



ON THE PLATFORM

A CONVERSATION WITH SHOPIFY

Host: Kevin Collins, Managing Director, Innovation Lead – Software & Platforms, Accenture

Guest: Maia Benson, Global Commercial Head of Shipping & Fulfillment, Shopify

Kevin: Hello and welcome to *On the Platform*, Accenture's continuing conversation about hot topics and trends in the world of platform companies and platform business models. I'm Keven Collins, the managing Director for Accenture's software and platform's industry team. And today we have a conversation that I've really been looking forward to. I'm joined by Maia Benson from Shopify. Maia's led the commercial team for shipping and fulfillment for about the past four years, so she's pretty much had a front row seat to the digital wars in retail and commerce. Maia welcome to the podcast.

Maia: Thank you Kevin, excited to be here.

Kevin: In case any of our listeners aren't familiar, can you give us a high level overview of Shopify and what it does, and then a quick summary of your role?

Maia: Sure, I'll start with me first real quick. So as you mentioned, I've been at Shopify for almost four years, which means about 86 percent of the company has been hired after me, just for context on the high velocity growth you mentioned. I lead strategy opps and product partnerships for our shipping and fulfillment product lines and am excited to introduce you and the team to Shopify.

So who is Shopify? I think what's most important to know first and foremost is we're really a mission driven company. We believe in more sellers creating more jobs, driving more consumer choice as a flywheel for really successful democracies and capitalistic societies. And so our role in powering that flywheel is an omni-channel commerce platform.

We have over a million merchants using our platform today to sell online, so either through their online store, leading marketplaces like Amazon or eBay, leading social channels like Instagram or Facebook, as well as using our platform to sell in brick and mortar point of sale.

We help merchants throughout that selling, process if you will. So everything from helping find and source and advertise their product, so find customers and advertise their products, through taking a payment, through getting a product delivered, and then of course the reverse part of that flywheel.

So that's a little bit of an introduction to Shopify. In terms of scale and scope I think it's also important to mention in 2018 we did 40 billion dollars' worth of GMV or Gross Merchandise Value on our platform. That would put us about third in the US market for, in terms of the top ecommerce providers.

Kevin: It's a great growth story. OK, well congratulations. That's amazing. It's been fun to watch as the company has grown. And more and more and more of our clients are talking about you. It's hard to talk about retail and commerce without starting with Amazon so let's just start there. How should companies think about competing with Amazon? How should we think about collaborating with Amazon? How do we work with the Amazon elephant in the room?

Maia: I think, what's first and foremost important to kick off with is the knowledge of their market share and their market position. So Amazon currently owns about 50 cents on every ecommerce dollar, or 50 percent of all dollars spent in ecommerce. So that's a tremendous market share.

The next biggest player, as I mentioned earlier, we're number three in the market in '18. Sorry in '19. Shopify will hopefully be number two in the market in 2020, at the end of '19, going into 2020. I think what's important to know as you go from somebody that's got 50 percent market share and the next six players have between six and seven percent each. So an incredibly dominant market player with incredible fragmentation underneath that. So a very long tail if you will.

With that Market dominant position, I think the next important thing to do is break down into first principles the extensive value chain that they have that's powered that extreme growth and current market position of over half our average, half our ecommerce spend. So let's talk about that value chain.

To sum it up, it's really easy. They can optimize their entire business on what to sell. And then they can optimize, so that's the revenue side. And then they can optimize the entire supply chain of what they're selling to drive the most efficiency on the cost side. So how do they do that? How do they optimize knowing what to sell? Well gee, you and I go on there and we search, we go on Amazon, we search for products. So they have demand signals. They know what we're searching for.

Kevin: We tell them everything.

Maia: We tell them everything. And that's not just with our fingers typing in search, as you know. They've got several hard wired devices that they're growing, and now you've got audio inputs. So just a tremendous data set on all of us as three dimensional human beings, and what we're searching for to buy, coming from many different avenues and channels.

They've got a growing advertising business to then help merchants or sellers, excuse me, drive acquisition and at a premium ranking or placement value. They've got the full marketplace business, which means they know from search through conversion, every step in that user's, in that buyer's buying journey. They then know and control all the fulfillment. So they know what we're buying and therefore what products should be placed in which fulfillment centers. That then results in them being able to drive incredible cost efficiencies through the fulfillment and transportation side of the business. So they know what we're buying. They know when we're going to buy it. They know where we live. So that product skew is close to you. And then they can execute on really fast delivery times at an incredible precedent-setting cost.

All of this value chain is then enabled by, they host it in the cloud and can do that for multiple businesses. And a deep, deep bench of amazing data scientists that can help make sense of all of it, to continue the flywheel of refining how to optimize revenue. So what products to stock. And then cost. Where to stock them to drive down the fulfillment costs.

Kevin: It's a pretty impressive story. So how do you compete with that. How do you even think about it?

Maia: Well you have to have several of those key components to compete with that at the end of the day. So let's talk about what those key components are.

You have to know your business. You have to know which audiences are buying your products in which channels and are driving loyalty back to your retail store or brand. You have to have deep, deep insights, and data teams, to understand what's driving your own flywheel. So I think that's a very first principle. Where you can overlay, demand signal data. So what your audience wants to buy, either by going to them and asking them or using third party data. I think that even enriches that front part of the flywheel that Amazon has. So I think that's one really key component.

And then secondarily, you've just got to be able to control and drive as much cost efficiencies through your own supply chain. So you've got to understand very clearly where that demand forecasting is going to drive product. Where the skews need to be placed to drive operational efficiencies on the warehousing and transportation side. And I think there's tremendous opportunity given transportation's the longest cost pole in the tent for, to leverage the scale of multiple players to drive down the economics to get closer to what Amazon can negotiate given their volume. So volume is very much

the trigger in transportation that can drive down cost.

Kevin: Got it. So that makes total sense. We're starting to see increasingly digital customer experiences, a bit more data driven, more data rich. And platforms are starting to embrace physical. What's your read on the next wave of disruption in commerce? Is social going to take over, will digital platforms take over? Are we going to see the rebound of the retailer? Where do you think it's going to go?

Maia: I think it's a really exciting next chapter where retail is going to go. And I think there are three drivers behind where the innovation and next generation of experiences are going to come. Number one is platforms where consumers live. So if it's social or gaming I think those outlets where you and I spend hours a day are going to be incredible areas to ripen and become more mature in their commercial experiences.

I think the second outlet is to your well said point, physical stores are coming back. And the reason why they're coming back is they're not just selling products, they're selling experiences. They're getting to know their audience that's walking through their door, so that they can not only personalize the experience but drive a wholly different experience.

If I go to Patagonia and I want to buy a vest, they're also providing floor space for meetings of groups that support sustainable causes. So really understanding consumers and looking at them from a three dimensional point of view and understanding your brand's role in their lives unlocks great opportunities for people to reinvent what a physical "store" means. Nordstrom's got 50,000 square feet stores right now that have no product in them. So I think that physical world is just exciting for future disruption and growth.

And then lastly I think there's some really key technologies that are going to be enablers to unlocking these channels. You've got augmented reality, visual reality. All the capabilities that these new cameras on our cell phones can unlock means you can bring the digital and physical experience much closer together.

Who doesn't want to virtually try on a dress to make sure it fits before they buy it? Who doesn't want to see a couch in their living room before they make that big purchase and that big commitment? So I think those technology enablers are just ripe to drive new experiences and channels you and I spend a lot of time on, especially on our mobile phones. As well as, when we do have the time to

go have a physical experience, in a "store", I think the next generation of what that can mean unlocks a ton of potential.

Kevin: It's interesting, right. And as you think about the rebound of physical retail and new devices and new experiences, all of a sudden you end up back in the same conversation we've been having around, OK so who owns the customer and who owns the data?

Have you got a sense on where that's headed? Pull out your crystal ball and let's talk about where do you see the ownership of data and ownership of that customer, where do you see that landing?

Maia: I think there's an important first principle to also talk to here which is brands and retailers more and more want to and are appreciating and harnessing the value of owning their own customer data. You have entire business models that used to be reliant on big distribution networks through retailers, be it consumer packaged goods, alcohol, food and beverage, you get the point. And I think those companies and those business models are now awakening to what it means, what the value of having a direct consumer and customer relationship is.

So I think there's a consciousness now throughout the retail and brand ecosystem that understands the value of owning customer data. So I think that's first principle. I think the certain business models like marketplace business models have said, give up your customer data in exchange for a marketing engine and a platform of a wide audience to accelerate your growth. And I think now that those marketplace models are maturing, you're starting to see the downside of giving up that much customer data. So they're taking it, they're white labeling or better said, copy catting the products that you sell on the marketplace platform and basically negating your business or that channel for that specific product.

So I think the evolution in the industry is a much deeper consciousness of what it means to have direct consumer relationships and the cost associated with giving those up in different business models like marketplaces. For a model like Shopify we've made it very clear that our merchants own their data, period, hard stop. We have an ownership of the aggregate of the million merchants of data. We've also made that clear in our partner terms. But at the end of the day a business model like Shopify, we are here to help merchants grow. And of course they own their business and all the data associated with it.

Kevin: So let's just click down here at the end into your, where you're spending your days. And talk a little bit about shipping and fulfillment. How are customer expectations shifting around shipping and fulfillment of products that they order and is this a regional, a regionalization in expectations? Or is there a global shift, trends you can point to? What do you see?

Maia: So we can start with the United States. I think Kevin you and I expect everything that we order online to be here in two days or less. So I think there's clear consumer expectations that Amazon has established. If you rewind ten years ago as to why they invented Prime or came up with this two-day delivery promise, a lot of it was to drive the retention flywheel to Amazon to buy more, to reward loyalty. But a lot of it was also just to make commerce online accessible and as valuable as going into a brick and mortar store. Instant gratification, if I go get a product in a store I can have that minute. So they were solving for that two day, a little bit delayed instant gratification, but at least you knew when it was going to come and it was still pretty quick. So I think that's just a reminder.

Kevin: I ordered something the other day and it's coming in like two weeks and I was appalled. I've been so trained to two day delivery now.

Maia: Yeah we're spoiled, we're really spoiled. So I think the right question though is A) do you and I expect that delivery promise for every type of product that we offer? I think there's an interesting answer to that. I know for myself I can say no, I don't need everything tomorrow.

And I think what's evolving in this space is a really even more exciting question which is, what is the next generation of the prime delivery promise? Is two days it? And for what products? Is next day it and for what products? Is same day it and for what products? And I think there's a lot of exciting growing consumer interest in making sure that the ecommerce shipping and fulfillment delivery experience is sustainable for the planet.

We're fifteen years into the ecommerce game now, and I don't know what your driveway looks like Kevin, but being a working mom, my recycling is spilling out into my driveway at this point. So I think there's a tremendous opportunity to get very clear in this next generation of delivery promises of what actually has to be there fast, what should that cost consumers and what burden should be on the merchant or the seller?

And then lastly what's sustainable? Now that ecommerce is just growing at a rocket ship in different markets, what's sustainable for the planet, given the tax that it takes to get something powered by fuel to your front door and then unboxed with a whole lot of plastic and cardboard.

Kevin: Yeah and the next generation of consumers are going to absolutely 100 percent demand that we get our act together around both of those things. Delivery, packaging, all that stuff.

Maia: A hundred percent. For all the right reasons as well as all the selfishly right reasons, like I can't park my car in the driveway because there's too much cardboard.

Kevin: I hear you. Well unfortunately that's all the time that we've got today but Maia thank you so much for taking part in today's conversation. It was really nice to catch up with you.

We hope that you all enjoyed this episode. Please help us get the word out and be sure to subscribe, share, rate, and review our series. We would love to hear from you and hope you tune in again for the next episode of *On the Platform*.