

**THIS YEAR NEXT YEAR
NEXT YEAR
NEXT YEAR: THE
E-COMMERCE**

E-COMMERCE FORECAST
DECEMBER 2020

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OVERVIEW

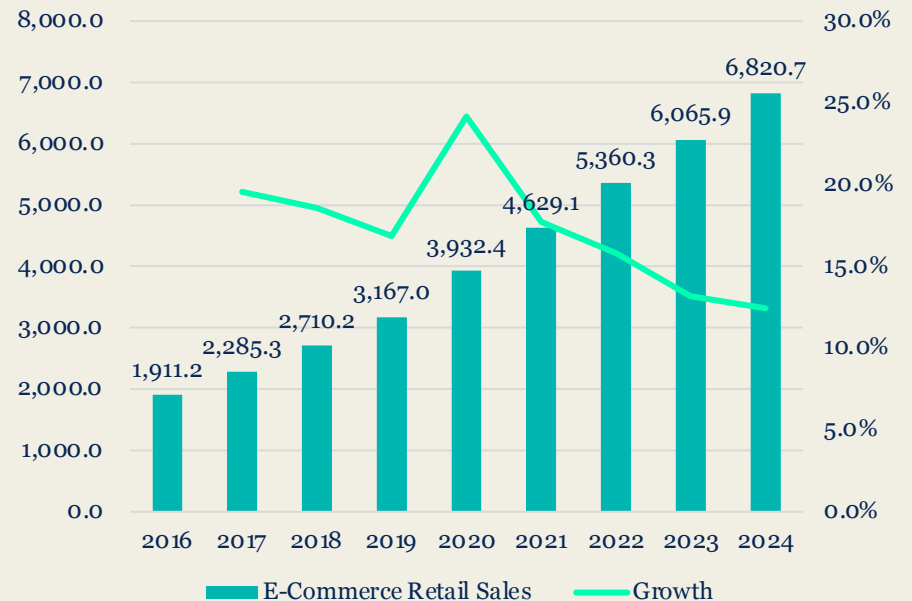
Retail e-commerce is one of the most visible forms of digital transformation, which refers to the sometimes-radical application of new technologies to traditional business models.

Consumer goods manufacturers' global move toward e-commerce sales channels is one of the most notable examples of digital transformation today.

The pandemic has accelerated growth of e-commerce and likely established a new plateau against which future growth, now also accelerated, will occur.

E-commerce related advertising activity is also increasingly important, as e-commerce-focused retailers, such as Amazon and Alibaba, are now among the world's largest sellers of paid media.

E-Commerce (\$ in Billions)



E-COMMERCE ADVERTISING FORECAST

There were nearly \$4 trillion in retail e-commerce sales in 2020. In order to quantify the scale of e-commerce, we have developed country-specific estimates of historical and forecasted consumer e-commerce spending within many of the world's largest retail economies.

We estimate that global retail e-commerce—including automotive sales but excluding food and delivery services to ensure consistency across each market—will amount to \$3.9 trillion in 2020, or 17% of equivalent global retail sales.

This boom in e-commerce has allowed us to estimate \$10 trillion in retail e-commerce sales by 2027. By 2024 retail-focused e-commerce will amount to \$7 trillion in annual sales activity, or 25% of retail sales at that time. If growth continues at a low double-digit pace in subsequent years then, by 2027, e-commerce sales would amount to \$10 trillion globally.

Including automobile sales in our estimates lowers e-commerce shares, but autos are worth including given their increased focus on e-commerce. We included cars and gas in our analysis, but excluded the fast-growing digital variants of food services, such as delivery apps.

More broadly, because this analysis is solely focused on retail e-commerce, we have also omitted service-focused sectors, such as travel, finance or digital media.

In some major markets, e-commerce only represents a single digit percentage share of retail activity in 2020. This was the case in markets like Canada, Australia and Japan. These markets' sales fall far below levels observed in China, the world's largest e-commerce market, where equivalent sales account for 25% of total retail activity during 2020.

Growth, however, should generally be faster over the next several years in markets where e-commerce is under-penetrated, especially those more heavily impacted by the pandemic.

Low penetration markets saw faster e-commerce sales growth in 2020. For instance, we saw significantly faster rates of growth in e-commerce sales during the first and second quarters of 2020 and continued elevated sales in the third quarter in both Canada and Australia; however, we saw much slower rates of growth in China throughout the year.

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IMPACT ON MEDIA AND CONSUMERS

Omnichannel strategies are increasingly important as e-commerce will continue to grow as online shopping becomes more appealing to consumers and wider groups of product categories. It will also continue to grow as the very concept of retailing evolves.

For example, traditional retailers have embraced omnichannel sales strategies, like BOPIS (Bought Online, Picked-up In-Store) or “click-and-collect,” that offer consumers the ease of shopping from a personal device and shorten the time to receiving their purchases. Such approaches are pushing retailers to re-think and adapt strategies for retail management, store layout and location, customer service and more.

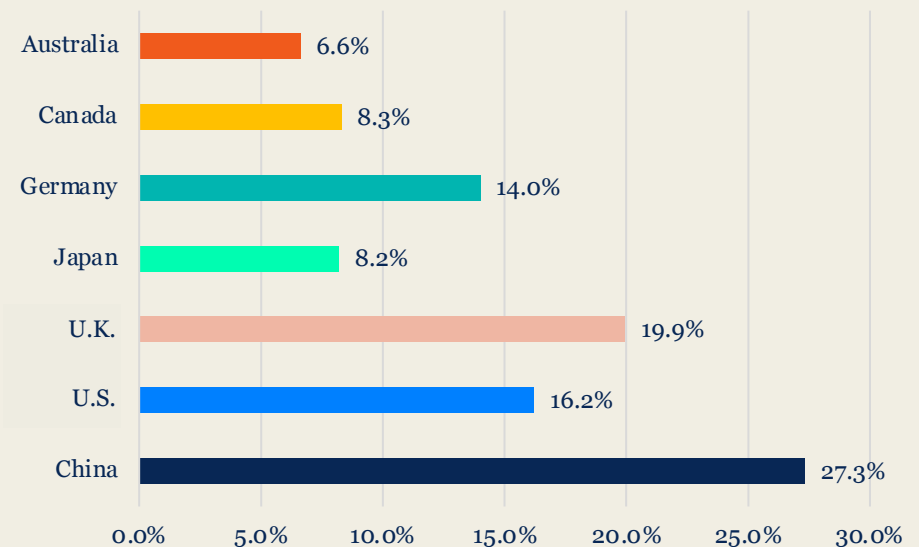
Branding will also help drive e-commerce performance. Retailers and manufacturers must prioritize both branding and performance marketing initiatives on retailer sites. As consumers turn to these sites during the early stages of their shopping journey (i.e.: product discovery and research), there are ample opportunities for retailers and manufacturers to support upper-funnel goals that, in turn, could impact online and in-store sales.

Assessing the specific impact of digital marketing, however, can be complicated because of the important role that physical environments still play in purchase decisions.

Ultimately, supply chains and distributors all need to work together with manufacturers to make e-commerce happen. Manufacturers have had to adapt their ways of working to capitalize on the growth of e-commerce. They’ve modified how they partner with traditional retailers to ensure their products can be sold via retailers’ online sales channels while continuously improving strategies to optimize their relationships with the world’s e-commerce behemoths, including Amazon and Alibaba.

Choices related to packaging, pricing integrity, retailer distribution and product search require ongoing efforts to improve the partnerships manufacturers have with all kinds of retailers.

2021 E-Commerce as % of Retail Sales



Alternatively, some manufacturers have created their own physical or virtual stores. Many are also exploring social commerce, an increasingly important component of a retail e-commerce strategy that enables a manufacturer or retailer to optimize its “store-front” to fit social media environments. This makes e-commerce-based retailing even more ubiquitous.

Some categories are unlikely to sell much via e-commerce, but those low sales levels may change as new models are imagined. Of course, there are obstacles to e-commerce growth as well, one of which is manufacturers’ ability to manage their e-commerce sales profitably for both themselves and their retail partners. This becomes a greater problem as the scale of e-commerce expands across greater numbers of categories.

Further, some categories of retail activity are unlikely to transition to e-commerce-based business models because consumers will have a low propensity to buy those categories online. For example, while automotive e-commerce is growing off a small base, it is difficult to imagine that a large share of that industry’s activity would occur solely online. At the other end of the price spectrum, produce is a category where many consumers will always prefer to select their own and do so as close as possible to the point of consumption.



“E-commerce will continue to grow as online shopping becomes more appealing to consumers and to wider groups of product categories. It will also continue to grow as the very concept of retailing evolves.”

CONCLUSION

E-commerce represents an increasingly important channel for marketers in almost all parts of the economy. Quantifying its scale and trajectory in different countries and different sectors can help manufacturers of goods better understand differences across markets, optimal strategies within them and help to identify where accelerated investment may be required. Insights in e-commerce are commensurately important to them and their service providers as a result.

Further, as tighter integration of e-commerce strategies with media-related activity and brand-building will inevitably lead to stronger near-term performance in addition to more impactful long-term outcomes, practitioners focused on media will have a particular interest in focusing on this space now and for the foreseeable future.



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Methodology: Approaches vary by market. Please contact GroupM for details.

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