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Deep Dive

Five Retail Opportunities Amid Economic Uncertainty

Executive Summary

US consumers are adopting renewed caution as economic uncertainty looms. However, Coresight Research believes that there are five revenue-expanding and, in some cases, margin-accretive opportunities that retailers can use to hedge against receding demand.

Macroeconomic Outlook for the US

- The US economy continues to display resilience, but in the year ahead, growth is expected to be less than robust, and inflation levels are likely to remain well above the ideal rate of 2%.

Coresight Research Analysis

1. Livestreaming e-commerce offers new channels through which to interact with the most engaged shoppers—those who are choosing to watch a company's promotional videos.
2. Retail media offers an opportunity to generate revenues that can be used to provide an enhanced experience to shoppers—enabling retailers to invest in price, store experience or online capabilities.
3. Personalization in communications and promotions can further strengthen the connection between a consumer and a retailer through relevance of messaging.
4. Cross-border commerce can support a company for long-term expansion by tapping pools of new shoppers that can be converted to loyal, repeat customers.
5. Cutting noncore costs in GNFR (goods not for resale) offers an opportunity to plough money instead into customer-facing aspects of a business that are more likely to prove a long-term competitive advantage.

What We Think

Retail is facing brisk headwinds, but revenue-increasing and margin-expanding opportunities remain. The opportunities identified in this report typically lie beyond the core business of domestic retailing. In many cases, the noncore nature of these prospects may equate to a lack of institutional knowledge and skills—but retailers must ensure that inexperience does not result in paralysis and, in turn, missed opportunities. An ecosystem of innovators and startups stands ready to work with retailers on cutting costs in GNFR, personalizing communications and promotions, developing livestreaming as a revenue stream and more.

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CORESIGHT RESEARCH

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Introduction

Coresight Research believes that there are five revenue-expanding and, in some cases, margin-accretive opportunities that retailers can use to hedge against receding demand.

US consumers are adopting renewed caution as economic uncertainty looms. However, Coresight Research believes that there are five revenue-expanding and, in some cases, margin-accretive opportunities that retailers can use to hedge against receding demand:

1. **Livestreaming e-commerce**—a rapidly expanding online sales segment, which was worth $32 billion in 2022 is on its way to $68 billion in the US by 2026. This section is sponsored by buywith.
2. **Retail media**—a margin-rich revenue stream that we estimate is worth $33 billion worldwide.
3. **Personalization, targeted promotions and loyalty**—a quick-win opportunity to increase sales conversion by 36 basis points. This section is sponsored by XCCommerce.
4. **Global commerce**—an e-commerce opportunity worth over $1 trillion.
5. **GNFR strategy**—an opportunity to increase margins by 5% through effectively managing the cost of GNFR (goods not for resale). This section is sponsored by LogicSource.

Figure 1. Five Retail Opportunities Amid Economic Uncertainty

Source: Coresight Research

This report begins with an overview of macroeconomic indicators heading into 2023. We then tap the expertise of our sector analysts, who share their recommendations on key strategies to maintain or expand sales and margins across the five identified opportunities in the coming year.

Each section will discuss the following:

- Scale and opportunity
- Why retailers should consider this now
- Implementing in 2023: five things you need to know
- Retailers already tapping the opportunity

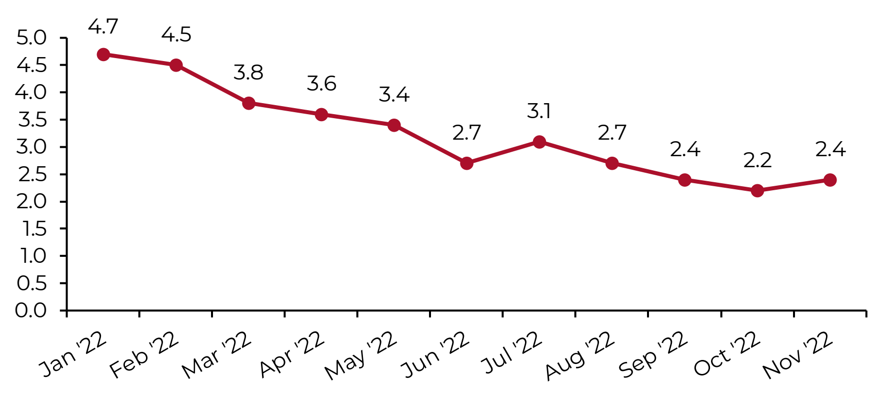
Macroeconomic Outlook for the US

Consumers are struggling to keep up with the soaring cost of living and discretionary spending is falling away.

The US economy continues to display resilience, but in the year ahead, growth is expected to be less than robust, and inflation levels are likely to remain well above the ideal rate of 2%. The Federal Reserve is hinting at further interest rate hikes to bring down inflation levels.

- **Unemployment and wages—**Growth in the US labor force has stalled due to a rise in early retirements, the continuing effects of Covid-19 and slowing immigration. The tighter labor market has led to stronger employee bargaining power, which has pushed companies to increase wages; nominal wages are increasing, albeit at a slower rate than the current 7.1% level of inflation. Real wages are therefore falling and the savings some consumers were able to accumulate during Covid-19 lockdowns are gone. Consumers are struggling to keep up with the soaring cost of living and discretionary spending is falling away.
- **Savings, BNPL and consumer debt**—A falling savings rate (2.4% as of November 2022) in a context of rising inflation and interest rates reflects squeezed consumer purchasing power. At present, the savings rate is at its lowest point since July 2005—when, unlike today, homeowners were compensated by home equity values. More consumers are meeting their expenses by dipping into their savings or using credit cards or "buy now, pay later" (BNPL) services. This may be a cause for concern, as it could lead to rising delinquency rates. According to Federal Reserve Bank of New York, total household debt rose by 2.2% in 3Q22. The 15% year-over-year increase in credit card balances was the largest in more than 20 years.

Figure 2. US Savings Rate (%)

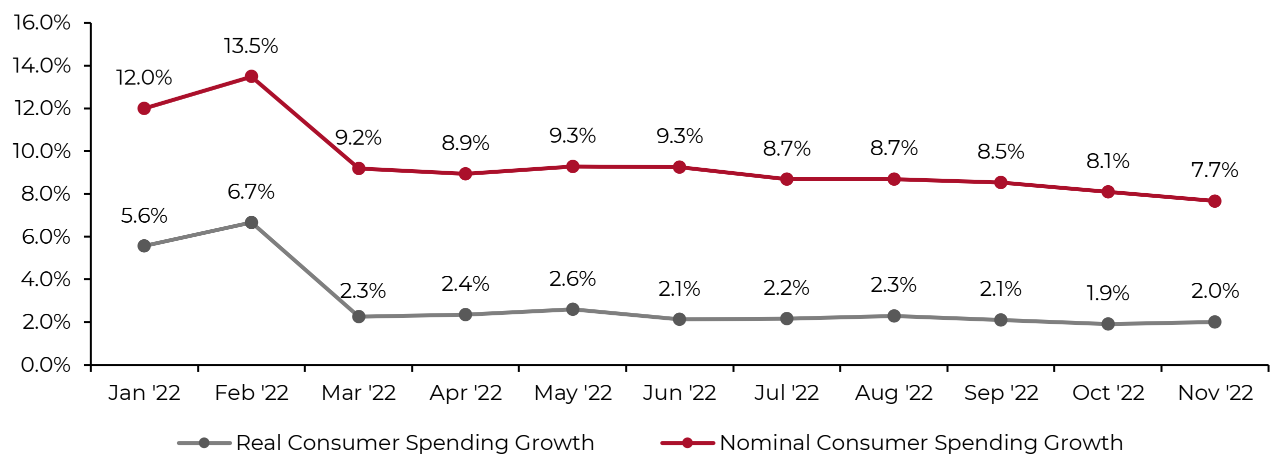


Source: Federal Reserve Bank of St Louis

- **Interest rates**—Recent hikes in interest rates are tightening financial conditions. The Federal Reserve has projected that interest rates will reach a level of 5.1% in 2023 before falling to 4.1% in 2024. Interest-sensitive sectors such as housing are now faltering, with housing starts and house prices falling under the weight of elevated mortgage payments. Mortgage balances—the largest component of household debt—climbed by $282 billion and stood at $11.7 trillion at the end of September 2022, according to Federal Reserve Bank of New York.

- **Consumer spending**—On a year-over-year basis, consumer spending growth has slowed in recent months in nominal and real terms. Since the effects of interest rate hikes typically have a lag of six to 12 months, we expect a further slowdown in consumer spending in 2023. Discretionary spending will see the biggest hit, but consumers are already trading down in non-discretionary categories. Since consumer spending comprises two-thirds of US economic activity, this decline in consumer purchasing power will reverberate broadly throughout the economy.

Figure 3. US Real and Nominal Consumer Spending Growth (% YoY)



Source: Federal Reserve Bank of St. Louis

Five Retail Opportunities

1. Livestreaming E-Commerce: Coresight Research x buywith Analysis

Livestreaming e-commerce offers opportunities to connect with younger consumers whose brand awareness is guided by video content, influencers and social media.

Livestreaming e-commerce offers an alternative method of engaging with consumers online, using real-time shoppable live videos hosted by influencers, experts or brands representatives to blend entertainment and shopping. The channel presents opportunities for brands and retailers to drive sales by connecting with younger consumers whose brand awareness is guided by video content, influencers and social media.

This report section is sponsored by buywith, an online live shopping platform that enables brands, retailers and content creators to host live, virtual shopping events at scale, without additional app or code integration. The company's "Shop With Me" solution enables live screen sharing by the host, allowing them to take viewers on a shared product discovery journey on brands' e-commerce sites—while also providing real-time stream analytics. Through buywith's A-Z solution, brands have access to all the necessary livestreaming tools, from a marketplace of content creators and expert livestream hosts to a completely automated event viewer sign-up system for first-party data collection.

- Read more Coresight Research coverage of livestreaming e-commerce.

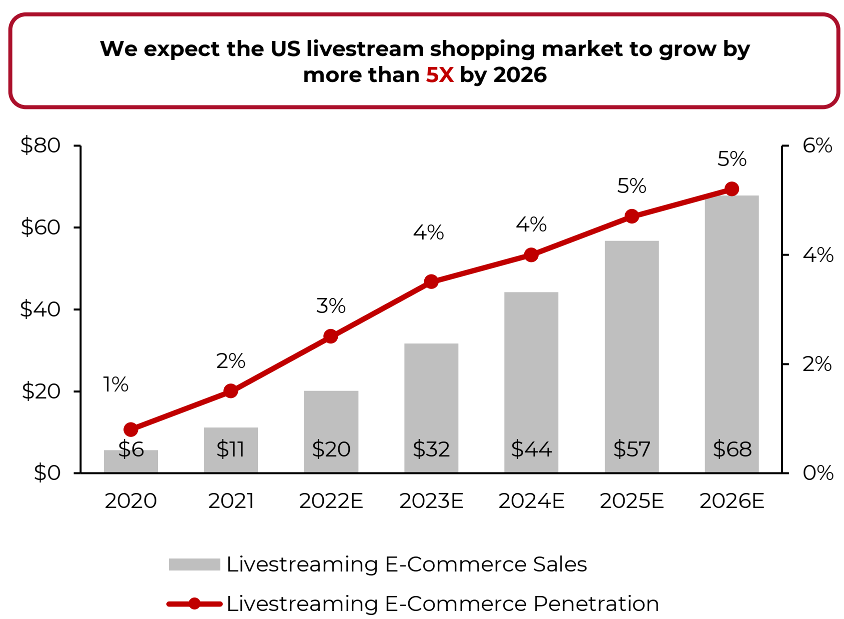
Scale and Opportunity

We expect more brands and retailers to use livestreaming as a key promotional and sales channel moving forward, as consumers continue to move online for product discovery and purchase.

Livestreaming e-commerce is a rapidly expanding channel in Western markets. From the channel's early success in the beauty and fashion sectors in 2020 to pervasive adoption among the electronics and home-improvement industries in 2021 and a broad mix of categories in 2022, the channel continues to gain traction. We expect more brands and retailers to use livestreaming as a key promotional and sales channel moving forward, as consumers continue to move online for product discovery and purchase.

- Coresight Research estimates that the US livestreaming e-commerce market will total $32 billion in 2023—almost doubling from 2022 (see Figure 4).
- We estimate that livestreaming e-commerce accounted for just under 1.0% of the total e-commerce market in the US in 2020, but expect the market to grow rapidly to total $68 billion and account for over 5% of total e-commerce sales by 2026.
- More than half of surveyed companies currently using livestreaming in the apparel, consumer electronics and general merchandise sectors reported revenue generation as a key benefit of livestreaming, according to a B2B (business-to-business) survey conducted by Coresight Research in June 2022.
- For comparison, in the more established China market, livestreaming e-commerce will account for 27% of total online sales in 2026. More than two-thirds of China's Internet users, some 716 million, are active livestream viewers, as of June 2022, according to the CNNIC (China Internet Network Information Center).

Figure 4. US Livestreaming E-Commerce Market (Left Axis; USD Bil.) and Penetration (Right Axis; % of Total E-Commerce Sales)



Source: Coresight Research

Why Retailers Should Consider This Now

Livestream shopping draws a direct line between consumer impressions and sales, instead of targeting consumers with top-of-the-funnel awareness campaigns.

Livestream shopping draws a direct line between consumer impressions and sales, instead of targeting consumers with top-of-the-funnel awareness campaigns. Livestreaming also offers scope for brands to creatively engage shoppers in ways that differentiate them from their competition amid an increasingly crowded online market and high traditional marketing costs.

- **High return on investment**—Setting up a live video shopping event is simple and can cost much less than other marketing campaigns. Reducing marketing expenses while improving consumer engagement is a critical strategy during an economic downturn. A Coresight Research B2B survey conducted in April 2022 found that around half the surveyed companies that are currently using livestreaming are spending 10%–50% of their total annual marketing budget on livestreaming, and 28% are spending over 50% on the channel. A separate Coresight Research B2B survey conducted in June 2022 found that nearly half (47%) of companies currently using livestreaming expect their sales revenue from the channel to grow 10% over the next two years, and 16% expect more than 50% revenue growth in the channel.
- **Lower customer acquisition costs**—Promoting livestream shopping events is a cost-effective way for marketers to reach more shoppers, who are spending more time online since the onset of the pandemic. Establishing an effective livestream shopping campaign typically involves hardware and software setup, content and marketing agencies, and talent (such as influencers and celebrities). Dedicated software and hardware are the most-used livestream shopping resources among our survey respondents. Some 41% of the companies using livestreaming software (such as online website integrations and social channels) spend at least $50,000 on livestreaming software annually, according to our June 2022 B2B survey. Through buywith, livestream viewers can join live video shopping events with a single click, without the added step of downloading an app—minimizing friction to maximize viewership. Companies' internal marketing teams often orchestrate the content and sales teams can host the livestreaming sessions, massively lowering costs and increasing brand authority.

Through partnerships with technology providers, marketers can roll out livestream shopping initiatives in a very short time and see improved online sales.

- **Increased retail sales**—Through partnerships with technology providers, marketers can roll out livestream shopping initiatives in a very short time and see improved online sales. For example, buywith delivers an 8X average increase in e-commerce conversion, an average of 67% live event engagement and an average 10X return on investment, according to the company.

Implementing in 2023: Five Things You Need To Know

1. **Capability building with tech providers**—In the competitive livestreaming e-commerce market, marketers expect that harnessing the full potential of analytics-driven livestreaming management (cited by 46% of respondents who are using shoppable livestreams) and screen-sharing technologies (41%) will be the key drivers of future growth, according to our June 2022 B2B livestreaming survey. Through working with technology providers to master these capabilities, retail companies can enhance their livestream strategies and better understand and meet consumer demand.

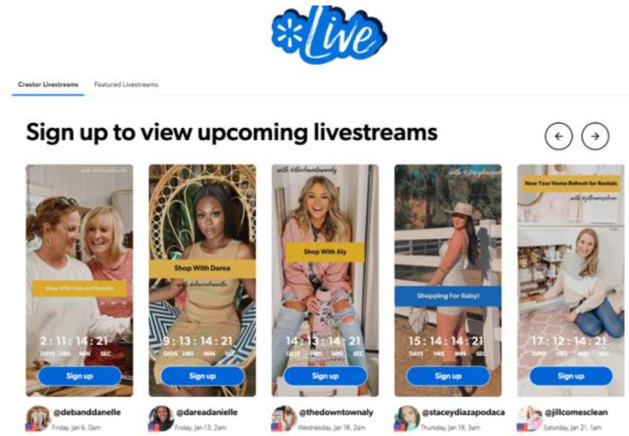
2. **Seamless customer experiences across diverse platforms**—Retail companies should offer the same dynamic livestreaming shopping experience on their websites, social media platforms and popular livestream shopping platforms such as buywith. Leading brands and retailers are increasingly focusing on developing their own content and simultaneously broadcasting via their brand's website, social media profiles and live shopping platforms. A consistent brand voice and seamless consumer experience across platforms can generate authentic dialog and strengthen brand loyalty. Using buywith's platform, brands can automatically generate unlimited authentic product detail page (PDP) content at no extra cost, and create content hubs around past live events that can be watched and shared forever.
3. **Personalized shopping experiences**—One-to-one live shopping services provide in-depth product details and recommendations tailored to each shopper's requirements. Beauty, luxury and home decor brands and retailers in particular can leverage one-to-one live video chats to connect with their customers, which can improve conversion, average order value (AOV) and brand loyalty. We expect this format to grow in popularity among consumers who look for the online channel to mirror the physical store experience.
4. **Enhanced online shopper community**—The success of live, interactive events depends on community, experience and engagement, all of which hinge on a brand's ability to bring customers along on this digital journey. Leveraging influencers, key opinion leaders and their own teams, brands can foster a sense of community and trust among target consumers—which can be more valuable in the long term than the livestream sales themselves.
5. **Dynamic livestream hosts**—Effective livestream hosts are essential to attracting a wide audience and creating an authentic connection with viewers during the livestream. According to a Coresight Research consumer survey of US-based livestream viewers conducted in December 2022, customers (cited by 42% of respondents) and influencers (41%) are seen as the most effective livestream hosts, as they can elevate the conversation's authenticity and boost viewership by attracting an established follower base. Marketers should align target audiences with a range of hosts to maximize appeal and fit content. Influencers are more attractive to younger demographics (aged 18–41), while customer hosts have the strongest appeal to customers aged 42–57, and industry experts to customers aged 58+.Hosting a livestream shopping event requires a different set of skills from posting a story on social media. Through its Marketplace of content creators, buywith offers trained and skilled expert hosts that can easily navigate the livestream and create engaging and memorable experiences for viewers—which ultimately translate into higher conversion and revenue for brands.

Effective livestream hosts are essential to attracting a wide audience and creating an authentic connection with viewers during the livestream.

Retail Companies Already Tapping This Opportunity

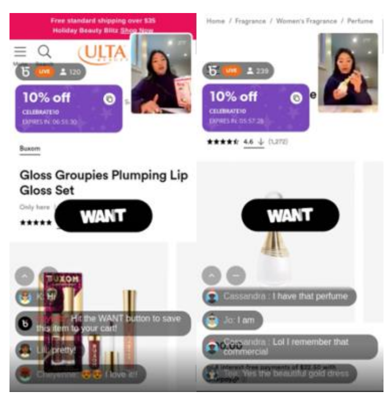
We highlight notable livestreaming events held by brands, retailers and livestreaming platforms in 2022.

- **Walmart** deepened its livestream shopping partnership with buywith in May 2022, onboarding new hosts and rolling out more of the platform's "shop with me" sessions, in which hosts share their screens while shopping on e-commerce sites in real time. As Walmart continues to refine its livestreaming offering, the company has moved toward longer and more regular livestream schedules to maximize customer engagement and awareness. By adding creator-led programs to their livestreaming offerings, retailers can create a closer dialog with fans and increase sales, while events help build a community through authentic live interaction with participants.



Walmart's "Shop With Me" live shopping sessions on its website
Source: Company website

- **Ulta Beauty** teamed up with a range of influencers to offer a collaborative experience on buywith's platform in December 2022. In one of the sessions, influencer Amy Chang, who has 366,000 Instagram followers, highlighted a variety of products from Ulta Beauty and responded to live attendees' questions during her one-hour livestream on December 2.



Ulta Beauty's "Shop With Me" live shopping event hosted by Amy Chang
Source: buywith

2. Retail Media: Coresight Research Analysis

Retail media refers to the advertising business established by a retailer to monetize its existing customer relationships. Using retail media networks (RMNs), retailers typically reach consumers via adverts on their owned properties (on-site, including online and in-store) and third-party websites (off-site), and leverage their first-party data to deliver value to their advertising partners.

- Read more Coresight Research coverage of retail media.

Scale and Opportunity

Following the pandemic-driven boom in e-commerce, retail media is emerging as a promising category for digital advertising. It allows retailers to develop closer ties with suppliers, monetize the traffic already coming to their e-commerce sites or apps and offset the higher operating expenses associated with online fulfillment.

Brands seeking to increase their visibility throughout the consumers' purchasing journey are also directing more of their advertising spending toward retail media to influence shoppers at the digital point of sale.

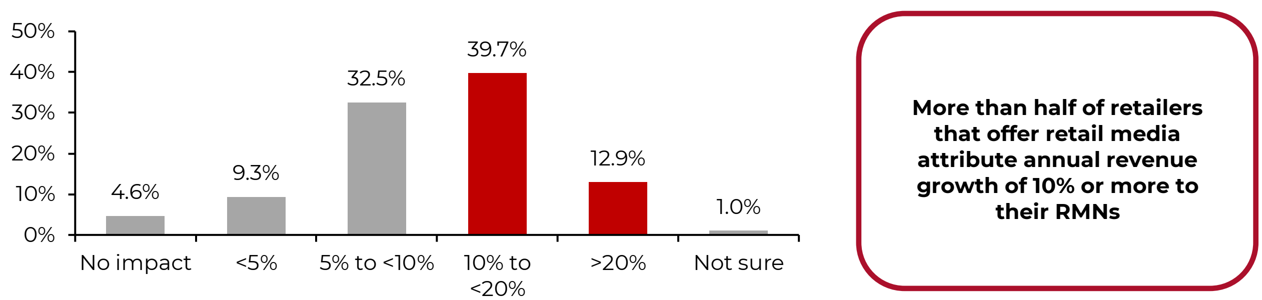
The desire to monetize shopper data and increase profit margins has driven retailers to build their own RMNs or enter into strategic partnerships with technology providers.

The desire to monetize shopper data and increase profit margins has driven retailers to build their own RMNs or enter into strategic partnerships with technology providers to set them up. Media investment company GroupM predicts that global retail media revenues will total $160 billion by 2027, up $59 billion from 2022. The company estimates that US retail media revenue will total $33 billion in 2022.

Why Retailers Should Consider This Now

Retail media offers a high-margin incremental revenue stream. According to a Coresight Research survey of US retailers conducted in August 2022, 52.6% of those US retailers that currently have retail media capabilities attribute annual revenue growth of at least 10% to retail media, while 55.7% attribute annual EBITDA growth of 10%–30% to retail media.

Figure 5. Annual Revenue Growth Attributed to Retail Media (% of Respondents)



Base: 194 US-based retailers that have retail media capabilities, surveyed in August 2022
Source: Coresight Research

Executives at top US-based retailers told Coresight Research that their retail media margins, on average, are 60%–80%, making it a highly lucrative business—although it requires significant investment for the first one to three years to build teams and resources.

Several key factors have converged to set the stage for RMNs, including the stickiness of consumers' pandemic-driven shift toward e-commerce, changes in privacy laws, and significant improvements in technology platforms to enable better processing.

Several key factors have converged to set the stage for RMNs, including the stickiness of consumers' pandemic-driven shift toward e-commerce, changes in privacy laws, and significant improvements in technology platforms to enable better processing. In this context, first-party data has moved center stage, placing retailers in the spotlight as they look to leverage their shopper data and "close the loop" for their advertising clients.

Engrained online shopping habits—Pandemic-accelerated e-commerce growth is largely over; however, despite consumers' return to stores for shopping, our weekly *US Consumer Tracker* surveys consistently found in the last months of 2022 (October 3, 2022–December 26, 2022) that more than one-fifth of respondents bought food and nonfood products online, reflecting that many shoppers are blending in their in-store and online shopping. E-commerce growth has increased the scale of the overall retail media opportunity, making retailers' websites more valuable as advertising properties and establishing their growing online audiences as important marketing assets.

Deprecation of third-party cookies—Tightening consumer privacy standards have undercut longstanding digital marketing tools such as third-party cookies. The shift promises to be a major disruption, since the digital marketing ecosystem has long relied upon third-party cookies as the primary mode of orchestrating digital advertising. In July 2022, Google announced that it would begin phasing out third-party cookie functionality in Chrome's browser by 2024. Other browsers Mozilla Firefox and Apple Safari have already blocked the use of third-party cookies, and in April 2021, Apple announced that it had made the Identifier for Advertisers (IDFA) opt-in, which makes it much more difficult for marketers to track users.

Navigating this increasingly complex digital media landscape will present marketers with new challenges. This is where retail media networks can become a compelling new channel for advertisers: retailers use their first-party data to oversee the consumer journey within their digital ecosystems and can use this information to display relevant ads to customers.

Advanced technology and machine learning capabilities—Although the growth in e-commerce has resulted in more consumer data than ever before, the supply of data was never the barrier to creating and leveraging consumer insights; rather, the bottleneck has always been retailers' ability to process the data. With today's vastly improved technology platforms—in particular artificial intelligence (AI), machine learning (ML), predictive analytics and personalization tools—retailers now have the means to process this vast amount of data and distill it into practical conclusions and meaningful results.

Implementing in 2023: Five Things You Need To Know

Retail media requires strong AI resources to mine vast amounts of customer data and develop targeting, optimization and attribution capabilities.

1. **Strong data analytical capabilities are essential—**Retail media requires strong AI resources to mine vast amounts of customer data and develop targeting, optimization and attribution capabilities. The interface through which advertisers manage their programs on RMNs is a key success factor. Therefore, having the tools and ML capabilities to transform first-party data into actionable insights is essential.
2. **Personalization is vital—**Personalization is important for both brands and retailers—offering personalization across promotions and recommendations in real time typically leads to increased sales and basket size. RMNs that can deliver accurately personalized messages and offers to the right consumers at the right time are much more valuable to brand advertisers.
3. **Non-endemic advertising presents an opportunity—**First-party data assets, combined with an extensive inventory of brand advertising placement options, make retail media a compelling channel for "non-endemic" advertisers—that is, brands that do not sell directly through the retailer but offer complementary products or services. These advertisers are finding retail sites an effective way to reach potential customers, especially as

third-party cookies are phased out. Non-endemic advertising represents a huge opportunity for single-brand retailers in particular, since these retailers sell own-branded merchandise. To realize the benefits of the non-endemic opportunity, retailers should ensure that the location where the advert is served, the relevance of the non-endemic product or service being advertised and the advert's personalization are clearly communicated and make natural sense to the customer.

4. **On-site and off-site can combine for an integrated retail media solution—** Although many retailers began their retail media initiatives by monetizing their owned channels, off-site advertising also offers significant advantages, as it helps extend the company's audience and drives that audience to the retailer's own website, thus increasing new traffic. Retailers should establish an integrated retail media ecosystem, using both on-site and off-site networks to offer diverse advertising formats and achieve brands' objectives across the entire consumer journey.
5. **Partnering with technology providers can bring agility**—When launching an RMN, one of the critical decisions that retailers must make is whether to build their network in-house or partner with third-party providers. Our August 2022 survey found that more than four in five retailers that offer retail media partner with third-party technology providers, either exclusively or in addition to in-house capabilities, while only one in five retailers build and manage their retail media capabilities solely in-house. Compared to building RMNs in-house, partnerships can considerably shorten the time to launch, incur lower costs, outsource maintenance and improve agility.

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Retail Companies Already Tapping This Opportunity

- In its earnings call for the fiscal year ended January 2022, **Walmart** management announced its plans to become a top 10 ad business in the mid-term through its Walmart Connect retail media platform. This business experienced robust sales growth in fiscal 2022, with active advertisers growing more than 130% year over year, generating $2.1 billion in advertising revenue. The company said that Walmart Connect has a strong pipeline of new advertisers and large growth opportunities ahead.
- **Kroger** management noted in its Analyst Day in March 2022 that its retail media business, Kroger Precision Marketing, is a "key driver to doubling profit" by fiscal 2023. Kroger's alternative profit streams (which include Kroger Precision Marketing and Kroger Personal Finance) generated $1 billion in operating profits in fiscal 2021 (ended January 29, 2022), up $150 million year over year, and have grown at a CAGR of more than 15% since fiscal 2017.
- **Target**'s retail media business, Roundel, is a fast-growing revenue stream, according to the company. In its earning call for the fiscal year ended January 2022, Target noted that Roundel is delivering more than $1 billion in revenue, and expects it to grow to $2 billion over the coming years.

3. Personalization, Targeted Promotions and Loyalty: Coresight Research x XCCommerce Analysis

Businesses have started focusing more than ever on knowing everything about their customers and their preferences, and are becoming more conscious of the positive impact of personalized promotions and communications on sales and customer loyalty. According to a Coresight Research survey conducted in October 2021, 71% of consumers in the US and the UK say they will shop more often with brands or retailers that personalize their experiences and offerings. Consumer buying patterns and demographic data, such as age and gender, can be collected through loyalty programs, which can give businesses important insights into their customers. Retailers can then provide personalized offers to consumers through loyalty programs using these insights, allowing retailers to target customers and boost sales more effectively.

This section is sponsored by XCCommerce, a leading vendor of solutions to manage, execute and analyze promotional offerings. Focused on the retail sector, XCCommerce enables retailers to manage offers across all sales channels, helping them build long-term customer loyalty and a superior customer experience.

Scale and Opportunity

According to a December 2022 article published by Ninetailed quoting SmarterHQ, 79% of retail companies invest in personalization tools to shape their consumer experience. Data-driven insights into customer preferences and expectations enable retailers to provide these personalized experiences. Many retail companies find it challenging to implement personalization: only 14% of businesses globally reported that they are able to personalize the customer experience "very well," and more than one-quarter reported that they cannot personalize the customer experience at all, according to a survey conducted by Dynamic Yield in November 2021 (see Figure 6).

We attribute the lack of personalization maturity in retail to three primary factors: insufficient or outdated consumer data, a lack of the IT bandwidth required for personalization, and difficulties in finding the right solution partners to implement personalization. Retailers can look for vendors to help them overcome these challenges and personalize the customer experience to gain an advantage over their competitors.

Figure 6. Retail Companies: Ability To Personalize the Customer Experience (% of Respondents)

Base: More than 450 respondents in the C-suite, marketing, merchandising, CX, product and IT departments
Source: Dynamic Yield

Why Retailers Should Consider This Now

- Personalization is an important factor in driving consumer loyalty and therefore conversion. Since the onset of the pandemic and the accompanying shift toward e-commerce, consumers increasingly expect retailers and brands to provide more engaging, personalized promotions

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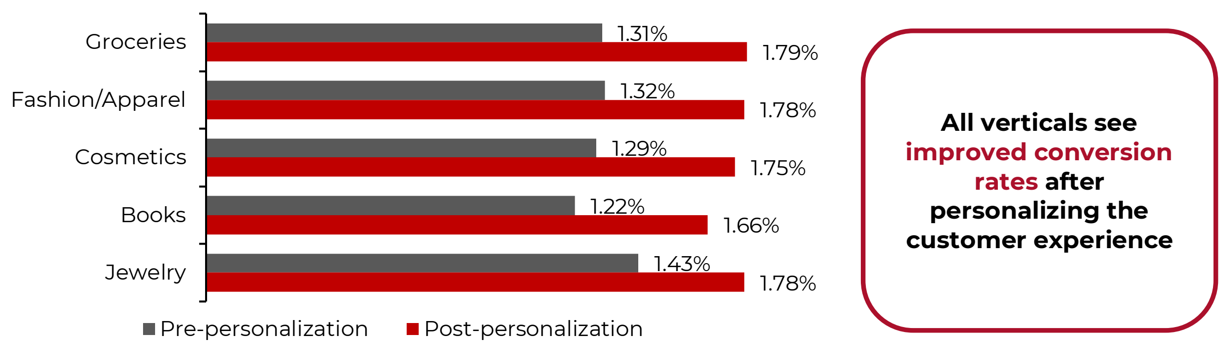
and user experiences—making it more important for retailers to focus on how they approach their consumers. According to a global survey conducted by Twilio Segment in 2022, 62% of respondents stated that a brand would lose their loyalty if it delivered an un-personalized experience. When the same survey was conducted the previous year, only 45% gave this response.

- Targeted promotions and personalization improve conversion rates. Promotions targeted at specific customers use data-driven insights to highlight products a specific shopper is likely to purchase. When retailers connect with the right set of shoppers at the right time, targeted promotions are particularly successful in generating leads and converting potential customers into engaged customers. According to a 2021 study conducted by Netcore Cloud and Wakefield Research, e-commerce companies across several verticals in the US saw increased conversion rates after offering personalization. For example, the conversion rate for groceries increased by 36% (from 1.31% to 1.79%) post personalization.

Figure 7. US: Online Shopping Conversion Rates in Select Verticals Before and After Offering Personalized Shopping Experiences (% of Respondents)



Base: 200 US e-commerce retailer executives, surveyed between February 24 and March 10, 2021
Source: Netcore Cloud/Wakefield

Implementing in 2023: Five Things You Need To Know

Retailers can improve the omnichannel experience and drive sales by enabling loyalty program members to use their loyalty points or rewards across all sales channels.

1. **Taking a holistic approach**—Pandemic-led disruption to consumer behavior has seen many shoppers turn to e-commerce and adopt omnichannel features such as BOPIS (buy online, pick up in-store) as a regular part of their shopping routine, making an omnichannel approach to sales and promotions essential for retailers. Retailers can improve the omnichannel experience and drive sales by enabling loyalty program members to use their loyalty points or rewards across all sales channels. The North Face's new loyalty program, discussed later in this section, exemplifies this holistic approach.

2. **Using AI**—AI is changing the way in which retailers interact with consumers. With large volumes of consumer data available to brands and retailers, the role of AI is pivotal in personalizing the user experience and ensuring the effectiveness of targeted promotions. Real-time targeted advertisements and personalized offers are the top two activities that marketers trust AI to do for them, according to a survey of marketing professionals in Canada, India, the UK and the US conducted by Oracle and Ascend2 in January 2022. Starbucks' use of AI to improve its loyalty program is discussed later in this section.

3. **Building and maintaining a robust database—**Having accurate and up-to-date data to provide customers with the personalized experience they want has become more important than ever before. Building a well-maintained database can help retailers create and update customer profiles on regular basis. In order to develop a thorough understanding of each individual customer, these profiles must have both non-visual (such as brand, category and price) and visual (such as color, pattern and shape) affinities. This can help retailers offer more up-to-date and more engaging product recommendations and promotions. According to Accenture, 83% of consumers are willing to share their data to create a more personalized experience.
4. **Entering strategic brand partnerships**—Partnering with brands can benefit retailers in several areas, enabling them to gain access to new data, expanding their reach to new customers and adding value for existing customers by featuring more appealing offers in loyalty programs. Gaining access to new data from such partnerships can help retailers to interact better with new customers: personalizing user interactions according to each customer's preferences with the help of new data improves promotions targeted toward these customers and help retailers build a stronger long-term relationship with new customers.
5. **Implementing gamification in loyalty programs—**Including a gamification component in retail loyalty programs can be an effective way to boost consumer engagement. Gamification can be a key differentiator when implemented in combination with the other aspects of a retailer's promotion strategy. Tiers, for example, are a tried-and-tested method for boosting engagement levels by appealing to customers' sense of status and accomplishment.

Gamification can be a key differentiator when implemented in combination with the other aspects of a retailer's promotion strategy.

Retail Companies Already Tapping This Opportunity

- XCCommerce partnered with **Metro**, a leading grocery retailer in Canada, to add new functionalities and channels to the retailer's existing promotion model—namely, loyalty-point rewards (bonus and multiplier) and single-use coupons targeted at individual customers or households. By combining XCCommerce's Promotion Solution Suite with Metro's existing CRM solution, Metro was able to provide customers with promotions based on their shopping history and preferences. The Promotion Engine was deployed to the store without the need for a hardware change, minimizing implementation costs for Metro.
- US supermarket chain **Kroger** has launched several data-driven initiatives with the goals of improving targeted promotions and personalization, optimizing delivery and expanding its retail media business. Kroger also launched its new annual membership program, Boost, across all its platforms in July 2022. Boost acts as second tier to its Kroger Plus annual membership. The retailer has designed its loyalty programs and personalized promotions to allow customers to save on products they often purchase. Kroger uses digital coupons to promote several personalized offers to its customers, and reported a 32% year-over-year increase in digital coupon downloads before the 2022 holiday season.
- **The North Face** allows users to earn reward points through its loyalty program XPLR Pass (formerly known as VIPeak) for every dollar they spend and use them on any channel they prefer, whether online, in store or

through the app. Apart from rewarding customers for making purchases, The North Face also allows its customers to gain points for other activities, such as visiting national parks and monuments, and referring friends to join the program. XPLR Pass loyalty program members can use the mobile app to check in at national parks to earn points, while the app also showcases personalized gear and product recommendations.

- **Starbucks** uses AI to analyze customer data to understand their preferences, which the company uses to inform personalized offers and rewards—such as providing bonus stars (loyalty points) to shoppers when they purchase their favorite food item (which AI has identified through purchase history data).

4. Global Commerce: Coresight Research Analysis

Global commerce and cross-border strategies can provide significant growth opportunities to retailers of all shapes and sizes.

Global commerce and cross-border strategies can provide significant growth opportunities to retailers of all shapes and sizes, enabling speedy growth and creating additional revenue streams outside their domestic market.

Scale and Opportunity

- The global cross-border e-commerce market was worth an estimated $826 billion in 2021, according to ESW. Patrick Bousquet-Chavanne, the President and CEO of ESW, estimated that the global cross-border market would surpass $2 trillion by 2023, and $3 trillion by 2025.
- According to a survey conducted by Logistyx, in 2021, the most popular cross-border product categories, in descending order, were clothing and footwear; sports, hobbies and leisure; health and beauty; and consumer electronics, computers and phones.

Why Retailers Should Consider This Now

- **Market diversification can help manage risk and drive growth—**Retailers in mature or saturated markets can diversify their businesses by entering new international markets, which can help both manage risks in their current markets and drive new revenue streams in new markets. Proper research and analysis can help retailers identify promising new markets with low barriers to entry.
- **Mitigate risk by working with a third-party solution provider**—Retailers may use in-house or third-party solution providers, such as ESW, to establish global commerce capabilities. If retailers choose to use a third-party solution provider, they can be up and running within a matter of weeks. If a retailer is particularly successful internationally, it may want to consider setting up in-house capabilities. This can take months or even years, depending on how many countries a retailer plans to operate in, as well as where those countries are located. We recommend that retailers, particularly small- and medium-sized players, initially leverage a third-party solution provider, enabling them to learn quickly without needing to invest considerable resources.

Implementing in 2023: Five Things You Need To Know

Building local expertise is essential to ensuring that its products appeal to consumers in different markets.

1. **Localization**—Whether a retailer uses an in-house team or third-party provider, building local expertise is essential to ensuring that its products appeal to consumers in different markets; later, if sales volumes warrant,

retailers may elect to invest in product lines designed for specific markets. Regarding compliance with local regulations, third-party service providers can help retailers navigate the complexities of foreign systems, assisting with language barriers, currency exchange, taxes and duties, and local privacy laws, among other issues.

2. **Competitive pricing**—Consumers often seek cross-border channels to purchase products for less than they can in their home markets; however, high shipping costs can turn potential customers away from international transactions, especially when they are using cross-border channels for competitive pricing. According to a Coresight Research survey conducted in July 2022, shoppers are most likely to abandon their cart when confronted with their transaction's final price, including shipping and other fees. Therefore, we recommend that retailers remain transparent about pricing by offering free shipping to customers or seeking channels in which shipping costs are factored into product pricing.
3. **Logistics**—Logistics can be a major barrier to international transactions for consumers and retailers alike, making it essential for companies to invest in their global logistics capabilities. For shoppers, high shipping costs and taxes, long delivery times and return difficulties can make cross-border shopping unappealing. Therefore, we recommend that retailers interested in expanding to global channels start small, partnering with an established third-party solution provider, as these providers likely have established relationships with in-country shipping and transportation companies. Various providers may also use a hub-based or hubless logistics model, which can positively or negatively affect transit times, depending on the model used.
4. **Product quality and authenticity**—Retailers and brands can earn consumers' trust by following localized product quality and authenticity recommendations, such as providing accurate translations. Companies should also avoid marketplaces that are known for selling fake products, electing to sell through highly regarded marketplaces instead.
5. **Payments**—Payments can be another barrier to successful global commerce due to concerns over payment security and accessibility. Retailers should provide a wide range of payment options, enabling seamless and comfortable transactions. In addition, retailers may want to partner with international third-party payment services, such as Klarna or Square, that are familiar to consumers of specific countries, meaning they do not need to reveal their payment information to a foreign company.

Retail Companies Already Tapping This Opportunity

Solution provider ESW partnered with a beauty brand to address the brand's challenges with international shipping, logistics and customer experience. To address these challenges, ESW leveraged its relationships with local shipping carriers to make transit times more predictable and reliable. Additionally, ESW advised the beauty brand to expand its available payment methods, helping it install both Afterpay and Klarna, two payment methods popular with younger consumers in its target markets. With diversified payment options and optimized logistics, the brand generated a 34% year-over-year increase in revenue in 2020, as well as a 51% higher average order value.

Global-e, a cross-border solutions provider, partnered with **For Love & Lemons**, a fashion brand, to help improve its localization capabilities and meet local consumer preferences. Global-e helped the brand offer localized payment options, free express shipping on international orders and returns, pricing in local currencies, localized marketing messages and more. As a result of this partnership, For Love and Lemons saw international orders increase by 297% year over year and international revenue increase by 162% year over year. Additionally, it witnessed conversion rates rise by several hundred percentage points year over year in key international markets, including Australia, Germany and the UK.

5. GNFR Strategy: Coresight Research x LogicSource Analysis

GNFR encapsulates categories of goods (and services) that retailers use to deliver a product or conduct their business, not the products and services sold to consumers. Store construction, facility maintenance, store signage, POS (point-of-sale) terminals, shipping materials and office equipment are all examples of GNFR.

This section is sponsored by LogicSource, a GNFR sourcing and procurement services and technology provider with an exclusive focus on helping companies improve profit margins by reducing GNFR expenses.

Scale and Opportunity

By setting up efficient GNFR expense-management teams to identify and execute effective strategies, retailers can reduce their indirect expenses and improve profitability.

GNFR represents a significant area of company expense: 64.5% of respondents in a 2021 Coresight Research x Logicsource survey of US-based retail and CPG companies reported that GNFR expenses equate to 11%–20% of their annual revenue.

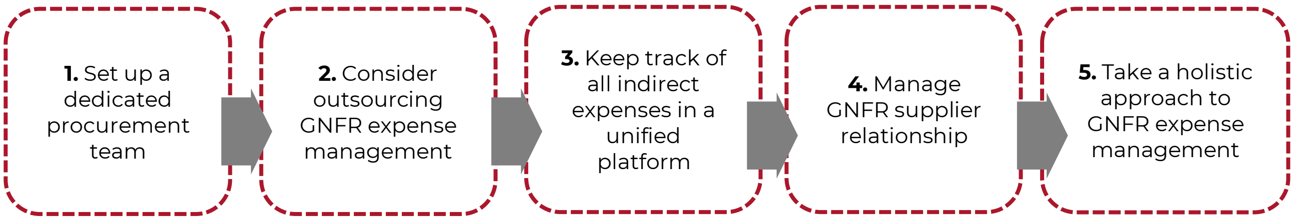
By setting up efficient GNFR expense-management teams to identify and execute effective strategies, retailers can reduce their indirect expenses and improve profitability. Our survey found that most companies surveyed (70.9%) had evaluated GNFR as an avenue for cost savings while improving profits. Over half of these respondents reported that GNFR initiatives generated 3.0%–5.0% profit improvement.

Prioritizing indirect procurement or GNFR can lead to opportunities to achieve savings across the entire business, according to Jo Seed, Chief Operating Officer at LogicSource. Seed highlighted that a high-performing procurement function can help CFOs derive immediate and sustainable value from indirect third-party expenses. Ultimately, cost reductions achieved on third-party expenditures represent increased operational efficiency, reduced waste and faster, leaner execution capabilities.

Why Retailers Should Consider This Now

There has been a significant increase in transportation and logistics expenses over the past 12 months. The net result is that, even for retailers with sophisticated buying functions, there is still a significant margin impact to be realized from addressing indirect spending. In the current economic climate, where uncertainty is depressing topline growth and a converging storm of inflation, transportation and supply disruption means goods-for-resale margins are tightening, indirect spending should receive immediate attention.

Figure 8. Five-Step Approach To Reduce GNFR Expenses



Source: Coresight Research

We believe that retailers should start prioritizing and looking into GNFR expenses sooner rather than later.

1. **Setting up an effective procurement team** will enable retailers to identify cost-cutting opportunities (including indirect expenses) across business functions with speed and precision, as well as to develop strategies to effectively manage GNFR. We believe that retailers should start prioritizing and looking into GNFR expenses sooner rather than later.
2. As an alternative to establishing an in-house team, retailers could consider **outsourcing GNFR expense management** to third-party providers. Third-party service providers usually have an established supplier base and good ongoing relationships due to frequent buying, which can enhance returns in terms of cost savings. Additionally, experience managing end-to-end sourcing and having the right technology and right people involved across the entire process can benefit retailers.
3. In order to reduce GNFR expenses, retailers first need to **track these indirect expenses**—which are usually siloed and scattered across all business functions—and generate insights to inform decision-making. Retailers can use data analytics platforms to achieve this.
    - LogicSource's OneMarket Insights data analytics technology allows retailers to track and manage their siloed indirect-expense data and make well-informed decisions. According to David Pennino, CEO and Founder of LogicSource, "OneMarket Insights allows retailers to empower procurement leaders to negotiate better pricing backed by the full strength of their total spend, and enables them to proactively attack and reduce costs."
4. When managing GNFR expenses in-house, retailers should use indirect supplier management tools to **monitor and manage indirect suppliers**, supporting relationship building. Such tools also enable retailers to consolidate items and suppliers, leading to more opportunities for volume discounts and cost reductions in the long run.

Retailers are usually tied up in improving margins associated with goods for direct selling, which leaves GNFR overlooked.

5. Success in reducing GNFR expenses while improving margins depends on **taking a holistic approach to GNFR—encompassing technology and services**. Retailers are usually tied up in improving margins associated with goods for direct selling, which leaves GNFR overlooked. In the context of services, retailers must identify the components of procurement, including people, processes and a supplier ecosystem. Based on their capabilities, retailers can choose to have everything in-house or identify a strategic partner. Simultaneously, retailers should also focus on having the right

technology tools to provide insights on spend, savings projections and estimates on time-to-market. While setting up processes is relatively straightforward, ensuring an end-to-end technology stack requires procurement and change management expertise due to the wide-spanning nature of GNFR processes. Partnering with a third-party service and technology provider can help retailers have a holistic approach, built as per their requirements while allowing them to focus on selling.

Retailers Already Tapping This Opportunity

- A multibillion-dollar global retailer partnered with LogicSource for reaping efficiencies across facilities (physical locations), corporate services, packaging, print and marketing services. The partnership enabled the retailer to save $50 million over three years, according to LogicSource.
- A leading US retailer partnered with LogicSource to deliver across corporate services, facilities, marketing and IT. The result of the partnership was $11 million in cost reductions in the first year.

What We Think

Retail is facing brisk headwinds, but revenue-increasing and margin-expanding opportunities remain. The opportunities identified in this report typically lie beyond the core business of domestic retailing. In many cases, the noncore nature of these prospects may equate to a lack of institutional knowledge and skills—but retailers must ensure that inexperience does not result in paralysis and, in turn, missed opportunities. An ecosystem of innovators and startups stands ready to work with retailers on cutting costs in GNFR, personalizing communications and promotions, developing livestreaming as a revenue stream and more.

The promise of, variously, more revenues, lower costs and strengthened margins will prove attractive in the likely tougher economic context of 2023. But the opportunities identified in this report also impact on long-term relevance and shopper loyalty:

- Implemented adeptly—and we emphasize that quality of the experience is crucial—cross-border commerce can support a company for long-term expansion by tapping pools of new shoppers that can be converted to loyal, repeat customers.
- Livestreaming e-commerce offers new channels through which to interact with the most engaged shoppers—after all, these are consumers choosing to spend their time watching a company's promotional videos.
- Personalization in communications and promotions can further strengthen the connection between a consumer and a retailer through relevance of messaging.
- Given its advertising nature, retail media offers less promise of driving up shopper loyalty, but the revenues it generates can be used elsewhere to provide an enhanced experience to shoppers—enabling retailers to invest in price, store experience or online capabilities even while industry changes such as the shift to e-commerce threaten to chip away at margins.
- Likewise, cutting noncore costs in GNFR—products and services that are invisible to retail's end consumer—offers an opportunity to plough money

instead into customer-facing aspects of a business that are more likely to prove a long-term competitive advantage.

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