

Instant Insights



eCommerce

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Idea in brief: Investing in eCommerce



Bricks to clicks

eCommerce is transforming the retail market as the number of global online sales is set to double from 2017 to 2022 and internet connectivity will reach three billion users in emerging markets by 2022.



The rise of AI

Voice-controlled shopping is set to rise some 1900% to \$40 billion by 2022 with the advent of smart speakers and chatbots.



Disrupting retail

15,000 physical stores closed in the US between 2017 and 2019, while eCommerce giants made big inroads in fashion, books, travel and consumer electronic sales. Grocery sales meanwhile remain largely offline.

eCommerce at a glance

The internet has been to retail what steam was to industrialisation in the 19th Century. Globally, eCommerce sales are estimated to double to \$5.7 trillion from 2017 to 2022. In 2019 alone, sales rose some 20% to \$3.5 trillion¹. Driving this growth are emerging markets such as Asia Pacific, Latin America, the Middle East and Africa, where sales growth exceeds 20%.

Yet, despite rapid growth, eCommerce still has room to grow as it constitutes just 16% of

total global retail sales in 2019. Even with a rise to 20% by 2022, eCommerce will remain a burgeoning trend.

Countries leading eCommerce growth in 2019 are Mexico (+35%), India (+32%), the Philippines (+31%) and China (+27%). Six of the top ten fastest-growing eCommerce markets in 2019 are in fact in Asia Pacific² (figure 1).

eCommerce giants changed the game

Alibaba, Amazon and JD.com grew their gross merchandise value at 34% per year from 2012 to 2017³ and in the process changed the retail industry as well as consumer habits. From distribution channel strategy to assorting, pricing, promoting and merchandising products, these eCommerce giants have disrupted traditional retail forever.

Figure 1: Retail eCommerce sales growth worldwide

Retail eCommerce sales growth worldwide, by region, 2019
(% change)

Asia-Pacific	25.0%
Latin America	21.3%
Middle East & Africa	21.3%
Central & Eastern Europe	19.4%
North America	14.5%
Western Europe	10.2%
Worldwide	20.7%

Note: Includes products or services ordered using the internet via any device, regardless of the method of payment of fulfilment; excludes travel and event tickets, payments such as bill pay, taxes or money transfers, food services and drinking place sales, gambling and other vice good sales.

Source: eMarketer, May 2019

¹ eMarketer, Global eCommerce, June 2019 by Andrew Lipsman

² Idem

³ McKinsey & Company, Perspectives on retail and consumer goods, January 2019

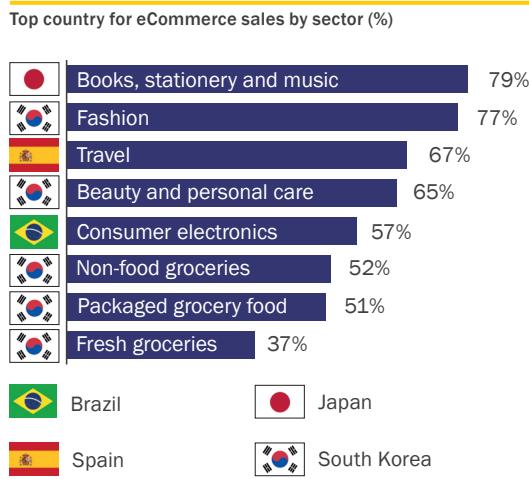
One of several sectors to have benefited from this disruption is logistic infrastructure. Amazon is in the process of developing some nine million square metres of warehouse space in the US, offering Prime customers two-day delivery at no additional cost while operating with a third fewer days of inventory than conventional retailers⁴. Against this backdrop it is no surprise that more than 15,000 physical retail stores closed in the US between 2017 and 2019⁵.

eCommerce meets artificial intelligence

Looking at the latest trends, in 2019 the growing popularity of smart speakers (e.g. Amazon Alexa) and chatbots has fuelled eCommerce sales. Voice-controlled shopping is now estimated to grow by some 1900% to \$40 billion by 2022, driven by increased use of smart speakers at customers' homes⁶. With most smart speakers depending on eCommerce giants, the new frontier for retailers is now peoples' private homes.

But artificial intelligence is not only increasing network reach. It is also at the heart of customising eCommerce offerings, as services become increasingly personalised with the use of big data. By analysing online user traffic, eCommerce giants are able to personalise offers, enhance engagement and increase customer loyalty.

Figure 2: Global reach



Source: Nielson's Global Connected Commerce, Online purchasing

The future of eCommerce and the internet

Traditional bricks and mortar shops are being forced to rethink their strategy by the rise of eCommerce. This is leading to a rise in experiential retail or "retailainment" for consumers keen on immersive experiences.

Meanwhile, eCommerce businesses continue to capture and shape new retail markets in emerging markets. With an estimated three billion potential buyers in emerging markets gaining access to the internet by 2022⁷, new internet connectivity will be a key driver of eCommerce sales over the next decade.

How to invest in eCommerce

With emerging market demographics, increased connectivity, artificial intelligence and automation (Industrial Revolution 4.0), eCommerce remains a durable and long-term investment theme.

Yet the growth of eCommerce has fuelled many sectors from warehouse logistics to robotics and automation as well as spawned a boom in online travel and payment services. This breadth of potential investment opportunities means eCommerce is a more complex area to invest in, than may appear at first glance.

With our **Investment & Portfolio Advisory** team at Rothschild & Co Wealth Management, we can advise on the most appropriate ways of gaining exposure to eCommerce as a long-term investment theme.

⁴ McKinsey & Company, *Perspectives on retail and consumer goods*, January 2019

⁵ Business Insider, 6th June 2019 by Bethany Biron

⁶ KPMG, *Global Retail Trends 2019*

⁷ Oberlo.com, *The Future of Ecommerce: How Ecommerce will change in 2019 and beyond*, 15th February 2019

Important information

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