
Digital Penetration is Not a Vision

By Russ Dieringer // February 23, 2022 // Building Blocks, Research

February 23, 2022

5 minute read

Consumer Brands Need a More Robust Digital Narrative

Consumer brands are starting to [disclose more digital metrics](#) in response to growing interest from shareholders that want to understand their digital strategies and performance.

Most commonly, these **consumer brands share their current digital penetration** – digital sales divided by total sales - and how they expect that to grow through “digital transformation”. Anywhere from 5-15% is typical across the CPG space, and the common vision is for this to double over the next five years.

Consumer brands like this metric because it is easy to understand and is comparable across companies.

Yet, it is problematic:

1. It does not tell investors very much
2. It has the potential to divide rather than unify
3. It is passive and requires no clarity of thought

Investors Need a Compelling Narrative

Investors care about predictable, profitable growth and reward a strategic vision that stands out amongst the competition. Growing digital penetration provides almost nothing in terms of helping investors understand future business growth.

A better approach would be to focus on incremental sales growth from digital and how online profitability is improving over time.

A more compelling narrative looks like:

- Our digital business grew 14% Y/Y in 2021 and our vision is to accelerate this to compound annual growth of 17% for the next five years. We estimate this is three to five points ahead of the category we compete in.
- At this pace, digital will account for 53% of the total growth in our business over that time. Dollars coming from digital commerce will more than double.
- Growth will be a function of accelerating our sales through pureplay eCommerce channels, doubling our digital sales with omnichannel customers, and expanding into new retail accounts including evaluating the opportunities with social commerce. This growth is driven by expanding sales and marketing support and injecting digital expertise into omnichannel accounts.
- We forecast contribution margin from digital sales will increase by five points through supply chain innovation to support ship to home, implementing digital-first packaging, refining our digital assortment, and customer acquisition efficiencies through a changing media environment.
- Recognizing retail media and social commerce are fundamentally transforming digital advertising and omnichannel store programs, we have created a new, multi-disciplinary team inside the organization to develop a three-year roadmap that brings together our brand building and customer acquisition activations across digital advertising, store-level activity, and retail media.

This type of narrative focuses on total business growth as the goal, while demonstrating digital commerce's role in achieving that goal.

It gives investors just enough information to understand what “digital transformation” means to the company, while not providing competitors with the secret sauce.

Unifying the Organization

This type of compelling digital narrative requires *all* parts of the organization. Rather than estimating how the pie is going to be divided into physical or digital sales in the future, it focuses on growing the total pie with digital a key contributor.

Execution matters, particularly when business processes and models are changing.

There is no way a consumer brand can execute this type of plan without the entire company on board. And there is no way to win the hearts and minds of those that have traditionally worked in non-digital areas without a vision that includes their current skills and provides an avenue to participate in the future.

Elements of the narrative like how much digital is going to contribute to total growth, how that growth is going to come from all areas, and why multi-disciplinary teams are needed to catalyze this transformation is rallying. It requires everyone, it’s an important mission, and the company is on the record that they’re going to make this happen.

There will still be internal skeptics. But at least the firm can move past arguments over whether 7% of sales is worth investing in.

Defining "Digital Transformation"

“Digital Transformation” inside consumer brands, or omnichannel retailers for that matter, is difficult to define.

It is like the “Metaverse”. Is it crypto? Is it gaming? Is it already here? When will we know it has arrived?

Absent a more detailed vision for digital, and how it fits into the broader company’s growth strategy, consumer brands can easily fall into the trap of talking about digital transformation without ever actually “transforming”. If there is no stake in the ground, a company cannot measure its progress.

Creating a compelling digital narrative and communicating that to shareholders is a disciplining mechanism. Like writing, it forces a clarity of thought.

Senior management teams can only communicate that type of narrative after they reach a deeper understanding of what digital transformation means to them and what the impact to the business will be. It surfaces key areas of investment the firm needs to make and highlights specific actions the company will take.

Importantly, it puts a stake in the ground the company can measure itself against – “Have we transformed? What’s next?”

As a byproduct, it also helps recruiting and retention efforts. Skilled eCommerce professionals have never had more job opportunities. The best ones want to be working on the leading edge at a company investing behind digital, rather than fighting for every nickel of support.

A consistent, compelling digital narrative communicated to all stakeholders helps signal the type of exciting activity that is taking place inside the firm.

"Plans are worthless, but planning is everything" - Eisenhower

The digital plan laid out today is bound to change. That is business, not some unique element to digital commerce.

But the exercise of putting together an active plan will separate the company from its rivals.

It has the potential to unify, rather than divide the organization. It forces a deeper understanding of the opportunities and challenges within the most senior levels of the organization.

Put simply, it diverges from the current status quo where digital penetration - a passive outcome - is lazily settled on as a vision.
