BUILDING YOUR E-COMMERCE MEASUREMENT PLAYBOOK

10 TIMELY TIPS FOR EFFECTIVELY MEASURING HOW YOUR BRAND IS PERFORMING ONLINE

OCTOBER 2016

Profitero
Better Performance Through eCommerce Analytics

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AN UNCOMMON SENSE OF THE CONSUMER™

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> YOU'VE GOT TO CLARIFY YOUR GOALS AND OBJECTIVES IN ORDER TO ESTABLISH YOUR KEY PERFORMANCE INDICATORS. BUT ONCE YOU'VE DONE THAT, THE QUESTION REMAINS: HOW DO YOU MEASURE THESE KPIS?

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> ONLY BY LOOKING AT CONSUMER BEHAVIOR HOLISTICALLY CAN YOU UNDERSTAND WHETHER YOU'RE UNDER-RESOURCING OR OVER-RESOURCING YOUR BRAND'S EFFORTS, OR WHETHER YOU'RE COMPETING AGAINST YOURSELVES FOR THE SAME SALE OR SAME CONSUMER.

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Inside You'll Learn:

- What's the vital prerequisite for establishing meaningful metrics
- The optimal number of KPIs you'll want to regularly employ
- How new profitability models can beat disruptors to the punch

IF YOU CAN'T MEASURE IT, YOU CAN'T IMPROVE IT.

THE ESSENTIALS OF ESTABLISHING KEY METRICS THAT TRULY GAUGE YOUR E-COMMERCE SUCCESS.

To make smart decisions about your brand, you need data—the right data. How you collect this data and how you analyze it are key components of how well informed you and your colleagues will be as you guide your brands into the future.

It's especially important that you arm yourself with key performance indicators (KPIs) that are built with the data needed to accurately and astutely monitor how your brand has been performing to date, and where it might be headed.

But how do you establish the right KPIs for your brand? What are the basic ground rules for making sure your metrics are relevant to your company's situation and goals? Are there certain steps you can take—or certain realizations you need to come to—to give yourself the best shot at building an e-commerce measurement "playbook" that's accessible, targeted and always useful for your team?

Through our collective (and vast) experience in this space, we've identified ten tips and insights for building a playbook that helps you create an e-commerce strategy—so you can catapult your brand in the right direction to capitalize on the growing e-commerce opportunity.

10 TIMELY TIPS FOR EFFECTIVELY MEASURING HOW YOUR BRAND IS PERFORMING ONLINE.

1. DEFINE SUCCESS THROUGH THE LENS OF YOUR GOALS AND OBJECTIVES.

Start at the beginning. Derive your success metrics from your objectives and goals. For example, suppose your company's objective is to exceed your fair share of your category online; you want to sell greater than the equivalent share of what you're selling in the rest of the industry. It's this type of thought process that prompts a category leader to look at its brand in brick and mortar retail, where let's say they have a 40% share, and state they want equal or greater share in the new online channel.

Establishing the objective sets up a series of questions for your brand team: are you going to invest aggressively to get ahead of the pack? Are you going to invest just enough to get your fair share? Or are you actually comfortable letting others be the early movers? The latter may be an attractive alternative, considering that if you invest heavily and gain a larger share, you're still spending a lot of time and money on a relatively small channel while still in the learning process. That's why a more modest "wait and see" approach might be better in certain circumstances.

Of course, fair share is just one example of an objective. Others may include repeatedly outpacing category growth, or surpassing total e-commerce growth. Or you may wish to ensure that brand is represented according to the brand's standards everywhere it appears.

Furthermore, it's not only vital to have your objectives and goals documented narrowly for your e-commerce team, but also broadly for everyone in your organization. You need to be on the same page with your leadership and your colleagues, even if they're not directly involved. Otherwise, as your company seeks to prioritize what it's going to do this year and beyond, you'll have a difficult time deciding between course A and course B.

2. DEFINE YOUR KPIS.

The next step is defining the metrics you're using: what are the Key Performance Indicators (KPIs) that will be most helpful for your organization to monitor?

Certainly, there is no shortage of potential KPIs. The KPIs listed in the chart are only a sampling of the data you can consider. Indeed, for some industry professionals, the advent of data measurement capabilities has seemingly generated *too many KPIs* to select from—a cornucopia of choices in which some of the options have only limited relevance for that particular company.

That's why it's important to carefully choose which KPIs you want to use. A few pointers:

- **Select KPIs that tie in directly with your stated goals.** Per point #1, carefully delineate what you want to monitor and why. Trying to increase your sales volume? Consider KPIs that include daily sales, site traffic and conversion rates. Need to boost conversion rates? Your KPIs should include current conversion rates, trends in shipping rates, shopping cart abandonment rates, and competitive price trends.

- **Concentrate on a few essential metrics.** Resist the temptation to use too many KPIs. Otherwise, it's like lying on a bed of nails. Everything will blend together and no single point will stand out. Rather, focus on a few KPIs. Generally, you'll want between five and ten.

- **Tie in your KPIs with your company's state of maturity.** Is your company a start-up or an established player? A small, niche company or a giant multinational? The answer will have a direct impact on which KPIs you use. For companies in the early stages, KPIs will tend to focus on validating the business model, while more mature companies will tend to look at customer acquisition costs and lifetime value.

The best metrics are simple and straightforward. A good KPI also needs to have a direct linkage to specific actions. That's not to say *every* KPI reading is an *automatic* trigger. A KPI may be at an "acceptable" level for nine weeks running, and generate no action, but dip to a lower point in week 10 that's an agreed-upon trigger to initiate specific actions. That's why a KPI is not only what its name says it is—an *indicator*—but is also an *action generator*.

TOP FREQUENTLY-USED KEY PERFORMANCE INDICATORS

A partial list of the many KPIs you can choose from

- Market share
- Total sales: Hourly, daily, weekly, monthly, quarterly, annually
- Average order size (market basket)
- Average margin
- Shopping cart abandonment rate
- Conversion rate
- Cost of goods sold
- New customer vs. returning customer
- Product affinities
- Inventory levels
- Competitors' pricing
- Website traffic
- Unique site visitors vs. returning visitors
- Time on site/individual pages
- Page views
- Source of traffic
- Social media: Followers or fans
- Pay-per-click traffic volume
- Product reviews: Number and quality
- Brand/display advertising click-throughs
- Category size
- Category growth
- Category share
- On-shelf availability / OOS rate
- Share of page 1 search results (branded and unbranded keywords)
- Product content compliance rates
- Promotional rates
- Average review count
- Average star rating

3. REALIZE THAT MULTIPLE METHODOLOGIES MAY BE OPTIMAL FOR DELIVERING YOUR METRICS.

Once you know which metrics are going to guide you, you need to resolve how you're actually going to take the measurements in question. The reality of the e-commerce measurement landscape at the moment is there is no single complete solution. In fact, in more mature channels such as brick and mortar retail, it took the better part of a century to refine processes to the level of sophistication that most brands now expect.

In e-commerce today, there are many point solutions, including panel-based methodologies asking people to self-report. There are electronic receipt panels where people are opting in to have their email inboxes monitored and parsed for purchases. There are methodologies in which data is collected directly from a website or a mobile app. And there are point-of-sale approaches, to name only a few.

In many cases, it can become an extremely complex process as brands seek to evaluate which methodologies are optimal for which metrics. Different solutions may answer the same questions or deliver the same metrics, but they're doing it through a very different methodology—using a small panel, for example, versus leveraging actual sales data.

Clearly, there's a lot to sort through. Brand teams are faced with two overriding questions: What methodologies do you adopt? And which vendors do you select to deliver these solutions? Here are a few steps to bring more clarity to the process:

- **Integrate your search** for a solutions provider with your strategic plan and long-term and short-term goals
- **Request a meaningful trial** that gives you ample time to evaluate the solution
- **Be aware of the post-trial costs**, since if the expense is prohibitive, there's no point in conducting the trial
- **Establish your evaluation criteria** prior to the review process, and isolate the results from other concurrent activities that may muddy the waters
- **Do your research**, as you'll want to select proven providers with a track record of success at helping CPG companies grow and prosper

4. BE READY TO CONSIDER NEW PROFITABILITY MODELS (BEFORE A DISRUPTOR TAKES AIM AT YOU).

There's a strong case to be made for considering newer, different profitability models than the ones you're used to. It's a consideration that's easier articulated than accomplished, because looming over all of it is what we call "preservation of the beast."

At some point, when companies get very large, self-preservation becomes an institutionalized part of their existence. They've invested and built so much that delivering on existing expectations becomes a top priority. From entering a supply chain and constructing a building to getting distributors, hiring employees, and putting products on the shelves—it's an enormous expenditure of time and resources. And even as the culture and commerce environment changed—and holding onto market share replaced the idea of actually growing it—the cost of entry was still phenomenally high.

But now all that has changed. Now, with e-commerce, everything has been stripped down, so disruptors can come in with a very low cost of entry. And if the disruptor is willing to break the old model—Amazon is the obvious example—they can turn the entire industry on its head. Amazon has invested for the long term; they're not interested in profitability now. More and more retailers and brands will follow, but it's not easy.

Brands are more likely to respond once the disruptor has made its mark in the marketplace. Consider the emergence of Dollar Shave Club, and the resulting creation of the Gillette Shave Club. Big brands do have the ability to replicate a new model, but would they necessarily have done it on their own? Or do they need to be pushed?

The bottom line is that many of the big brands can't tolerate not making money, and this will affect their ability to innovate and collaborate in the future. What's needed instead is a metric—a rationale, if you will—that quantifies and justifies a potential move forward with new profitability models that still meet consumer demand.

5. USE A METRIC THAT MEASURES REAL RETURN ON INVESTMENT—TOTAL ROI—AS A MUCH-NEEDED (AND HOLISTIC) RATIONALE FOR INNOVATION.

With today's focus on short-term profits, perhaps the only factor that's going to enable manufacturers to try new business models—and understand new methods of profitability—is the metric of Total ROI. It may be *the* way to help these companies work for the long term, to achieve sustainability that goes beyond cash on hand, and rise above the day-to-day fight for market share.

What's meant by Total ROI? It's a complete picture that ties in activation, media and consumer management. These elements have been merging to a degree, but the promise of the digital environment is that we can truly connect them all now—and understand digital shoppers. We can learn who these shoppers are, what they're doing, and how their behaviors are changing. And whereas we used to market to shoppers in one place, and push sales and arrange a shelf for them in another, now we can activate them using tools that all connect as part of the same ecosystem.

This ability stems from effectively managing all the consumer information you have, such as taking your first-party data and integrating it with third-party data you may acquire from a diverse array of sources. When you see the data picture as a whole, you can actually use a data management platform to push advertising and publishing to the right place for the right consumer moment along the path to purchase.

Before, in an analog world, you knew myriad variables were related, but you couldn't always draw a line through them. Contrast that to the digital environment where you can use all of this data to identify consumers and segments, advertise, market, tie in loyalty programs, and actually activate the sale—all while understanding, improving and optimizing the purchasing environment. You see what the results are and you can readily measure them. The result: a new ROI. You see all the parts together, so you know how effective your investments are and what you can feasibly invest in next.

For example, you may see there's less risk in a new business model than you might otherwise have thought, or there's a previously undiscovered way to make it sustainable. Say you can improve your marketing efficiency and cut costs by 15%. In that case, you can afford to try a new business model for consumers that may lose you a 10% margin. The key is that you can finally visualize how it all works together, see cause and effect more clearly, and conduct better, smarter experiments that show you what works in the new environment. You see everything *holistically*.

6. THINK ABOUT GROWTH, AND NOT ALWAYS COMPARING YOURSELF TO COMPETITORS.

As you're measuring your performance with a set of KPIs, you want to keep in mind that the size of the e-commerce pie is not fixed in nature. That's why, although comparing yourself to competitors is a reasonable and frequent way to measure performance, it is not the end all and be all. More often than not, there's plenty of consumer demand to go around—and, as it spills over the demarcation lines of a supposedly finite market— you may want to place equal or greater emphasis on your own growth as an indicator unto itself.

You also want to measure how much incremental business you're gaining when you grow online sales: are you able to actually add new customers or new volume through a new outlet? That's an important KPI in the new world of omni-channel commerce.

And finally, returning to a KPI we cited at the outset—and at the risk of contradicting what we've just said—you should keep watch on the share of the online market you've captured. It's not as important as growth or incrementality, but if you can come close to getting your fair share (matching your offline share), that's an indicator you're doing very well in the expanded assortment of e-commerce space.

7. COLLABORATE WITH YOUR RETAIL PARTNERS TO MAXIMIZE YOUR CONSUMER KNOWLEDGE.

Are you factoring in data provided by your e-commerce partners as you establish your metrics? It's essential that you do so. The fact is, manufacturers can't build their consumer knowledge base by themselves. They need the help of retailers, just as retailers need help from brands to create consumer-friendly environments that are more appealing than simply offering an endless shelf.

It's fair to state that collaboration between brands and retailers is more critical than ever. As the two share data and insights, they are creating a new type of manufacturer/ retailer relationship—one that is changing quickly, and will likely look far different a few years down the road than it does now.

That's not to say all is proceeding in perfect harmony. With the rise of direct to consumer selling by brands, some retailers are seeing an encroachment on their traditional space. However, if the new end-to-end model is more cohesive and creates a more consistent consumer experience, does it create a win-win situation? One viewpoint is that what strengthens the brand also strengthens the online retailer that sells the brand. In effect, it's a case of a rising tide lifting all boats, as opposed to engaging in a zero sum game.

> WHAT'S MEANT BY TOTAL ROI? IT'S A COMPLETE PICTURE THAT TIES IN ACTIVATION, MEDIA AND CONSUMER MANAGEMENT.

8. SEE BEYOND CHANNELS.

A succinct bit of guidance: When you're measuring success, don't think in terms of channels. Consumers don't think in channels. They look at moments and options that help them get what they need. That's why, for brand managers accustomed to thinking in terms of channel management, a new approach may be required. It's necessary to focus efforts beyond the channel—to concentrate instead on meeting shopper's needs in new and meaningful ways, wherever they are, whenever they are shopping.

Which means it's no longer sufficient to generate business plans and metrics the way you've always done it, and instead, integrate this new "beyond the channel" emphasis internally within your organization.

9. CALIBRATE YOUR METRICS ACCORDING TO A SOPHISTICATION OF MEASUREMENT.

So much of today's data and analytics are *descriptive*. That is, they're backward-looking and tell you the current state of affairs—namely, how things are looking right now, or more precisely, yesterday. There is a further layer of sophistication that is *predictive*, it's forward-looking and helps you understand how things will be. Then, on top of that, there's a third level of analytic value that is *prescriptive*. Prescriptive doesn't simply do a descriptive task of telling you what is, or a predictive task of telling you what will be. Rather, it also provides indicators *what you should do*. Again, we hark back to the earlier point that good metrics are linked to specific actions, so that brand teams are never staring at a metric or an insight and trying to figure out its meaning or ramifications in terms of next steps.

So how do you reach the predictive and prescriptive levels of value in your analytic endeavors? One key factor is taking the holistic approach outlined in tip #5, where you're able to effectively manage all the consumer information you have, and more definitively see the relationship between cause and effect. The connection between point A and point B is clearer and more direct, and traversing the distance between the two is transformed from hypothetical wish-listing to a scientific method of predictive/ prescriptive analytics and prescribed action steps.

10. CONTINUALLY SEARCH, LEARN AND REFRAME THE LANDSCAPE—AND YES, ALWAYS EXPERIMENT.

Obvious as it may seem, it bears repeating that the learning process must be perpetually ongoing, and form a continuous loop of progressively better understanding of consumer behavior. The essential ingredient is carefully-calibrated experimentation that's designed to give you the key e-commerce insights you need.

Experimentation is all the more appealing when you consider the relatively low penetration level of many brands online today, and as a result, the proportionally lower stakes of a targeted trial initiative. The payoff can be significant: You're able to gain vital intelligence as you do to measure how consumers behave in the new e-commerce space, and as you place these findings in the context of the brick and mortar world we know—and knew. Finding the partners to help you formulate these experiments and effectively measure your performance is an important step.

EVALUATING DIGITAL AD SPENDING—A UK PERSPECTIVE

On both sides of the Atlantic, and everywhere around the globe, brands are in constant search of data that helps them answer the key question: How well is my investment in advertising working?

Consider the UK:

- E-commerce spending in the UK reached £60 billion in 2015[1] (compared to $342 billion in the US[2] during the same period)
- Over 90%[3] of the UK's 65 million people are Internet users
- 77%of British internet users[3] made online purchases in 2015
- Online sales rose by 16.2%[4] in the UK in 2015, with an expected growth rate of 14.9%[4] for 2016 (US online growth was similar at 14.6% in 2015[2])
- E-commerce accounts for 16.8% of all retail trade[3] in the UK (compared to a significantly lower 10.5% in the US[2])
- Mobile commerce (m-commerce) grew by 37.5%[1] in 2015, and now accounts for one in three pounds spent in digital e-commerce

Small wonder that digital ad spending accounted for 49.6% of total media ad spending[5] in the UK in 2015, with eMarketer expecting this total to rise to 57.5% by 2019[5]. But which CPG brands are generating positive ROI with their advertising, and which are having little effect? Likewise for the many other KPIs that are relevant to gauging a brand's performance: what's working and what isn't?

To answer these questions, brands need an e-commerce measurement playbook to help them establish the KPIs that are most relevant for gaining insights, making decisions and taking action. They need to view this playbook not simply as a tactical guidepost for gauging their competitiveness, but as an invaluable and irreplaceable component in their strategic arsenal.

CONCLUSION

We have entered a brave new world of data proliferation and access. But it's only by collecting, measuring and analyzing this data with total precision and focus that today's brand managers can draw incisive conclusions that enable them to make effective decisions.

In particular, it's essential to establish KPIs that are relevant to your brand's goals, objectives and needs, and when necessary, to form partnerships with providers who offer the latest and best in measurement expertise. Nielsen and Profitero have collaborated to do just that—offer a total e-commerce measurement solution that is unique to the industry, and that has discernably moved the needle on what can be accomplished with analytics.

The bottom line is that you now have an opportunity to keep your e-commerce engine running at peak performance by using scientific precision to build, execute and hone your brand initiatives. You will, in effect, be excelling in your role as a new type of player in the industry—an expert who specializes in using data and measurement to boost your sales and drive your business—what we call a Commerce Engineer.

FOOTNOTES

1. http://www.emarketer.com/Article/UK-Retail-Ecommerce-Sales-Reach-60-Billion-This-Year/1012963
2. https://www.internetretailer.com/2016/02/17/us-e-commerce-grows-146-2015
3. http://fr.slideshare.net/wearesocialsg/2016-digital-yearbook
4. http://www.retailresearch.org/onlineretailing.php
5. http://www.emarketer.com/Article/How-Global-Digital-Ad-Spending-Vary-by-Region-Industry/1013360

ABOUT PROFITERO

Profitero monitors what shoppers see and buy online, actively tracking more than 300 million products across 40 countries for retailers and consumer brands. Real-time e-commerce analytics, insights and strategic recommendations pinpoint how to improve daily performance across your sales channels. Our proprietary digital monitoring technology is uniquely combined with sales data, ensuring that you maintain or increase market share.

For more information, email **sales@profitero.com**.
or visit **http://www.profitero.com.**

ABOUT NIELSEN

The Nielsen Company is a global performance management company that provides a comprehensive understanding of what consumers watch and buy. Nielsen's Watch segment provides media and advertising clients with Total Audience measurement services for all devices on which content - video, audio and text - is consumed. The Buy segment offers consumer packaged goods manufacturers and retailers the industry's only global view of retail performance measurement. By integrating information from its Watch and Buy segments and other data sources, Nielsen also provides its clients with analytics that help improve performance. Nielsen, an S&P 500 company, has operations in over 100 countries, covering more than 90% of the world's population.

For more information, visit **www.nielsen.com**.

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