



Ecommerce comes of age

August 2018

Ecommerce comes of age

Today's headlines make dismal reading for the high street. As stores shut up shop and sales plummet, retail seems anything but an attractive investment prospect. But a closer look beneath the headlines of this far-reaching sector reveals a hotbed of growth and innovation online that is offsetting significant declines elsewhere. Has ecommerce finally grown up? **Robert Baxter**, Partner at KPMG in the UK looks at online retail's coming of age.

In its embryonic stage, ecommerce was something of a bargain-seeker's paradise known for discounted grey-market products and purely functional purchases. Fast forward to today and even luxury brands have wised up and embraced digital, whilst as the sector matures we've seen weaker, under-funded ecommerce propositions fall by the wayside.

The good news for investors is ecommerce has clearly turned a corner and now a number of undisputed winners are emerging.



Robert Baxter
Partner
KPMG in the UK
T: +44 207 311 8246
E: robert.baxter@kpmg.co.uk

A winning formula

So, what's changed? Ecommerce retailers have stepped back and realised that their voracious and expensive race for market share that hinged on continued customer acquisition has not yielded sustainable, profitable businesses. Heavy investment has instead been deviated to direct communication strategies that engage consumers and engender long-term loyalty. But as retailers adjust to this new beat, only a select few have managed to orchestrate their operations in a way that meaningfully improves their customer lifetime value to acquisition cost ratio (CLV:CAC).

Maximising this ratio is essential for sustained success. Far from immune to the conditions affecting their bricks and mortar counterparts, online retailers must think on their feet to stay interesting and relevant to consumers beyond just a functional need. The most successful firms have done just that, and can be found continuously conversing with their customers through magazine-style content, social media influencers' posts and by building communities of consumers with some form of emotional attachment or identification with their brands.

People power

The balance of power has shifted beyond doubt, and customers rate retailers on their brand experience, regardless of channel. And while the store still has its place – KPMG's Annual Retail Survey found that while 77% of all Black Friday purchases were made online, 23% of shoppers visited a shop before buying their item remotely – the question is for how long. Retailers can only master the omni-channel experience if digital runs through every facet of their organisation.

Brand value

While brands viewed the early incarnation of ecommerce with alarm and scepticism, more recently they are willingly collaborating with ecommerce players that have the tools they need to concert the perfect online experience; the strategic partnership between Chanel and Farfetch is one that we are watching with interest.

And there are more radical changes afoot. Nike's decision to cut the retail partners it works with from 30,000 to 40 partners aims to put the company

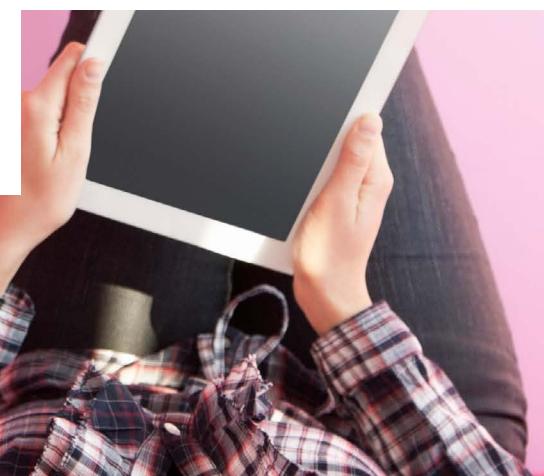
back in control of its stock and brand equity, giving the retailers within this inner circle unrivalled competitive advantage and endorsement. Nike is clearly fighting back against the proliferation of routes to market that came about in earlier phases of the ecommerce sector's maturity. This will strike another nail in the coffin for fledgling, undifferentiated ecommerce players who have favoured grey market channels to win over price-conscious customers; and they will need to move very quickly indeed to stay in the game.

A delicate balance

The companies that maximise the ratio of customer lifetime value to acquisition cost have set themselves up to be long-term profitable businesses, rather than simply growing their market share unsustainably. But ecommerce is not the land of milk and honey, and there are still significant costs in serving customers whose high service expectations have been set by Amazon. Again, the smoke is clearing on sustainable returns, logistics and service levels that are commensurate with a profitable ecommerce model,

rather than simply offering customers the world – whatever the cost to their business.

Ecommerce has indisputably come of age. But while high-profile, listed retailers and the many online firms outside the media's watchful gaze reap serious profits, they cannot afford to rest on their laurels. The pace of disruption is faster than ever and benefits of scale are low. We expect evolving technology will open up new business models and collaboration will continue apace. While revenues will undoubtedly grow, the emergence of a new wave of ecommerce players will dramatically reshape the market as they benefit from the work online retail pioneers have done before them to perfect a profitable operating model. Circumspect, commercial and investable, they will squeeze every single drop out of their social, physical and online channels to ensure they are front of mind with consumers.



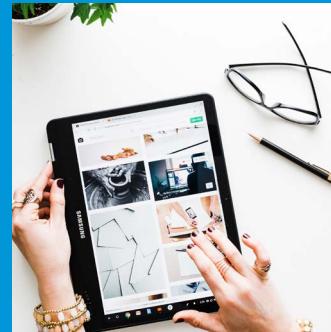
The changemakers

This paradigm shift isn't just the preserve of Shoreditch start-ups and bedroom billionaires. Businesses across the board are redefining their operations and distribution networks, collaborating for agility, speed to market and client appeal. So, who are the changemakers of this new chapter? We've identified three key business types that are riding the ecommerce wave, with varying degrees of success.



Contemporary creatives

Renowned for rapid disruption and breaking down barriers to entry, contemporary creatives know how to drive a profit from celebrity and influencer endorsement. In a market that fosters creativity and innovation, these nimble players will maximise digital advances and changing consumer expectations to disrupt, using creative products and new routes to market to make their mark.



Coming of age

These businesses have proven their worth and made the paradigm shift from the internet as a price-comparison tool to being an essential ingredient in harnessing customer relationships and effective brand curation. From the commoditisation of high-street retailers to the emergence of luxury online brands, these firms have mastered the interplay between the online 'shop window' and the physical point of sale. Watch this space: we expect these powerhouses to generate real profit and continue generating significant revenue growth.

High-street stalwarts

These legacy bricks-and-mortar retailers face the unenviable task of combining physical and digital assets in line with customer expectations. While statistics show spend across omni-channel is more powerful than in pure online propositions, it can only be an out-and-out success if digital underpins every aspect of a business. This is a tough balance to strike in a rapidly-moving marketplace. Learning from their younger counterparts will be a hard pill to swallow, but the firms that can do this will defy the critics and prove that the high street is far from dead.

kpmg.com/uk



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. CREATE | CRT101167 | August 2018