Retail remade

How to plan for a different retail peak season
The story so far...
COVID-19 had a profound impact on the retail sector, wiping out almost 10 years of retail growth in 1 month.
People stopped travelling with direction requests falling significantly after lockdown

Source: Apple Mobility Trends Report, UK data indexed on 13th January – 6th September 2020
Consumer confidence dropped to 2008 recession levels. However, signs signal strong recovery.
eCommerce is becoming a new normal as retail growth returns to normal but online retail split remains high.
Not only are eCommerce orders high, but the number of orders per user have grown significantly across all devices.

Source: Salesforce, The Shopping Index, Q2 2020

UK average order volume per user
Retail eCommerce yearly growth Q2 2020

- PC/Tablet: 46%
- Mobile: 73%
- Total: 109%
Despite expected decline in non-eCommerce sales, eCommerce is set to hit **double digit growth** in 2020.

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail non-eCommerce sales</td>
<td>+2.4%</td>
<td>-16%</td>
</tr>
<tr>
<td>Retail eCommerce sales</td>
<td>+9.3%</td>
<td>+14.7%</td>
</tr>
</tbody>
</table>
This **accelerated growth** in eCommerce is expected to resonate in **all markets** across the globe.

**+16.9%**  
expected 2020 **EU5**  
eCommerce sales growth

- Spain: 22.9%  
- Italy: 20.5%  
- France: 17.1%  
- Germany: 16.2%  
- UK: 14.7%

**+16.6%**  
expected 2020 **global**  
eCommerce sales growth

- Central/Eastern Europe: 21.5%  
- Middle East & Africa: 19.8%  
- Latin America: 19.4%  
- North America: 18.1%  
- Western Europe: 16.9%  
- Asia-Pacific: 15.5%
What did that look like on our marketplace?
Search **seasonality** changed drastically post lockdown, however, **searches** are returning to a normal trend.
Clicks followed the same trend but are maintaining a higher than normal seasonality
Clicks have also become **cheaper** with **cost per clicks (CPCs)** dropping below seasonal expectations.
Similar seasonality trends have been seen across Retail’s major **sub verticals** since lockdown.

<table>
<thead>
<tr>
<th>Sub Vertical</th>
<th>Searches</th>
<th>Clicks</th>
<th>CPC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel</td>
<td>+22.5%</td>
<td>+9.1%</td>
<td>-9.4%</td>
</tr>
<tr>
<td>Beauty &amp; Personal Care</td>
<td>+47.2%</td>
<td>+38%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Computers &amp; Consumer Electronics</td>
<td>+45.7%</td>
<td>+38.1%</td>
<td>-6.9%</td>
</tr>
<tr>
<td>Home &amp; Garden</td>
<td>+45.7%</td>
<td>+67.1%</td>
<td>-30.9%</td>
</tr>
<tr>
<td>Sports &amp; Fitness</td>
<td>+4.4%</td>
<td>+31%</td>
<td>-24.4%</td>
</tr>
</tbody>
</table>

Microsoft Advertising Internal Data, post lockdown indexed seasonality trend 2020 vs 2019, calendar week 12 to Calendar week 35.
Retail searches by gender have remained *evenly split* throughout 2020.
Over 50% of searches are by people ages 35-64
How have people’s search behaviours adapted?
With more time spent at home, people are interacting significantly more on **mobile devices**

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Microsoft Advertising Internal Data, Retail Jan 2020 – Aug 2020
Search activity has moved towards the weekend since lockdown
Faced with uncertainty, consumers **changed to retailers with lower and better pricing**

44% Switched brands or retailers where they previously shopped

**Reason for switching brands/retailers**

- **Offer Lower Prices**: 52%
- **Offer Better price/value ratio**: 48%
- **Support Employees**: 19%
- **Offers ways to maintain social connections**: 15%
- **Donates to COVID-19 relief efforts**: 14%

Source: Periscope by McKinsey Retail Reimagined Report 2020
Retail brand loyalty has also decreased post lockdown.

Searcher journeys
Pre vs. post lockdown

- 46% of search journeys examined pre- and post-lockdown showed interaction with different advertiser ads for the same products they bought before.

Microsoft Internal Data, Pre-covid considered from Jan 2020 to March 2020 and Post-covid from Apr 2020 to May 2020, UK, Retail.
Retail searchers are engaging more with non-brand keywords

Yearly click growth

+12% Brand
+44% Non-Brand

Yearly CPC change

+0.15 Brand
-0.05 Non-Brand

Source: Microsoft Internal Data, UK, Jan-May 2019 vs Jan-May 2020, All Devices
**Brand/Generic split referred to the whole retail marketplace, UK**
Free delivery is key to driving online shopper purchases

Source: Global Web Index (GWI); Q2 2020. Online Shoppers Audience on the Microsoft Advertising Network
Consumers are looking for **minimum contact** purchasing methods such as **BOPIS** (Buy Online – Pickup In Store)

<table>
<thead>
<tr>
<th>Country</th>
<th>% Planning to Use BOPIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>77%</td>
</tr>
<tr>
<td>UK</td>
<td>77%</td>
</tr>
<tr>
<td>FR</td>
<td>81%</td>
</tr>
<tr>
<td>DE</td>
<td>59%</td>
</tr>
</tbody>
</table>

Click-and-Collect Buyers (% of Tot Digital Buyers, 2020)

<table>
<thead>
<tr>
<th>Country</th>
<th>Count (M)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>144</td>
<td>70%</td>
</tr>
<tr>
<td>UK</td>
<td>31</td>
<td>52%</td>
</tr>
<tr>
<td>FR</td>
<td>18</td>
<td>32%</td>
</tr>
<tr>
<td>DE</td>
<td>17</td>
<td>32%</td>
</tr>
</tbody>
</table>

2. eMarketer, 2020
Searchers are willing and intend to **live more sustainably**

<table>
<thead>
<tr>
<th>% Respondants planned future habits²</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Live more sustainably</td>
<td>26%</td>
</tr>
<tr>
<td>More time with friends/family</td>
<td>21%</td>
</tr>
<tr>
<td>Better work-life-balance</td>
<td>15%</td>
</tr>
<tr>
<td>Save more</td>
<td>10%</td>
</tr>
<tr>
<td>Work from home</td>
<td>8%</td>
</tr>
<tr>
<td>Change of career</td>
<td>8%</td>
</tr>
<tr>
<td>Move home</td>
<td>7%</td>
</tr>
<tr>
<td>Join a gym</td>
<td>4%</td>
</tr>
</tbody>
</table>

57% of consumers are willing to change their purchasing habits to help reduce negative environmental impact¹

¹ 'Meet 2020 consumers driving change' IBM Study | ² Microsoft Consumer Survey, May 2020
As people search and browse more, they are interacting more with shopping ads

- Last year Product Ads accounted for 10% of Retail clicks during the holiday season
- In 2020, Product Ads clicks grew 17% - 19% in recent months
- Expect additional growth during the 2020 holiday season

Source: Microsoft Advertising internal data; Based on top 20 customers; Oct 2019 - Jul 2020;
What can we learn from last year’s peak season?
2020 has been a year like never before and COVID-19 has had a profound impact on nearly every aspect of the way we live.

As a result, we don’t expect the holiday shopping season in 2020 to look the same as in 2019.

However, it is very likely that some of the shopping patterns that we’ve seen in previous years will occur again in 2020.

Which is why we think there is value in a quick recap of last year’s holiday trends.
Traditionally peak seasons drive high click volumes

Indexed Retail Click Volume

+14% yearly click growth during 2019 peak

Source: Microsoft Advertising Internal Data, Jan 2018 – Aug 2020 Retail categories for UK
Black Friday and Cyber Monday drove the highest clicks.

Indexed Retail Click Volume

- **Black Friday**: 29-Nov, 187%
- **Cyber Monday**: 02-Dec, 152%
- **Black Friday Week**: 23-28 Nov

Source: Microsoft Advertising Internal Data, Oct - Nov 2019 Retail categories for UK indexed on daily average
2020 has seen **more clicks** compared to previous years.

Indexed Retail Click Volume

+36% yearly click growth during August 2020

Source: Microsoft Advertising Internal Data, Jan 2018 – Aug 2020 Retail categories for UK
All verticals saw strong yearly peak season growth in 2019

Click volume 2019

- Apparel: +7%
- Beauty & Personal Care: +5%
- Computers & Consumer Electronics: +18%
- Hobbies & Leisure: +20%
- Home & Garden: +6%
- Sports & Fitness: +19%

Each vertical had **different top 5 click dates** in the 2019 holiday season

<table>
<thead>
<tr>
<th>Date</th>
<th>Apparel</th>
<th>Consumer Electronics</th>
<th>Home &amp; Garden</th>
<th>Beauty &amp; Personal Care</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 22</td>
<td># 4</td>
<td></td>
<td># 4</td>
<td></td>
</tr>
<tr>
<td>November 25</td>
<td># 4</td>
<td># 2</td>
<td># 2</td>
<td># 5</td>
</tr>
<tr>
<td>November 26</td>
<td># 5</td>
<td></td>
<td># 3</td>
<td></td>
</tr>
<tr>
<td>November 27</td>
<td># 5</td>
<td></td>
<td># 4</td>
<td></td>
</tr>
<tr>
<td>November 28</td>
<td># 2</td>
<td># 4</td>
<td># 5</td>
<td># 2</td>
</tr>
<tr>
<td>November 29 – Black Friday</td>
<td># 1</td>
<td># 1</td>
<td># 1</td>
<td># 1</td>
</tr>
<tr>
<td>December 2 – Cyber Monday</td>
<td># 3</td>
<td># 3</td>
<td></td>
<td># 3</td>
</tr>
</tbody>
</table>

Source: Microsoft Advertising Internal Data, UK Oct 2019 – Nov 2019
On **Black Friday** people searched earlier and clicked later

Source: Microsoft Advertising Internal Data, Black Friday 2019 Retail categories for UK
Commuters and early risers drove **click through rate (CTR)** up and **CPC** down.

Source: Microsoft Advertising Internal Data, Black Friday 2019 Retail categories for UK
What can we expect for this year’s peak season?
This year’s key season dates are a little **earlier than 2019**

<table>
<thead>
<tr>
<th>#1</th>
<th>Black Friday Week</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>23rd – 28th November</td>
<td>21st – 26th November</td>
</tr>
<tr>
<td>#2</td>
<td>Black Friday</td>
<td>29th November</td>
<td>27th November</td>
</tr>
<tr>
<td>#3</td>
<td>Black Friday Weekend</td>
<td>30th November – 1st December</td>
<td>28th – 29th November</td>
</tr>
<tr>
<td>#4</td>
<td>Cyber Monday</td>
<td>2nd December</td>
<td>30th November</td>
</tr>
</tbody>
</table>
Consider potential market disruption scenarios

Potential **second wave** of COVID-19 and subsequent additional lockdown restrictions
- Restrictions halt vertical’s recovery
- Increase of businesses with improved online setups will enter search auctions, increasing competition

Markets recover from COVID-19 but then get hit with a **deep recession**
- Budgets may be restricted decreasing competition
- Decrease in consumer confidence may result in less high price point purchases

No second wave happens, **markets recover**, and the retail market is **rapidly evolved**
- Advertisers slowly return to normal campaign activity
- Initial low competition sub-verticals
- Peak season impacted as long lifetime product spikes happened earlier in the year

<table>
<thead>
<tr>
<th>Conservative behaviour</th>
<th>Time resources</th>
<th>Budgets</th>
<th>Conservative behaviour</th>
</tr>
</thead>
<tbody>
<tr>
<td>New queries</td>
<td>Search volume</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New behaviours</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Microsoft
Reduced consumer confidence

What this means:
• Consumers are less confident in the economy and are less likely to make more expensive purchases

Potential impacts:
• Increase in comparison searching and increased focus on cost when making purchases
• Reduction in purchases on traditional sale days such as Black Friday
• Increased opportunity to drive sales outside of peak times and away from dominant advertisers
Organically induced change in seasonality

What this means:
• Products with longer lifetimes that generally see a yearly or seasonally based buying cycle have had their sales seasonality prematurely induced during lockdown

Potential impacts:
• Unexpected seasonality, potential loss if unprepared for the change
• Muted sales during peak retail season and a potentially shifted seasonality as a result

<table>
<thead>
<tr>
<th>Lifetime</th>
<th>1–2 years</th>
<th>3–4 years</th>
<th>5–6 years</th>
<th>7–10 years</th>
<th>&gt; 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example products</td>
<td>Small electrical appliances, (e.g., toothbrushes, toys), mobile/smart phones, general clothing, shoes</td>
<td>Portable devices, personal computers, bed items, specific clothing (e.g., sports), bicycles, coats</td>
<td>Cameras, general kitchen-ware, lighting, power tools, vacuum cleaners, washing machines, curtains</td>
<td>Automotive, TVs, kitchen appliances, general furniture, carpets, beds, refrigerators</td>
<td>Appliances attached to house (boiler, sunroof, etc.), kitchen and bathroom, specific furnishings</td>
</tr>
</tbody>
</table>

Retail click forecasts are still showing significant growth.

Source: Microsoft Advertising Internal Data, Jan 2019-Aug 2020 Retail categories for UK using adjusted PROPHET forecasting model.
The same **high growth** is forecasted across top verticals

**Apparel Clicks**

Source: Microsoft Advertising Internal Data, Jan 2019-Aug 2020 Retail categories for UK using adjusted PROPHET forecasting model
However growth is dependant on **economic situation**

**Potential Impacts of Economic Scenarios**

- **Normality**
- **Second Wave**
- **Deep Recession**

**Source:** Microsoft Advertising Internal Data, Jan 2019-Jun 2020 Retail categories for UK using adjusted PROPHET forecasting model
Strategies to succeed
Ads that use **more extensions** see greater click-through rates

With every extension added, advertisers have seen a significant increase in click-through rates.

Source: Microsoft Advertising internal data; Retail ads shown by extension. Dec 2019
Leverage the Microsoft Audience Network to effectively reach and influence consumers.
Using the Microsoft Audience Network allows you to **expand your reach** connecting you with millions of potential customers.

- **United States**: 242M¹
- **United Kingdom**: 28.8M²
- **Canada**: 22.4M²
- **Australia**: 10.8M³
- **France**: 25.8M²
- **Germany**: 31M²

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¹ comScore, Microsoft Audience Platform Report, December 2019. Numbers are rounded to the nearest percentage point.
² comScore, Multi-Platform, May 2020. Numbers are rounded to the nearest percentage point.
³ comScore, Microsoft Audience Platform Report, August 2018. Australia desktop. Numbers are rounded to the nearest percentage point.

Note: Microsoft Audience Ads in Australia will be generally available as an extension to search campaign on August 18. Microsoft Audience Ads in France and Germany will be launched on September 8 as an extension to search campaign.
Use Product Audiences for increased performance

On average, our retailer clients using Product Audiences on the Microsoft Audience Network during the 2019 holiday season saw greater results¹

- 30% Higher CTR¹
- 38% Lower CPA¹
- 72% Higher CVR¹

Highly relevant to the audience

Boosted performance

Easy to use

¹ Microsoft Internal Data, CTR for our clients on the Microsoft Audience Network using Product Audiences versus our native marketplace overall CTR, 17th November, 2019 to 28th December, 2019.
Microsoft Audience Network **click volume** continues to **trend upward** for Retail while key performance indicators improve

UK Microsoft Audience Network Retail
click volume and CPC

Advertisers continue to increase investment in the Microsoft Audience Network, as efficiencies improve due to more users engaging with our premium placements – *ensure you have strong coverage as more users shop online this holiday season*
Apparel, Home & Garden, and Consumer Electronics drive the most clicks for the Microsoft Audience Network

These retail categories made up 28%, 22%, and 12% of total clicks respectively during June.

Leverage Product Audiences to target categories that are top of mind for consumers.
Other top of mind categories in Retail for holiday continue to see an increase in Microsoft Audience Network clicks as well.

1. Excludes Apparel & Accessories, Home & Garden, and Consumer Electronics due to volume.
Activate **across targeting features** to maximize **reach & click volume**

Target + Bid audiences separately with image-based ads or layer audiences as bid-only on feed-based ads using bid modifiers

**Feature CPC**
- Location Targeting
- Device Targeting
- Gender Targeting
- Age Targeting
- Product Audiences
- Remarketing
- Company Targeting
- Industry Targeting
- Job Function
- In-Market Audience

**Feature CTR**
- Product Audiences
- Remarketing
- Industry Targeting
- Gender Targeting
- Age Targeting
- Device Targeting
- Location Targeting
- Job Function
- In-Market Audience
- Company Targeting

Location, Device, Demographic targeting, and Product Audiences offer **below average CPC** for UK Retail.

Product Audiences and Remarketing offer **above average CTR** for UK Retail.

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Microsoft Advertising Data: July 2019 – June 2020, Microsoft Audience Network – Retail Advertisers (Audience Workflow); UK only

1. Product Audiences should always have the highest bids across any targeting strategy
Utilise In-market Audiences to drive efficiency
Expand your audience list with **In-market Audiences**

- 38% of the Apparel & Accessories Audience overlap with **Home & Garden**
  - 36% with Sports & Fitness / 28% with Consumer Electronics

- 30% of the Home & Garden Audience overlap with **Sports & Fitness**
  - 29% with Apparel & Accessories / 26% with Consumer Electronics

- 37% of the Consumer Electronics Audience overlap **Home & Garden**
  - 36% with Sports & Fitness / 32% with Apparel & Accessories

- 39% of the Beauty Products Audience overlap with **Home & Garden**
  - 34% with Apparel / 32% with Sports & Fitness

- In-market Audiences are curated lists of users, like a Remarketing list, who are ready to make a purchase in a particular category

- Find users who are ready to make a purchase in a particular category

Source: Microsoft Internal Data, Global; July 2020

In order for a user to be considered “overlapping” across two In-Market segments, they must have been exposed to an ad by an advertiser targeting that audience in the associated time frame.
In-market Audiences create **higher conversions rates**

Conversion rate uplift with In-market Audiences
(EMEA, July 2020)

- Beauty & Personal Care: 24%
- Books: 90%
- Clothing & Accessories: 20%
- Department Stores: 30%
- Pet Supplies: 13%

Source: Microsoft Internal Data; July 2020; EMEA
Leverage Microsoft automated advertising solutions to effectively and efficiently manage your campaigns.
Use **Dynamic Search Ads** to capture new searches

- +29.6% incremental impressions
- +46.6% incremental clicks
- -32.8% Cheaper CPCs

Source: Microsoft Internal Data; Dynamic Search Ads June-August UK Retail 2020
Dynamic Search Ads retail click volume has surged during lockdown, growing by 74% quarter on quarter.
Recommendations
How can I respond to these market disruptions?

- **Search volume**
  - Use the Microsoft Audience Network to expand your reach
  - Audience network clicks have drastically increased post-lockdown and efficiency means lower CPCs. Adopt into or focus on expanding your Audience Network activity to expand your reach, improve CTRs and achieve more efficient CPAs.

- **New queries**
  - Use a broad approach to capture new emerging queries and interest areas:
  - Use features like Dynamic Search Ads and Broad Keywords with campaign budgets set to cast your net wide. This will allow you to catch new queries to our network in a cost-effective way. And don’t forget about new products such as the Microsoft Audience Network.

- **New behaviours**
  - Implement remarketing for recent visitors:
  - Create remarketing lists with varying time ranges (e.g. 1, 3, 7, 14 days) to target consumers that start to investigate new product areas

- **Time resources**
  - Manage time and budget needed with automated bidding strategies:
  - Automated bidding helps you to stay on top of the dynamic marketplace, use Enhanced CPC when minimal threshold conversion volume for conversion-based strategies is not met manage campaign performance efficiently.

- **Budgets**

- **Conservative behaviour**
Microsoft Advertising. Intelligent connections.