR** Customer Acquisition and Retention

Just as product pricing may differ from channel to channel, so does customer marketing. The costs associated with drawing customers into stores vs. onto mobile sites are markedly different.

However, data can help find the answers. By analyzing sales figures against all marketing efforts, it is possible to understand what types of offers consumers are most responsive to. This provides an opportunity for optimization because the most expensive advertising options are not always the most effective. For example, some retailers may be able to focus efforts on days and times that are most effective. In this way, retailers can shave marketing costs while still generating brand engagement.

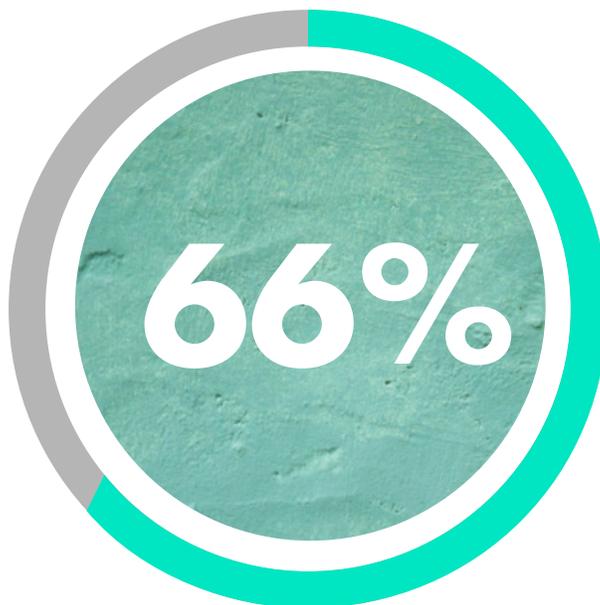
PERSONALIZATION DRIVES ONGOING CUSTOMER LOYALTY

Retailers should consider the differences between new and existing customers and shape retention strategies accordingly. Loyalty, as a concept, is universal. However, the motivators for each customer are unique. As retailers begin to use big data to create deeper levels of segmentation within the customer group, it is possible to identify new ways of reaching the customer with the products and services they most desire. With advanced technologies, it is even possible to enable true personalization and treat each shopper as an individual, as opposed to part of a segment.

Many e-commerce strategies include AI-enabled product recommendations. Typically, this effort is based on the customer segment and has a decent conversion uplift compared to doing nothing. Incorporating deep learning capabilities and integrating multiple AI models into a single activation can further enhance results.

DATA MONETIZATION MAKES INSIGHTS GO THE EXTRA MILE

Another way to offset some of the costs associated with digitization is to [monetize proprietary data](#). Consumer Products companies, in particular, are desperate to gain access to consumer data, especially as it relates to transactions and behavior. Selling this information to other organizations may provide retailers with valuable revenue streams. With media networks, retailers and brands can work together to create joint marketing campaigns that benefit both companies, with experiences that are personalized, contextual, and add to customer interactions with the brand.



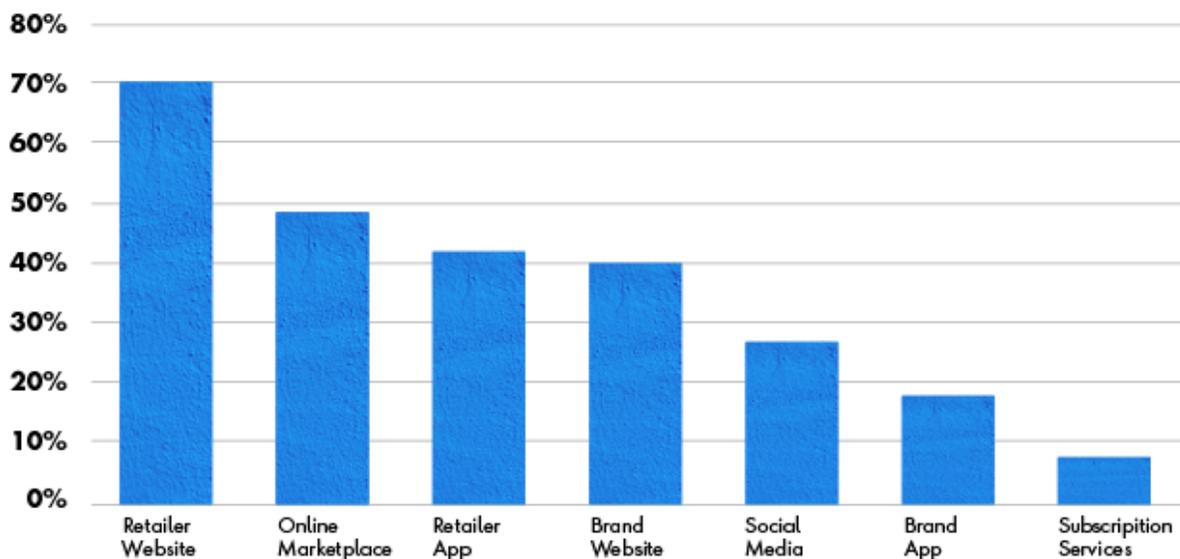
66% OF SHOPPERS SAY THEY'VE BOUGHT SOMETHING ONLINE THEY'VE SEEN ADVERTISED

PILLAR 2 Product Selection, Pricing and Promotions

E-commerce marketplaces have more flexibility to offer a wide range of products with minimal inventory and warehouse costs. Partnerships with other retailers or brands also allow expanded product selection to a larger network of consumers and the creation of alternative revenue streams, such as [data monetization](#) and digital advertising. For example, in 2019, Amazon netted \$14 billion of advertising revenue—representing 11 percent of additional income.

Retailers should view marketplaces as a way to enrich their product offerings and become a destination where people can find everything they need. For example, Shopify helped Walmart connect select Shopify sellers to the Walmart Marketplace. This partnership gives Walmart customers greater product selection, as well as new commission opportunities for the business from an expanded network of third-party sellers.

**What channels have you used to shop online?
(H1 2021)**



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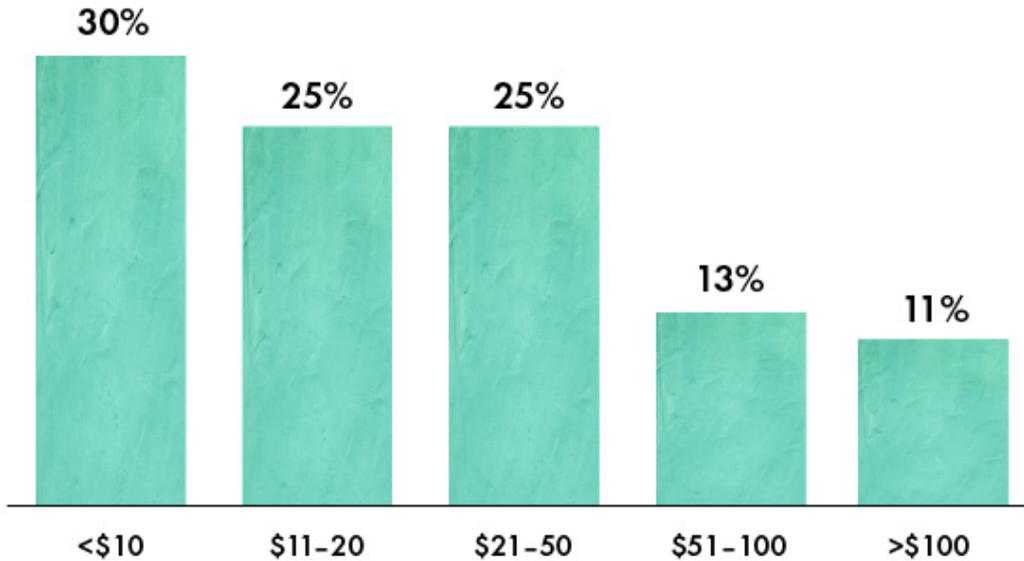
Online marketplaces that offer a wide selection of brands are gaining market share. By becoming a platform, successful retailers can expand their experiences while catering to a wider audience base.

COST-TO-SERVE ANALYTICS AND E-COMMERCE MODELS

The first step may be to consider the profitability of each item in the catalog, using granular cost-to-serve analytics. For example, bottled water, soft drinks and snacks are sometimes referred to as “CRaP” products (short for “can’t realize a profit.”) These items are heavy or bulky to ship, often resulting in high delivery costs, despite being a low-ticket item.

As part of a holistic e-commerce profitability strategy, retailers can determine the best way to lower the cost of selling these particular items. Limiting the number of each item per order or only allowing purchase for orders exceeding a certain dollar amount may make sense. Other options may be to default to bulk ordering and shipping terms or introduce a [subscription service model](#) where items are bundled together. In extreme cases, retailers could consider cutting the product altogether, though that may not appeal to customers who want the convenience and simplicity of one-stop digital shopping.

Typical cost of an online food and beverage purchase



DYNAMIC PRICING

Many retailers continue to push e-commerce offers and promotions, despite thin profit margins. As customers continue to purchase online, it may not be necessary to always offer discount incentives.

Retailers should consider robust dynamic price-matching algorithms that can not only scrape data and analyze the best price from competitors but also identify the right source for comparison. For example, third-party providers selling an obsolete product at a discount could trigger algorithmic price wars within the current catalog.

Part of retailers' e-commerce strategy should also include determining the optimal price and product catalog, not simply based on the existing numbers used in stores but also on the operating costs of different digital channels.

3 PILLAR Supply Chain Optimization

An efficient and cost-effective fulfillment process is the cornerstone of every retail organization. But as shopping continues to shift to digital channels, many retailers find their fulfillment costs are rising.

Fast and free shipping is a driver of sales—even as it eats into profit margins. Research shows that shipping costs and delivery lead times are important differentiators for shoppers. [Sixty percent](#) of consumers are more likely to purchase from a brand that offers fast shipping. Nearly 75 percent of consumers also expect shipping [to be free](#). Further, unexpected shipping costs often lead to cart abandonment, with consumers looking for better offers.

60% of consumers are more likely to purchase from a brand that offers fast shipping

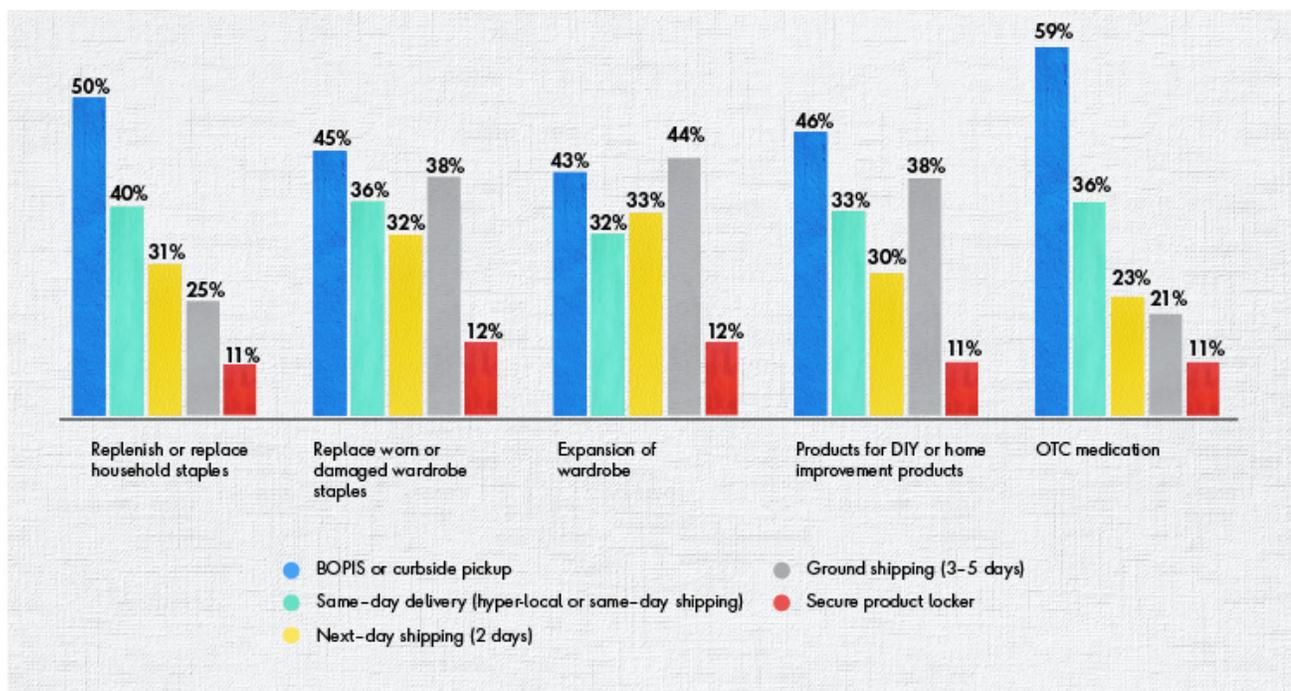
HOW E-COMMERCE RETAILERS CAN INCREASE PROFITABILITY

Nearly all retailers can generate significant efficiency gains in the area of both fulfillment and returns by refining their supply chain. In many cases, making small changes can generate significant returns.

Retailers can trim transaction

costs by auto-populating the shipping option to one that is more cost-effective for shoppers (for example, two- or three-day shipping). For clothing retailers, limiting the number of items a customer can buy in different sizes to reduce the rate of returns may be another effective strategy. For [seasonal items](#), incentivizing customers to return unwanted items quickly is also effective. [Publicis Sapient research](#) also found that people often prefer to [buy-online-pickup-in-store](#) over same-day or next-day shipping. Incentivizing shoppers to head to the store instead of delivery can help reduce last-mile costs.

Fulfillment by category and motivation



CONNECTING E-COMMERCE TO IN-STORE EXPERIENCES

These shifts also affect the connection between digital and physical channels. Brick-and-mortar retail [must also change](#) as a result of shifting customer behaviors, and retailers must adjust their physical footprint to accommodate these changes.

In today's landscape, retailers must focus on having effective stores that cater to digital-first shoppers. This may mean downsizing to smaller stores and creating dark stores, micro-warehouses or [designated click-and-collect locations](#) to aid with distribution or reformatting store layouts to better accommodate in-store pickups.

ACCELERATING SUPPLY CHAIN OPTIMIZATION

Retailers can address these issues at the operational level by investing in four key areas of [supply chain optimization](#). These core changes will help retailers become agile, predictive and responsive while maintaining a laser focus on costs.

1

Develop a digital replica of real-world applications to plan, predict, sense and react to e-commerce operations. One client uses 440 billion points to model costs to serve its entire network, thus driving a data-centric decision to serve a shopper or store with a particular product.

2

Optimize inventory costs through more [precise demand and inventory predictions](#). One client uses big data across more than two billion item combinations every three hours to drive forecast optimization.

3

Enhance fulfillment to drive faster, more expansive and more cost-effective service through cognitive order optimization engines. Some of our clients use cognitive order management to determine optimal shipping rates and balance capacities across stores.

4

Optimize the returns process through digital interventions and cost optimizers. Several of our clients are exploring ways to identify shoppers with a high rate of returns vs. those who do not. It is possible to [incentivize positive customer behavior](#) or discourage customer practices that are costly to the business. Having a better understanding of the return rate may help improve the entire returns process by better assessing the cost of re-stocking against potential margins.



4 PILLAR IT Modernization and Big Data

E-commerce profitability is tied closely to technology—and with good reason. Each example discussed within the supply chain and product catalog relies on technology, in one form or another, to identify opportunities and activate solutions.

The most obvious example of the power of technology can be found in data analysis and, by extension, artificial intelligence (AI) and machine learning (ML). [With enough high-quality data](#), retailers can identify trends that can help anticipate buying patterns, optimize inventory levels, right-size the workforce, and set prices and promotions that maximize revenue. These technologies draw on a vast array of data sources, including past transactions, behavioral data, social media activity and geographical location to create algorithms and models that give the organization both a more complete customer profile and greater awareness of the business. AI can also be used to power solutions—from 24/7 customer service chatbots to customized product recommendations—thus helping retailers increase their profitability in the burgeoning digital world.

An equally powerful opportunity lies in robotic processing automation (RPA). Many warehouses are woefully out of date, relying on humans to collect items for digital orders. Through the use of scanners, conveyor belts, robots, automated forklifts, exoskeletons, and drones, the time spent at every stage of the fulfillment process can be significantly reduced. Not having a centralized and automated shipping facility makes it nearly impossible for retailers to achieve the efficiency of

other modern e-tailers, all of whom are leveraging the latest in robotics and automation technology to increase efficiency.

ACCELERATING DATA TRANSFORMATION IN THE CLOUD

The deployment of data-enabled tools and robotics requires a level of speed and flexibility far beyond what is supported by many retailers' current IT operations. Although organizations appear eager to adopt advanced technologies such as AI and ML, their ability to effectively do so—and harness the applications' full benefits—may necessitate infrastructure upgrades. The cloud holds promise because migrating key business services to cloud-based systems enables near real-time performance monitoring and inventory awareness. These insights can unlock new levels of efficiency across the value chain—from [inventory optimization](#), to product recommendations and customer service. Cloud-based technology also provides the speed and flexibility needed to scale, which is a crucial point as retailers attempt to expand successful pilot programs or test applications throughout the organization.

Although virtually all organizations recognize the value of technology, many stop short of implementation, largely due to cost concerns. However, technology infrastructure investments are just that—investments. Increasingly, these capabilities are not just enablers of growth but also key to viability. Fail to keep pace with digital applications, and the entire business will suffer.

Research by Publicis Sapient found that IT infrastructure investments can

pay back in two to three years while continuing to create long-term value through increased conversion, affinity and loyalty. Our research estimates an annual cost savings of 17.5 percent through reduced operating costs and increased productivity and quality.

MODERNIZING THE ORGANIZATION

The successful development and implementation of any e-commerce profitability strategy relies on two main areas: human capabilities and data. Businesses must assess both to determine gaps and restructure the organization in a way that enables profitability.

An obvious concern is ensuring the business has the necessary skills and experience. Beyond that, there may be a need to adjust the organizational structure to make the best use of employee skills. Flattening the organization and moving decision-making into the hands of team leads is one possible way to increase speed and efficiency. Further, augmentation of human capabilities through the use of robotics is another way to augment the workforce. No matter the approach, refining the organization's e-commerce profitability efforts will require a tremendous amount of flexibility.

CONCLUSION

Although many retailers are experiencing e-commerce profitability today, few are taking a holistic approach to maintaining sustainable growth and retention over time. Here are some thought-starters for retailers as they continue to refine and optimize their e-commerce strategy:

CUSTOMER ACQUISITION & RETENTION

- What is the cost of acquiring and retaining a new digital customer?
- What is the most effective way of reaching new customers or regaining old ones?
- How do we create a customer experience that discourages costly and inefficient consumer habits?
- How can we monetize consumer data to offset the cost of technology investments?

PRODUCT SELECTION, PRICING AND PROMOTIONS

- How do we identify our highest and lowest profit items within the digital catalog?
- How do we refine our digital pricing strategy to account for higher operating costs?
- How do we enable dynamic pricing to account for surges or lapses in demand?

SUPPLY CHAIN OPTIMIZATION

- How can we adjust shipping options to maximize profit margins without affecting the customer experience?
- How do we evolve our returns process to shorten the timeline and minimize losses?
- How can we use data and advanced technologies to predict demand, inform inventories and improve forecasting?

IT MODERNIZATION & BIG DATA

- How can our organization leverage vast stores of proprietary and third-party data available?
- How do we introduce robotics and RPA within our organization?
- At what point will our organization see a return on IT investment?



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