

adapt

Global Issues:

The Threats Affecting eCommerce





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Shopping Lead, Adapt

Foreword

Never have brands had to navigate such seismic, macroeconomic waves. Prices are rising at their fastest rate in 40 years, with consumers and businesses facing soaring energy, fuel, and food costs globally.

Chancellor Rishi Sunak told the CBI Annual Dinner 2022 that the economic situation was “extremely serious,” with the country facing “a perfect storm of global supply shocks” including the impact of the war in Ukraine and continued lockdowns in China.

And brands are already starting to feel the effects, with increased costs and supply chain friction being two major factors. Meanwhile, forecast consumer spending growth has been pared back for 2022—4.9% down from 5.6%—as households grapple with cost of living increases.

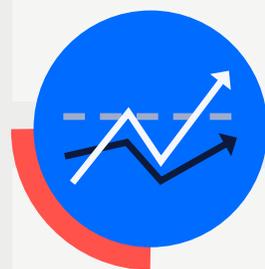
With consumer price sensitivity heightened, the eCommerce space is becoming increasingly competitive—margins and profitability will undoubtedly be squeezed.

But there is opportunity in adversity. And a competitive edge can be found in continuing to invest in brand while others pull back from a difficult market.

Furthermore, at a time when efficiency is essential, analysing and deploying business data intelligently will help hone audience profiling, and identify the most profitable advertising channels.

Finally, with search and shopping activity online now able to build and track revenue offline, there is a strong case to be made for breaking down traditional marketing siloes that will increasingly hinder performance.

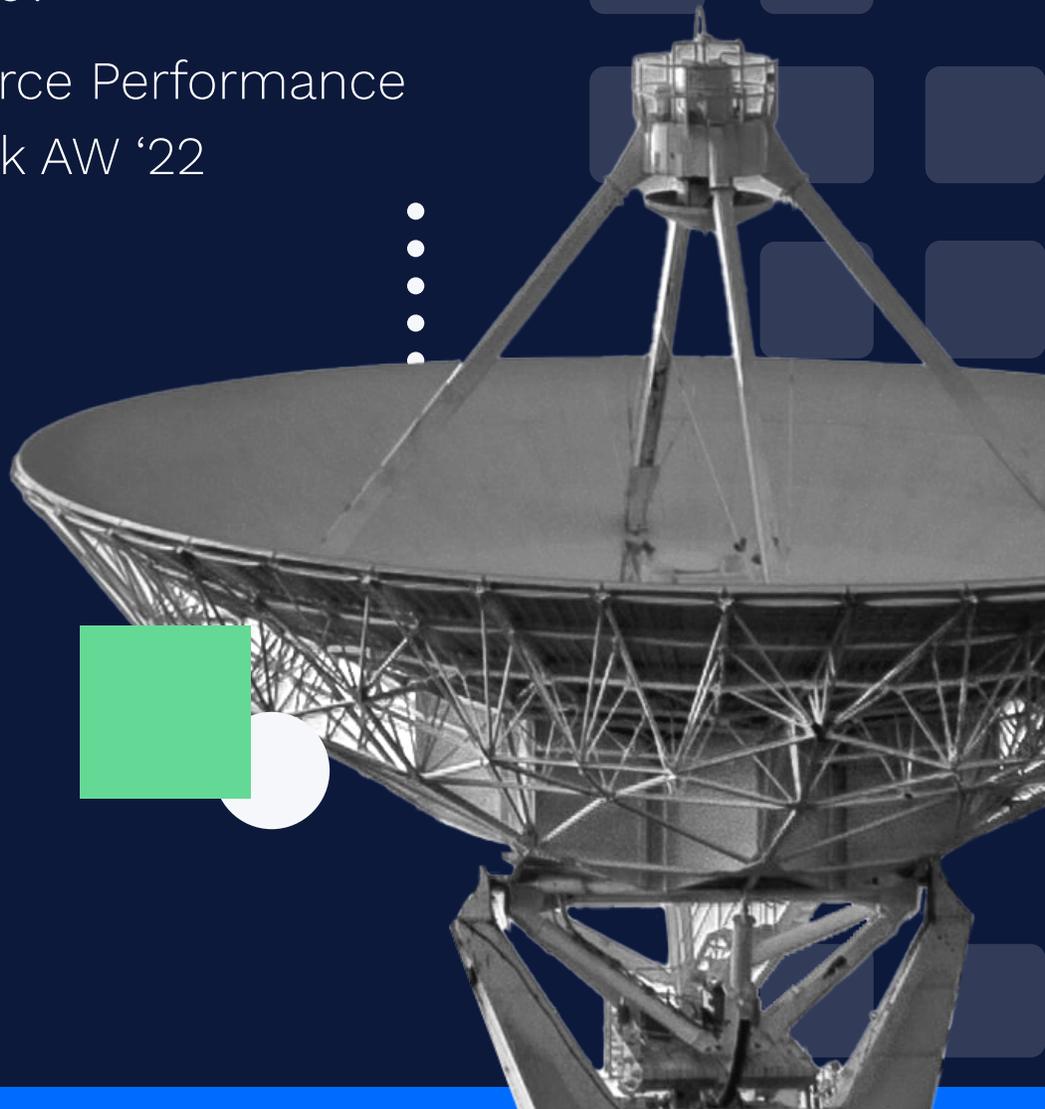
In this guide, we delve into the global crises impacting eCommerce brands, how brands can react and succeed, as well as our pick of the marketing trends that will set you apart this year and next.





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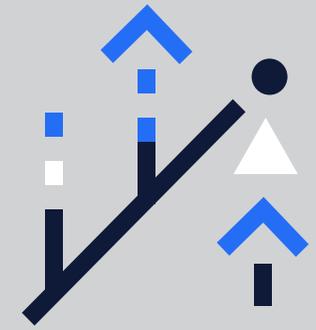
Global Issues:

The Threats Affecting eCommerce

Digital advertising revenue [reached \\$189 billion in 2021](#), jumping 35%, which is the highest increase since 2006.

But the picture isn't entirely rosy. It's becoming [more expensive to advertise on Google, Facebook, and other platforms](#). Reaching audiences has been made more challenging with the end of third-party cookies. As a result, return on ad spend (ROAS) is on a downward path.

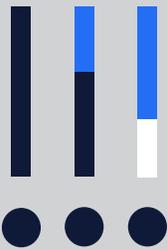
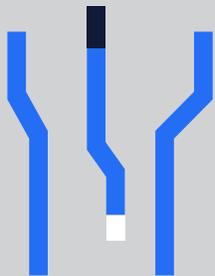
There are other forces at play as well, especially for eCommerce brands. For instance, as more brands launch or expand, there is added competition for the same advertising space and customers. This has [driven up cost per click and cost per thousand impressions](#).



9.2%

Rise in global
annual inflation

IN MARCH 2022



That said, arguably the biggest threat for eCommerce brands is inflation.

[Annual inflation worldwide rose by 9.2%](#) in March 2022, more than double year-on-year. In the United States and some European countries, [inflation has reached its highest level in more than 40 years.](#)

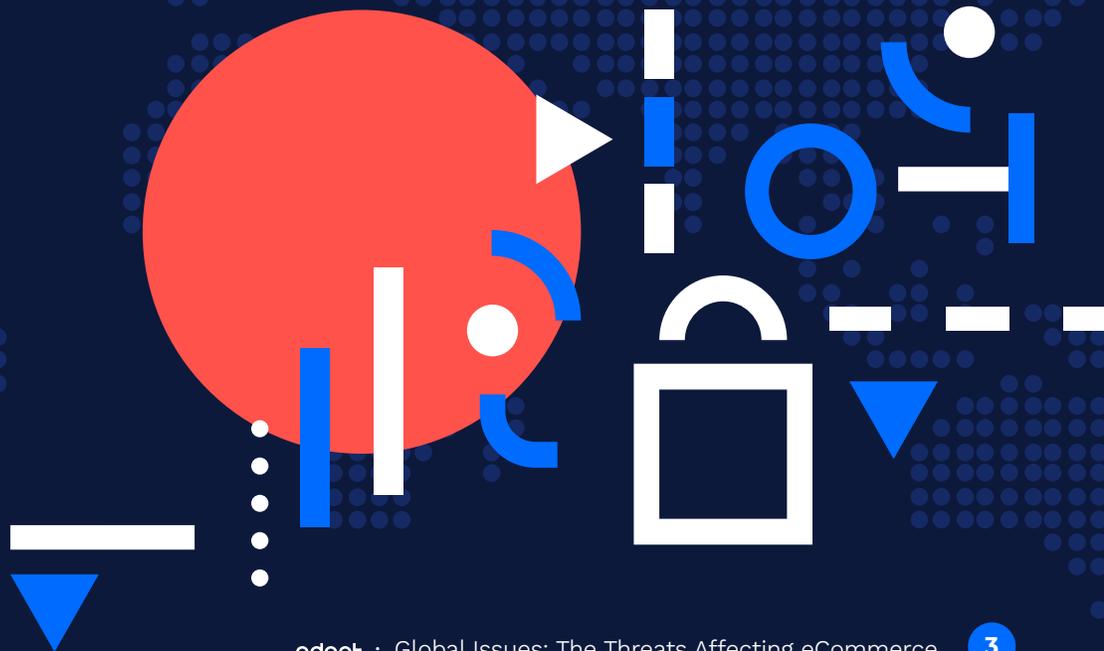
[Prices have been rising since the pandemic](#) as lockdowns disrupted global supply chains and restricted cross-border labor movements. As transportation and production costs rose, so did the price of consumer goods, [especially food and electronics.](#)

And just as businesses and consumers were returning to normal, the world was once again rocked by turmoil.

Twin Turbulence: Inflation and Interest

In late February, Russia launched a large-scale invasion of Ukraine, and the conflict continues with no end in sight. As both countries are major producers of raw materials, economic sanctions against Russia and supply chain disruptions have led to increased prices of crude oil, natural gas, corn, wheat, and metals. This has caused [inflation to soar and economies to slow down](#) worldwide.

To make matters worse, in March, the [Omicron variant of COVID-19 hit China hard](#) and forced lockdowns across cities, including Shanghai and Beijing. This exacerbated supply chain problems, with China a major industrial manufacturer and exporter. This will have a ripple effect on the global economy and contribute to supply shortages and inflation.



To combat inflation, [central banks worldwide have started raising interest rates](#) to cool off demand and slow down economies. The U.S. Federal Reserve has already [increased its benchmark interest twice](#), with more expected to come.



Other global trends contributing to high inflation include:



Higher Global Shipping Costs

Data from 143 countries shows that [inflation increases by 0.7% when freight rates double](#). The cost of shipping surged during the pandemic, and its effect on inflation will continue through the end of 2022.



Worsening Climate Change

Climate-related disasters, such as famine, typhoons, floods, and wildfires, have [damaged crops and disrupted transportation and energy supplies](#). All these drive up costs.



Stimulus Checks

Some analysts and economists point to the generous [stimulus checks contributing to more spending](#) and higher consumer demand. However, with short supply, businesses raised their prices, driving up inflation.



The Great Resignation

With workers quitting in significant numbers, employers are forced to pay more to keep existing employees and attract new hires. [Higher wages mean a higher cost of doing business, which leads to higher prices.](#)

Impact of High Inflation and Interest Rates

So, how do high inflation and high interest rates affect consumers?

Higher inflation reduces disposable income.

Everything from groceries and gas to electricity and furniture has become more expensive. This is expected to result in the largest drop in living standards since records began, with [real disposable income set to drop by 2.2% by March 2023](#). Households are set to endure the biggest income squeeze in decades.

Inflation also erodes purchasing power.

As the value of currency is less than it was before, the same amount of money buys fewer goods. In other words, consumers cannot buy as much.

The cost of living gets more expensive.

[People worldwide are struggling financially](#) as inflation is hurting their standard of living. Half of Americans said this is the [greatest threat to their financial security](#).

disposable income
set to drop by

2.2%

by March 2023

Inflation is the

#1

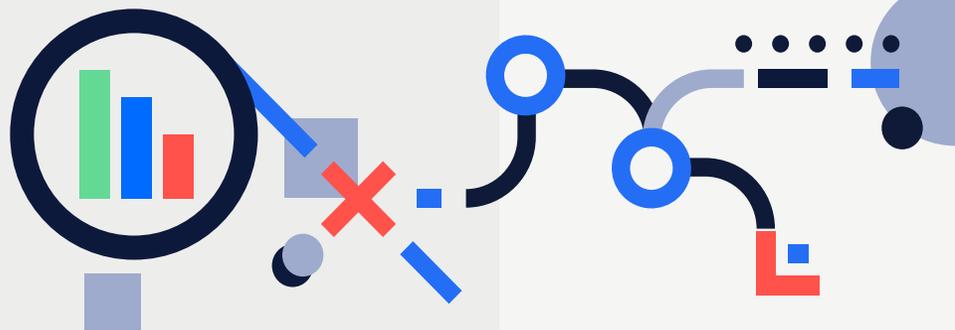
concern globally

High interest rates make borrowing more costly.

While people enjoy better rates on their savings, it's more expensive to borrow. This means people will pay more for car loans, credit cards, and mortgages.

[Inflation is now the number one concern globally](#), with 26 out of 27 countries recording an increase in anxiety and 32% saying it's one of the biggest worries facing their country today.

No wonder consumer [confidence in many countries is below pre-pandemic levels](#). The index of 23 countries dropped an average of 0.8 points in March 2022, which is the steepest month-over-month decrease since June 2020.



~25%

of retail sales
came from online
purchases

IN MARCH 2022

21.8%

decrease in goods
purchased

IN 2022 OVER 2021

The Effects on eCommerce

The combination of supply shortages, rising costs, declining incomes, and dampening demands is putting a dent in eCommerce revenues.

In March 2022, only a quarter of retail sales came from online purchases. This is a steady decline from the peak in February 2021. Consumers bought fewer goods across all channels, which equals 21.8% less than a year earlier.

Two factors impact consumers' buying habits: **inventory issues** and **price increases**.





Problem: **Inventory Issues**

The manufacturing shutdowns in China have added to the challenges retailers face, making it difficult to guarantee inventory and keep prices down. With continued COVID infections spreading within China, product availability will likely continue to be impacted.



Consumer Response: **Research and Substitute**

Inventory challenges impact consumer habits due to uncertainty in guaranteeing the products they want when they need them. These are ways people address the problem with inventory issues:

- 59% research online first before they buy
- 46% go online first to check if an item is in stock before going to the store
- 51% use Google to research a purchase they plan to make online

When their first choice is unavailable, consumers also consider alternative brands in stock. They also check the inventory with multiple retailers before deciding who to buy from.



Problem: **Price Increases**

Consumers are already feeling price increases. Energy prices are the primary driver of overall inflation and will put a serious dent in household spending power, particularly among lower earners.



Consumer Response: **Cut and Switch**

Consumers are responding to the budget squeeze. People need to prioritize the essentials, like food and electricity. Therefore, households decide to cut back or shift to a lower price point in nonessential categories. This is how [consumers change their shopping behavior](#):

- 42% buy more on promotions
- 35% buy cheaper brands
- 33% buy fewer products
- 26% buy more store brands or private labels

Other changes include buying fewer items than in typical years, shopping more at mass merchandise retailers, shopping for deals more than usual, and scaling back on giving gifts.



Global Issues:

What Can eCommerce Brands Do?

It's not surprising that [performance campaigns for eCommerce brands are seeing significant decreases](#), year-on-year. As consumers cut back on spending due to reduced disposable income, they are less inclined to click on online ads. The results: **lower click-through rates (CTRs), brand searches, site traffic, sales, and ROAS.**

[Inflation is expected to get worse](#) as energy prices are projected to further increase in October 2022. This means even higher prices for goods and services and lower disposable income for consumers.



As such, ad performance is unlikely to improve throughout 2022 and 2023.

The last thing brands should do is cut back on their marketing budget. Knee-jerk reactions will only serve to further negatively affect revenues. Instead, brands should consider these next steps to safeguard against global factors.

Invest in Brand Building

It's important to maintain your brand during economic uncertainty—brands that continue to invest in [advertising through downturns](#) perform better long-term.

It's not just survival. Brand building and protecting your brand's share in the market are crucial for brand growth. Here are some things you should do for brand building:

Focus on the long term. While you might sacrifice profits by maintaining or increasing your ad spend, your investment in brand building will pay off in the long run.

Defend your share of voice. As some advertisers pull budgets, maintaining your share of voice is likely to be cheaper.

Seize the market opportunity. Take advantage of competitors leaving the market by grabbing more market share.

Demonstrate humanity and warmth. Given that some consumers might struggle or cut back on spending during these uncertain times, show empathy and sensitivity in your messaging.

Track the Wider Impact of Brand Awareness

The impact of brand building using social and programmatic ads goes beyond paid advertising. As more people become exposed to your brand, [you are more likely to stay top of mind](#). This can lead to more brand searches, higher website traffic, and even higher in-store traffic.

Track metrics for your other channels to [see the impact of your brand health](#) on your overall brand performance. Update your reporting to include [brand performance metrics](#) to analyze the effect of brand awareness channels.



Monitor Your Competitors

Check out what your competitors are doing. Understanding their channels, ad spend, and messaging can help you know more about the overall market and potential gaps that you can take advantage of.

Some questions you should ask:

- Are competitors seeing the same reduction in traffic?
- How are they responding? Does this create opportunity?
- What channels are they using?
- What messaging are they using?

There are many tools you can use to track what your competitors are up to, such as [Similarweb](#) and [SEMrush](#). You can also check brand search volume and use [social listening tools](#).

Optimize for Conversions

You've invested in your brand. You're delivering more efficient advertising than ever. And you think there might be an opportunity to capitalize on reduced competitor activity.

But that's only one part of the story. You also need to turn those browsers into buyers. And you can do that with a greater focus on your [conversion optimization strategy](#).

For instance, consider implementing experimentation programs—A/B testing, [user testing](#)—to understand what changes you can make to your landing pages or checkout to deliver a higher conversion rate. You might discover a quick win, or get that stagnant ROAS moving again.

Align Your Audience Segments

Consumer behavior is already shifting, and it will continue to change because of lower disposable income and more uncertainty. Most consumers will reevaluate their purchases into four categories:

Essentials

Necessary for survival

Treats

Indulgences

Postponables

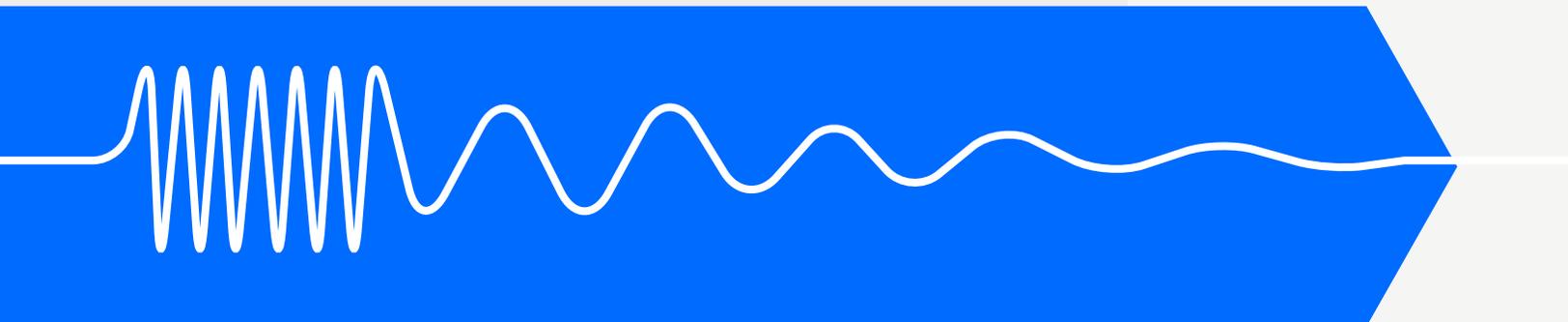
Nice-to-have but can be delayed

Expendables

Unnecessary



Instead of categorizing audiences by income brackets, [group them by consumer segments based on their likely behavior:](#)



▶ **Live for today:**

No or little change in spending habits. Usually younger and urban.

▶ **Comfortably well off:**

More secure but more selective with their purchases. Mostly wealthy or those who are financially stable.

▶ **Pained but patient:**

Long-term optimistic but short-term pessimistic and will cut back and do so aggressively. This is the largest segment and covers most income segments.

▶ **Slam on the brakes:**

The hardest hit financially and most likely to reduce spending across the board. Typically, low-income consumers but also anxious higher-income segments.

Understand your audience and know where they sit. Who is most at risk of reducing their spending? Where should you focus your marketing?



Reposition Your Messaging

Messaging can set your brand apart when fighting to grab attention online, especially when consumers are being more discerning about what they purchase. Memorable, meaningful messages resonate with your customers and are vital during tough financial times. Repositioning your current messaging to make sure it resonates is key to capturing the present opportunity. These are some options to reposition your messaging:

Trusted Brand: Remind users your brand is trusted. Your messaging should highlight the high quality of your products and that they are built to last.

Essential and Necessity: Position your products as a necessity rather than a nice-to-have or a treat.

Finance, Affordable, and Value: If a lower price point is essential, emphasize value and affordability. Offer flexible payment options that will help them in their decision-making process.

Wellness, Empathy, and Understanding: Health and wellness have grown increasingly important to consumers as a vital part of dealing with uncertain times. Respond with empathy and understanding.

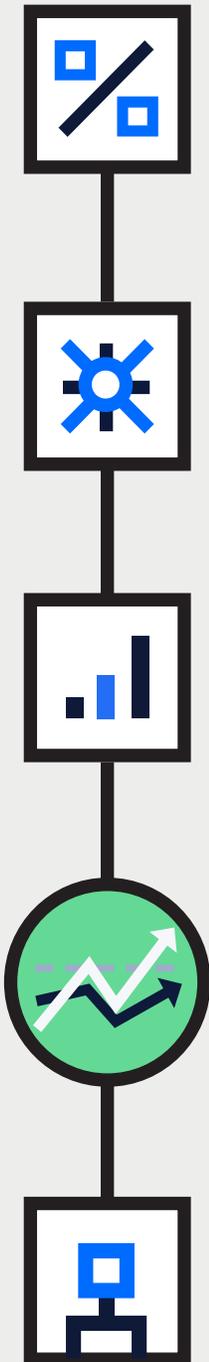
Planning for Peak

Peak planning seems to come earlier every year. And it's a sales period when no brand can afford to drop the ball. But when do you need to start [planning for peak](#)?

Google can provide predicted seasonal trend data for your vertical to help gauge when that all-important go-live date could be. Typically, there is an increase in demand from September for most eCommerce brands.

Our advice would be to start laying the foundations for a successful peak with:

- Channel review and KPI alignment
- Brand performance reporting implementation
- Competitor channel and creative review
- Messaging alignment and repositioning
- Data-informed audience analysis
- Website optimizations in place
- Clear timeline and plan for go-live





eCommerce Performance Look Book AW '22

Understanding your audience, monitoring your competitors, and repositioning your messaging are critical in increasing the effectiveness of your online ads.

Beyond addressing global challenges affecting consumer behavior and confidence, there are opportunities from emerging trends in digital marketing that can further boost your campaign performance.

To give you a head start, we've pulled together the first ever eCommerce Performance Look Book (AW '22), which summarizes the five digital marketing trends we think eCommerce brands need to pay most attention to in the second half of 2022.

1

Zero-Party Data

What it is: Zero-party data is a subset of first-party data. This is data you collect from customer surveys, feedback forms, and social media polls. Unlike first-party data, where you still have to imply customer preferences, zero-party data is direct information about who they are and what they want.

Why it's important: You can reduce your dependence on third-party data and use your own to nurture customer relationships and offer a more personalized experience.

[READ MORE](#)



2

Creative Data

What it is: Creative data represents individual elements within your creative content as data points. This includes copy, photos, taglines, and colors, which can be tagged using content atomization. This allows you to identify which elements resonate with your audience.

Why it's important: By testing and knowing which creative and emotional factors in your ads work best, you can remove the guesswork and use creative data to make your campaigns more compelling to drive conversions.

[READ MORE](#)

3



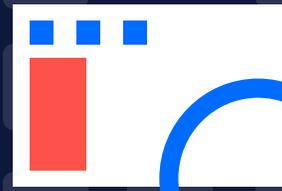
Performance Max

What it is: Performance Max, a new Google campaign type, is a fully automated goal-based campaign that brings individual campaign types together in one place. These include YouTube, Display, Search, Discover, Gmail, and Maps. If you set a target CPA as your goal, for instance, it will automate the bidding strategy, budget optimization, audience, creative, and attribution to achieve it.

Why it's important: You can get better performance as Performance Max uses machine learning, which enables you to find optimal audiences at the perfect time with the best combination of ads.

[READ MORE](#)

4



Local Inventory Ads

What it is: Local inventory ads are Google Shopping ads that allow you to display your shop information and inventory listings to nearby shoppers searching with Google.

Why it's important: You can seize opportunities with shoppers in the market with specific and relevant ads. Providing them details about in-stock products they can buy at a nearby store or online can drive in-store traffic and boost your sales.

[READ MORE](#)

5



Google Analytics 4

What it is: Google Analytics 4 (GA4) is the latest version that replaces Universal Analytics (UA). GA4 doesn't rely exclusively on cookies and uses an event-based model to deliver user-centric measurement. Unlike UA, which reports user behavior in a single session, GA4 covers all user touch points.

Why it's important: You have no choice but to migrate to GA4. Starting July 2023, UA will stop recording website activity, and its historical reports will no longer be accessible. Besides, with GA4, you get a more holistic view of user behavior than ever.

[READ MORE](#)

We Are Adapt

The eCommerce landscape is more uncertain and complex than ever before. So, it's more important than ever to partner with an agency that has a track record in helping global brands reach their customers online wherever they are in the world.

[Adapt Worldwide](#) is a multilingual digital performance marketing agency. We work with brands to expand their global reach across markets and platforms in more than 250 languages, supported by our parent company, [Welocalize](#), which is one of the world's 10 largest localization providers.

Our digital performance marketing services encompass paid search, SEO, programmatic, paid social, content marketing, conversion optimization, and web analytics.

Get in touch

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“The Adapt team has been an extension of our marketing team since we started working together and has really helped the business grow and evolve with the everchanging market we have experienced over the last three years.”

Laura Starkie — *Digital Sales Channel Manager, Meyer Group Ltd.*