

CONNECTED COMMERCE

A NEW ADVERTISING PARADIGM

Authors: Joanna O'Connell & Xian Wang

Contributors: Nicole Crilly & Garrett Janssen, OMG Research/OMG Signal



EXECUTIVE SUMMARY

Changes in consumer shopping behaviors and expectations are challenging brands and retailers alike to keep apace. An increasingly fluid purchase lifecycle, “omnichannel” as consumers’ new normal, and the advent of new shoppable ad experiences are colliding with brand and retailer business imperatives to fuel a larger paradigm shift in advertising. Connected Commerce represents an approach to media investment that is fueled by deeper brand/retailer partnerships – powered by 1st party data - and that brings shoppability to consumers wherever advertising exists. The ecosystem today, however, is complex, fragmented, and immature.

Brands must select strategic partners that help them deepen their understanding of their own shoppers, close the gap between “brand” and “shopper marketing” budgets, create connectivity in content strategies and drive innovation in shoppable advertising.

CONVERGING FORCES HAVE SET THE STAGE FOR DISRUPTION IN MEDIA & COMMERCE

As many in the marketing community continue to cling to the decades-old concept of the “purchase funnel” to build their media investment strategies, consumers continue to challenge conventional wisdom in how they search, engage, and buy.

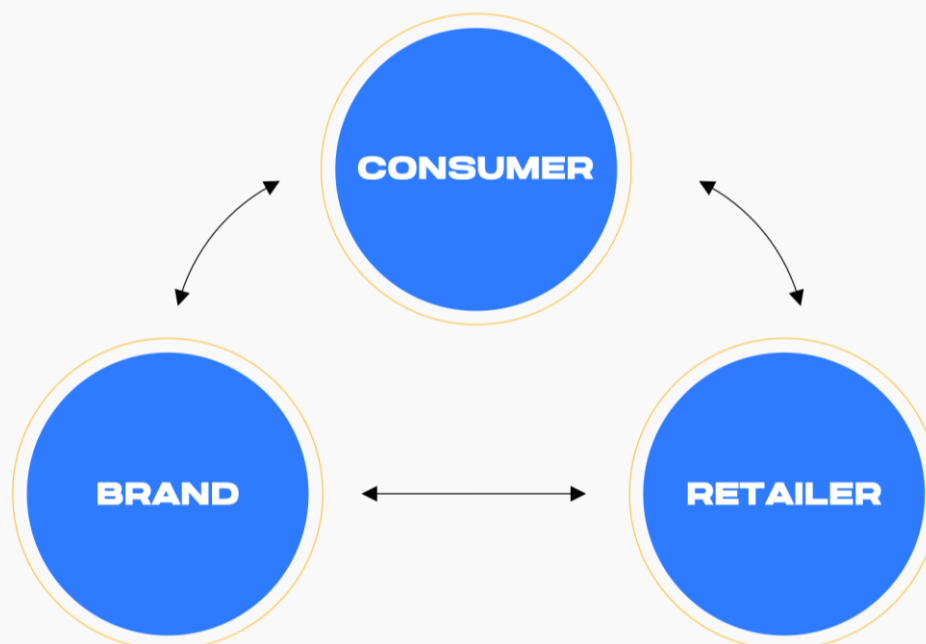
Rapidly evolving consumer shopping behaviors (many of which are becoming the new normal for younger consumers) have challenged brands and retailers to keep pace with the speed of modern commerce to generate sustainable business growth. Case in point: according to OMG Signal, 51% of consumers say they now have more choices than ever before when they are shopping (e.g., buy online pick up in store (BOPIS), expedited shipping).

The collision of disruptive forces and business imperatives has set the stage for new paradigms in how brands, retailers and consumers interact in the realm of commerce (Figure 1).

**51% OF
CONSUMERS
SAY THEY NOW
HAVE MORE
CHOICES THAN
EVER BEFORE
WHEN THEY ARE
SHOPPING**

OMG Signal

Figure 1
Creating Connection Points in the Commerce Lifecycle



CONSUMER SHOPPING BEHAVIORS CONTINUE TO EVOLVE.

This, as new touch points emerge, as new technology-driven conveniences arise, and as friction points are removed in the purchase process. These changes present new considerations for brands and retailers alike:

THE PURCHASE LIFECYCLE HAS BECOME INCREASINGLY FLUID AND NON-LINEAR.

The long-held notion that consumers follow a structured process of discovery, engagement and purchase is showing distinct cracks with age. Instead, it is an ongoing, connected process (Figure 2).

As content fragments across more devices and environments, consumer behavior has fragmented as well. Consider the explosion of influencers across social media: today, nearly half of social media users report they have used influencers in their purchase journey (Figure 3). And 12% of all consumers report immediately buying a new product or service after discovering it from an influencer, collapsing the lifecycle to moments, per OMG Signal.

Figure 2

Consumer Purchase Lifecycle



Figure 3



Source: OMG Signal

“OMNICHANNEL” IS THE NEW NORMAL FOR SHOPPERS.

As e-commerce adoption scales, traditionally store-based retailers are pivoting their business models towards omnichannel to meet growing consumer demand for a more seamless online + offline experience.

Whether consumers begin their purchase journey online or engage with digital experiences while in a physical store, the lines between physical and digital continue to blur for them.

Though [most sales still happen in brick and mortar stores](#) today, 78% of consumers say they expect retailers and consumer brands to have an omnichannel presence in today’s world, per OMG Signal, including things like, online delivery/expedited shipping, curbside pickup, smartphone apps for mobile shopping and strong online/offline customer service in addition to their brick-and-mortar store.

**78% OF
CONSUMERS SAY
THEY EXPECT
RETAILERS AND
CONSUMER
BRANDS TO HAVE
AN OMNICHANNEL
PRESENCE IN
TODAY’S WORLD**

OMG Signal

ADVERTISING CAN NOW ENABLE COMMERCE ANYWHERE, AT ANY TIME.

The explosion of innovation in both digital and commerce has made possible a new breed of advertising: shoppable ads. These units enable consumers to click and buy via the ad experience itself. While the conversation around social commerce has entered high gear as more social platforms work to enable full commerce experiences within their ecosystems, commerce-enabled advertising takes several forms.

In CTV, for example, several major players now offer commerce-enabled ads that, notably, do not take consumers away from the content they were enjoying when presented with the ad, as in the example below, from PepsiCo (Figure 4). And consumers are leaning in: OMG Signal found that 37% of consumers noted shoppable ads introduced them to a new product or brand. Furthermore, 35% said that shoppable ads helped them decide to purchase a product or brand.

**35% OF CONSUMERS
SAY THAT
SHOPPABLE ADS
HELPED THEM DECIDE
TO PURCHASE A
PRODUCT OR BRAND**

OMG Signal

Figure 4

Commerce-Enabled Advertising Brings Shopping to Consumers



BRANDS MUST MOVE FASTER AND MORE INTELLIGENTLY IN THEIR MEDIA INVESTMENTS TO KEEP UP.

Faced with limited, disconnected data, however, many brands struggle to adapt to changing consumer expectations and shopping behaviors. CPGs, specifically, are particularly challenged as these organizations primarily rely on external parties – retailers – to serve as their physical and digital sales channels (Figure 5).

This indirect sales model - where brands “sell” their products into retailers and retailers in turn distribute those products for consumers to purchase - is long-standing and well-established. But it is also a limiting factor for marketers operating in an increasingly data-driven world: they are inherently constrained in the depth and breadth of customer 1st party data they can use to fuel their marketing efforts. This abstraction from consumers as they traverse the purchase lifecycle leaves many brands grappling with multiple challenges, including:

- How to understand the full richness of consumers’ preferences and behaviors
- How to deliver connected experiences across consumers’ full purchase journeys
- How to measure the true, incremental impact of their media investments

Figure 5

Indirect Sales Dynamic Limits Brands' Consumer Understanding



RETAILERS ARE BRIDGING THE COMMERCE GAP FOR BRANDS THROUGH RETAIL MEDIA NETWORKS (RMNS).

Retailers, increasingly, are innovating their business models by stepping into a new role – that of media company. The impetus is clear: retailers under pressure from competitors like Amazon and Alibaba - with vast ecosystems which provide alternative revenue streams (like Amazon's AWS business, which is much more profitable than traditional brick & mortar businesses) - are putting traditional retailers under pressure.

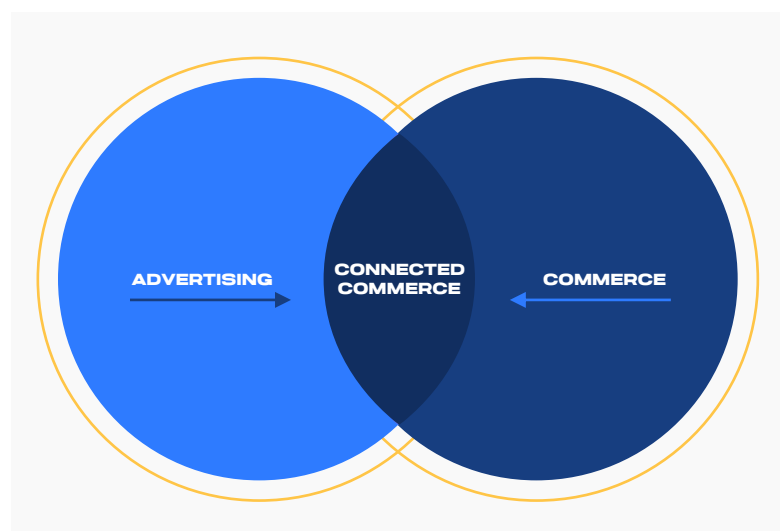
How to supercharge business performance and scale? With their vast trove of valuable 1st party data – powered by direct consumer relationships that give them access to everything from browsing behavior to repeat purchase data – they present a compelling, if still evolving, new solution for brands.

CONNECTED COMMERCE SITS AT THE NEXUS OF ADVERTISING AND COMMERCE

The convergence of these consumer, brand and retailer dynamics has ushered in a new advertising paradigm: Connected Commerce (Figure 6).

Figure 6

Connected Commerce Closes the Gap Between Advertising and Commerce



CONNECTED COMMERCE:

- Empowers brands to move at the speed of modern commerce through closed loop planning, activation and measurement that addresses the full consumer purchase lifecycle.
- And enables them to create commerce moments via advertising experiences wherever a consumer may be.

82% OF CONSUMERS SAY THAT EITHER AN AD FROM A RETAIL MEDIA NETWORK OR A SHOPPABLE AD HAS HELPED THEM DURING THEIR PURCHASE LIFECYCLE JOURNEY



IT SUPERCHARGES ADVERTISING AS AN ENGINE OF BUSINESS GROWTH FOR BRANDS

While it is clear why retailers are launching media offerings, the benefits presented to brands who adopt a Connected Commerce approach are myriad. Fundamentally, it shifts brands' media investment strategies from disconnected to connected, creating business upside (Figure 7).

It moves brands from a narrow, disjointed, and reactive media approach to a holistic and proactive one that powers smarter decisions at speed. It empowers brands to understand the full richness of consumer browsing and purchase propensities and patterns to plan, activate and measure their media more effectively.

And it presents a unique, net new opportunity for brands to bring balance back to their retailer relationships by moving beyond the traditional "seller" model in the brand/retailer relationship to one where they are also the "buyer". In sum, it straightens the line between brands' media investments and business growth.

Figure 7

Brands Benefit When Moving From a Disconnected Approach to a Connected One

<p>FROM</p> <h3>DISCONNECTED</h3>	<p>TO</p> <h3>CONNECTED</h3>
<p>NARROW</p> <p>Limited data availability leaves brands hindered by a narrow view of consumers – their purchase propensities; where they are in the purchase lifecycle</p>	<p>COMPREHENSIVE</p> <p>Richer and more complete understanding of consumers gives brands a richer palette of actionable data upon which to make smart decisions</p>
<p>SILOED</p> <p>Separate budgets and teams managing "brand" and shopper marketing dollars leave consumer experiences disjointed, hampering advertising efficiency and effectiveness</p>	<p>HOLISTIC</p> <p>Connected and coordinated management improves the consumer experience and lifts campaign performance</p>
<p>REACTIVE</p> <p>Relying on infrequently available, non-granular data forces brands to act on consumer and performance insights after the fact</p>	<p>PROACTIVE</p> <p>Using robust, real-time data, brands can be where consumers are in the moments that matter, and optimize media at speed</p>
<p>CORRELATIONAL</p> <p>Brands must guess at the true value of their media investments in driving consumer behavior and business results by using proxy measures</p>	<p>CAUSAL</p> <p>Incrementality measurement proves the direct value of media investments, enabling brands to optimize to business KPIs that move the needle</p>
<p>RETAILER AS "CUSTOMER"</p> <p>Brands "sell" their products into retailers, and retailers in turn distribute those products for consumers to purchase.</p>	<p>RETAILER AS SELLER</p> <p>The balance of retailer/brand power is shifted back toward brands as retailers become media companies in service to brand needs.</p>



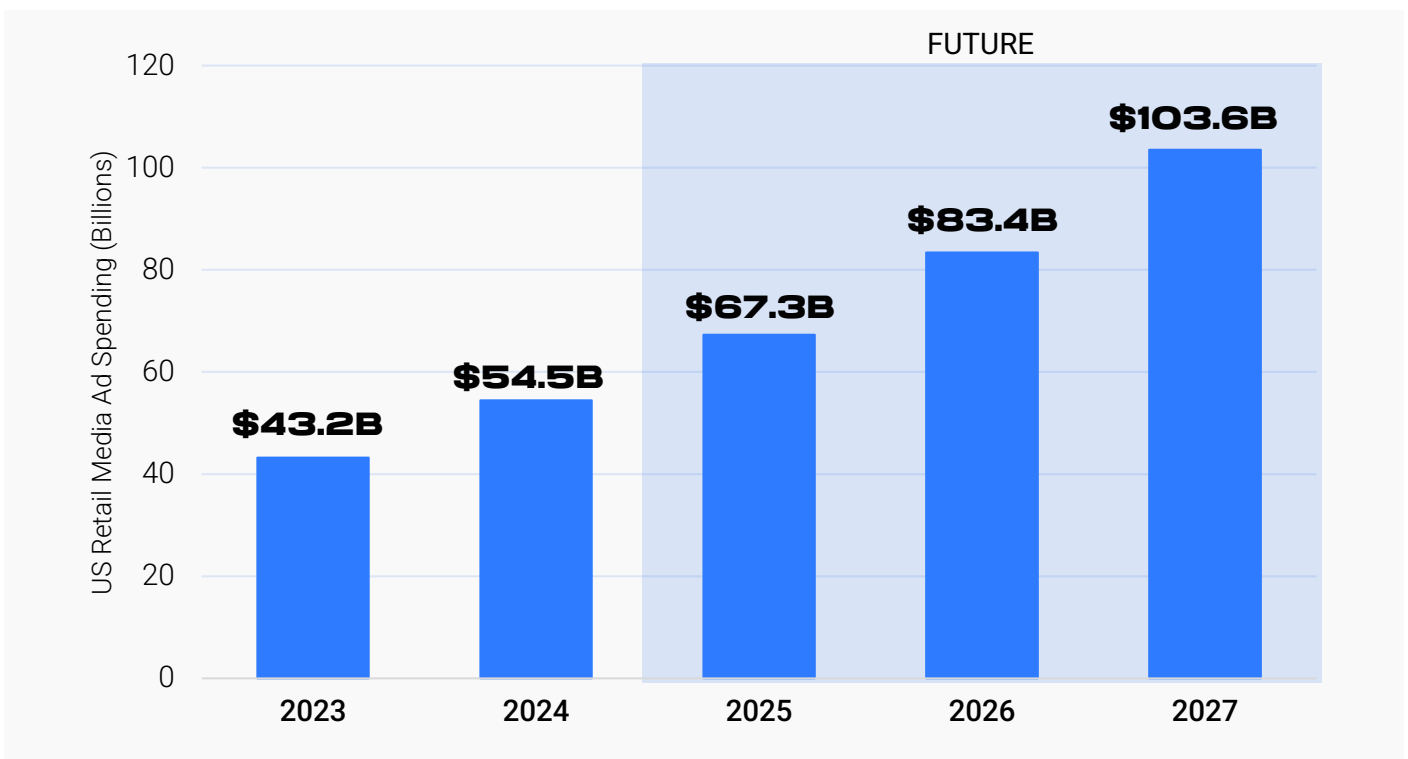
NAVIGATING THE OPPORTUNITY: MAKING SENSE OF THE RMN LANDSCAPE

The RMN landscape is diverse and growing as more and more companies chase the opportunity.

RMN spend is experiencing rapid growth, from ~\$55 billion projected for 2024 to just nearly \$104 billion by 2027 in the US alone (Figure 8). While initially ads were focused on retailers' on-site search and display inventory, retailers continue to expand their solution sets and their advertising scale. Off-site media, where retailer data is activated outside the retailers' owned environments, is bringing retailer-powered opportunities to critical channels like CTV. And for those retailers with a strong brick and mortar presence, like Walmart where 90% of the US population live within 10 miles of a retail location, the in-store environment is becoming a next frontier RMN channel.

Figure 8

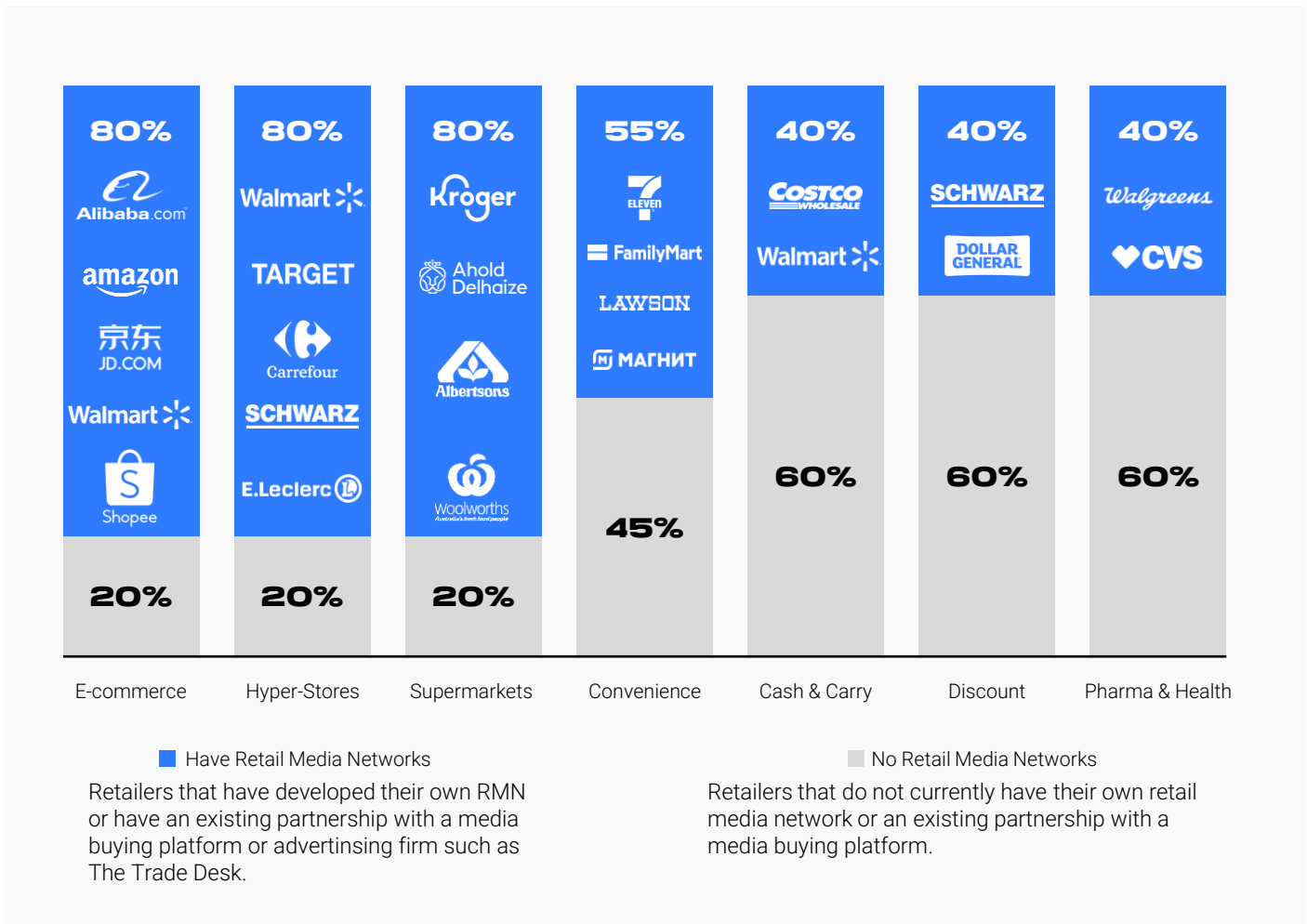
Retail Media will Represent Nearly a Quarter of US Ad Spend by 2027



Source: eMarketer, March 2024

As of June 2023, 95% of the top 20 retailers globally had existing retail media networks or partnerships, with these leading - primarily e-commerce focused - retailers recognizing the potential growth opportunity here (Figure 9).

Figure 9
Share of Top 20 Global Retailers with RMNS In 2023



Source: Flywheel

Marketplaces – that is, retailer aggregators like Amazon and Alibaba - will be the fastest growing retail channel over the next five years. Third party marketplaces will add \$2.1 trillion in sales between 2023 – 2028, and account for 49% of all global retail sales growth by 2028.

Amazon was a pioneer in the RMN space, launching its offering in 2012, years before most competitors, and dominates the market in RMN investment today capturing 75% of the US retail media advertising market in 2023. And with its launch of Amazon Prime’s ad supported CTV offering, which also presented a net new scaled shoppable advertising footprint, it is poised to support brands’ advertising efforts across the full consumer purchase lifecycle (rather than simply the typical “lower funnel” shopper focus).

CHALLENGES REMAIN IN A BURGEONING ECOSYSTEM

While opportunity abounds, so do obstacles for brands tapping into the RMN ecosystem. What exists today is a landscape of players that are fragmented, siloed, and non-standardized. As new RMNs have entered the market, they have come with their own approaches, tools, tech partners, definitions and more. And often, each operates as an independent ecosystem disconnected from other RMNs. This presents a whole host of challenges for brands.

For example:

- There are unknowns regarding the composition, scale & quality of RMNs' data
- Agency controls are not standardized and rely on technical capabilities of each RMN
- Key metrics like ROAS (return on ad spend) are not standardized across RMNs
- Transparency into ad delivery is inconsistent
- Incrementality testing is not yet widely available

Note: OMG's CASA (Council on Accountability and Standards in Advertising) Retail branch, one of several CASA initiatives, is focused on empowering advertisers by working with partners to provide better controls and transparency for their media buys. CASA-Retail aims to standardize the buying capabilities across retail media networks and drive transparency into measurement and data solutions for buyers.

MOVING FROM THOUGHT TO ACTION: A ROADMAP FOR YOUR CONNECTED COMMERCE JOURNEY

NEWER COMMERCE-ORIENTED FORMATS ARE DOING THE WORK OF TRADITIONAL "BRAND" FORMATS: 49% OF CONSUMERS SAY THAT SEEING AN INFLUENCER/REVIEWER VIDEO OR A SPONSORED PRODUCT DROVE AWARENESS, SIMILAR TO SEEING AN AD WHILE WATCHING TV/MOVIES (46%).

OMG Proprietary Research

Shifting your marketing approach to a consumer-centric, connected, commerce-driven model is not going to happen overnight. Nor need it. Developing a roadmap for your journey - with the relevant strategic partners and tools in place – is necessary to pave the way for success over the long term, particularly when navigating a complicated ecosystem that is still immature.

As you map out your path, there are several core areas to consider:

DEVELOP AN UNDERSTANDING OF YOUR OWN CONSUMERS' PURCHASE JOURNEYS.

Insights into your customers' most common paths to purchase (and re-purchase) will help shape future decisions. This includes everything from media investment decisions to creative strategies to future retailer and commerce partnerships. Your retail media network partners are a rich source of data that can be used for more than targeting and measurement. Lean into their data capabilities to understand how your customers traverse retailer touchpoints on the journey to buying your products to begin building your own consumer journey maps.

CLOSE THE GAP BETWEEN “SHOPPER” AND “BRAND”.

Shopper marketing has long served as CPGs’ in-road to help influence purchase in retail environments, but as RMNs have grown in scope and importance brand marketers have begun to lean in as well. However, it is still common practice for these functions to sit in siloes, with distinct internal teams and often disparate agencies managing disparate media investments. This disconnect limits efficiency and performance and creates a disjointed customer experience. Bringing these functions together from a media investment standpoint has myriad benefits already discussed. In more tactical terms, it means moving to a model of:

- *Holistic planning*: developing the right comprehensive media channel and retailer mix and taking a more unified approach to audience development to meet your goals
- *Integrated activation*: bringing focus to points of connectivity and continuity across partners for better insight and optimization opportunities
- *Consolidated measurement*: focusing on integrating reporting across stages of the purchase journey with an eye toward understanding the correlation between day-to-day media KPIs and larger business performance indicators. Additionally, prioritize incrementality testing to understand the causal impact of your media investments.

MATCH THE MOMENT THROUGH CONNECTED CREATIVE EXECUTIONS.

Media is an important lever, but not the only one. It is still common for creative development and execution to be siloed by “shopper” versus “brand” marketing. This approach breaks the consumer’s experience as she discovers, engages with, and make purchase decisions about brands and products. Bring together your creative approach – from ideation to template development to real-time optimization - to gain richer insight, improve the consumer experience, and uplift marketing performance.

INNOVATE CONSUMERS’ SHOPPING EXPERIENCES THROUGH COMMERCE-ENABLED AD SOLUTIONS.

While still relatively new, certainly in the United States, brands need to consider the longer-term opportunity presented by shoppable advertising experiences as younger consumers get more comfortable with this style of engagement and become your key customers of tomorrow. This represents an excellent example of how brands can bridge the long-standing shopper/brand divide. Social environments - where influencers have a strong impact on consumer purchase choices and the platforms themselves are embracing commerce enablement - are a clear option. But CTV also presents a compelling new medium for direct consumer engagement, as QR codes have become re-popularized. Consider the upside in going one step further: look at partners who enable end-to-end shoppability of your products directly via ad units.



JOANNA O'CONNELL

Chief Intelligence Officer, OMG NA
joanna.oconnell@omnicommediagroup.com



XIAN WANG

VP Retail Insight, Flywheel
xian.wang@flywheeldigital.com