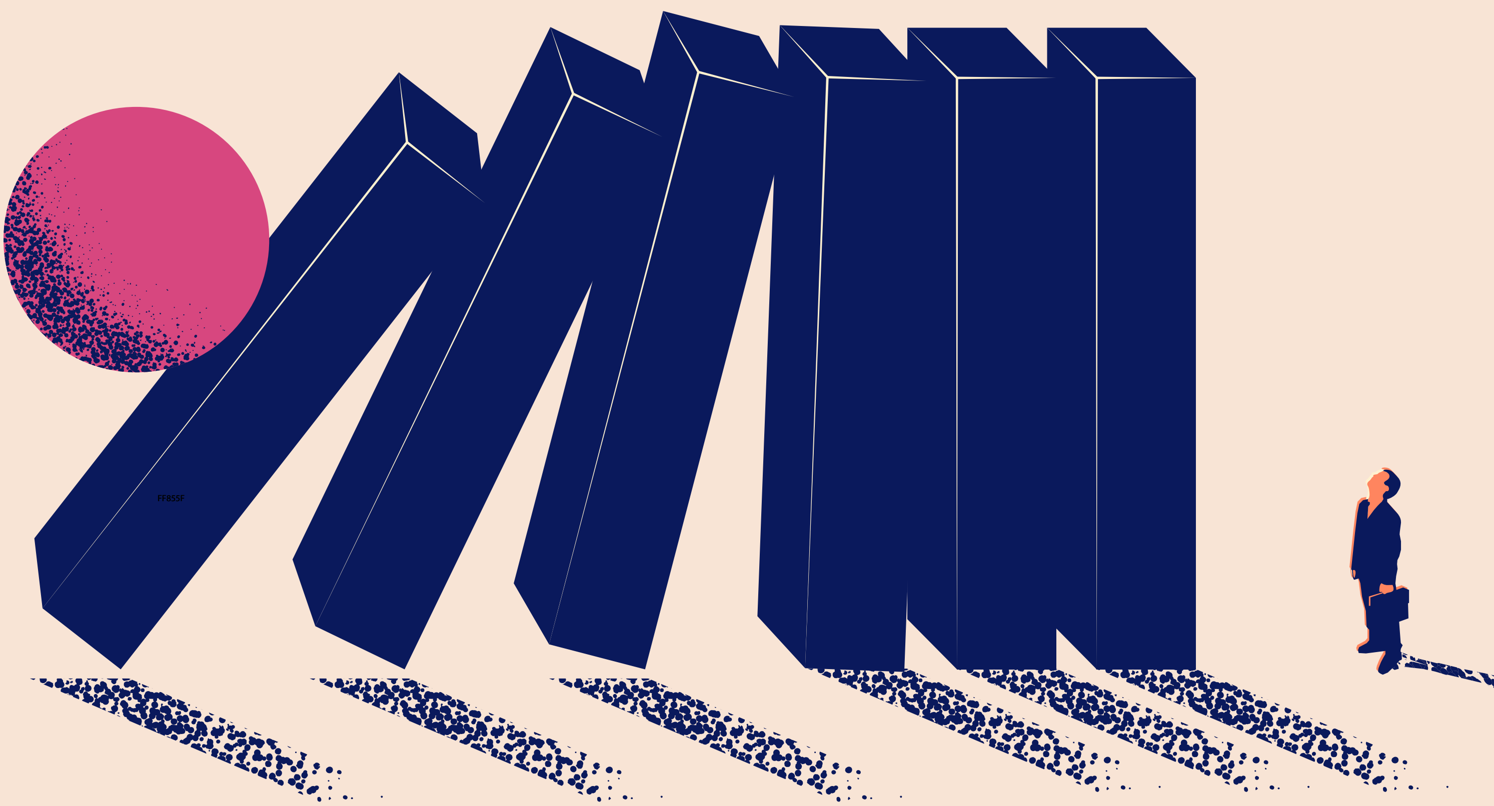
THE GUIDE TO

Recession-Proofing Your Ecommerce Business



teikametrics

Executive Summary

> *Economic experts are reluctant to officially declare the US economy in recession because of mixed signals in the market. While consumer spending is slowly increasing, up 1.1% in June, unemployment is way down to 3.5% in July. It may be a while until the National Bureau of Economic Research makes the official call. However, other economic experts have indicated that it is likely the US will be in a recession by early 2023.*

Recessions have a ripple effect on consumer spending. Inflation compounds the issue making it harder for consumers to spend on discretionary items. In the past year, energy prices increased by 43.5% and food prices by 11.2% compared to the year prior. The overall price index increased by 4.8% even excluding these large outliers. Premium services and luxury items such as furniture, accessories, electronics, and sporting goods are the categories most adversely affected by recessions. Essential living categories such as food and beverage, health and personal care, and general merchandise are less volatile and typically remain stable through tough times.

Recessions are a normal part of the business cycle and it is possible to navigate them successfully. Double down on marketing with your core mission and brand story. Stay focused on providing an excellent customer experience. Go on the offensive with advertising when everyone is pulling back. Don’t rely on discounts to move the needle. Create as much elbow room as possible for your margins. Be flexible with your ad budgets and forecasts.

The biggest sales quarter of the year is fast-approaching. Now is the time to prepare. Take advantage of our premiere event, Countdown to Q4! This series is designed to help you maximize your holiday efforts.

Don’t let increasing costs, competition, and economic uncertainty impede your sales. By attending Countdown to Q4, you’ll discover the right guidance, strategy and expertise to be part of this year’s expected record-breaking sales.

Attendees will acquire:

- The complete guide to successful holiday advertising
- Category-level holiday data & projections
- Access to exclusive seller experts (Including one HUGE surprise guest)
- Everything you need to succeed through the 2022 holiday season

Don’t leave sales on the table, sign up today!

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The Economy and Ecommerce

What exactly is a recession?

It's not always immediately obvious when the economy is officially classified as "in recession." The colloquial definition of recession as two consecutive quarters of negative GDP isn't actually the only criteria taken into consideration. In fact, the National Bureau of Economic Research (NBER) is the nonprofit and nonpartisan authority on determining when the U.S. economy is officially in a recession. This committee of economists evaluates the peaks and troughs of economic growth in depth, diffusion, and duration.

Each criterion needs to be somewhat met, though extreme conditions in one may be enough to offset mild conditions in another. This was the case in February 2020 when the peak in economic activity dropped so precipitously and with such widespread effect it was still classified as a recession despite the trough only lasting briefly.

> *While most economists agree that we are not currently in a recession, more than two-thirds agree we will be by early 2023 according to this __survey__ by the Financial Times. Unemployment is a typical indicator of recession activity. However, the labor market is quite strong showing a decrease in unemployment to __3.5%__ in July. This figure is*

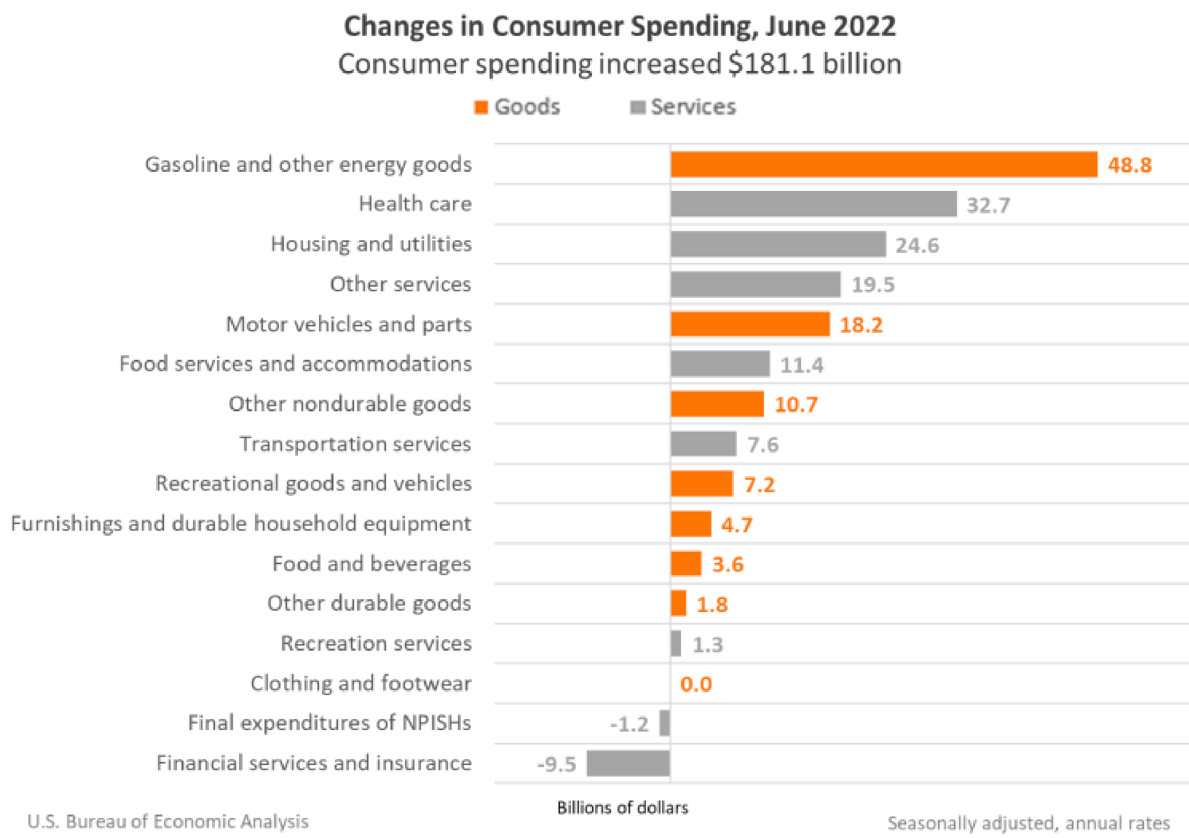
> *very near the pre-pandemic low of 2019. A drop in consumer spending can make recession conditions worsen. However, consumer spending increased by 1.1% in June.*

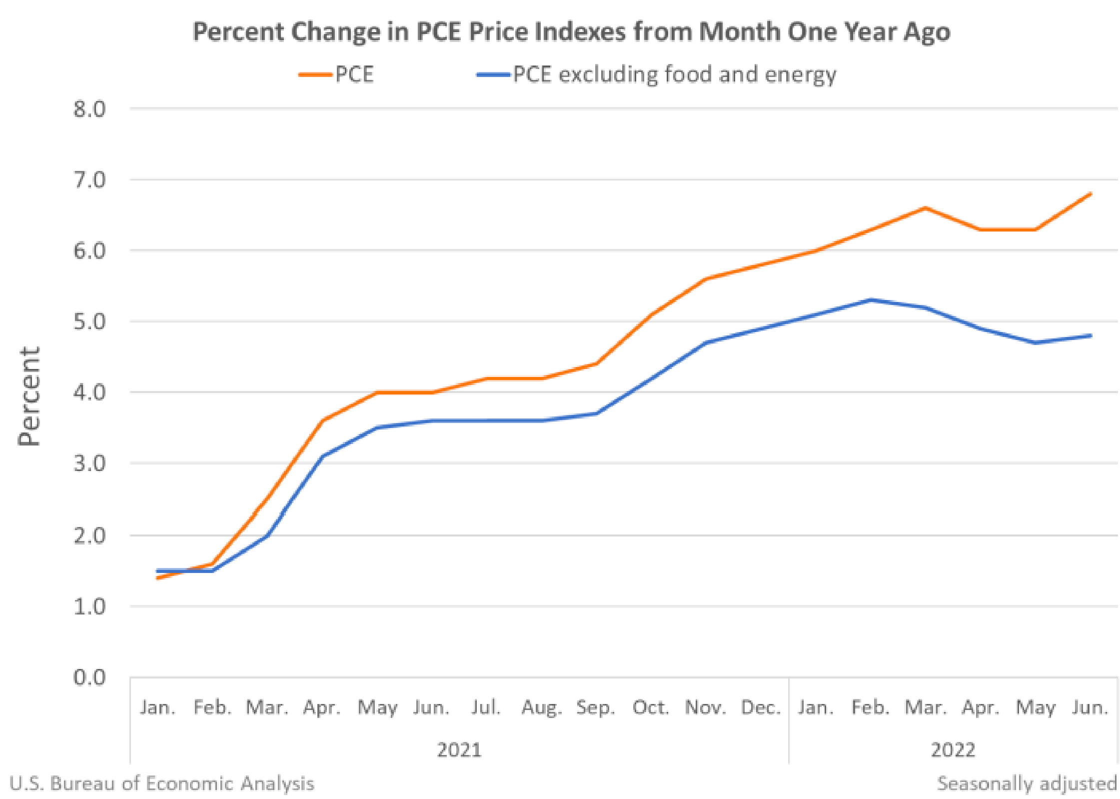
These conflicting markers can make it difficult for organizations like NBER to definitively announce a recession. As far as when to expect that call, NBER states, "...the committee waits until it is confident that an expansion is underway." In other words-–we may not know for sure we're in a recession until we start to climb out.

How recessions affect consumer habits

Recessions can be self-fulfilling prophecies in that each of the major indicators are deeply connected and strongly affect the other. Businesses cut budgets resulting in layoffs and hiring freezes. Job opportunities dry up which results in higher unemployment rates. Fewer people with jobs means lower overall household income. Less money in consumers' pockets means spenders are pinching pennies as much as possible. Customers spending less means businesses are earning less—and the cycle repeats itself. The domino effect is difficult to reverse once the first piece falls.

Inflation exacerbates these issues. Goods and services in nearly all categories are currently being affected by inflation. Staple household goods like energy and food saw enormous jumps in spending. Energy prices increased by 43.5% and food prices by 11.2% in June 2022 compared to the year prior. The overall price index increased by 4.8% even excluding these large outliers. This is putting an extra strain on consumers' wallets, especially when their income isn't being adjusted accordingly.


Changes in Consumer Spending, June 2022
Consumer spending increased $181.1 billion
Goods
Services
Gasoline and other energy goods 48.8
Health care 32.7
Housing and utilities 24.6
Other services 19.5
Motor vehicles and parts 18.2
Food services and accommodations 11.4
Other nondurable goods 10.7
Transportation services 7.6
Recreational goods and vehicles 7.2
Furnishings and durable household equipment 4.7
Food and beverages 3.6
Other durable goods 1.8
Recreation services 1.3
Clothing and footwear 0.0
Final expenditures of NPISHs -1.2
Financial services and insurance -9.5
Billions of dollars
U.S. Bureau of Economic Analysis
Seasonally adjusted, annual rates

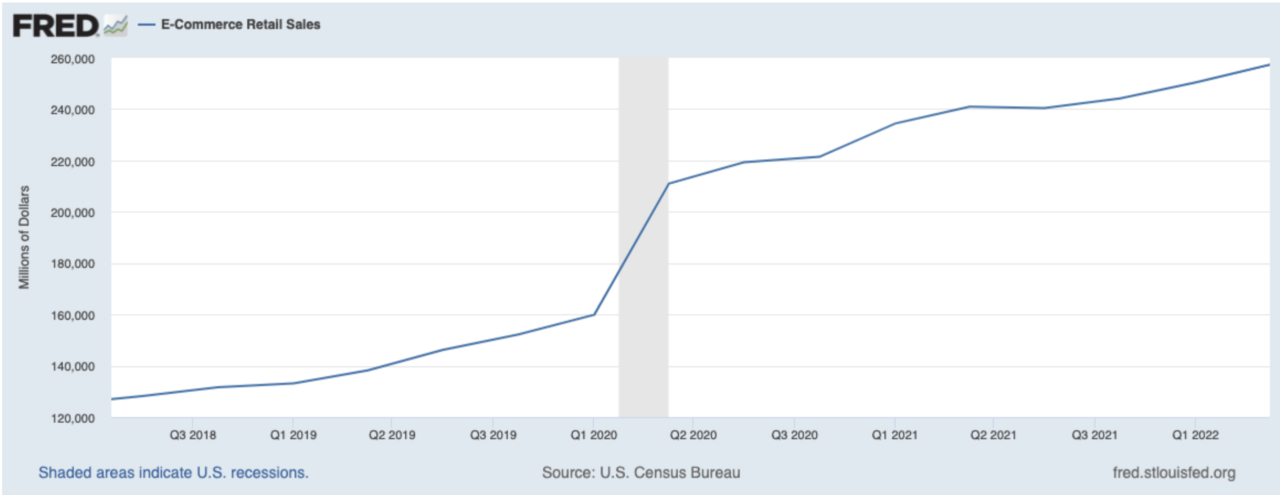

Percent Change in PCE Price Indexes from Month One Year Ago
PCE
PCE excluding food and energy
Percent
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
Jan. Feb. Mar. Apr. May Jun. Jul. Aug. Sep. Oct. Nov. Dec. Jan. Feb. Mar. Apr. May Jun.
2021
2022
U.S. Bureau of Economic Analysis
Seasonally adjusted

Luxury items and premium services are usually the first to get cut from household budgets in an effort to save more. **Accessories, furniture, home and garden, electronics, and sporting goods** are historically the categories most adversely affected by recessions. Essential living categories such as food and beverage, health and personal care, and general merchandise are less volatile and typically remain stable through tough times. It's not all doom and gloom, however.

Economic impact on ecommerce

It's no secret that ecommerce businesses face tough challenges even without recession constraints. The COVID-19 pandemic gave rise to massive upheaval in supply chain logistics and discretionary spending. Many businesses struggled to weather the storm.

Despite this, lockdowns and other pandemic safety measures were a boon to ecommerce sales. Online shopping became the new normal for many household items while people were sequestered indoors. Ecommerce retail sales reached a record high in Q2 2020 at $211 billion, 16.1% of total retail sales for the quarter. Many economic experts suspected a drop back to pre-pandemic shopping habits when safety measures were lifted. Two years later, ecommerce sales are still steadily climbing. Q2 of 2022 earned $257 billion total sales, 14.5% percent of total retail sales for the quarter.



While it’s too soon to say if this trend will continue long-term, one thing is for sure: **ecommerce has been steadily increasing in the last 20 years despite multiple economic pressures.** With more marketplaces bubbling up, streamlined logistics, and worldwide accessibility, ecommerce is undoubtedly here to stay.

How to thrive in a recession

So, what can you do to recession-proof your ecommerce business? We have a few pieces of advice to help you not just survive, but thrive–even in the toughest conditions.

Double down on branding

Your brand is the foundation upon which everything is built. Companies that tend to do well through tough times are those best able to communicate and demonstrate their mission. It's easier for consumers to purchase from brands that align with their own values or appeal to their emotions when price becomes a more sensitive consideration.

What is your company's mission? What is your value proposition? Why do customers buy from you and not competitors? Find your positive attributes and highlight them in all your marketing efforts. Embracing your "why" and communicating your core message will build deeper brand loyalty and ensure customers keep coming back in the long run. If you have yet to establish and emphasize a brand identity now would be a great time to start, especially prior to any official announcement of a recession.

Stay focused on the customer experience

Many retailers are quick to eliminate support staff in an effort to conserve funds. This can easily backfire. Your customers still need the same care and attention they would in any other economic climate. Moreover, it's cheaper to retain an existing customer than acquire a new one. Don't divest in the customers you already have. Consider this an opportunity to upgrade your talent pool. In a recession, markets are teeming with talent from other layoffs. It's a unique chance to add usually unavailable high-performers to your team who can deliver value to your customers.

Economic changes can cause big shifts in consumer behavior. This is a critical time to conduct customer research to deeply understand why your customers are shopping and how you can deliver on those needs. What worked before may not work now. Collect customer feedback any way possible. Then, be prepared to make adjustments in your product offerings and marketing accordingly.

Go on the offensive

Marketing budgets are usually the first to go in a recession when performance starts to flop. While it's tempting to scrimp and save wherever possible, marketing isn't where you want to cut corners. Lean in when everyone is leaning out. Less demand in the market often means cheaper bids for CPCs, impressions, and conversions.

The old adage rings true: you need to spend money to make money. Even in tough times, don't be afraid to open the purse strings a little if the money is there.

> *"Strike when the iron is hot," says David Hassler, Manager of Premium Services Technology at Teikametrics.*
>
> *"If you're seeing strong demand for your products, make sure to capitalize on it even if that means increasing your budgets to make sure you're not leaving opportunities on the table."*

Don't rely on discounts to move the needle

Offering discounts to move inventory when sales are slow creates a false sense of security. While that may boost sales in the short-term, the long-term side effect is a reduction in overall margins that is harder to bounce back from later.

Instead, consider how you can adjust your product pricing strategically to meet demand and offset margins. Which of your product lines has the best projection of long-term performance even in the face of changing consumer habits? Reducing prices on expensive, volatile items and increasing prices on stable products is a more manageable way to increase net revenue and maintain margins.

That's exactly what T&CO (Tiffany's) did during the Great Recession in 2008. It dropped prices on its high-end fashion jewelry by 25%, but increased prices on its engagement jewelry by 10%. As a result, the company was able to maintain their revenue targets despite being in a normally recession-sensitive category.

Give your margins some elbow room

Reducing overhead expenses, though sound, is a trite piece of recession advice. Usually that translates into cutting staff, slashing services, and stripping the business to the bones. However, spending less doesn't necessarily mean you're making more. Trim the fat where you can. But, more importantly, think strategically about how to create more elbow room for your margins.

Are there underperforming products you can remove from inventory or production? Can you switch to cheaper service providers? Where can you automate or consolidate operations? Are there forgotten expenses lurking in the balance sheet?

So long as you aren't sacrificing product quality or the customer experience, any way you can squeeze higher margins out of each sale will pay off later.

Be flexible when the going gets tough

> *"All too often we see clients create these rigid annual plans and immovable goal posts," says David Hassler, Manager of Premium Services Technology at Teikametrics. "Collectively, these can exacerbate the problem when a business experiences a downturn and starts consistently missing forecasts."*

If your advertising budget is flat year-over-year but CPCs are up, you're not able to acquire as much traffic. If your conversion rate or average order values are also flat, your ACOS is on the rise. In that type of environment the net result is flattened growth. Then, when a recession hits and demand is also falling, things can easily keep spiraling downward. From what we've seen for clients across all categories, the best way to avoid this is twofold:

- Prioritize TACOS as a primary KPI and let advertising budgets ebb and flow relative to Total Sales.
- Be willing to shift TACOS up or down a small percentage in the interest of the overall health of the business.

What is TACOS?

TACOS stands for Total Advertising Cost of Sale. It provides insights on how your ad spend is impacting your total sales and indicates how heavily your business relies on advertising.

TACOS = Ad spend / Total Sales * 100

Conclusion

Simply mentioning “recession” is often enough to provoke anxiety among retailers. However, there is no need for panic. Although there are some mixed signals in the market, the U.S. is not currently in a recession. Economic downturns are a normal part of the business cycle and can be navigated successfully.

> *Now is the time to prepare. Take these valuable lessons to heart and fortify your brand and business. Your customers will thank you for it.*

Next Steps

Modern problems require modern solutions in today's uncertain economy.

Increasing costs and competition have made it exceptionally difficult to compete in the modern day ecommerce industry.

Today's successful brands are leveraging new technology at Teikametrics to scale beyond what sellers previously thought possible. We're helping sellers unlock new opportunities by:

- Connecting all your products, advertising and marketplaces under one coherent platform
- Democratizing AI to automate your Amazon and Walmart advertising
- Leveraging today's top experts to actively manage your marketplace ads

And did we mention that access to Teikametrics technology is free for new users?

There are two ways to move forward and take advantage of this technology:

1. Click here to register for free and start leveraging AI on Amazon and Walmart
2. Click here to connect with our experts to manage advertising for you across all products and marketplaces.