KANTAR WORLDPANEL

SHOPPER & RETAIL

ACCELERATING THE GROWTH OF ECOMMERCE IN FMCG

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By 2017 nearly half (48%) of the world's population will have internet access, up from 32% in 2012[1]. By the end of 2014 the number of mobile-connected devices will exceed the number of people on the planet[2]. However, in the FMCG sector, ecommerce is still in its early days representing a mere **3.7% share of FMCG sales in the markets we track globally.** With FMCG growth rates of 54% in France, 45% in China and the global grocery market increasing at an average rate of 31%, we expect ecommerce to account for over 5% of FMCG sales by 2016. This figure has the potential to rise to 28% if 60% of households across the globe use the online channel just once a month.

To realise this, there are barriers which retailers and brands need to overcome. They include:

- The **cost of delivery** which is currently limiting the number of shoppers. In France, one part of the big success of the **click & collect system called "drive"** is based on the fact that delivery is free.
- Misconceptions that ecommerce reduces consumer loyalty and therefore spend. This is not the case. **Those retailers with an online presence secure additional revenue** and have higher shopper loyalty than those without. In the UK, for example, Tesco online shoppers spend 46% of their total grocery budget with the retailer, compared with only 29% for an offline Tesco shopper.
- **Fear that an online presence cannibalises sales in physical stores.** This is not true. In China, over 50% of all online purchases are additional revenue for retailers and brands, and this trend is experienced globally.

The average ecommerce penetration rate currently stands at 20% globally. There are significant opportunities to drive more spend by responding to evolving consumer behaviour and identifying shopper motivations, such as:

- **The importance of making the retail experience fun**, to engage customers. Emart increased its customer membership in South Korea by 56% through an innovative and engaging lunchtime campaign, demonstrating the growth opportunity for retailers and brands that can effectively capture the interest of consumers.
- The need to get on **"the shopping list"**. Once brands make it there they experience stronger loyalty and significantly higher sales as shoppers use the same list repeatedly to save time.
- **Understanding the types of goods and brands** which consumers are looking for when they go online. This is contingent on a number of factors including: country, demographic and socio-economic profile of consumers, local logistics infrastructure and smartphone penetration rates. There is no "one-size-fits-all" approach.

Our findings are based on tracking the purchases of 100,000 shoppers in 10 key countries spanning three continents. We monitor every purchase via every channel on a continuous basis. Based on this unique insight into consumer behaviour knowledge, we demonstrate that those retailers and brands which have failed to take note of the evolving retail landscape have lost market share to existing competitors and new entrants. We also identify specific ways to drive revenue by showcasing best-in-class performance from the UK, France, Korea and China – all of which are winning in share but have very different local retail environments.

[1] Cisco VNI SA Forecast
[2] Cisco® Visual Networking Index (VNI) Global Mobile Data Traffic Forecast

ECOMMERCE 2013 KEY FACTS

SMALL
FMCG Value Share
3,7%

FAST GROWING
2013 Average Growth
+31%

HUGE POTENTIAL
Average penetration rate
20%

SPEND PER TRIP
Versus offline
x3

FREQUENCY
Trips per year
4

FMCG ECOMMERCE HAS THE POTENTIAL TO RISE TO 28% IF 60% OF HOUSEHOLDS ACROSS THE GLOBE USE THE ONLINE CHANNEL JUST ONCE A MONTH.

Stéphane Roger,
Global Shopper & Retail Director

LEADERS AND LAGGARDS

State of play

Different countries are at different evolutionary stages of adopting ecommerce. **South Korea leads the way with online accounting for 10.2% of FMCG sales.** Ecommerce is a natural extension of its digitally-saturated world with internet and Wi-Fi widely available and a smartphone penetration of 73% – the second highest worldwide. In Europe, the UK and France are the trailblazers for online FMCG with respective shares of 4.9% and 3.9%. The US is also among the most advanced countries in ecommerce with online accounting for 4.0% of FMCG sales.

Spain, Portugal, Germany, Russia and Brazil are all beginning to establish and define an online presence and can use the lessons learned from countries which are further advanced in their ecommerce use to accelerate their growth.

Global growth

Although online only makes up a small share of FMCG sales at the moment, all countries are witnessing considerable growth, providing significant opportunities for retailers and brands.

France is achieving the most significant growth. Its performance has been boosted by its strong click & collect initiative, Drive, which has helped retailers to engage with a much larger number of shoppers and convert them to using ecommerce.

Looking across to Asia, China has boasted double digit growth for several consecutive years as a result of urbanisation and the growing middle classes. Consumers are attracted by the variety of heavily discounted imported products that are available.

Future growth will be achieved by convincing more of the population to go online and encouraging them to do so regularly. Growing penetration is the most important lever to achieving this – once consumers have broken the barriers to using ecommerce for the first time, they are much more likely to do it again. Our findings also show that online shoppers are extremely loyal to retailers and brands.

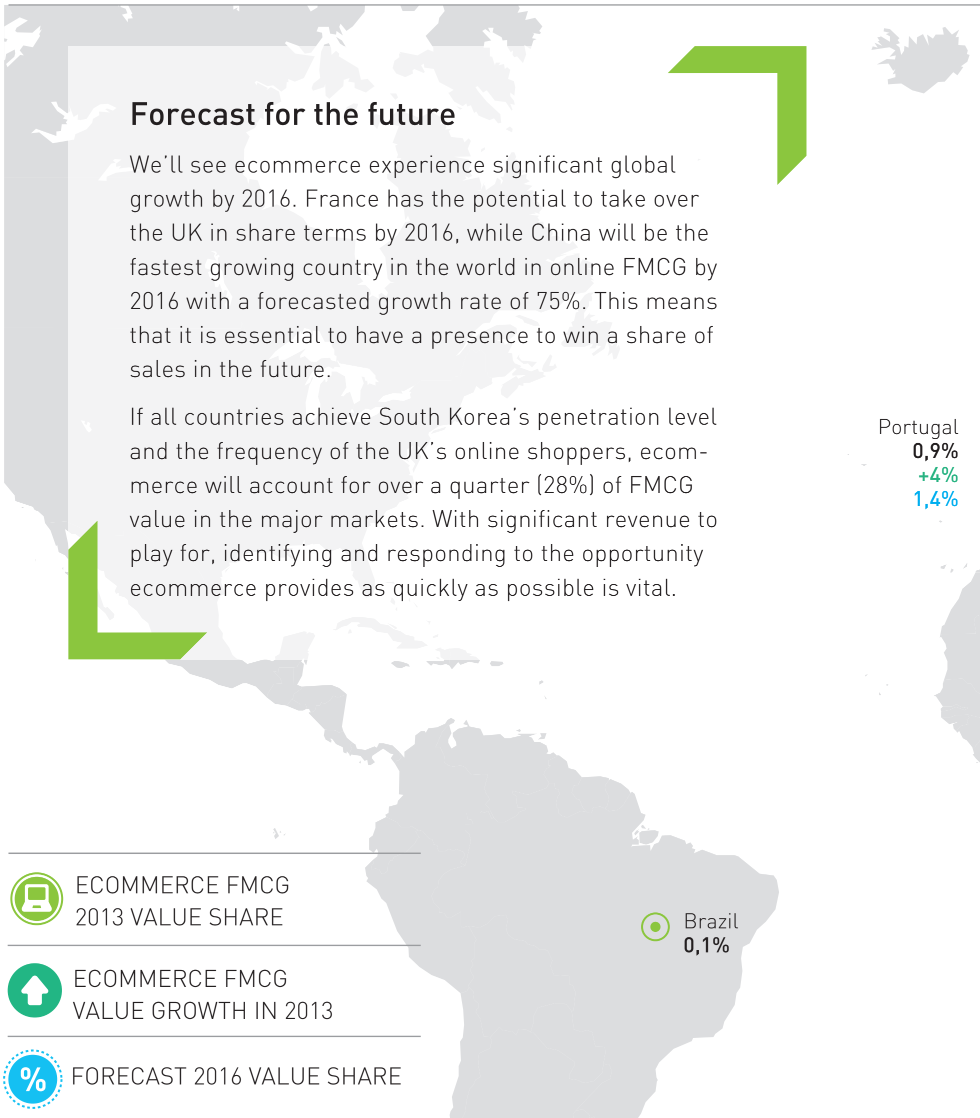
There are already great examples of success. In South Korea over half of the population shop online, while in the UK online consumers are demonstrating serious commitment, with those who shop online doing so at least once a month. Although only 28% of households shop online for FMCG goods in mainland China at the moment, this figure is close to hitting 50% in its larger cities (Beijing, Shanghai, Guangzhou and Chengdu). With the country's logistics and distribution networks rapidly expanding to more rural cities in western China, there is an opportunity to reach a much wider demographic of consumers.

FUTURE GROWTH WILL BE ACHIEVED BY CONVINCING MORE OF THE POPULATION TO GO ONLINE AND ENCOURAGING THEM TO DO SO REGULARLY.

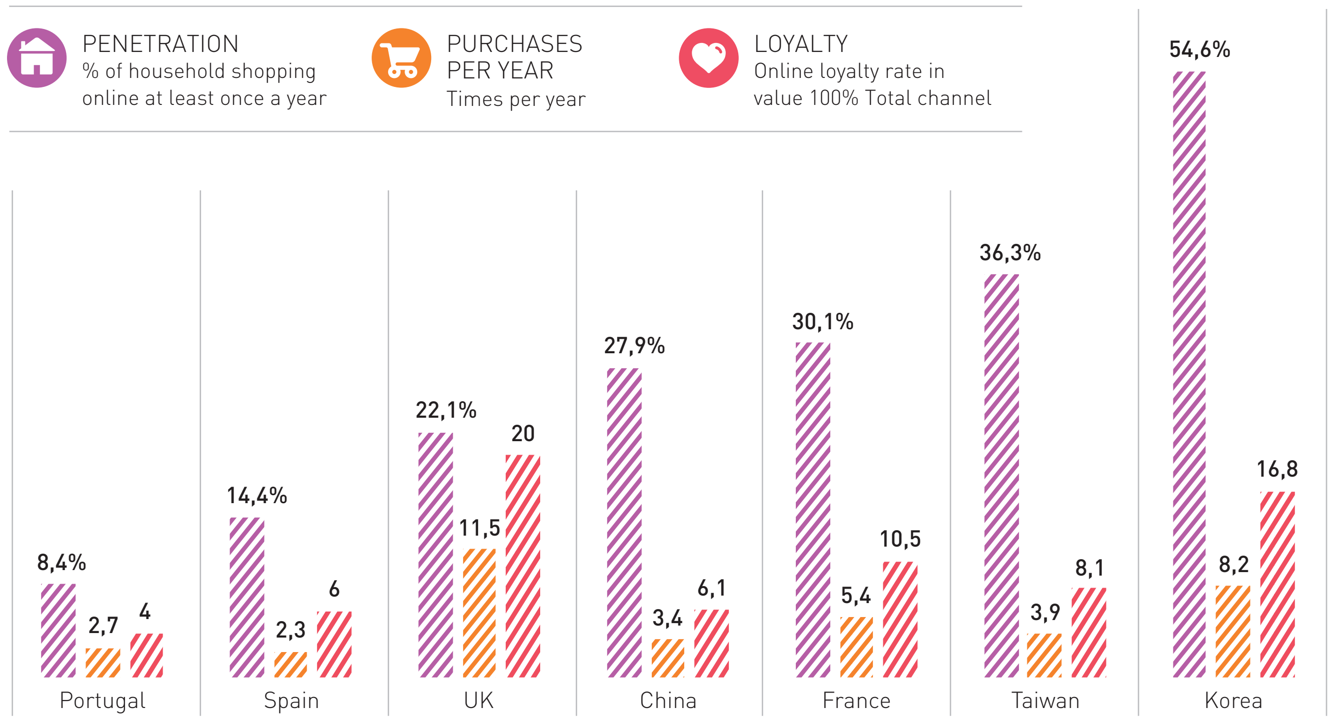
Forecast for the future

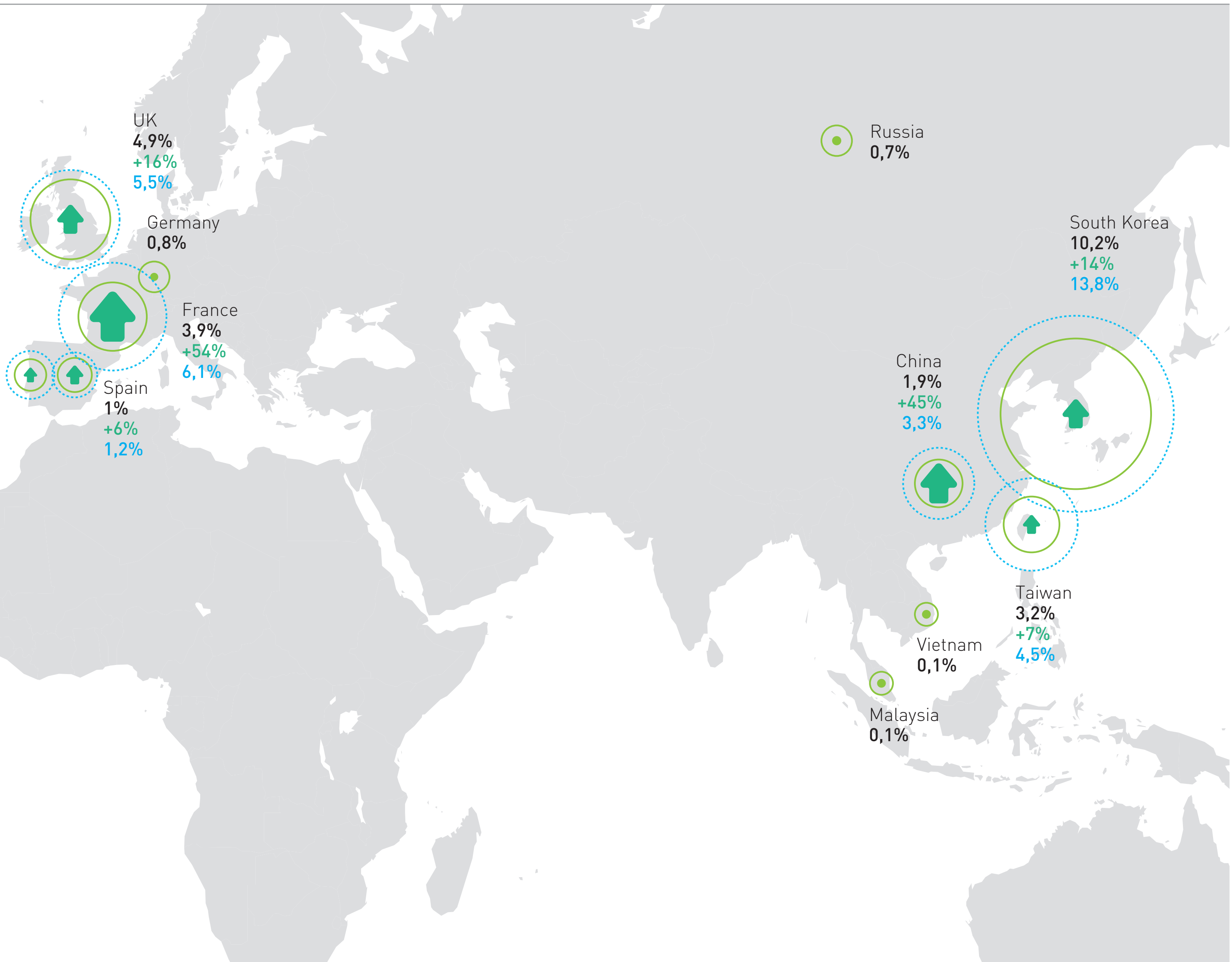
We'll see ecommerce experience significant global growth by 2016. France has the potential to take over the UK in share terms by 2016, while China will be the fastest growing country in the world in online FMCG by 2016 with a forecasted growth rate of 75%. This means that it is essential to have a presence to win a share of sales in the future.

If all countries achieve South Korea's penetration level and the frequency of the UK's online shoppers, ecommerce will account for over a quarter (28%) of FMCG value in the major markets. With significant revenue to play for, identifying and responding to the opportunity ecommerce provides as quickly as possible is vital.



FMCG ECOMMERCE AND ITS MAIN MARKETS, 2013





Source. Kantar Wordpanel and Europanel

ONLINE OPPORTUNITIES

Overcoming the fear that online cannibalises existing spend

While there's no doubt that the online FMCG sector is growing, some brands and retailers are still sceptical and view ecommerce as more of a threat than an opportunity.

One of the main concerns for FMCG players is that ecommerce will take spend away from physical channels. Yet this is also one of the biggest misconceptions. Having an online offer helps retailers secure additional revenue rather than cannibalising existing spend in bricks and mortar stores. What's more, in the UK, shoppers are much more likely to visit the same retailer when using the online channel, allowing retailers and brands to capture a higher proportion of spend from their customers.

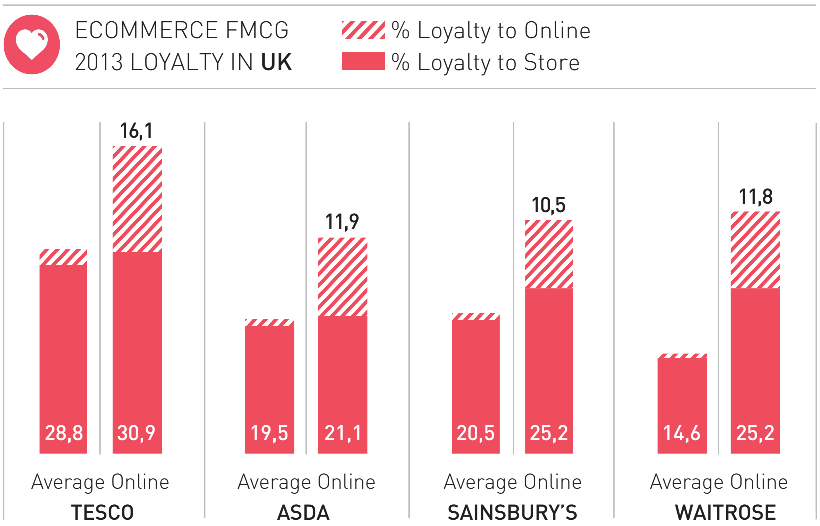
Some 20% of a UK online shopper's budget goes towards online spend, with the rest going on in-store purchases. As online currently accounts for only a 4,9% share of FMCG sales, this presents a significant opportunity for retailers to increase their revenue.

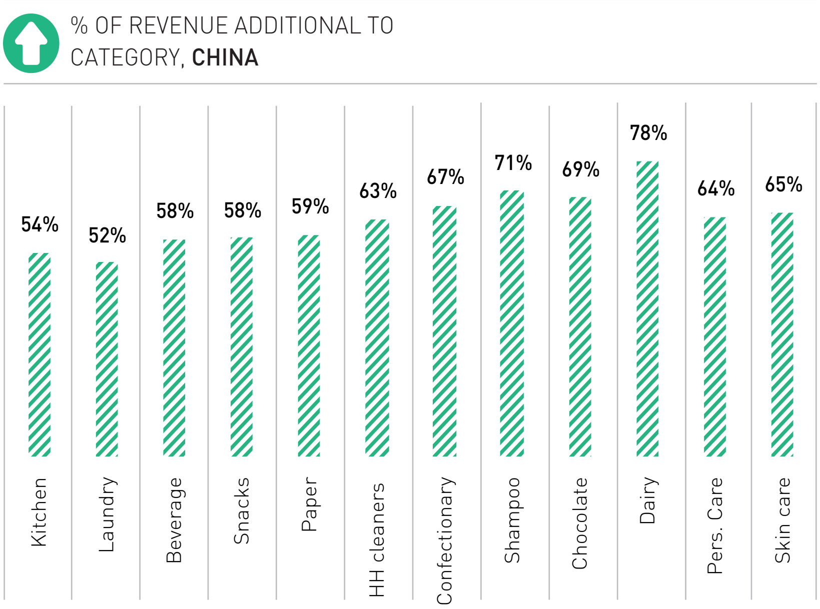
Online consumers are also attractive because they spend more than offline shoppers due to the nature of what motivates them to go online – typically planned purchases for 'restock and replenishment'. In all countries, shoppers spend twice as much online as they do in store. British consumers buy the most each time, spending almost five times the amount they do in physical stores.

LOYALTY CASE STUDY:

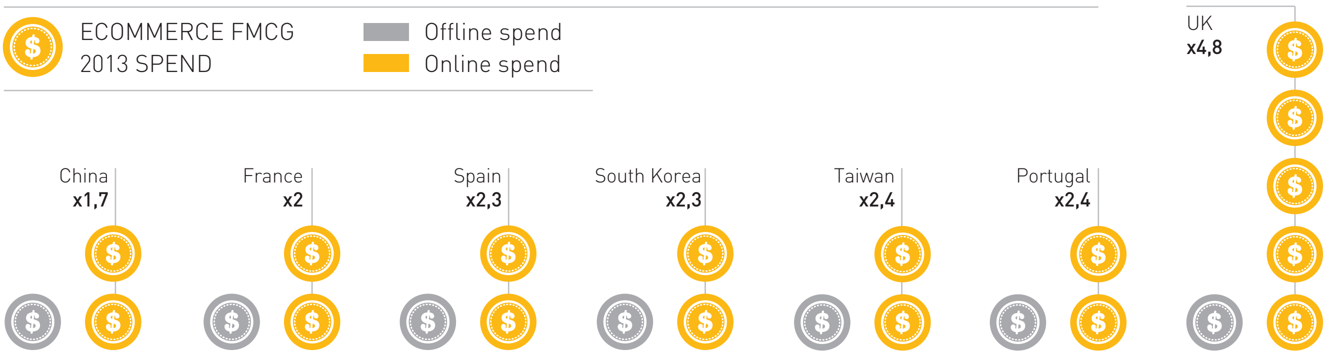
In the UK, ecommerce provides retailers with additional revenue. For an average Waitrose shopper, Waitrose represents 14.6% of their annual shopping budget while for an online Waitrose shopper this rate goes up to 37%. This example is true for all other retailers studied.

INCREMENTAL GROWTH





HOW MUCH BIGGER IS THE ONLINE CART?



Branded opportunity

Online is an ideal platform for brands. Typically current ecommerce users are middle and upper class and spend higher than average, and favour branded products over own-label on the whole. These consumers are looking for higher-end, luxury products and brands that meet these aspirational needs. The digital platform provides a window to new possibilities and prestige that simply doesn't exist in physical stores.

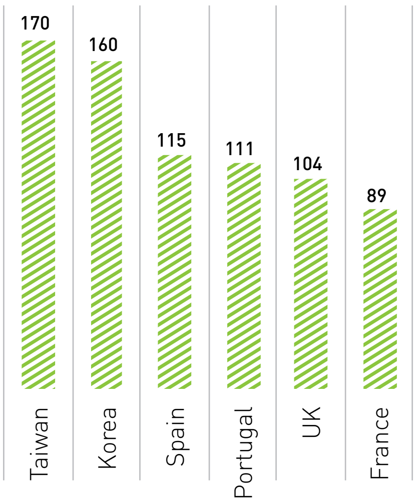
This is particularly prevalent across Asia where the assortment of luxury products available online is a major cause of growth. Rapid urbanisation in countries like China has led to an emerging middle class which is looking to experience luxury, placing high value on niche products and premium brands which can't be accessed locally. As such, there is a huge growth opportunity for premium international brands. Luxury French brands such as Lancôme, La Roche-Posay and Biotherm are experiencing significant growth online in China.

Like retailers, brands experience stronger loyalty from online shoppers who tend to use the same shopping list for their next trip. Brands should develop strategies to be "on the shopping list" to significantly increase their sales. In France, 55% of shoppers re-use the same shopping list for the next trip.

ONLINE IS AN IDEAL PLATFORM FOR BRANDS. TYPICALLY CURRENT ECOMMERCE USERS ARE MIDDLE AND UPPER CLASS AND SPEND HIGHER THAN AVERAGE, AND FAVOUR BRANDED PRODUCTS OVER OWN-LABEL ON THE WHOLE.

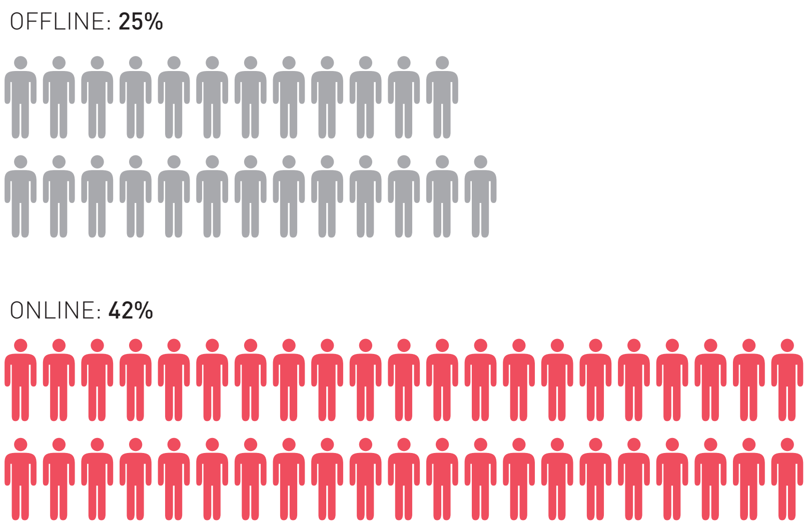
BRANDS ARE MORE IMPORTANT IN THE ONLINE ENVIRONMENT

BRAND SHARE ONLINE vs. OFFLINE (100 = same brand weight on/off)



THE IMPORTANCE OF BEING IN THE SHOPPING LIST

LOYALTY IN **FRANCE** (mineral water)
% of shoppers who buy the same brand at the next burchase



RECIPES FOR SUCCESS

The ecommerce channel clearly presents significant growth opportunities for retailers and brands, but how can these be exploited?

While total ecommerce spend shows explosive growth across the globe, there are very different catalysts in individual markets. The profile of early online adopters is consistent across all countries – young, wealthy, urban/suburban families with children – however, what motivates shoppers to go online differs depending on the local environment and socio-economic factors. Understanding these motivations is vital to drive sales. In China the most popular product bought online is baby diapers as consumers look to 'restock and replenish' bulky goods while saving time.

Broadly, there are four types of shopper motivations which ultimately make the difference between a good and a bad shopping trip for FMCG consumers: cost, time, availability and fun. The ecommerce channel is well placed to take advantage of all of these.

Online is quicker and more convenient, it gives shoppers more control over their budgets and means there is a much wider range of products available. While fun might seem like an exception, with the other motivations seeming to focus on meeting more practical needs, there is more potential to meet this need using the online channel than in physical stores.

By profiling shoppers further to develop a better understanding of these motivations – as well as the pressures, aspirations and functional needs that lie behind them – retailers and brands have the potential to improve their online offer, capture new customers and ultimately grow their revenue.

Convenience clicks

Modern lifestyles mean that consumers are busier than ever before. Working hours have lengthened and shoppers have less time to dedicate to the weekly grocery shop. Online provides the perfect platform for retailers to capitalise on consumers' desire for convenience and flexibility.

Click & collect is an attractive proposition for the busy modern consumer and the ideal multi-channel strategy. It is starting to pick up significantly across Europe, particularly in more developed markets such as the UK and France. It is an effective strategy for growth because it plays to the needs of the modern consumer.

To achieve growth in click and collect sales, retailers will need to encourage existing shoppers to adopt it more regularly and build it into their shopping routine. They should also focus on recruiting additional shoppers from a broader demographic. In the UK, some grocery retailers are bringing the click and collect channel to London tube stations to help attract a broader range of consumers. Asda, Waitrose and Tesco have installed click and collect facilities at stations to enable consumers to save time by picking up grocery orders on their way home. The next step is expanding the service further – for example, having groceries delivered outside the school gates, office or local leisure complex. It's about matching delivery patterns to people's daily behaviour.

BEST IN CLASS FOR CLICK & COLLECT: DRIVE, FRANCE

France's Drive concept has significantly increased online sales for the country's leading grocery stores, helping to encourage more consumers to use the ecommerce channel.

Drive is a simple click & collect service which allows shoppers to order spontaneously or in advance. The customer drives to a pick-up point and products are delivered to their vehicle in less than five minutes. There are eight players in the Drive market –Leclerc is the market leader with Drive contributing to 50% of its total growth.

Drive has a 25% penetration and took 4.2% share of the French grocery market in February 2014. One of the biggest benefits for French retailers is that it encourages a very high loyalty rate. Some 68% of French consumers claim they use Drive because it saves time, while 34% said it helps them to control their budget. It's so effective because it serves the needs of the French consumer who is looking for things to be 'made easy'.

The next stage for retailers in France is building more capacity for the Drive model and capitalising on its popularity by developing it further. Auchan, for example, has given consumers access to three different types of store in one handy location – Auchan Drive; general merchandise store GrosBill; and Arcimbo, a new fresh foods store which means click & collect shoppers can still pick up fresh fruit, vegetables and cheese.

68% OF FRENCH CONSUMERS CLAIM THEY USE DRIVE BECAUSE IT SAVES TIME.

Wise buys

Despite having less time on their hands, shoppers are savvier and more demanding than ever before. FMCG retailers and brands should look to provide online-only promotions, daily deals and flash sales as a way of enticing customers and driving spend to the ecommerce channel. The effectiveness of this approach was seen in China with retailers experiencing significant online sales growth by hijacking Singles' Day – a holiday which encourages the unmarried to socialise and celebrate with single friends.

FMCG RETAILERS AND BRANDS SHOULD LOOK TO PROVIDE ONLINE-ONLY PROMOTIONS, DAILY DEALS AND FLASH SALES AS A WAY OF ENTICING CUSTOMERS AND DRIVING SPEND TO THE ECOMMERCE CHANNEL.

BEST IN CLASS FOR PROMOTIONS: ALIBABA, CHINA

E-commerce giant Alibaba started offering discounts on Singles' Day (11 November) in 2009, with other companies soon following suit – this phenomenon has seen enormous success in a very short period of time.

Singles' Day is China's biggest online shopping day, bringing in over $5.7 billion of sales on the one day alone in 2013 – this is more than two-and-a-half times the total made by US retailers on Cyber Monday.

Alibaba is the biggest winner, taking over 70% of sales in 2013. For many smaller retailers, Singles' Day brings the majority of their annual sales. One online bag retailer which is part of Alibaba's Tmall platform usually sells 200 bags a day, and sold 40,000 units on Singles' Day 2012.

The day highlights the growing purchasing power of Chinese consumers, as well as the increasing importance of ecommerce for the country.

Singles' Day helped to drive a wider range of shoppers to the online platform, who were attracted by the huge discounts available. Latching on to an already established holiday was a winning strategy and this could be replicated by retailers in other countries.

The vast quantity of sales in such a short period of time places a huge stress on China's internet and logistics infrastructure, with delivery of goods sometimes taking over a month. Although this doesn't seem to stop Chinese consumers from taking advantage of the discounts, this should be a key consideration for other countries looking to replicate the model.

Increasing "impulse" purchases

Encouraging unplanned purchasing online is currently a challenge. However, if retailers can convince shoppers to impulse purchase in the same way as they do in store, they have the opportunity to increase sales significantly.

One of the barriers to driving online impulse sales is time and cost. In South Korea, these barriers have been overcome through free delivery and advanced logistics and distribution networks. Other countries should learn from this by providing better delivery services to encourage consumers to make more impulse purchases online – for example, same day delivery for 'quick fix' treat items. This means shoppers can get the late night snacks or the bottle of wine they want without having to leave the house. Many people living in Europe are willing to pay £20 for a takeaway, so grocery retailers could look to expand their 'dine in' ranges and move in on this space with a cheaper or healthier alternative. In South Korea takeaway food suppliers have launched wireless software in the form of a button for people's fridges, which smartphone users can connect to and order their favourite takeaway. There could be huge sales potential for brands and retailers if they were to replicate this model. Convincing consumers to buy more of the small things has the potential to significantly increase market share.

Growing impulse purchasing doesn't just mean encouraging consumers to pick up extra items at the till; it's also about convincing consumers to make more occasional shopping trips. In the UK and France, most shopping trips are planned with consumers driven by a particular desire. Shoppers use online channels to stock up on heavyweight, staple items such as canned goods and diapers, accounting for 93% of orders in France and the UK made for 'restocking and replenishing' purposes.

New digital touch points provide ways to reach more people on the go and South Korea and Taiwan are two examples of countries which have capitalised on the growth of smartphones and tablets to reach consumers. This has resulted in the growing popularity of retail apps to drive sales in-store and online. Retailers could use apps to capture impulse shoppers, contacting consumers with special 'one time only' deals – for example, 'make an online order in the next hour and receive 20% off your total basket'. Online adverts could also be used to encourage impulse purchasing, offering consumers money off all purchases within a certain time frame. In the UK, those watching live television often do so whilst simultaneously using their table or laptop. Retailers could use TV adverts as an opportunity to sell directly to the consumer by developing QR codes that can be scanned on screen.

NEW DIGITAL TOUCH POINTS PROVIDE WAYS TO REACH MORE PEOPLE ON THE GO.

BEST IN CLASS FOR FUN: EMART, SOUTH KOREA

One of South Korea's largest retailers, Emart, capitalised on the country's high smartphone penetration and appetite for technology by introducing the 'Sunny Sale' as a way of driving online sales. In 2012, the store developed a 3D QR code that was only visible with the shadows produced between 12 and 1pm, after noticing a downturn in sales during this lunchtime period. Scanning the code led customers to the 'Sunny Sale' homepage which gave them special offers including a $12 coupon. Following the success of this promotion, in 2013 Emart produced an app that allowed LED lights in its stores to lead customers to discounted items through their smartphones.

Lunchtime sales increased by 25% as a result of the 'Sunny Sale' with 12,000 coupons used and a 56% increase in Emart membership. The idea had such strong traction with South Korean consumers that Emart expanded this promotion from 13 to 36 locations in just one month.

The success of the campaign was due in part to the local environment which is known for its progressive use of technology. It encouraged impulse purchasing at a time when sales are typically slow. The 'Sunny Sale' was an effective way of using technology to drive sales, but a campaign like this relies on regions with high smartphone penetration. Opportunities still exist for retailers to adapt the concept and introduce similar initiatives based on this premise with flash sales and promotions. One of the most important factors behind the success of 'Sunny Sale' was that it was new and fun. As a result it successfully encouraged consumers to go online, ultimately increasing sales.

The experience in South Korea underlines the importance of making online shopping more fun and interactive to help drive sales. Retailers could harness this technique by introducing promotions in the form of games. If consumers win, they get a voucher towards their next online shop. Initiatives like this create a buzz around a brand and help retailers to stand out from the crowd.

THE EXPERIENCE IN SOUTH KOREA UNDERLINES THE IMPORTANCE OF MAKING ONLINE SHOPPING MORE FUN AND INTERACTIVE TO HELP DRIVE SALES.

Demographic shifts

As people across the globe have become better connected and different ecommerce platforms have emerged, new consumer groups are becoming increasingly engaged and present a huge growth opportunity for FMCG retailers and brands.

In China, for example, the demographic profile of online shoppers is skewed towards higher income and younger families. However, with internet penetration growing across the country, middle-income consumers and older families are becoming better connected and are key groups that deserve more attention. The absolute growth of online spend by consumers in smaller "second-tier" cities was 78% in 2013, more than double the growth rate of the largest. Targeting these digitally-savvy consumers in lower tier cities will be crucial for growth.

While China has seen spend spread from the rich to the middle classes, the change in Korea and Taiwan has been generational. In these countries, it was initially the younger generation which dominated the online FMCG market. However, older consumers are now being recruited at the fastest pace, with the over 50s especially bringing new opportunities for growth. It is important to develop more targeted, shopper-focused marketing strategies which include initiatives to engage a wide range of demographic groups, such as these.

MIDDLE-INCOME CONSUMERS AND OLDER FAMILIES ARE BECOMING BETTER CONNECTED AND ARE KEY GROUPS THAT DESERVE MORE ATTENTION.

CONCLUSION: ONLINE - THE ONLY OPTION

The future belongs to retailers and brands that see the bigger picture and leverage the opportunities of online and offline by developing a defined multi-channel strategy. Ecommerce is the ideal platform for broadening target markets and fostering international growth. It gives shoppers access to a different assortment of product lines, customised offers and promotions and a quicker and more convenient shopping experience. Being a slow adopter has the potential to significantly damage sales and erode market share.

Changes in technology and consumer behaviour mean that the retail landscape is constantly evolving. Smartphone penetration, for example, is increasing rapidly, meaning that m-commerce will be an important driver for the future, helping to reach more shoppers on the go. Developing user-friendly apps will play an important role in securing growth. Social networks are also likely to play a huge role in retail over the next few years with consumers becoming increasingly engaged with a number of platforms and using them to communicate with retailers and brands.

Asia will be the next major growth market with Africa and Latin America following close behind. While ecommerce doesn't exist in the majority of Africa at the moment, the average smartphone penetration is already two per household. This is a golden m-commerce opportunity for retailers and brands looking to expand into this market.

Online-only players should not be undermined. Retailers like Amazon have the potential to disrupt the market and have a significant impact on sales. In the US it has launched Amazon Fresh and could develop an FMCG offer which will threaten traditional players. Current leaders need to create higher barriers to entering the market or risk losing their future online leadership.

For retailers and manufacturers there is a major challenge to understand shopper motivations and how to use this knowledge, alongside new platforms, to enable growth. As new technologies emerge this will become even more important, and it will be those FMCG companies with a clear understanding of the wants and needs of the online shopper who will be able to develop the strongest multi-channel strategies and ultimately grow market share.

THE FUTURE BELONGS TO RETAILERS AND BRANDS THAT SEE THE BIGGER PICTURE AND LEVERAGE THE OPPORTUNITIES OF ONLINE AND OFFLINE BY DEVELOPING A DEFINED MULTI-CHANNEL STRATEGY.

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