Online markets in the world of retailing

Alan Giles, Associate Fellow

Trends in Retail Competition, 10 June 2016
Agenda

- Challenges for retailers
  - Retailer responses
    - Multichannel
    - Internationalisation
    - Services
    - Personalisation
    - Innovation
  - Challenges for regulators
The changing shape of UK grocery

Source: IGD, September 2014
Non-food growth is hard to come by…
…with the resultant squeeze on profitability

![Chart: Sales online (%) & EBIT (%), top 10 UK non-food retailers (excl. pure ecom)](chart.png)

Source: Accenture Analysis of CapIQ, Internet retailer, Annual Reports
Technology is driving change

- Empowering consumers
- Enabling efficiency
- Disrupting competition
Digitally enabled: Walmart savings catcher
Price transparency: CamelCamelCamelCamel
Agenda

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  - Personalisation
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The UK is the world’s e-commerce leader

**e-commerce Share of Retail Market, 2013**

<table>
<thead>
<tr>
<th>Country</th>
<th>% Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>14%</td>
</tr>
<tr>
<td>US</td>
<td>9%</td>
</tr>
<tr>
<td>Finland</td>
<td>9%</td>
</tr>
<tr>
<td>South Korea</td>
<td>8%</td>
</tr>
<tr>
<td>China</td>
<td>7%</td>
</tr>
<tr>
<td>Ireland</td>
<td>7%</td>
</tr>
<tr>
<td>Sweden</td>
<td>7%</td>
</tr>
<tr>
<td>Denmark</td>
<td>7%</td>
</tr>
<tr>
<td>Norway</td>
<td>7%</td>
</tr>
<tr>
<td>Germany</td>
<td>7%</td>
</tr>
<tr>
<td>France</td>
<td>6%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>6%</td>
</tr>
<tr>
<td>Australia</td>
<td>6%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>5%</td>
</tr>
<tr>
<td>Austria</td>
<td>5%</td>
</tr>
<tr>
<td>Japan</td>
<td>5%</td>
</tr>
<tr>
<td>Canada</td>
<td>3%</td>
</tr>
<tr>
<td>Spain</td>
<td>3%</td>
</tr>
<tr>
<td>Belgium</td>
<td>3%</td>
</tr>
<tr>
<td>Poland</td>
<td>3%</td>
</tr>
<tr>
<td>Russia</td>
<td>2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>2%</td>
</tr>
<tr>
<td>Italy</td>
<td>1%</td>
</tr>
<tr>
<td>Turkey</td>
<td>1%</td>
</tr>
<tr>
<td>India</td>
<td>0%</td>
</tr>
</tbody>
</table>

**e-commerce Spend / Connected Consumer, 2013**

<table>
<thead>
<tr>
<th>Country</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>662</td>
</tr>
<tr>
<td>US</td>
<td>556</td>
</tr>
<tr>
<td>Norway</td>
<td>447</td>
</tr>
<tr>
<td>Finland</td>
<td>525</td>
</tr>
<tr>
<td>Ireland</td>
<td>443</td>
</tr>
<tr>
<td>Australia</td>
<td>432</td>
</tr>
<tr>
<td>Denmark</td>
<td>420</td>
</tr>
<tr>
<td>Sweden</td>
<td>364</td>
</tr>
<tr>
<td>France</td>
<td>339</td>
</tr>
<tr>
<td>Germany</td>
<td>312</td>
</tr>
<tr>
<td>Austria</td>
<td>309</td>
</tr>
<tr>
<td>South Korea</td>
<td>299</td>
</tr>
<tr>
<td>Netherlands</td>
<td>253</td>
</tr>
<tr>
<td>Japan</td>
<td>237</td>
</tr>
<tr>
<td>China</td>
<td>188</td>
</tr>
<tr>
<td>Belgium</td>
<td>188</td>
</tr>
<tr>
<td>Canada</td>
<td>181</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>151</td>
</tr>
<tr>
<td>Spain</td>
<td>108</td>
</tr>
<tr>
<td>Italy</td>
<td>98</td>
</tr>
<tr>
<td>Poland</td>
<td>82</td>
</tr>
<tr>
<td>Russia</td>
<td>68</td>
</tr>
<tr>
<td>Brazil</td>
<td>68</td>
</tr>
<tr>
<td>Turkey</td>
<td>40</td>
</tr>
<tr>
<td>India</td>
<td>19</td>
</tr>
</tbody>
</table>

Online penetration by category

- Travel: Leisure Flights: 77%
- Music: 65%
- Travel: Hotel Stays: 65%
- Laptop/Tablet: 36%
- Mobile Phones: 34%
- Clothing & Footwear: 33%
- Home Furnishings: 30%
- Cinema Tickets: 30%
- Home Appliances: 29%
- Car Insurance: 27%
- TV Sets: 27%
- Do It Yourself (DIY): 26%
- Make-up: 19%
- Hair Care: 12%
- Groceries: 3%

Source: Ecommerce Foundation, Google Barometer 2016
Pureplays are the benchmark
Multi-channel consumer buying process

Source: Accenture, 2014; Forrester, 2011
Successful multichannel competitors are narrowing the gap on pureplay competitors

Evolution of Proposition Rating – Pureplay vs Multichannel
Rating Out of 100

2011

2015

<table>
<thead>
<tr>
<th>Rating Delta</th>
<th>Online Rating</th>
<th>Wide Product Choice</th>
<th>Low Prices</th>
<th>Products that Suit Me</th>
<th>Quality of Products</th>
<th>Trust</th>
<th>Value for Money</th>
<th>Store Look &amp; Feel</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-8.1</td>
<td>-9.9</td>
<td>-34.7</td>
<td>-11.9</td>
<td>1.8</td>
<td>0.8</td>
<td>-21.3</td>
<td>-3.5</td>
<td>-1.5</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-5.5</td>
<td>-8.2</td>
<td>-22.4</td>
<td>-6.1</td>
<td>4.2</td>
<td>7.3</td>
<td>-9.9</td>
<td>1.4</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Source: OC&C, 2015
Delivery – new solutions
Non-food retail exposure to Amazon

Source: UBS Evidence Lab, 2016
The economic squeeze on stores

Source: Deloitte, 2015; McKinsey, 2014
Tesco Extra, Watford
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- Personalisation
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Primark internationalisation
Digital businesses internationalise faster

### Time Taken to Establish First International Presence

<table>
<thead>
<tr>
<th>Category</th>
<th>Company</th>
<th>Years</th>
<th># Countries Entered in First 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>Walmart</td>
<td>3</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>Amazon</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>News</td>
<td>News Corp</td>
<td>6</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td>Huffington Post</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Car Rental</td>
<td>Hertz</td>
<td>6</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>Zip Car</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td>Hilton Hotels</td>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Airbnb</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Payments</td>
<td>Visa</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>PayPal</td>
<td></td>
<td>&gt;100</td>
</tr>
</tbody>
</table>

### Market Capitalisation, Traditional vs Digital Cos

<table>
<thead>
<tr>
<th></th>
<th>$ Trillion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 6 US Traditional Businesses(^1)</td>
<td>$0.5tr</td>
</tr>
<tr>
<td>Top 6 US Digital / Technology Businesses(^2)</td>
<td>$1.2tr x 2.6</td>
</tr>
</tbody>
</table>

CAGR 2005-14

3% 11%

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2. Based on market cap Oct 2014, companies included: Apple, Google, Microsoft, IBM, Oracle, Amazon

Source: Press Search, Company Websites, BvD, Google Finance, OC&C analysis
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Pets at Home: goods versus services
Retail classrooms: Hobbycraft
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Recognition and personalisation
Tesco & IFTTT

- **Add milk on Thursdays**
  - if
  - then
  - by tescolabs
  - 32 likes

- **If a product goes below a certain price then add it to my basket**
  - if
  - then
  - by tescolabs
  - 55 likes

- **If it’s warm tomorrow, add burgers to your shopping basket**
  - if
  - then
  - by tescolabs
  - 5 likes

- **Add eggs to your shopping basket if you’re running low**
  - if
  - then
  - by tescolabs
  - 2 likes

- **With just a tap, add doughnuts to your basket**
  - if
  - then
  - by tescolabs
  - 17 likes

- **If the price of a product changes then send me an email**
  - if
  - then
  - by tescolabs
  - 36 likes
Who are the competitors? Social Shopping

Top 5 Social Media Platforms
% of Population Using

- **Social Network**
  - Facebook: 43%
  - FB Messenger: 23%
  - Twitter: 19%
  - Whatsapp: 18%
  - Skype: 13%

- **Chat App**
  - Facebook: 42%
  - FB Messenger: 20%
  - Twitter: 19%
  - Pinterest: 17%
  - Google+: 14%

- **Others**
  - Wechat: 30%
  - Sina Weibo: 25%
  - Qzone: 25%
  - Tencent Weibo: 21%
  - Youku: 19%

Source: Global web index, company website / apps, OC&C analysis, 2015

Case Study: WeChat in China

- c.600mn users on WeChat (10mn investment fund users), having grown 145% pa 2012-14

Brands can create “official accounts” on WeChat to send targeted messages and deals to followers.
Conversational commerce: SoMe chatbots
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Convenience spreads beyond grocery
Pure-plays become physical
Private label innovation in grocery
Kingfisher Innovation Centre, Lille
Buying alliances
'Consumers now seek a shopping experience online just as they do offline, especially in fashion. They want inspiration and sexiness to seep through their shopping journey. Which is why Robertson believes Elle magazine launching online is far more a threat to him than the mighty Amazon’s recent push into fashion. Amazon is not cool, it’s functional and fashion ecommerce needs more than just functionality; which is why Asos, with its cutting edge editorial, sexy imagery and style advice, continues to be the reigning king of fashion etail.’

Gemma Goldfingle, Retail Week, May 2013
But in 2015 Amazon spent $10bn on R&D (10% of revenues), and has bought 100 companies since October 2010

Source: CB Insights, 2016
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The smartphone revolution: not everyone benefits…
Local – and national – markets trickier to assess
Innovation in price promotions – pick your own

**Pick Your Own OFFERS**

We think the best person to pick offers for you is you. **SAVE 20%** on your choices every time you shop.

Get started

And confirm your 10 choices by 7 July and we’ll email you a **£6 OFF £60** code, within 2 weeks, to use in store or online.
Time limited discounts

What is the policy for Exclusive Offers?

- Valid only during this visit on Staples.com. Exclusive Offer expires after 20 minutes of inactivity from staples.com. Inactivity is not clicking on the site.
- To get the Exclusive Offer discount, add the product to your cart and purchase before the offer expires.
- Discount may only be used once, applies to only the specified item, and is applied prior to tax.
- Discount cannot be transferred.
Price discrimination through loyalty cards

HOW DO YOU KNOW WHO YOUR BEST CUSTOMERS ARE?

With the aid of modern technology we know who our best customers are, and we reward them accordingly. Again, it is vital that you use your card every time you shop!
Electronic shelf edge labels – a Trojan horse?
Pureplay retail: does the winner take all?

Source: L2 Intelligence from Internet Retailer and US Commerce Department, 2015
Amazon.com profitability

Source: L2 Intelligence using SEC filings, 2016
Attempting to compete against Amazon Prime
Market entry is difficult: cash burn at jet.com

Jet is a new kind of marketplace — a smart shopping platform that finds ways to turn built-in costs into opportunities to save you money. Welcome to the ultimate shopping hack.

Competitors collaborating

Waitrose

2002

Ocado

2013

Morrison's

2016

Amazon Pantry
Marketplaces are growing in importance…
...often with a complex eco-system

Source: Alibaba Group, 2015
A retailer or a tech ecosystem?
Will retailers lose out in the value chain?

1970s Retail Value Chain
- Upstream
- Manufacturer: Cadbury's, Nestle, Levis
- Wholesaler
- Retailer

Wholesalers disintermediated post-1970s

2010 Retail Value Chain
- Upstream
- Manufacturer
- Retailer: Tesco, B&Q

Power shifts to increasingly consolidated retailers with own-label ranges

2025 Retail Value Chain
- Upstream: Monsanto, DuPont
- Assembler
- Retailer
- Online Advisor: Google?

Increasing upstream IP and innovation allows them to capture value

Trusted, knowledgeable impartial online advisors intermediate retailer-to-consumer relationship

Main Area of Value Creation

Source: OC&C, 2013
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