THE FUTURE OF E-COMMERCE IN FMCG

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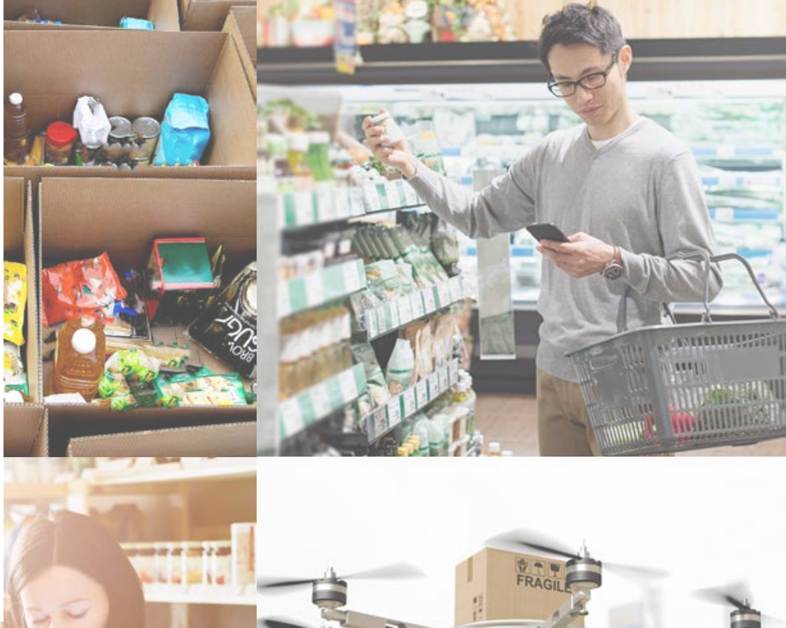

KANTAR WORLDPANEL

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THE ACCELERATION OF E-COMMERCE AND THE NEW RETAIL

Stéphane Roger, Global Director of Shopper and Retail

In previous years, we have measured and described the expansion of e-commerce in FMCG. We have seen the share in value of this channel growing to 4.6%. Last year, online experienced a 30% growth in sales, twice that of 2015 growth and much higher than the mere 1.3% increase generated by all FMCG channels in 2017.

Retailers and brands are now convinced that investment in growing their online business is crucial, if not mandatory. The myths surrounding e-commerce only five years ago – a 'small opportunity', 'a poor shopper experience', 'unprofitable' – have all been swiftly discredited.

Now, and more fundamentally, there is the question of whether e-commerce will continue to thrive as a standalone channel or whether, instead, it will serve as a catalyst for greater integration and retail revolution.

E-commerce is still a force set to cannibalise all offline purchases, but online is much less frequently cited as the insurgent, or offline as the place from where e-commerce needs to steal share. Instead, it's about how online and offline together can create both a better customer experience and better efficiency for the entire supply chain.

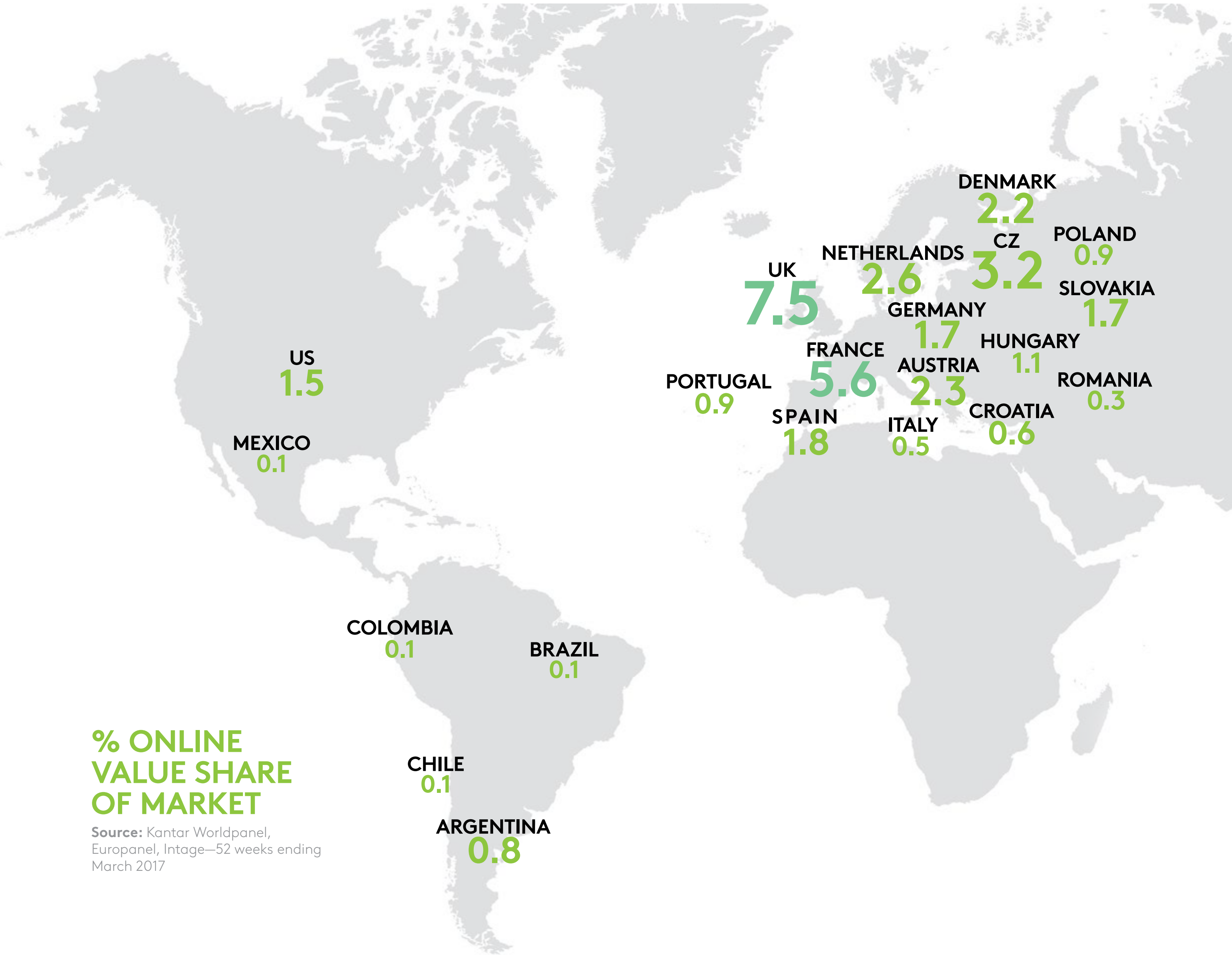
2017 has seen the multiplication of models which bridge the gap between the online and offline worlds, from both bricks-and-mortar and pure players. Alliances have emerged between Walmart and Jet.com, Alibaba and Bailian Group, Amazon and Whole Foods, and now Walmart and Google. Brands too have become e-tailers with the rise of subscription models from top manufacturers.

It is now clear that the solution to grow this channel is to bring together best practice from these different worlds. These are the first signs of a new retail that allows a complete reconfiguration of trade and the acceleration of online.

In this report, we have paid significant attention to what accelerates e-commerce and how to jump to the next stage:

- Hotspots of growth: the countries, megacities, categories and shoppers where e-commerce is expanding quickly
- A deep dive into Alibaba and Amazon, the e-commerce monarchs of the East and the West
- How technology disrupts the market with the emergence of virtual reality, augmented reality and artificial intelligence, as well as the proliferation of mobile and social commerce

With these advances comes a steady growth in value share for the channel. We aren't shopping online exactly as we thought we would be a decade ago but the alternative is smarter, more popular, more easily diffusible and no less exciting.



% ONLINE VALUE SHARE OF MARKET

Source: Kantar Worldpanel, Europanel, Intage—52 weeks ending March 2017

STATE OF PLAY: THE GLOBAL PICTURE

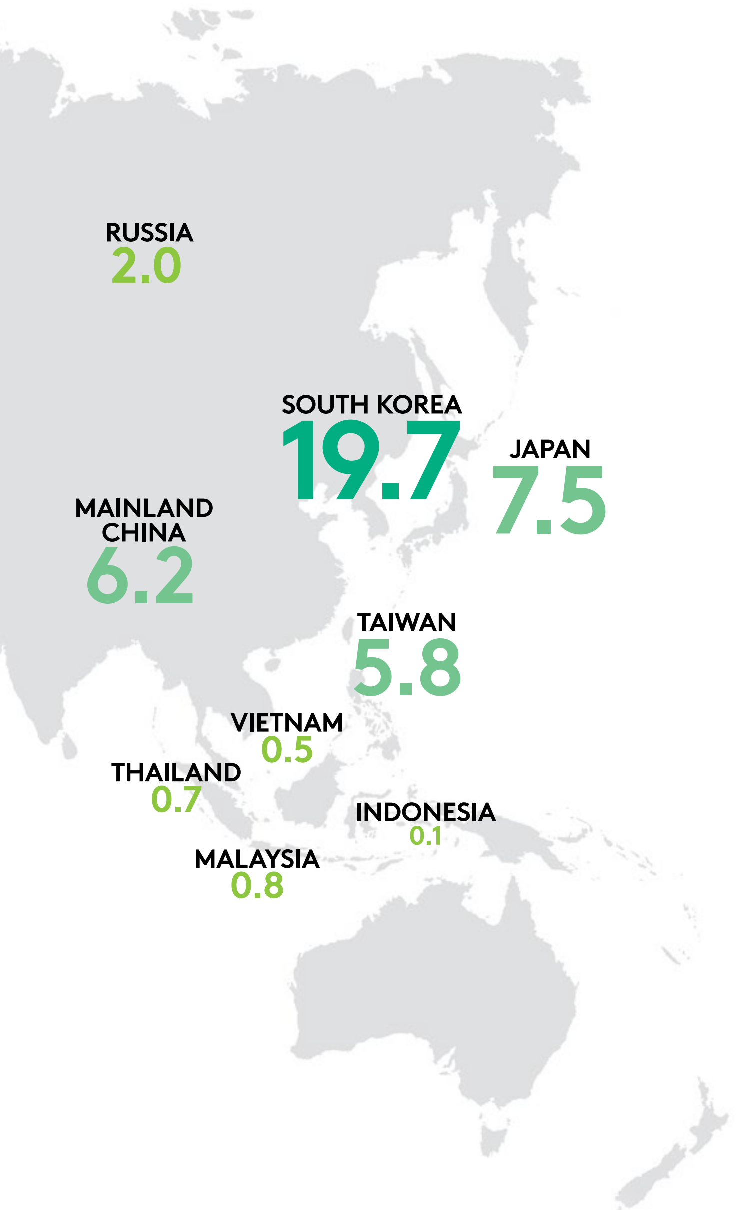
Eric Batty, Global E-commerce Business Development Director

Today, the e-commerce channel accounts for nearly five cents of every dollar spent on FMCG worldwide. As a percentage of total FMCG spend, this remains steady progress rather than an outright revolution.

Yet, the wide spectrum of e-commerce adoption – especially in less developed regions – represents an important shift in the way people purchase groceries around the world.

When it comes to online adoption, there is a clear divide between the digital East and a more cautious West. Despite the differences, brands and retailers have found ways to build successful e-commerce strategies, playing to the natural preferences of consumers in different regions. In a climate of stagnant global FMCG growth, e-commerce is becoming increasingly important everywhere.

E-commerce now contributes to a record 36% of global FMCG growth, making it crucial for retailers and brand owners to understand and unlock the channel as it becomes more prevalent.



Fast growing value growth

+30%

% value share of e-commerce in FMCG market

4.6%

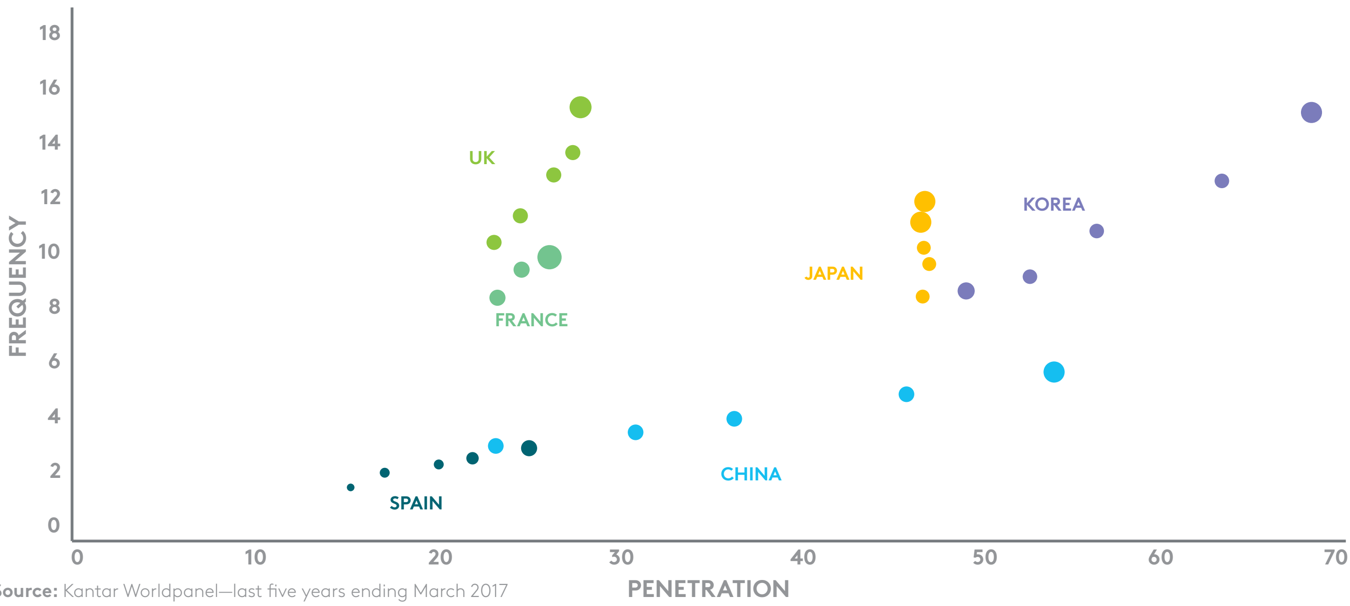
Top 6 contributors to value growth

China, US, South Korea, Japan, UK, France

Source: Kantar Worldpanel—52 weeks ending March 2017

ATTRACTING NEW SHOPPERS ENABLES STRONGER GROWTH

E-COMMERCE—TOTAL FMCG



Source: Kantar Worldpanel—last five years ending March 2017

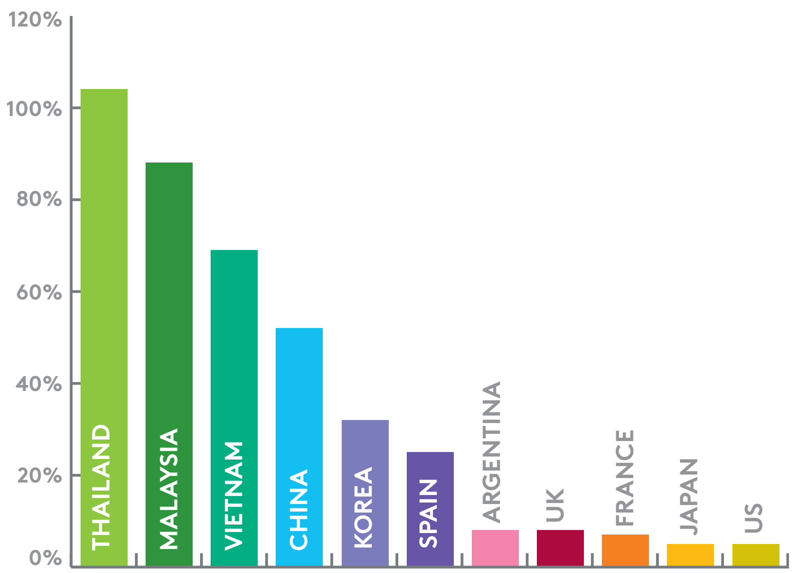
WHERE TO PLAY: REGIONAL HOTSPOTS

The top six contributors to the absolute value growth of FMCG e-commerce in 2016 were all leading power economies: market share increased to 19.7% in South Korea, 7.5% in the UK and Japan, 6.2% in China, 5.6% in France and 1.5% in the US.

However, the online grocery sector is also expanding into new markets. There has been significant value growth in Thailand (+104%), Malaysia (+88%) and Vietnam (+69%) where e-commerce is in its early stages. A continent of tech-savvy consumers and avant-garde retailers like Alibaba, has made Asia a natural home for e-commerce growth.

Conversely, Europe and the USA have adopted a more hybrid approach, reacting to Amazon's development in the grocery market by fusing traditional retail with online enterprise.

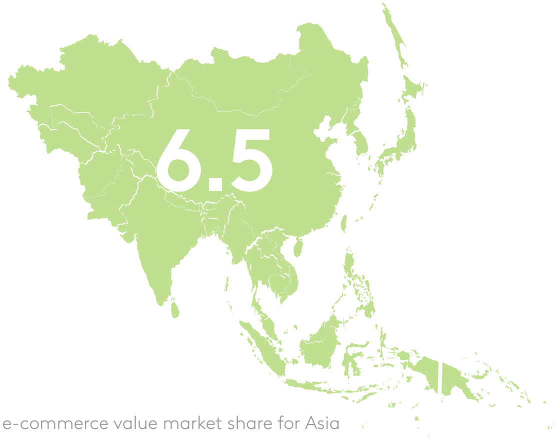
E-COMMERCE ANNUAL VALUE GROWTH



Source: Kantar Worldpanel—52 weeks ending March 2017

ASIA

For the past decade, the region has led the way in online grocery adoption; and this rise shows no signs of slowing. As a continent, Asia achieved the biggest increase in e-commerce globally in 2017, with 44% growth. In terms of value, China continues to lead the charge, with more online purchases being made in the country than anywhere else in the world. Unsurprisingly, South Korea also remains a hotbed for e-commerce, with 41% growth. The digital economy is embedded in Chinese and South Korean cultures like nowhere else on Earth; particularly among the young urban middle classes. As of June 2017, there are 1.36 billion mobile phone subscriptions registered in China, making it one of the most connected nations on the planet. In South Korea, almost 100% of consumers aged between 10 and 40 years old shop online, especially through mobile. The Chinese and South Korean e-commerce channels are both driving growth through penetration – reaching more than 60% of their population – while in Europe penetration rate is around 30%.



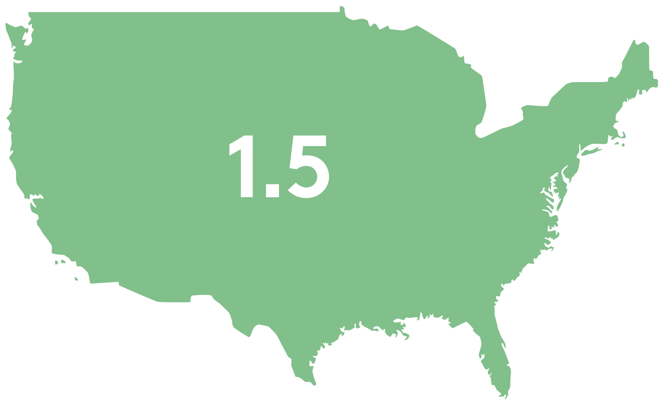
% e-commerce value market share for Asia

USA

Online grocery penetration has increased rapidly in the US, reaching 30% of the total population. Annual spending on food and alcohol through e-commerce has been growing slowly over the past five years – hovering between $6 billion and $13 billion – but this year is predicted to reach $20 billion.

The Kantar Retail model projects this to raise by $7 and $12 billion increments each year over the next five years—by 2021, Americans will be spending $59 billion a year on food and alcohol through online channels, which will hold 5.4% of the total market.

Meanwhile, the biggest hurdle of coverage is being overcome by bricks-and-mortar retailers. Walmart and Kroger, for example, have started leveraging their nationwide store footprints to expand the click-and-collect model. Collectively, only 10% of US stores have click-and-collect capabilities, showing huge potential for growth.



% e-commerce value market share for USA

EUROPE

Europe remains a continent divided. With 5.6% value share, it is the second largest market in the world for e-commerce following Asia. However, this doesn't paint the full picture: despite their proximity and economic similarities, European counties are still embracing e-commerce at varying speeds. While the UK and France remain on the front foot – with 7.5% and 5.6% market share respectively – Germany (1.7%) and the Netherlands (2.6%) are lagging behind. There are signs that e-commerce growth is slowing down in Europe. Mature markets like France and the UK – while still evolving – are doing so at a slower rate. Spain is fast entering the European e-commerce race. It achieved 25% penetration in 2016, with each customer making an average of four purchases during the year. In comparison, Germany achieved 18% penetration, with an average of three purchases a year.

% e-commerce value market share for Europe

LATIN AMERICA

Latin America is the region where online displays the lowest share of market (0.2%). Our data shows that the lack of trust in payment methods – where shoppers don't feel safe sharing their credit card details and data online – proves to be one of the most powerful barriers to adoption.

This, coupled with the overwhelming popularity of discounter formats, makes Latin America one of the most difficult regions for brands to succeed in the online world. For the majority of the continent, e-commerce is lagging far behind traditional methods of shopping, with the exception of Argentina where it is exceeding usage compared to the rest of the region.

% e-commerce value market share for Latin America **Source:** Kantar Worldpanel

HOW TO PLAY: THE PURE PLAYER ADVANTAGE

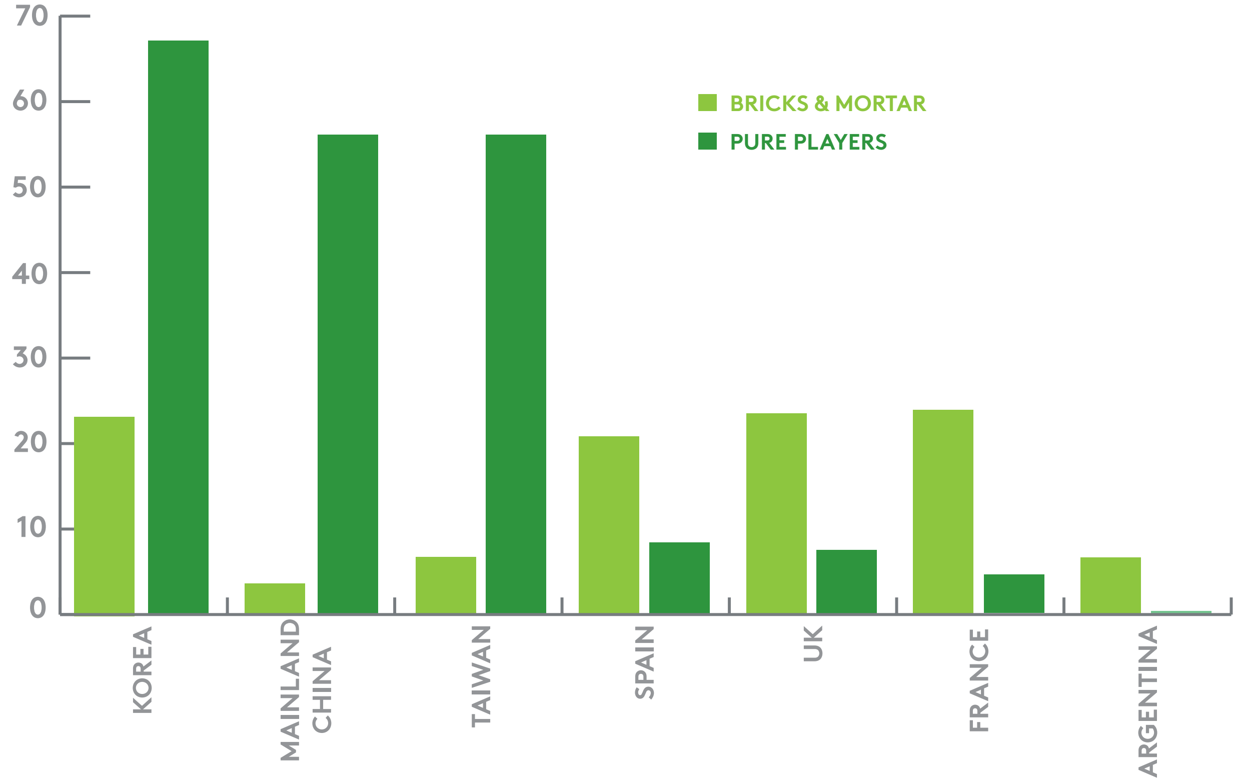
At a global level, the weight of pure players is 60% against 40% for bricks-and-mortar. Across Europe and the West, bricks-and-mortar retailers have developed relatively fruitful online grocery models—in France they represented 95% of total FMCG e-commerce last year. But, even there, this model is stagnating. Traditional retailers rely heavily on both infrastructure and store proximity for e-commerce to be successful, which can be limiting for new entrants. In the USA, for instance, Walmart's delivery strategy is largely successful because 90% of Americans live within 15 minutes of a Walmart store.

The tide may be turning: the UK's leading pure player, Ocado, has recently reached 15.4% online market share and is now the country's fourth largest e-commerce grocery retailer.

Indeed our data shows that pure players are far more successful at reaching new customers. This is evidenced by the rapid growth of online grocery adoption in Asia; most notably in South Korea, where 67% of e-commerce penetration was attributed to pure players in 2017. Across the continent, this model is continuing to win market share at an unprecedented rate; especially in developed and established markets—responsible for 90% of growth in South Korea and nearly 100% in Malaysia and Thailand.

In recent years, rapid technological developments have equipped bricks-and-mortar retailers and pure players with the tools needed to develop scalable online grocery strategies. Yet pure players are in pole position and undoubtedly set to win the race.

ONLINE PENETRATION BY FORMAT



Source: Kantar Worldpanel—52 weeks ending March 2017

HOW TO PLAY: INGREDIENTS FOR GROWTH

MEGACITIES

Thanks to a global expansion of online delivery and the rapid acceptance of mobile commerce, the world's largest cities have become natural breeding grounds for e-commerce.

Megacities hold a much larger share of the online grocery market than smaller towns and cities, or rural areas. For example, in London, Beijing and Shanghai, e-commerce accounts for almost 10% of the total FMCG market.

In China, the strongest penetration growth is found in lower tier cities in recent years. C and D tier cities achieved 59% penetration growth between 2014 and 2016, compared to 28% in key cities like Beijing and Shanghai. This can be attributed to the spread of affluence and improved connectivity across China—retailers are increasingly targeting these satellite regions with their online offerings.

France is an outlier in the landscape. In Paris, online share is only 3.8% compared to 5.6% for the country overall. The drive concept has exploded in suburban areas but this model doesn't fit with the Parisian lifestyle. While proximity stores fulfil the need of convenience, there is a huge opportunity to provide more options for home delivery in Paris to deliver bulkier products to shoppers in an easier way.

Retailers will need to operate a distinctive multi-format and multi-brand strategy to differentiate their offers in megacities. Mobile technology and digital capabilities are essential to build a competitive advantage.

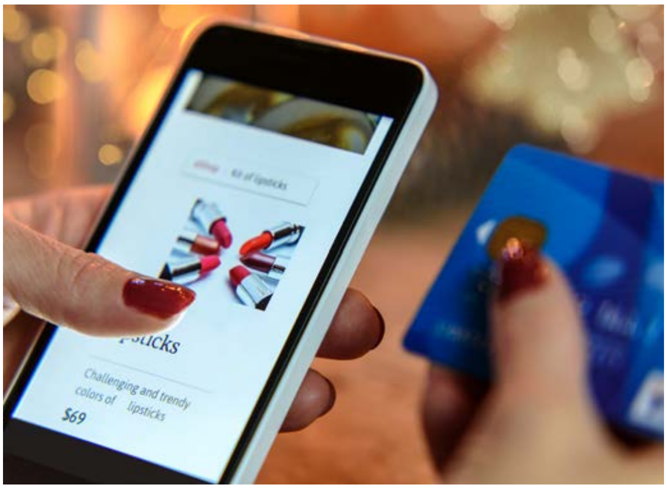
% online value share: megacities

Source: Kantar Worldpanel—52 weeks ending March 2017

WHO SHOPS ONLINE

The profile of people who buy groceries online is more-or-less the same in Europe as it is in Asia. In both cases, young families with children are the consistent integer. But there are differences. In the UK families with four or more members represent 37% of online value, compared to 24% offline. In Asia, meanwhile, individual shopping is more prevalent due to the higher presence of personal care products in the online basket.

In emerging markets, e-commerce is more popular with young upper-class consumers. Upper class Thai families represent 37% of online value versus 16.6% offline. Although convenience and price are common drivers for e-commerce, it's clear that many other factors play a part in defining who shops online—and how often.



BUSINESS CONCENTRATION

In mature markets, FMCG trade is much more concentrated online, making it easier for brands to connect with shoppers in the virtual environment. In the UK, the top five players accounted for 96% of online trade in 2016. Comparatively, the top five retailers gained a 68% share of the offline market.

In China, pure players accounted for 55% of the online market, hugely surpassing the 13% achieved by the top five offline retailers. For online brand growth, then, it's even more crucial to build strong relationships with top retailers.

INCREMENTALITY

Our data shows that the effects of online grocery shopping on the total FMCG market is positive in the short term. In their first year of online adoption, shoppers actually spend much more on FMCG in general (on + offline channels purchase) than they did the previous year. For example, in South Korea, average shoppers spent 1.9% more on FMCG in 2017 than in 2016. But the purchase evolution of those who began using e-commerce for the first time is +7%. This is also a common pattern in the UK and China—driven by frequent, small basket purchases of premium goods. The bad news is that this spending bounce is relatively brief.

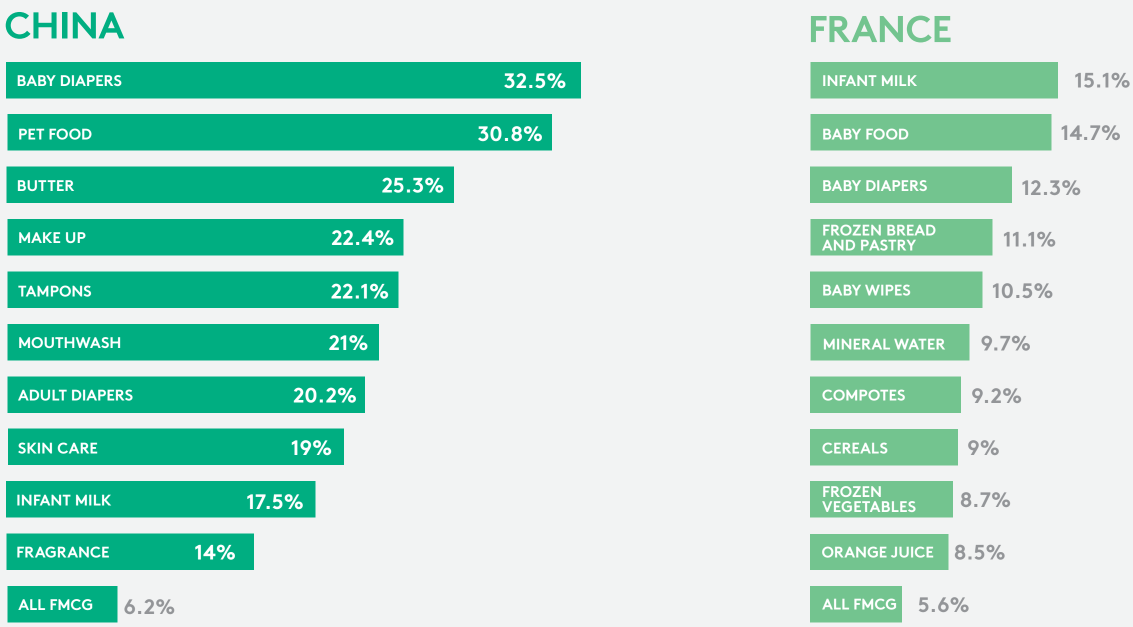
By their second year of shopping online, consumers tend to moderate their budget and year-on-year growth falls back in line with the market average. As these shoppers become more loyal to e-commerce channels, this decline hits bricks-and-mortar retail, where sales are being cannibalised. In the longer term, the broader shift to online presents a serious challenge for the health of the FMCG market overall. Because online shoppers tend to repeat shopping lists from trip to trip, this provokes fewer unplanned purchases. The strategic answer for brands and retailers is to focus on how to generate more impulse purchases online—outside of their usual basket.

% evolution of total spend online + offline

Source: Kantar Worldpanel—52 weeks ending March 2017

CATEGORIES

Personal care and baby care products continue to dominate the online basket. Around the world, young and time-strapped families are increasingly seeking convenience when it comes to repeat purchases of everyday household essentials. In China, for example, consumers bought five times more in value of baby diapers than other FMCG products. French shoppers purchased nearly three times more in value of infant food than other online groceries. In Asia, the top categories for online purchases are generally individual products – personal and baby care – while Europe bucked this trend, with food and beverage products proving more popular.



% Online Value Share —Top 10 categories

Source: Kantar Worldpanel—52 weeks ending March 2017

> "Pure e-commerce will be reduced to a traditional business and replaced by the concept of New Retail—the integration of online, offline, logistics and data across a single value chain."
> Alibaba Founder and Chairman, Jack Ma

AMAZON VS. ALIBABA: THE RACE TO THE TOP

The perception of e-commerce has changed dramatically over the past 12 months. Amazon's acquisition of Whole Foods, Alibaba's alliance with state-owned retail conglomerate Bailian Group; these disruptive moves indicate that pureplay e-commerce is not enough.

Online giants Amazon and Alibaba are investing in bricks-and-mortar stores, blurring the lines between traditional retail and e-commerce. In response, traditional retailers are upping their game, forging partnerships with online players to create a unified customer journey.

For example, Google and Walmart have recently teamed up to take on Amazon Prime's shipping service. Walmart customers can now place orders with Walmart through Google's e-commerce platform, Google Express.

Collectively, these moves point towards a future where online and offline retail merge to become one seamless customer experience.

RETAIL INNOVATION

As Amazon and Alibaba continue to innovate and disrupt the marketplace, bricks-and-mortar retailers are countering with new methods and technologies. In Germany, Lidl has launched its own home delivery service for online orders.

Lidl Vorratsbox (Lidl's supply box) is a collaboration with DHL, which allows consumers to upload a shopping list on the Lidl website and two to three days later, a courier delivers the items free-of-charge in a supply box to the customer's doorstep.

In London, Sainsbury's launched Chop Chop, a free push-bike delivery service of up to 25 items within 60 minutes.

CONSUMERS

Modern consumers expect excellent service and quality, which is driving the New Retail movement and forcing a reaction from retailers around the globe. Shopping is becoming centred on creating superior customer experiences. Particularly in Asia, retailers are focusing on selling lifestyle products, fresh produce and even in-store dining.

Hema supermarkets in Shanghai let customers pick their own seafood to eat in-store, and the Alipay app helps streamline the customer experience. Likewise, the more premium prices, service and 'artisan produce' associated with Whole Foods will help Amazon reach a wider demographic spectrum with its established fresh offering.

THE ALIBABA ECOSYSTEM

As its founder and chairman, Jack Ma puts it: "Amazon is more like an empire—everything they control themselves, buy and sell. Our philosophy is that we want to be an ecosystem [...] to empower others to sell, empower others to service, making sure the other people are more powerful than us."

Alibaba launched its New Retail strategy in 2015 with the aim of seamlessly integrating online and offline shopping. It even advocates the view that pure e-commerce is becoming less relevant—that it will be reduced to a traditional business and replaced by the concept of New Retail—the integration of online, offline, logistics and data across a single value chain.

There can be little doubt that Alibaba is committed to this vision. The business partnered with Bailian Group and Intime Retail – both leading Chinese department stores – as well as supermarket chain Sanjiang Shopping Club and retailer Suning.

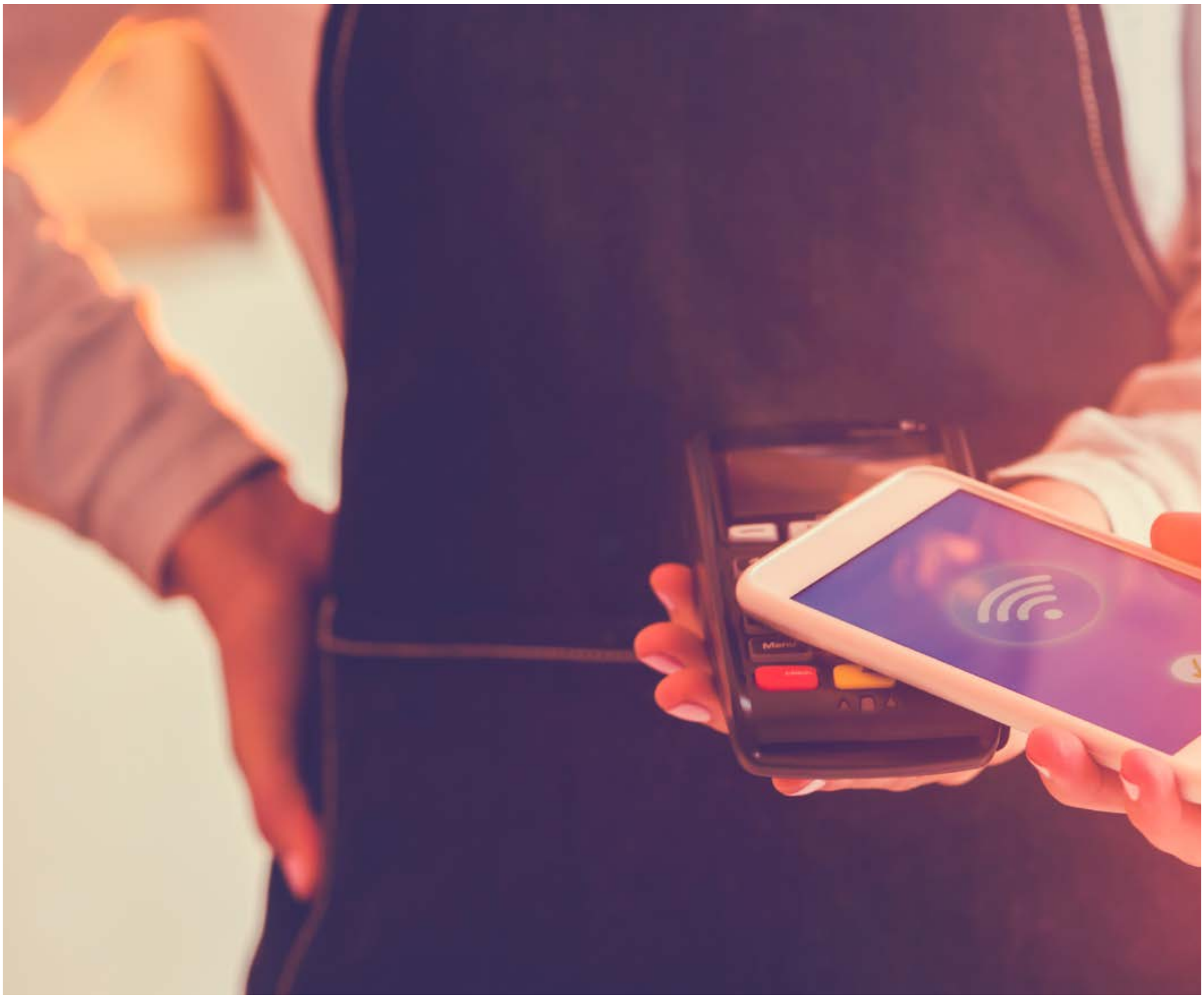
Alibaba also has its own burgeoning cloud business that competes directly with Amazon, and plans to use its treasure trove of data to provide a suite of connected services back to brands whose goods they sell.

THE AMAZON EMPIRE

The Amazon 'empire' works very differently. But there are clear similarities. Founder Jeff Bezos has too sought to dominate the online marketplace – sweeping aside its competition – and is now also playing his hand in bricks-and-mortar.

Amazon purchased Whole Foods in August 2017 in a move that shocked the retail world. The $13.7 billion deal demonstrates its strategy to create a complete experience for shoppers both on and offline. It is expected to help Amazon build its fresh food reputation and increase penetration by 2% with premium customers—reaching 63% penetration in the US. Last-mile delivery – particularly for FMCG – is difficult; hence extending through the line and developing a physical presence in Europe will also greatly enhance Amazon's aspirations of moving into 'click-and-collect'—a much more viable solution for profit generation.

Although Amazon's market share is still small, it is growing at a fast rate—in the 52 weeks to March 2017, it increased its online grocery sales by 75% in the UK. Now it is expanding, promising one-hour delivery to shoppers in Spain, France and Germany—an offer its competition will be obliged to follow.



FIVE MINUTES WITH ALIBABA

Kurt Li, Head of Business Intelligence

TELL ME ABOUT THE NEW RETAIL CONCEPT

New Retail is probably the hottest topic for retailers in China this year, particularly for e-commerce players. It was introduced by the Alibaba founder and chairman, Jack Ma, during our annual Yunqi Conference for developers in 2016.

New Retail – the integration of online, offline, logistics and data across a single value chain – prescribes that offline companies should move online; online companies should move offline. Online, offline, and logistics will need to connect seamlessly.

When we talk about online, it's a synergy between a customer, product merchandising, and the platform. The flow of everything happens between all these dynamics.

For New Retail, we're redefining these dynamics; merging online and offline together. Since then, we've developed different ways to bring this concept to reality—each consistent with the strategic goal of integrating our online presence with physical stores.

This includes investments in and strategic partnerships with Bailian Group and Intime Retail – both leading Chinese department stores – as well as supermarket chain Sanjiang Shopping Club and electronic retailer Suning.

But the move which best demonstrates the potential of New Retail is in our own network of grocery stores: Hema Fresh.

HOW CAN BRANDS LEVERAGE THE ALIBABA PLATFORM?

Firstly, we are in a perfect position to help brands crack the whole dimension of marketing. Each of our platforms provide an opportunity for brands to see a complete picture of shopper behaviour.

From our commerce platforms – the consumer marketplace Taobao and the B2C platform Tmall – to our payment service Alipay, our mobile browser UCWeb, and video streaming site Youku Tudou, we service every piece of the consumer journey.

Now, with our bricks-and-mortar retail presence, our touchpoints are no longer limited to online: we have managed to digitise offline behaviour too.

But behind marketing, we are helping brands find new shoppers entirely. In China, around half of customers live between cities and rural areas.

Our Rural Taobao programme is an ambition to turn China's rural residents into online shoppers—and sellers. By equipping these village partners with the necessary tools, we are building a consumer-to-consumer trading ecosystem, penetrating new customer bases beyond the three main urban areas—outside of the traditional city tiers.

The second part of this channel strategy is a B2B business—helping smaller corner stores and some convenience stores revitalise their supply chain, increasing their ability to source and stock better quality food, but also to better understand the buying behaviour of their consumers.

The third dimension is Cainiao—our logistics platform. This can help brands to digitise their whole logistic pathway, and help them to better their supply chain structure.

And the fourth dimension is through other collaborations, through mergers or investments.

WHO ARE THE BIGGEST WINNERS OF THIS STRATEGY?

For the consumer side, we want to provide better service and better-quality goods to the rural areas. For the brand side, it is often difficult to build a distribution network to more remote consumers.

We provide a platform for brands to sell products, to reach the rural consumer. It helps consumers buy good quality things, and helps brands reach more consumers.

In China, we have a lot of grocery shops, or 'corner stores'. They get their products in different kinds of ways, but not directly from the brand. We want to build a network that allows them to buy the product from consumers directly, at a reasonable price.

MODELS FOR SUCCESS

Four main business models have emerged as leading players

SUBSCRIPTION SERVICES

The surge in the popularity of subscription services in the FMCG industry has continued to rise. In 2017, visits to subscription-box sites had grown 3,000% over three years. Typically, purchase processes that allow for minimal interaction prove most popular. Subscription services cut through the purchase pipeline. This means that consumers have to put in very little conscious effort to receive goods. In densely populated cities where retailers are abundant, subscriptions can take care of supplying everyday items. The likes of Starbucks and Gillette are blurring the lines between production, distribution and retail. By encouraging customers to sign up to a single branded product over a continued period, businesses are able to retain customer loyalty.

HOME DELIVERY

We have seen a rise in retailers prioritising grocery delivery due to high consumer demand. As it continues to offer customers low-engagement with high convenience, more businesses are tapping into this method. In the past year, Walmart has teamed up with Uber to expand its home delivery services, and Amazon has taken similar steps by acquiring Whole Foods. However, businesses are struggling to sustain this on a larger scale. Home delivery becomes very costly, making it difficult for retailers to make a profit. This squeeze on margins led UK retailer Tesco to increase its delivery cost last year—contributing to the slowdown in the UK e-commerce market as a whole.

"2017 has seen the last mile become a dash, not just for speed, but also for flexibility. As e-retailers try to figure out how to deliver products and services to consumers who are increasingly on the move, we see click-and-collect becoming more attractive—driving convenience for the shopper and profitability for the retailer."

Owen McCabe, eCommerce/Omnichannel Practice Leader, Kantar Retail

CLICK-AND-COLLECT

Click-and-collect allows consumers to browse and purchase online, but collect from a physical outlet. It offers shoppers the benefit of completing more time-consuming elements online, with a traditional method of pick-up. This continues to be popular—increasing the speed at which shoppers receive goods, but lowering the number of shoppers 'browsing' the store. Click-and-collect is particularly popular in the US where superstores are larger. In megacities, where car ownership is low, the model is expanding through pick up stations. In the UK, parcel service Doddle has stations in post offices, train stations and other commuter-friendly locations. However, the previously successful drive format in France is showing signs of saturation as openings slow down.

THIRD PARTY

The popularity of third party businesses such as Instacart have grown over the past year. These services, which pick up from retailers and deliver to consumers, are flourishing in urban areas with dense populations and high demand for goods. Third party services also allow consumers to pick and choose from a much wider selection of brands—meeting the demand for instantaneous results and one-time purchases. For retailers, they offer the opportunity for multiple partnerships. The supply chain of third party delivery creates a network effect, which thrives on partnerships and, in turn, brings in more customers.

MOBILE AND SOCIAL COMMERCE

Today's digitally adept consumers are always connected, browsing products on the move and comparing prices. It's in this space that FMCG brands now need to position themselves.

As the world becomes more connected, FMCG brands are increasingly looking online for inspiration. The number of mobile phone users in the world is expected to pass five billion by 2019, of which 50% will own smartphones. In China – where e-commerce thrives – 75% of online transactions are made on mobile devices, underlining demand for on-the-go shopping experiences.

WHAT IS SOCIAL COMMERCE?

Social commerce is an emerging category of e-commerce, which allows users to participate in buying and selling products and services through an online platform. It incorporates formats including: buyer communities, group-buying, purchase sharing, social curation, advice and co-shopping.

Social commerce offers a value proposition by allowing customers to buy in groups and receive quantity discounts. In turn, retailers and suppliers benefit from selling a high volume of goods to a group through a single social commerce channel, rather than selling on a one-by-one basis. The key to social commerce business models lies in offering discounts and the pooling of customers' willingness to pay, and turning that potential into real demand.

The integration of commerce into social media depends heavily on geography. In the East, it's long been commonplace for retailers to set up through social media platforms—they were founded with commerce in mind. For consumers in many of these markets, it feels very natural to watch a video and purchase a product on the same platform.

Traditional social networks in the West are also becoming online marketplaces, with many consumers now looking to Facebook, Instagram and Twitter for their next online purchase. New developments are enabling brands to sell direct via consumers' favourite online hang-outs. For example, Amazon has started letting consumers add items to shopping carts with #AmazonCart, and shoppable Instagram features that replicate your account and create an Instagram shop, allows followers to easily research and buy products.

WHY IS IT POPULAR?

Social commerce has grown rapidly in recent years, with more customers and investors joining the industry. In comparison to traditional e-commerce, social commerce users report having more positive experiences in terms of service usefulness and convenience.

Shopping offline is – inherently – a social experience; an element lacking in traditional e-commerce. With evolving technology, shopping is changing and becoming more social; placing commerce at the heart of where people socialise online. Mobile commerce is most popular with adults in their 20s and 30s. In Korea, 80% of mobile online purchases are made by people in this age bracket, compared to just 30% aged 50 or over.

CONNECTIVITY

Global mobile phone penetration is predicted to reach 67% by 2019, of which 2.7 billion will be smartphone users. By 2020, China is expected to reach almost 1.5 billion mobile connections and India almost 1.1 billion. Mobile traffic has already overtaken desktop on the web, and Google is developing a new mobile-first web index. With the march of mobiles set to continue, the number of people participating in mobile and social commerce will grow exponentially.

ARTIFICIAL INTELLIGENCE

Facebook, WhatsApp, Twitter and Google Allo are all introducing integrated bots to help with shopping, booking and customer service. Facebook has over 11,000 chatbots available on its messenger platform, which is helping brands create real-time, personal shopping assistants. M-commerce start-up Spring was one of the first businesses to use the technology, creating a simple conversation based on a series of multiple-choice questions. The bot steers the conversation from product category, through to specific products, price point and checkout, creating a natural language interface with consumers. As AI technology develops, chatbots will be able to deliver more personalised conversations and make recommendations based on deep learning. This will provide more opportunities for brands to engage with customers and influence purchasing decisions on social media.

WHAT DOES THE FUTURE HOLD?

As market competition increases, more social commerce enterprises will be forced to move into pureplay e-commerce and open market services. However, social commerce still has a role to play; it remains a powerful tool for advertising and promotions, as well as brand awareness.

Social media networks are becoming sophisticated marketplaces, and brands need to understand how consumers interact across different social media platforms to thrive in this environment.

Mobile payments are on the rise as smartphone users become more accustomed to contactless payments. As online purchasing becomes more seamless, mobile and social commerce will continue to flourish.

Starbucks was an innovator in mobile payments, becoming one of the first to trial the system. The company created its own mobile payment app, which customers could use to purchase their morning coffee and collect loyalty points. Now, 22% of Starbucks customers pay using the app, helping to generate a 12% rise in revenue. The success of these sorts of apps, and the need to deliver greater personalisation, will drive further growth in m-commerce.

Francis Oh, Kantar Worldpanel Country Manager, Korea

South Korea is a hotbed for mobile and social commerce. A staggering 81.6% of all internet access comes from smartphones, predicted to rise to 88% by 2021. In 2016, online grocery spend increased by 40% in South Korea and now accounts for 20% of all FMCG purchases.

In May 2010, the first social commerce site was born thanks to local player TMON. In the same year, Coupang and WeMakePrice entered the market, reflecting rising consumer demand for the new online shopping format.

Coupang has recently secured $300 million funding and all the main players are now investing heavily in growth to try and dominate the local e-commerce market. Competition is set to intensify, with the social commerce market predicted to reach $4.5 billion by the end of 2017.

The dramatic rise in online and mobile activity in China points to a Chinese consumer who is increasingly sophisticated and hungry for convenience and variety.

Although Chinese consumers regularly visit bricks-and-mortar stores, the country has emerged to become the e-commerce capital of the world.

The average Chinese consumer spent $128 on FMCG online in 2016, of which 85% was on mobile devices. Mobile and social commerce are rapidly evolving in China, aided by its steady GDP growth rate of 6.7% this year.

The impact m-commerce is having on China is evident from this year's Singles' Day festival, where Alibaba recorded total mobile sales of $14.6 billion, a 49% increase from 2015.

TECHNOLOGY AS A MAJOR ACCELERATOR

Over the past year, we have seen a notable acceleration of e-commerce through connective technology. Across the globe, as consumers gain more access to the internet and connecting devices, we are seeing major shifts in purchasing habits.

Advancements in technologies such as voice commerce and the Internet of Things have enabled e-commerce to become a more streamlined and consumer-centric industry.

Often these technological trends can be traced back to the activities of Amazon and Alibaba, which are carving the path of travel for the FMCG industry through technological innovation. As these online giants enter the grocery space, combining emerging technologies with traditional retail methods, the e-commerce landscape is rapidly evolving in line with these changes.

SMART HOMES AND VOICE COMMERCE

Our homes are transforming into multiconnected resources that can communicate with consumers through technology. Sophisticated systems that monitor the functions and resources of households are enabling e-commerce to intertwine itself into the daily lives of the consumer. Smart homes are creating direct and instantaneous methods of purchase. Consumers no longer need to monitor their own product consumption or plan purchases in advance.
The largest technological leap over the past year has been voice commerce.

While voice recognition technology made headway with Apple's 'Siri' back in 2011, it wasn't until the release of Amazon's 'Alexa' that we saw a significant rise in consumer adoption of voice-based technology. Released just three years ago in November 2014, analysis by Kantar Retail suggests Amazon's Alexa has already made its way into 7% of all US households. It seems voice commerce is yet another technological vehicle that is reducing the steps consumers need to take before making a purchase online.

Whereas Amazon Dash requires the touch of a button, Alexa requires even less than that. Voice commerce allows consumers to make real-time purchasing decisions, creating a shopping environment that is both ad-hoc and spontaneous.

As voice commerce becomes more sophisticated, we can expect to see these devices take on a more influencing role. Rather than simply reminding consumers of recurring products, it is likely that machine learning will enable voice-based devices to offer opinions and insight into purchase options. Currently, Amazon has a 70% share of the emerging voice-controlled speaker market, compared to 24% for its rival Google. It is predicted that Alexa could bring Amazon a further $10 billion in sales by 2020.

SINGLE VALUE CHAIN

Much like the way the Internet of Things is enabling consumers to evolve their households into smart homes, Single Value Chain – the new retail concept which narrows the chain of activities to purchase into one single value – is boosting e-commerce through new technologies. By limiting the number of interactions needed (both human and technological) in order to buy a product, Single Value Chain is streamlining the shopping experience.

Amazon Go and Bingo Box enable shoppers to walk into a physical store, take what they want and leave without any additional interactions. This combines traditional shopping with the speed, ease and independence of new digital advancements. Consumers continue to value physical stores – the ability to touch, feel and socialise – and have an experience that can't be replicated online.

SUBSCRIPTIONS TO AI

Similarly to voice commerce, subscription models are emerging as a major accelerator for the e-commerce industry. Brands such as Gillette and Nestlé are pushing initiatives that allow consumers to purchase directly on an ongoing basis through a subscription model. In comparison to voice-activated purchases, subscription models remove the human memory element entirely. Consumers don't need to remember to purchase staple products, it's left entirely up to the retailer.

By 2025, it is predicted that 5% of all US e-commerce transactions will consist of some form of auto-replenish or subscription process. This is equivalent to the annual sales of approximately 800 Walmart Supercenters. As predictive-replenishment technology advances, we can expect a decline in the purchasing of non-experienced products over products that are self-replenishing. Consumer preference for simplicity and ease will outweigh the desire to try new products. As AI advances, we may also begin to see more reliance on the suggestions and advice of their devices, rather than making decisions based on personal experience—allowing brands to have a direct impact on buying habits.

VR, AR AND HOLOGRAMS

The global surge in popularity of immersive technologies such as virtual reality (VR) and augmented reality (AR), is beginning to bleed into the retail sector. By combining real experiences with digital elevations, consumers can enjoy physical shopping environments, coupled with the convenience of emerging technologies. Retail giant Alibaba recently introduced VR shopping, allowing customers in China to browse and buy items in a virtual superstore, from the comfort of their own homes. Shopping through VR shows the consumer produce in real time within a virtual environment, from anywhere in the world.

Augmented reality is being used in combination with bricks-and-mortar outlets to elevate the shopping experience. New AR technology is allowing consumers to interact with produce, enabling them to quickly find out additional information such as price deals, nutritional information or product origin. Further to this, AR technology is also being used in the home, with brands such as Tesco using the technology to allow consumers to visualise and 'test try' products at home before purchasing. By using an AR platform that enables customers to virtually position products from its Home Book catalogue in their kitchens and living rooms, Tesco has created a digital shopping environment that boasts less risk, and greater chance of consumer satisfaction.

Due to the popularity of voice-commerce over the past months, it is likely that we will start to see the combination of virtual reality and human interaction become more popular. The introduction of 5G into our digital lives will allow for extremely high-resolution – person-to-person – video communication that could eventually evolve into hologram services. These developments will allow retailers to converse with consumers on a personal level, bringing further human interaction into e-commerce.

TOP TIPS ON HOW TO THRIVE IN AN INCREASINGLY TECHNICAL LANDSCAPE

Jeremy Pounder, Futures Director, Mindshare

1
Encourage brand loyalty

A focus on brand loyalty has never been more important. As voice-commerce and subscription models put more of a focus on recognition than exploration, it is essential that brands build and retain salience

2
Guarantee quality

Quality of product is becoming increasingly valuable as consumers opt for replenishment over discovery. One negative experience of a product could end a relationship with little chance of return

3
Create fewer interactions

As consumers continue to favour a prompt, no-hassle retail experience, it becomes essential for retailers to cut through the chain of actions needed to purchase. Fewer interactions with a brand can build better relationships

4
Increase digital touchpoints

To hide from the reality of e-commerce is detrimental to retailers. As millennials and Generation Z take a more prominent role in the state of commerce, we can not pretend that a switch to digital isn't happening

2025 FORECAST

Kantar Worldpanel projections show that by 2025, online FMCG will be a USD 170 billion-dollar business, and hold a 10% total market share—up from 4.6% in 2016. South Korea and China will continue to lead the way and Asia in general remains at the cutting edge of online adoption.

CHINA: M-COMMERCE AS A VEHICLE FOR GROWTH

Growth of the online channel for FMCG in China shows little sign of slowing—the predicted value share for 2025 is almost triple its current percentage, rising to 15 cents in every dollar. This is bolstered by the rapid diffusion of mobile technology: as smartphone penetration increases and rural coverage becomes more reliable, m-commerce rates tend to swiftly follow.

What's more, there is a much stronger cultural appetite to shop digitally in China—it provides shoppers with more choice, greater trust and access to highly desired foreign brands.

The highest pace for growth is in lower tier cities which are served by the Alibaba platform but growth is underpinned nationwide by the proliferation of popular promotional events such as Singles Day (11.11).

USA: FULLY EQUIPPED

E-commerce in the USA will grow to 8% share by 2025 representing a $90 billion US dollar business. This can be attributed to the promising rollout of click-and-collect, delivery and subscription models.

UK: GRAPPLING WITH MARGINS

Value share is expected to climb from 7.5% to 12% by 2025 but the UK's strong lead in e-commerce is beginning to slow down. Projections show a stagnation in demographic expansion: the profiles of the online shopper are likely to look similar in 2021 as they do today. Likewise, shopper missions associated with the online channel remain dominated by weekly shops and stocking up; rather than, for example, 'meals for tonight' or replenishment.

Questions remain over the profitability of e-commerce—home delivery is the norm in the UK, which is expensive and drives down margins. Retailers must weigh up the importance of attracting new shoppers to their platform with the very real logistical costs it demands.

In the spring of 2016, the largest supermarket, Tesco, angered shoppers for increasing its delivery costs by £1—widely cited as contributing to the drop in the country's value share growth. Amazon has clear potential to disrupt the FMCG industry yet further, particularly as its Prime membership grows and proliferation of its voice devices continues at pace.

FRANCE: METROPOLITAN PROMISE

France is renowned for its success with the drive click-and-collect format but figures show that openings of these facilities across the country are slowing.

Despite this, online value share in FMCG is expected to rise from 5.5% today to 11% in 2025 as cannibalisation from decreasingly popular hypermarkets continues. The French market can expect to find future growth for e-commerce in its biggest cities – Paris, Marseille, Lyon – which are currently underdeveloped in comparison with the likes of London and Beijing.

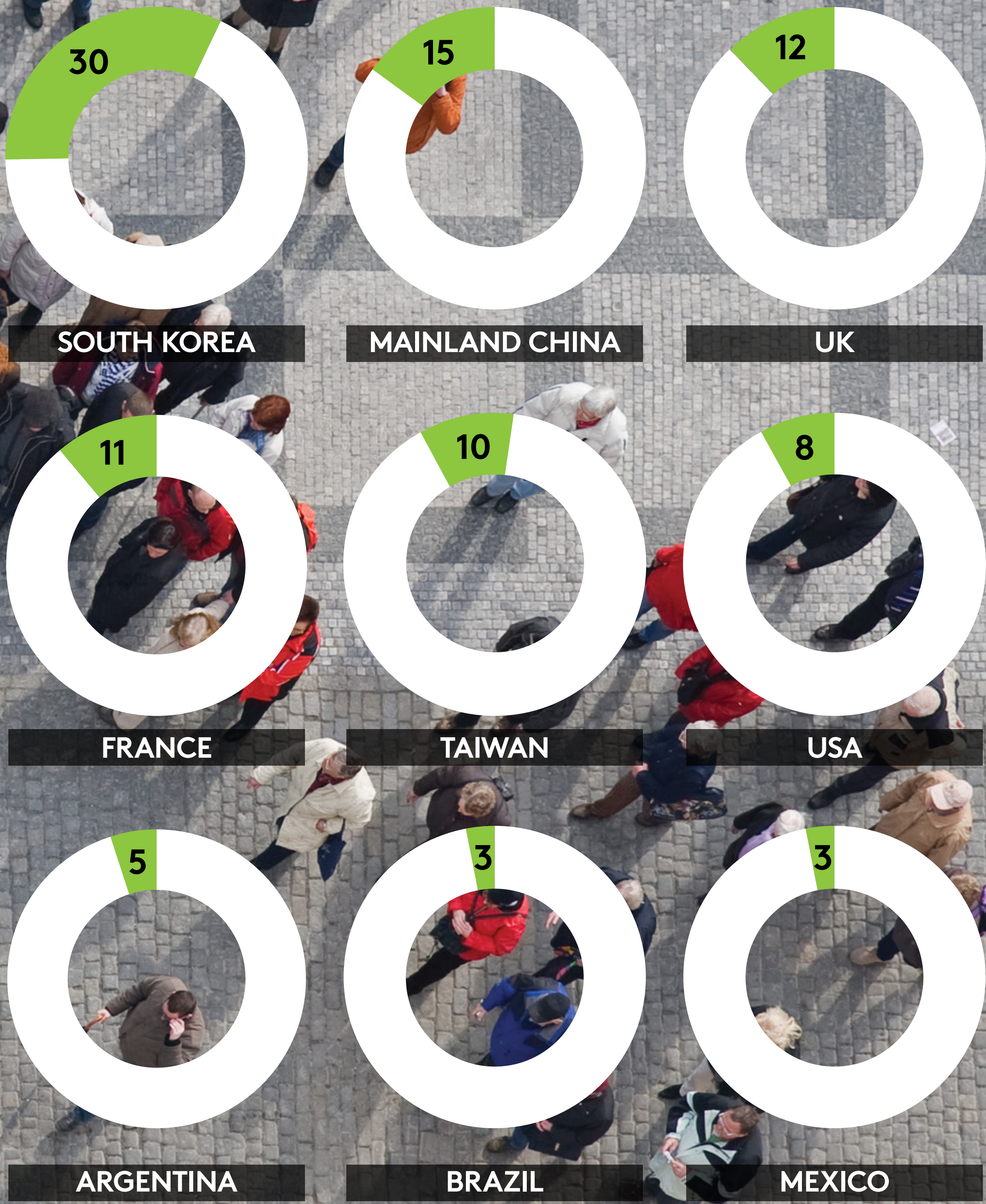
LATIN AMERICA: EMERGING

Latin America is emerging as a new growth spot for online FMCG. By 2025, it is predicted that online FMCG will account for 5% of the total grocery market in Argentina, an increase from 1% from 2016. It is also predicted that Mexico and Brazil will increase their share to 3% over the same period.

Megacities like Sao Paulo, Mexico City and Buenos Aires are becoming magnets for online growth. Global retailers are investing strongly in the region to capitalise on this growth, including the investment of $1.3 billion by Walmart into Mexico in 2016.

However, there are still barriers to purchase that need to be addressed before the region truly embraces e-commerce. An entrenched distrust of online payment models and the culture of touching products before buying, is stagnating growth in the short-term.

IN 2025, FMCG ONLINE WILL BE A USD 170 BILLION BUSINESS, GROWING FROM 4.6% TO 10% MARKET SHARE



% market share forecast based on temporal series Forecast Modeling and Consulting Services
Source: Kantar Worldpanel

E-COMMERCE IS DEAD. LONG LIVE CLICKS AND MORTAR

Luis Simoes, Global Chief Strategy Officer

The fourth edition of the Kantar Worldpanel e-commerce report confirms that online grocery remains the hottest topic in FMCG retail. It is no longer a question of whether it is here to stay; the digital world is now so ubiquitous that it has become a normal part of consumer shopping behaviour.

This report also confirms that the traditional classification between pure players and bricks-and-mortar is progressively losing relevance. All players now understand that consumers command a 'unified' world where – depending on circumstances, lifestyle and purchase implications – shopping now involves a combination of digital, social and physical experiences.

Technology is also blurring the lines between commerce and media. Social commerce has emerged as a marketing tool for the entire customer journey. From awareness creation and interest, to shopping experience and product usage, it offers combined physical and digital experiences via social commerce platforms.

Three known forms of retail appear very dynamic: the convenience offered by online shopping, the value for money offered by hard discounters and the service offered by specialists (traditional or convenience stores).

As a result of these factors, we predict online shopping will continue to flourish and should account for 10% of total e-commerce worldwide in 2025.

In 2025, online FMCG will have grown from 4.6% to 10%

Once the technology and channels debate is settled, the real challenge is that – as a whole – FMCG is no longer growing significantly globally. Demographic shifts, reduced disposable incomes, deflationary pressure and increased awareness about the effects of consumption, pose a serious threat to FMCG brands. However, if we focus our attention on the areas that can drive the most growth, there are plenty of opportunities to consider too.

Actually, urbanisation and the 50-plus age group are two of the most important drivers of future consumption in FMCG: urbanisation is forecasted to generate more than 90% of consumption growth in next 15 years, while the 50-plus demographic is becoming the largest audience in the world.

So, while the industry is inventing an undeniably prosperous new model – Clicks and Mortar – the biggest challenge remains in generating higher growth for the whole FMCG business.

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The findings in this report are based on tracking the purchase of more than 500,000 shoppers in key countries spanning three continents. All of the data is correct as of March 2017 and annual increases are the 12 months leading up to this date.

We monitor every purchase via every channel on a continuous basis. This means we can understand online dynamics and its impacts on offline business. We also identify ways to drive revenue by showcasing best-in-class performance from a brand or retailer perspective from around the world.

About Kantar Worldpanel

Kantar Worldpanel is the global expert in shoppers' behaviour. Through continuous monitoring, advanced analytics and tailored solutions, Kantar Worldpanel inspires successful decisions by brand owners, retailers, market analysts and government organisations globally.

With over 60 years' experience, a team of 3,500, and services covering 60 countries directly or through partners, Kantar Worldpanel turns purchase behaviour into competitive advantage in markets as diverse as FMCG, impulse products, fashion, baby, telecommunications and entertainment, among many others.

Our partners

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