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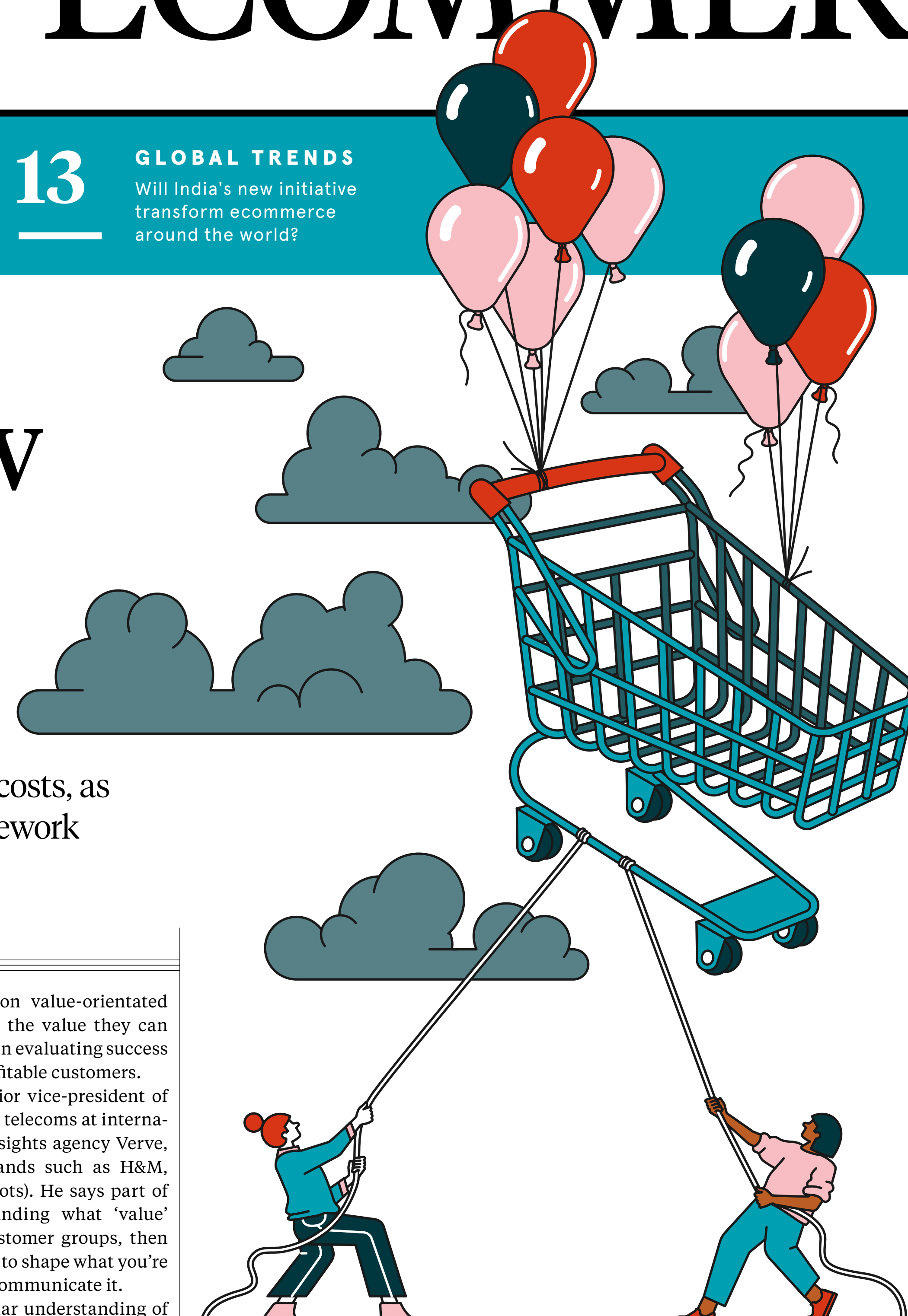
FUTURE OF ECOMMERCE



INFLATION

Growing pains: how ecommerce firms can fight inflation

Ecommerce businesses are struggling against ratcheting borrowing costs, as interest rates rise and capital grows more expensive. How can they rework their business models and weather the storm?

Emily Seares

Generations of consumers have never experienced a world of high prices, with business models, value propositions and retail relationships built on the assumption of low inflation. This is no longer the case, posing serious challenges for ecommerce businesses.

The cost-of-living crisis, fuelled by rocketing energy prices and soaring inflation – forecast to reach double digits for many European countries over the coming months – combined with the rising cost of raw materials, packaging, transport and labour, is putting insurmountable pressure on retailers and increasingly price-conscious consumers.

"The era of being rewarded for hyper growth at any cost is quickly coming to an end," US venture capital firm, Sequoia Capital, warned in an advisory note to its portfolio companies in May.

Ecommerce businesses were set up on high-growth, low-profit models after more than a decade of cheap lending. They are struggling against ratcheting borrowing costs, as interest rates creep up and capital becomes more expensive.

"We've been in an era of cheap money since the global financial crisis," says J. Walker Smith, knowledge lead at global data and insights firm Kantar. This featured "a cheap money cycle supported by the kind of focus on running a start-up with the purpose of valuation, as opposed to creating bottom line value and profitability", he says.

During this period, investors, venture capitalists and private equity companies could afford to underwrite growth-orientated business models. "But the investor climate has changed, and this is a wake-up call," he warns.

What, then, can high-growth ecommerce businesses do to rework their models and weather the storm?

Erin Brookes is head of retail at Alvarez & Marsal, a global consultancy. For Brookes, "taking a razor-sharp look through their entire operating model and every single cost within the business is essential".

> **For retailers, granular understanding of their customer base could mean the difference between survival and liquidation**

This is about asking and understanding what really works at the core of the business "that we can back and that customers are really engaging with", she explains. "What's got to be the focus for this business to be healthy? And are there parts of the business, in adjacent categories or different geographics, that aren't giving the return and are distracting from the core?"

There needs to be a shift in the kind of metrics used to drive these businesses, says Smith. The most immediate focus should be less about driving novelty in the offering to get attention and users and less about building an overall user base. It should instead be about driving value per customer. He advises retailers to focus on value-orientated strategies that look at the value they can drive per customer, then evaluating success against a metric of profitable customers.

Alex Charlton is senior vice-president of technology, media and telecoms at international research and insights agency Verve, which works with brands such as H&M, Samsung and No7 (Boots). He says part of the shift is understanding what 'value' means to different customer groups, then using this information to shape what you're offering and how you communicate it.

"For retailers, granular understanding of their customer base could mean the difference between survival and liquidation over the coming months," he explains.

"Factors such as market segmentation, targeting and positioning will be key, such as allowing them to target and tailor products and messaging to different customer groups accordingly."

Charlton says retailers should become an authentic ally to their customers, especially those who are struggling financially. The thought process should shift from focusing on how they can sell more to asking how they can help, he says.

"Customers will remember and it will be an opportunity to create lasting brand loyalty," he adds.

Tony Preedy, managing director of global marketplace Fruugo, says it's crucial that online retailers measure, understand and manage unit economics to overcome rising inflationary pressures.

"Ultimately, businesses are going to have to make trade-offs between profit now and growth later, so it's important for them to analyse their data closely," he says. "Inevitably, rising costs are likely to cause retailers to put up their prices in the short to medium term. But online retailers can be highly agile in how they price to optimise how they sell through their inventory, and they can also be cute about how they target discounts to prompt a purchase."

However, he warns about a strategy of indiscriminate discounting to drive volume. "Very few businesses properly calculate the impact on gross margin of reduced prices and the massive growth in units required to keep income stable, never mind growing," he says.

With a myriad of data at their fingertips and agility in their pricing and marketing, ecommerce businesses have some strong advantages over their bricks-and-mortar counterparts as conditions change.

However, the overarching issue for online retailers, compared to physical retail, is the cost of distribution and the impact this has on margins. This is "a weakness in the business model that is only exacerbated in the current trading environment," says James Hankins, founder of strategy consultancy Vizer Consulting and co-chair of the IPA Share of Search ThinkTank.

With bricks and mortar, the cost of fulfilment is held by the consumer. But with ecommerce this relationship is inverted, with the retailer having to sink the cost.

"This is a huge cost base that ecommerce players have to shoulder, and it's very difficult to optimise," says Hankins. In today's market of soaring costs, it's becoming increasingly untenable.

To mitigate these fulfilment challenges, retailers such as Zara and Boohoo have started charging customers for delivery and returns. Returns are a costly element of the distribution model for online fashion businesses, with Asos saying in June that a "significant increase" in returns contributed to its latest profit warning.

Some retailers are supplementing their core ecommerce channel with other revenue streams. In March, the fashion retailer H&M started trailing the sale of third-party brands on its website in Sweden and Germany, opening its distribution network to other brands and effectively renting it out.

Meanwhile, German ecommerce giant Zalando has bought a majority stake in retail media business Highsnobiety, "which offers the opportunity for high margins and relatively low effort" says Hankins. This allows it to sell advertising and helps to cross-subsidise the weakness in the ecommerce business model.

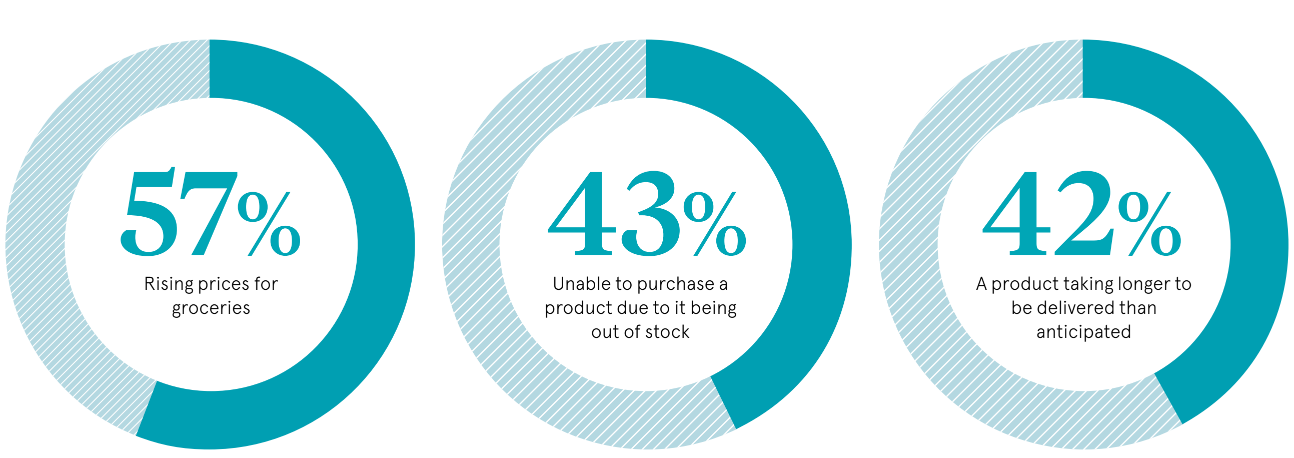
Online furniture retailer Made.com, which has made little profit comparative to revenue in its 12 years of trading, bought online marketplace, Trouva, in May.

"If consumers are buying more than Made products by shopping across the marketplace, you are opening up the potential demand," says Hankins. "This means your marginal costs should hopefully reduce because you're getting more brands to use your distribution network."

Pressure is growing as interest rates rise and banks start to call in loans. High-growth retailers must think long-term and strategically about building operations that support their core business, while bolting on multi-revenue generating arms that have been tested, scaled and managed appropriately to cross-subsidise the cost challenges in their distribution model and the wider economic climate.

WHAT IS WORRYING CONSUMERS IN 2022?

Percentage of global consumers who say the following are the main issues impacting their online shopping experience in 2022



PwC, 2022

9.9%

inflation rate for the Consumer Prices Index in the UK in August 2022

up from just...

0.2%

in August 2020

Office for National Statistics, 2022

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TECHNOLOGY

The shift to mobile commerce in emerging markets

Increasing disposable income and wider use of smartphones has put emerging economies at the forefront of digital adoption

Christine Horton

The popularity of ecommerce, which was accelerated by the pandemic, has led to many Western markets being saturated by online brands. Now, with some of the world's youngest populations and fastest-growing economies, many emerging markets are at the forefront of digital adoption.

With a smartphone penetration rate of just 44%, Brazil's ecommerce sector has a staggering level of potential growth, while already being the second-fastest growing in the world.

Hootsuite and We Are Social's *Global State of Digital in 2022* report shows that 92.1% of global internet users connect to the internet with a mobile phone, with 90.7% using a smartphone. Emerging markets South Africa (97.7%), Philippines (97.5%) and Brazil (97%) are in the top five countries with the largest number of users connected via their mobiles.

The research also shows that 57.5% of global internet users purchase a product or service online each week. Emerging markets Thailand (66.5%), Turkey (65.7%) and Mexico (65.3%) rank as the top three countries with the biggest percentage of weekly online purchases.

Mobile payments (for example, Apple Pay) are also on the rise in emerging markets, with Saudi Arabia (35.5%), Thailand (34.3%) and India (33.9%) all above the global average (25.5%) of internet users who use mobile payment services each month.

The reason for this? Competitively priced Android handsets make it far more effective from a cost point-of-view for people to obtain a mobile device than a desktop internet connection, explains Dimitris Maniatis, CEO of Upstream, a mobile marketing platform provider focused on emerging markets. Android accounts for nearly 90% of the mobile market in South America, 85% across Africa and 82% of Asia.

In addition, the cost of building a physical network infrastructure involving copper and fibre optics is also prohibitively expensive in many emerging markets, especially in more remote regions.

"Mobile networks are quicker and less expensive to deploy, with issues such as speed and latency that previously held back mobile connections now much less intrusive than they once were," says Maniatis.

Arunabh Madhur is regional vice-president and head of business in EMEA at the SHAREit Group, which enables people to send rich multimedia such as files, music, pictures and games to other devices without using Wi-Fi or mobile data. He says that despite the proliferation of smartphones and tablets, millions could be excluded from the benefits of digital payments and ecommerce. Therefore, it is in the interest of sellers and governments to find ways to include them.

"For mobile commerce to continue to grow, it's increasingly important for brands to take into consideration data, design and how consumers behave," he explains.

"With this knowledge, mcommerce helps brands to break into emerging economies, alongside established brands that aim to expand their footprint."

How to reach these consumers via mobile can be a challenge for companies. But certain technologies make engaging with consumers via mobile easier and are helping to drive the growth of mobile-first commerce strategies in emerging markets.

For example, rich communication services (RCS) are likely to play a larger role in emerging markets considering the popularity of RCS-capable Android devices.

RCS enables brands to engage with consumers through photos, videos, carousels and pop-up messaging. With greater accuracy for personalised ads than third-party cookies, RCS can support a wider range of actions for consumers. For instance, they can respond to messages, save events to their calendar, click to dial or share their location in real time.

With Google actively promoting RCS, Juniper Research predicts that 3.8 billion people will subscribe to RCS services by 2026, up from 1.2 billion today. In Brazil alone, Upstream handles more than 54 million RCS messages every month.

"Combined with automated retargeting technology to push different and personalised messages to consumers depending on where they are in their purchase cycle, RCS is a powerful way to get consumers' attention and keep them engaged through the sales cycle," says Maniatis.

But despite the surge in smartphone adoption, basic handsets are still critical lifelines for billions of people. So can users of 'dumb' phones' still benefit from mobile commerce applications?

The answer is yes, with mobile payments able to be accessed from devices thanks to SMS technology and 'quick' or 'feature' codes, as unstructured supplementary service data (USSD) is sometimes referred to. USSD allows real-time connection to the mobile network that can be used for browsing, banking and location-based services.

"This is a way to provide the unbanked with mobile-phone-agnostic access to basic banking services on mobile phones, without any internet coverage, and without consuming data or call credit," explains Ilyas Berrajâa, chief growth officer for global payments processing firm BPC in the Middle East and Africa.

Barrajaa says the 'phygital' model can also help users in emerging markets access mobile payment services. The term phygital describes the blend of physical and digital and the subsequent possibilities for brands to attract and retain customers.

This might mean people use a mobile channel to access services but move to a network of agents when necessary. The Bank of Africa, for example, offers mobile payment services to support financial inclusion in countries with low banking.

In most economies, including emerging markets, the pandemic has accelerated the push of consumers towards digital commerce. Many consumers likely won't return to making as many physical transactions as they did before the pandemic.

"For brands wanting to grow their presence in an emerging economy, the high and growing level of smartphone users combined with increasing amounts of disposable income, and demand for goods and services makes mobile-first commerce strategies essential if they are going to make an impact," says Maniatis.

Deploying a strategy that incorporates mobile marketing channels such as RCS will help ensure brands can engage with the booming number of potential consumers living in emerging markets.

57.5%
of global internet users aged 16 to 64 buy something online each week

66.5%
of those in Thailand do

36.1%
of those in Kenya do

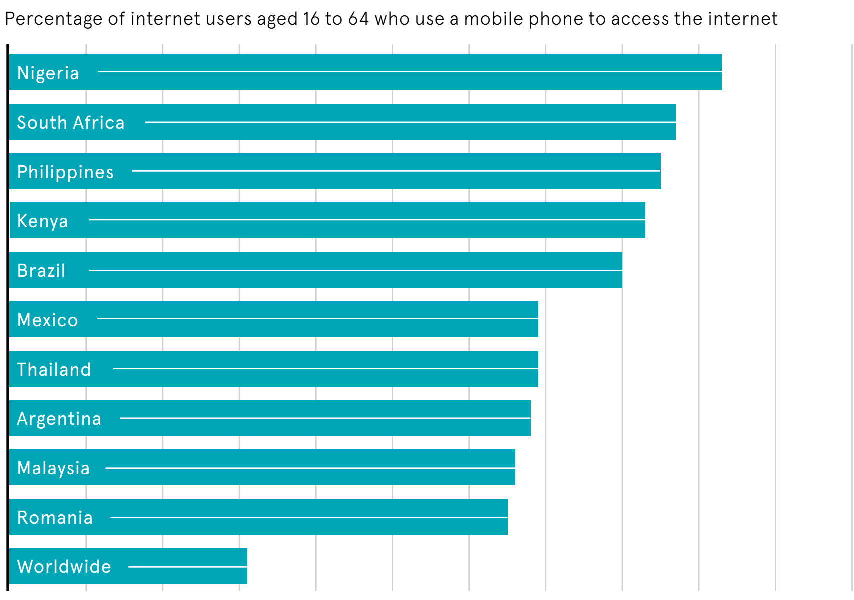
Hootsuite, We Are Social, 2022

> **For mobile commerce to continue to grow, it's increasingly important for brands to take into consideration data, design and how consumers behave**

> **In most economies, including emerging markets, the pandemic has accelerated the push of consumers towards digital commerce**

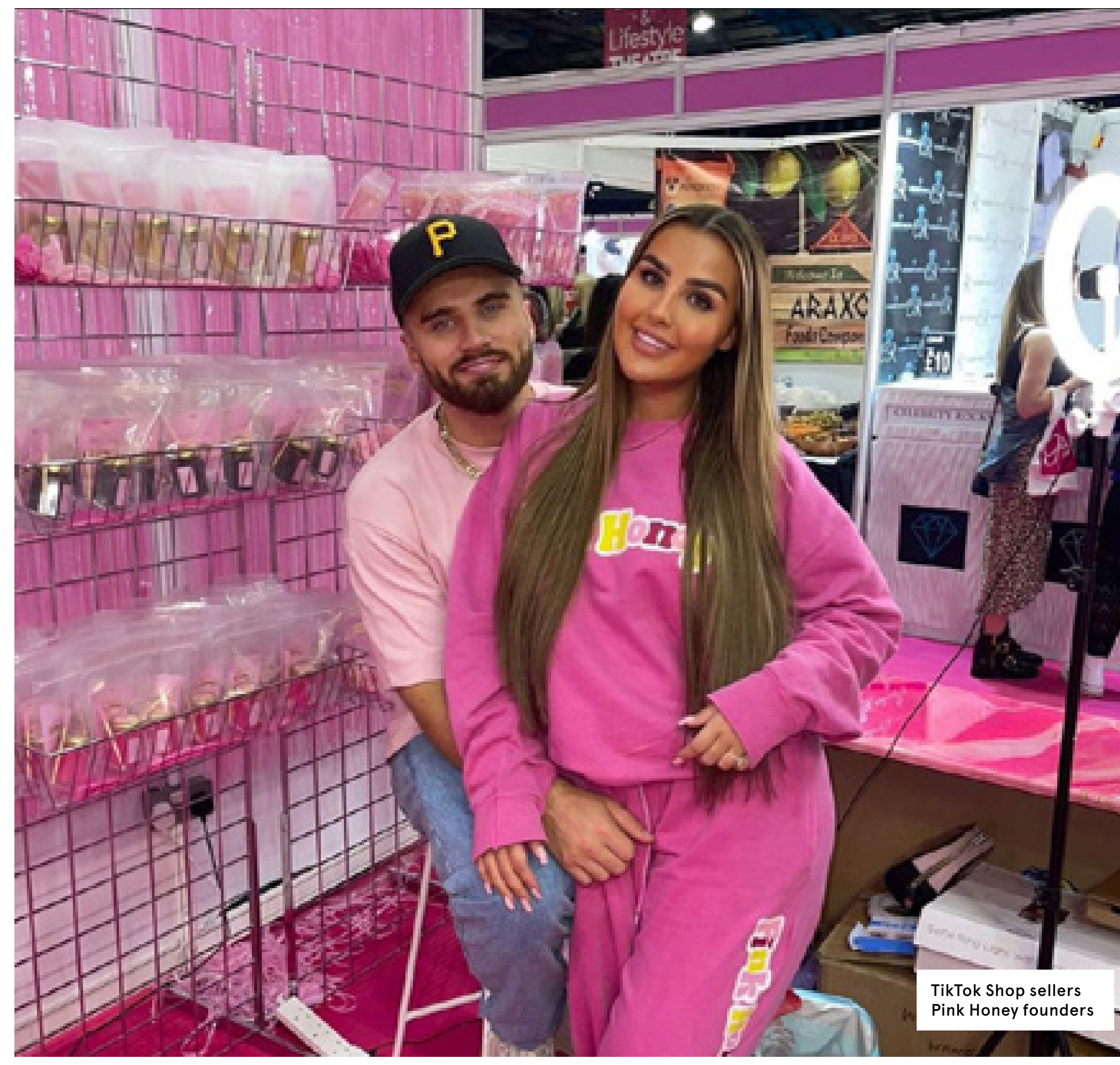
THE POTENTIAL FOR MOBILE COMMERCE IN EMERGING MARKETS

Percentage of internet users aged 16 to 64 who use a mobile phone to access the internet



Hootsuite, We Are Social, 2022

Commercial feature



TikTok Shop sellers Pink Honey founders

TikTok Shop is redefining the way brands connect with customers

The entertainment platform is emerging as a major force in social commerce, with millions of people engaging with the #tiktokmademebuyit hashtag

TikTok's remarkable success is redefining the way consumers engage with brands in the social media age. The TikTok app was downloaded three billion times in 2021 and more than one billion active users regularly delight in the platform's quirky short-form videos. In fact, TikTok has dethroned Google as the world's most popular website. TikTok both captures and shapes the zeitgeist, from fashion and music to design and travel; TikTok has it all covered.

With such a significant presence in people's daily lives, TikTok is also emerging as a major ecommerce force alternative, particularly for small- and medium-sized businesses. There have been more than 21bn views of the #tiktokmademebuyit hashtag.

More and more brands are discovering the impact they can have with TikTok by reaching new audiences and developing strong brand awareness in a short period of time which would have been unthinkable in the pre TikTok age. Seventy-nine percent of TikTok users discovered new brands through TikTok, according to a MarketingWeek survey earlier this year, and 54% have made a purchase from a new brand after seeing it on TikTok.

Building a dynamic customer connection

TikTok Shop is helping brands to acquire new customers, grow their revenue and develop deep, personal engagement with customers through interactive content. Launched in the UK last year, TikTok Shop is an innovative shopping feature that enables sellers, brands and creators to sell products directly on TikTok through in-feed videos, Lives and a product showcase tab.

TikTok Shop launched into a UK ecommerce market that has grown exponentially in recent years. As more people shopped online throughout the pandemic, the UK ecommerce market was worth $135bn in 2021, making it the third largest behind China and the US. The UK ecommerce market is on course for high single-digit growth over the next five years, at almost twice the rate of the broader UK retail market. Online penetration continues to grow and is expected to reach 32.9% in 2026, up from just under 29% in 2021.

Patrick Nommensen, senior director of ecommerce operations at TikTok, says: "TikTok Shop has been a big success with SMEs, and one of the reasons for this is because it is so easy for them to produce content for TikTok that connects with users and has impact."

He adds: "What we have found is that the content on TikTok that performs best is content that's most real and raw. For example, brands can very easily produce content as they are packaging orders or go to their warehouse."

Olivia Taylor, founder and CEO of SME Pink Honey Cosmetics, the personal care products manufacturer based in Manchester, says that TikTok Shop has transformed the business in just four months. "Previously, we were doing around 1,000 orders a week," Taylor says. "Now there are times when we are doing 2,000 orders a day. For example, we had a bronzer restock which we expected to last six months. Instead, it sold out within 24 hours. There's never been a faster way to connect with customers and to showcase the product to customers. You get full control over how they view the product. It's literally never been easier."

Registration is simple and free, creating a TikTok account and selling products to a captive audience. "You can be selling within a couple of days, and we have brands who have created content that has been a hit from day one," says Nommensen. TikTok Shop's entirely on-platform experience means that customers can purchase a product by clicking on the video, without relying on third party platforms or redirecting customers away from the app. This increases the probability of a purchase being completed, rather than deferred and possibly not taking place.

Nommensen says TikTok Shop is the perfect platform for all businesses, from big brands like L'Oreal to upcoming fashion retailers such as In the Style. Brands can easily track fast-moving product lines and react to what customers are talking about online. The lifespan of TikTok's shortform videos is different to other platforms; videos are often rediscovered and given new relevance, remixing the way products are found and appreciated.

Creators add value through advocacy and unique expertise

For brands, working with creators can bring added value through their unique creative expertise. Creators are a key component of TikTok Shop. They have built communities of loyal fans on the platform, and have the power to inspire behavioural changes that can quickly turn into trending shifts of the way people shop. According to TikTok users, they boost product discovery (78%), educate and inform their audiences (76%), and inspire their audiences to try new products (73%).

Creators know TikTok better than anyone else and they are the first people users look to when searching for inspiration and honest product reviews. Their advocacy helps build connections between customers and brands.

TikTok Shop's affiliate tool enables merchants to reach hundreds of thousands of new potential customers through creators' communities. Merchants can link up with the right creators for their brands and monitor how well creators are selling their products. TikTok's affiliate tool helps brands connect with trusted creators who have a proven track record of delivering results. Creators are perfectly positioned to kickstart brand campaigns. For example, when a creator shares a branded hashtag challenge or uses a branded effect, others quickly follow, generating high volumes of user-generated content that can make a campaign go viral.

Like Pink Honey, the ecommerce womenswear fashion brand In the Style has also seen strong growth as a result of its new relationship with TikTok Shop. Marketing director Matt Elliott says: "We were born on Instagram, really. But we could see that TikTok was becoming an incredibly powerful platform, particularly with our core demographic who are hugely engaged with it. The frequency of engagement with TikTok is insane and we quickly realised that we needed to have a bigger voice."

He says the brand started with a soft launch on TikTok, "expecting to have to handle just a handful of orders, but the volume that came through just blew us away. It was into the hundreds of orders within minutes."

The perception of TikTok as a platform predominantly for young people is outdated. User data shows a wide range of age demographics on the app, with businesses able to directly engage that broad audience. A Kantar study shows that 67% of TikTok users are over 25.

Nommensen says: It's been incredible to see how our community has embraced TikTok Shop here in the UK. We've seen big brands engage new audiences, smaller businesses build their livelihoods and products take off in a way that could only happen through social commerce, and on our platform. The audience for TikTok Shop is continually growing, and the future is bright for ecommerce in the UK."

21billion
views of the #tiktokmademebuyit hashtag

79%
of TikTok users discovered new brands through TikTok

MarketingWeek, 2022

> **The audience for TikTok Shop is continually growing, and the future is bright for ecommerce in the UK**

For more, please visit shop.tiktok.com

TikTok Shop

TRUST AND THE ONLINE SHOPPER

87% of executives think customers highly trust their companies when only...

30% actually do

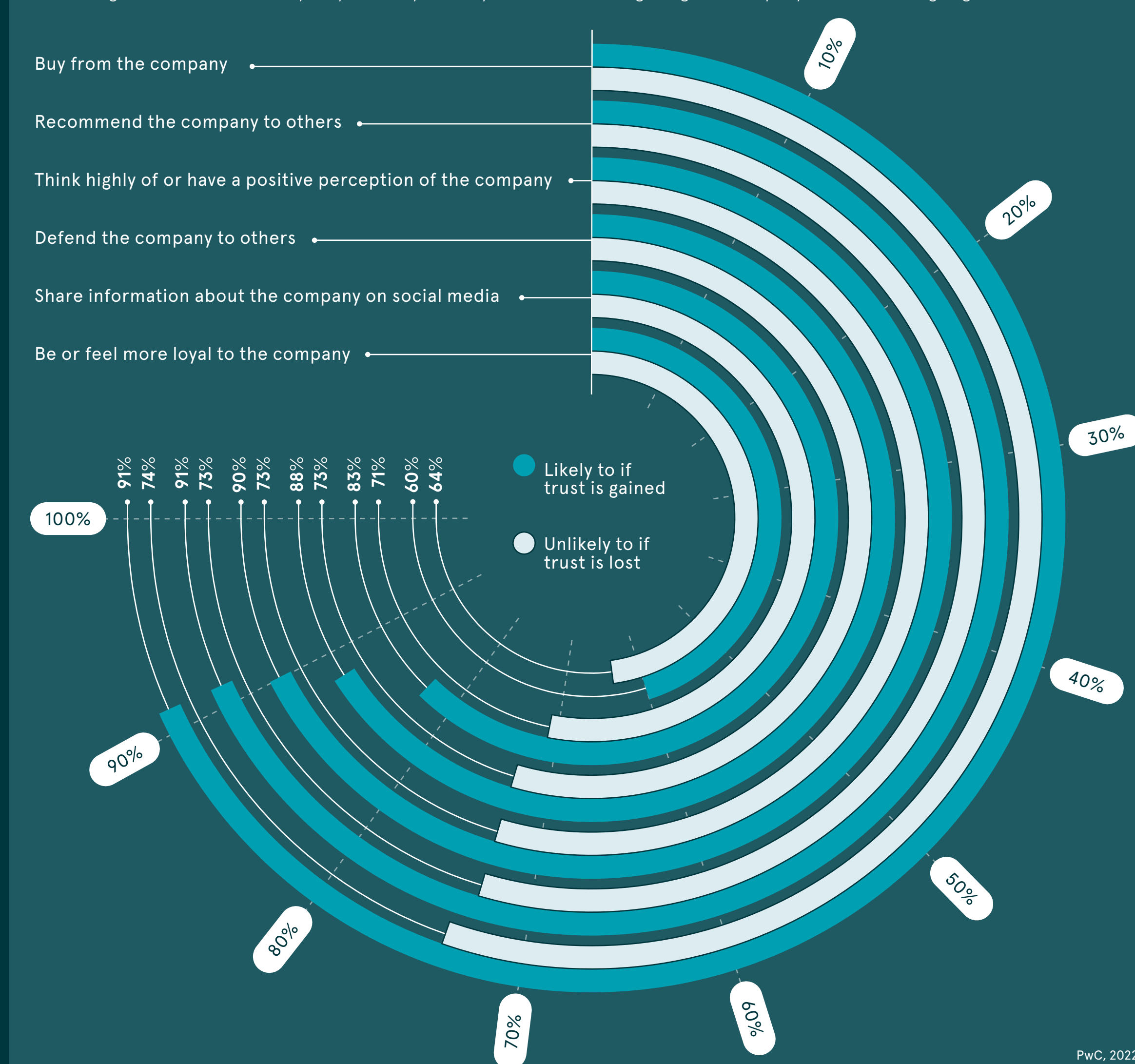
71% of consumers say they're unlikely to buy if a company loses their trust

PwC, 2022

The success of ecommerce relies almost entirely on trust. Without faith that products will arrive intact, on time and as expected, consumers simply will not buy online. So, how can brands build up trust between themselves and their customers? And just how much are they risking if they lose that trust?

THE BENEFITS OF GAINING TRUST... AND THE COST OF LOSING IT

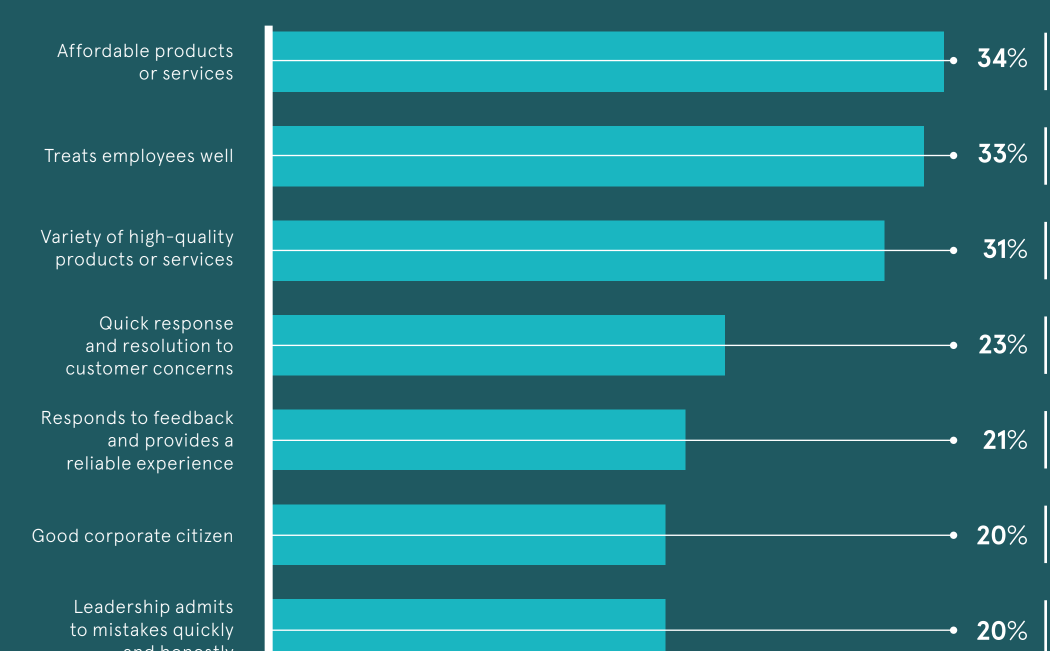
Percentage of customers who say they are likely/unlikely to do the following things if a company does something to gain or lose their trust



PwC, 2022

HOW TO BUILD TRUST WITH CUSTOMERS

Percentage of customers who say the following are the most important steps when it comes to brands earning trust with them



PwC, 2022

57% of customers say they trust companies to use AI ethically

69% are open to the use of AI to improve their experiences but...

60% would better trust AI if they had more control over how it is used

Salesforce, 2022

BUILDING TRUST ONLINE

Consumers on how much different brand experiences matter when it comes to earning their trust

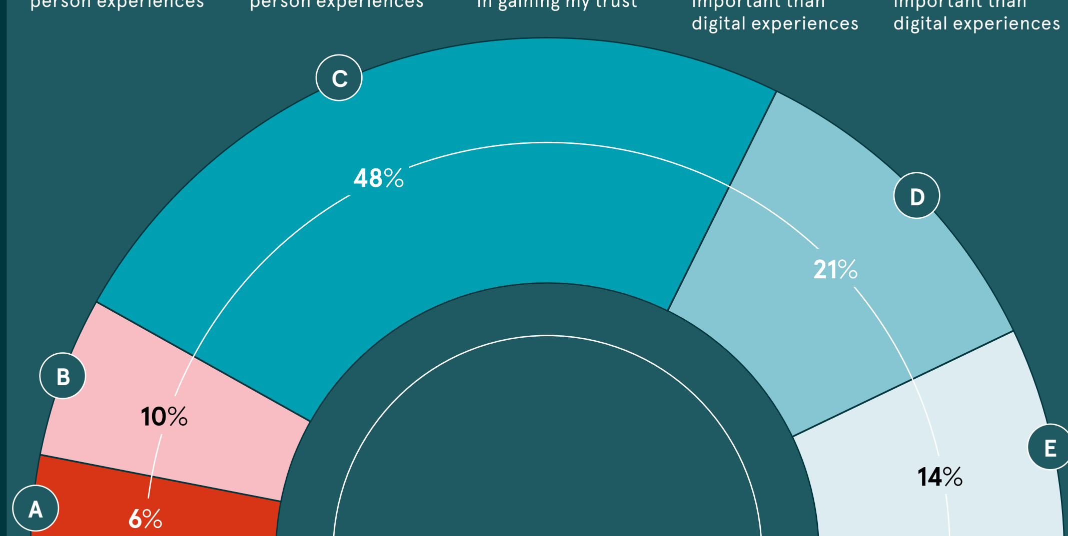
A Digital experiences are much more important than in-person experiences

B Digital experiences are somewhat more important than in-person experiences

C In-person and digital experiences are both important in gaining my trust

D In-person experiences are somewhat more important than digital experiences

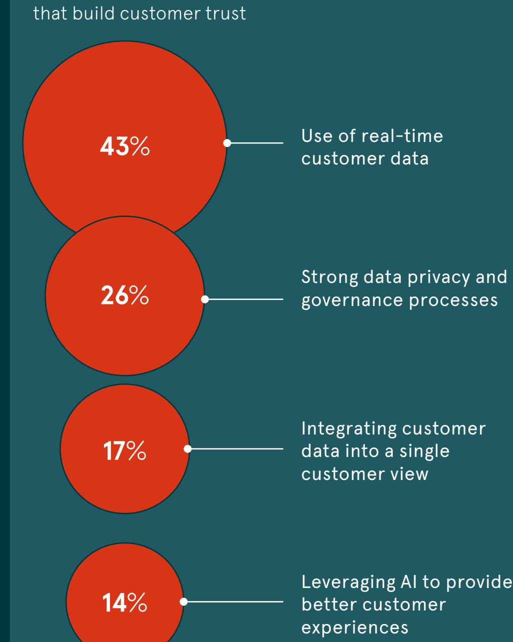
E In-person experiences are much more important than digital experiences



Adobe, 2022

DATA'S ROLE IN DRIVING TRUST

Percentage of EMEA-based executives who say the following are the top operational priorities for their organisations when it comes to delivering experiences that build customer trust



Adobe, 2022

GREAT CUSTOMER SERVICE DRIVES TRUST

Percentage of consumers who say the following

A positive customer service experience makes me more likely to purchase again **94%**

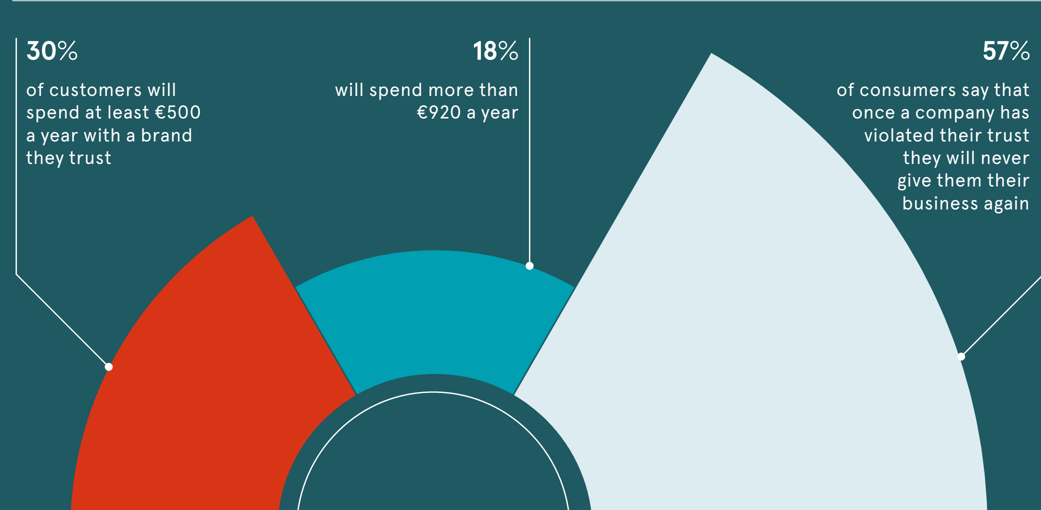
I have recommended a company based on excellent customer service **82%**

I will forgive a company for its mistake after receiving excellent service **80%**

I have made purchase decisions based on the quality of customer service **78%**

Salesforce, 2022

HOW TRUST IMPACTS THE BOTTOM LINE

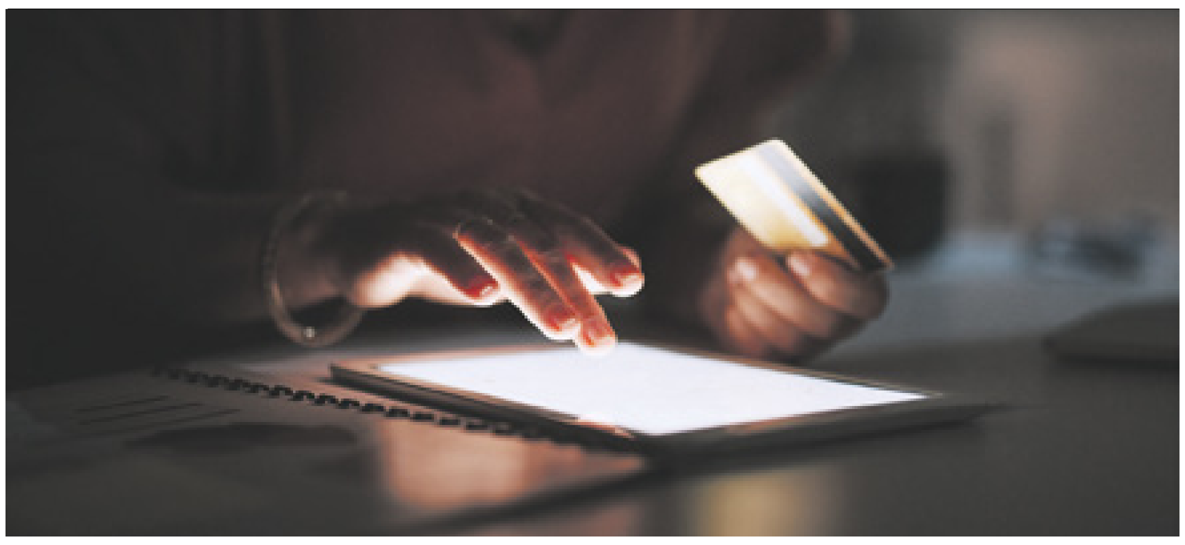


Adobe, 2022

HOW MUCH DO CUSTOMERS TRUST COMPANIES?

Percentage of consumers who agree with the following statements

Salesforce, 2022



Cutting the complexity of ecommerce sales into the EU

The Import One Stop Shop (IOSS) single VAT registration has removed confusion and cost through a simpler import process for export sales to EU consumers. **Alex Baulf**, senior director of global indirect tax at Avalara, explains how

It was on December 31, 2020, when the UK's transition period since leaving the European Union came to an end. Having exited the EU's VAT system and customs zone, this was the moment businesses faced having to adapt to new border trading relationships.

With someone having to now pay import VAT on goods entering the bloc – either the consumer or the seller – the process became more complicated and confused. Many ecommerce companies were still tied to older methods of reporting and navigating this, such as DAP/DDP.

Since then, the EU has introduced a suite of VAT reforms, beginning on 1 July 2021. This included the creation of the Import One Stop Shop (IOSS) scheme, designed to simplify the process of registering for, and paying VAT, when non-EU-based businesses sold into the EU.

According to an Avalara study, commissioned in conjunction with the Centre for Economics and Business Research (CEBR), these changes have been positive; 94% of UK businesses saw a rise in positive customer feedback thanks to a simpler import process for export sales to EU consumers.

As well as looking at the first year post-reform, the study, carried out by CEBR, also examined the first six months before the reforms came in. CEBR spoke to 250 business decision-makers in UK-based organisations that export to the EU. CEBR paid specific attention to three industries: manufacturing, retail, and software & digital services.

One major issue it identified was how nearly a quarter (23%) of the firms questioned remained unaware of the IOSS scheme and its positive benefits – and it discovered how four in 10 (38%) of UK businesses were yet to register for IOSS.

Failing to take advantage of IOSS meant missing out on the tax simplification it offered, as well as the increased revenues it delivered. Only a fifth believed it was not as efficient as their previous methods.

Smoothing the sales processes

Just over a year ago, three key questions on exporters' minds were: "What does this mean for me?", "how can I continue to sell to the EU?" and "what do I need to do to stay compliant?"

Those who have since adapted successfully are reaping the rewards, including improvements in customer services from a far smoother export process and the ability to maximise European sales by selling to consumers in every EU country.

It is true that 93% of those UK businesses we surveyed noted how the transition harmed their operations to some extent. But this was due to grappling with applying for IOSS registration and understanding the impact of the changes.

Many had found their time spent on tax administration increased for a short while post-IOSS introduction; this was soon outweighed by positive outcomes. Eight in 10 (79%) of those contributing to our research believed the introduction of IOSS simplified the export of low-value goods to the EU.

For those still working to the old methods, or still unaware of IOSS, it must be a business imperative to transition. There are many reasons why it is crucial for any exporter or ecommerce business looking to sell into the EU:

- Reduced confusion for customers at checkout
- No extra costs or surprises for customers, e.g. a demand for VAT in their country from a freight agent or customs
- Faster delivery due to streamlining of administrative complexity
- No need to register for VAT in multiple countries, just one return to file
- Taxes paid and evidenced at checkout mean goods are less likely to get held up at customs
- No duties paid; customs duty not levied on consignment of goods under €150, the same threshold for IOSS

Ultimately, IOSS prevents the customer having to pay anything at the point goods are imported. Half of UK businesses said buyers are giving positive feedback on this lack of extra cost.

Reducing compliance burdens

One major finding from Avalara and Cebr's research is how an additional £5.2bn from exports could have been realised had the EU VAT reform come in six months earlier. This would equate to a 10.8% increase in revenues.

But while financially it has paid dividends – revenues increased by 4.2% due to the July 2021 changes (vs Q1/Q2 2020) – cross-border tax complexity still stifles growth. The report found this is costing UK businesses an average of 16% in revenue loss from EU exports a year representing £47.6bn that could have been available to the UK economy.

The research predicts the investment loss due to cross-border tax complexity is expected to result in a further £16.1bn of value lost to the UK by 2026.

It is worrying to see how post-Brexit complexity has led to three in five UK exporters looking to reverse plans to sell in some European countries; they fear fines and compliance issues. That fear is hurting economic growth as many UK businesses simply "turned off" sales to the EU and blocked sales at checkout.

> "Those who have adapted successfully are reaping the rewards, including improvements in customer services from a far smoother export process and the ability to maximise European sales

Two thirds (64%) questioned agreed that staying compliant with tax obligations and regulations was the most stressful thing about running their business. This anxiety stems from the weight of compliance burdens and the realities of sweeping EU tax reforms on sales from outside the bloc. A third (32%), who are currently exporting to the EU, planned to exit at least one market.

However, there are some positive signs for future European growth opportunities; nearly three quarters (72%) had plans to expand into at least one more EU market.

To achieve this, businesses do have routes for greater support and clarity to understand what regulators are asking of them. IOSS is just one way to invest in digitisation to take more administrative and compliance burden away.

At Avalara, we help businesses of all sizes to get tax compliance right, in partnership with leading ERP, accounting, ecommerce, and other financial management system providers. We deliver cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types, as well as providing e-invoicing, which is the future direction of tax compliance globally.

Working with a trusted partner will relieve the administrative burden and allow leaders to focus on what matters: unlocking benefits to drive growth and expansion abroad, especially at a time of much economic turbulence globally, and when growth in the UK is so sorely needed.

94% of UK businesses saw a rise in positive customer feedback thanks to a simpler import process for export sales to EU consumers

1/4 of the firms questioned remained unaware of the IOSS scheme and its positive benefits

8 in 10 of those contributing to our research believed the introduction of IOSS simplified the export of low value goods to the EU

£5.2bn from exports could have been realised had the EU VAT reform come in six months earlier, with cross-border tax complexity expected to result in a further

£16.1bn of export value lost to the UK by 2026 through tax complexity

Avalara, 2022

64% questioned agreed staying compliant with tax obligations and regulations was the most stressful thing about running their business

To find out more about how businesses can overcome their compliance challenges to unlock cross-border growth, go to avalara.com
To download the full Cebr report, go to avalara.com/eu

Avalara
Tax compliance done right

BUSINESS MODELS

Five ways online retailers are generating new revenue amid an ecommerce slump

If the ending of pandemic restrictions has brought a general sense of relief, for ecommerce and direct-to-consumer businesses it has brought a new set of challenges

Mark Walsh

The return to (mostly) normal life this year has made the ecommerce boom of the prior two years – when online buying surged – seem a distant memory. Instead, the market is experiencing lower sales, layoffs and reduced growth expectations.

The first half of 2022 has seen a wave of job cuts and spending cutbacks at firms that were flying high during the pandemic, from Amazon to Allbirds to Wayfair. Cost-cutting measures have often been announced in connection with flat or falling year-on-year sales as consumers reverted to more typical shopping habits, benefiting bricks-and-mortar stores at the expense of online ones.

Writ large, online retail sales in the UK in July fell 4.3% (seasonally adjusted) from a year ago, while overall retail rose 7.8%, according to the Office for National Statistics. And the proportion of online retail, at 26.3%, is well off the peak of 37.5% in February 2021, but still above the pre-pandemic level of about 20%.

In the US, retail ecommerce in the second quarter of 2022 was up 6.8% (seasonally adjusted) from a year ago, slightly behind total retail, at 7.2%, according to US Department of Commerce data. The former figure is down from 14.2% growth in the year-earlier period and from a pandemic spike of 44.5% in 2020.

For ecommerce and direct-to-consumer players coping with the slowdown, it's not just about retrenchment. Even as they pull back in some areas, they're actively pursuing ways to increase revenue beyond their core online business.

The following are some of the ways they're drumming up revenue to offset the ecommerce pullback.

Scott Olson/Staff via GettyImages

Bricks-and-mortar binge

For direct-to-consumer brands that were once internet-only, adding a physical presence has become an increasingly common strategy. The original idea was to establish a small but high-profile bricks-and-mortar footprint – think London's Oxford Street or SoHo in New York – to serve as much as a product showroom as a sales outlet. And some, like US eyewear retailer Warby Parker, have gone beyond opening a flagship outpost.

Those bricks-and-mortar expansion plans would seem a potential casualty of these firms' recent efforts to pare back operating costs. But it's not playing out that way.

For one thing, the stores offer a way to offset the decline in online sales following the lockdowns. They are also part of the broader omnichannel strategy many retailers have adopted to integrate sales across online and offline venues.

"It's essential to be everywhere your customer wants you to be," says Peter Fader, a marketing professor at the University of Pennsylvania's Wharton School. "It's just plain good business."

Take Warby Parker. In August, the DTC eyewear brand revealed plans to lay off 15% of its corporate workforce and cut back on its marketing spending, citing an uncertain economic landscape. Even so, the company assured that the decision wouldn't impact its plans to open a further 40 stores this year, on top of the 161 it already operates.

"We continue to believe that it makes sense to open up stores and it's a good use of capital," explained Neil Blumenthal, Warby Parker co-founder and co-CEO, in the company's second-quarter conference call. He added that its recently opened stores were making back their capital investment within 20 months.

The shift of its business from ecommerce back toward physical stores this year is also fueling the company's aggressive store expansion plans. And because the stores themselves serve as "billboards," they don't require as much ad spend as its web presence, noted Blumenthal.

In a similar vein, eco-friendly shoe-seller Allbirds in August reaffirmed its plans to open between 16 and 17 stores this year. This despite laying off 8% of its corporate workforce in July in response to softening retail demand this spring.

The company posted a net loss of \$29.4m (£26m) in the second quarter, up from a loss of \$7.6m (£6.7m), in same period a year ago. Yet Allbirds execs highlighted the benefits of a diversified retail approach in which online and physical stores reinforce each other.

For example, Joseph Zwillinger, the company's co-CEO, said on Allbirds' latest earnings call that up to 15% of in-store repeat customers convert to online buying, adding that they are spending 50% more than people who only make use of one shopping method.

"So that's a big impact on the profitability profile of a single customer that we can acquire," he said.

Meanwhile, home-goods internet retailer Wayfair took the offline plunge in May, opening its first physical outpost in Massachusetts under its AllModern brand. Two more speciality shops are set to open later this year and a larger Wayfair store is to come in 2024.

Gonzalo Marroquin via GettyImages

Wholesale better than no sale

The online embrace of bricks and mortar goes beyond bespoke stores to wholesale venues as well. Considering a central idea behind ecommerce was to cut out the wholesale 'middle man', that might seem an unlikely step.

Leaning into that strategy is mattress-in-a-box company Purple, which, in addition to its ecommerce site, operates its own showrooms and sells through a dozen wholesale partners that include Macy's, Raymour & Flanigan and HOM Furniture.

Last year, about two-thirds of its net revenue came from direct-to-consumer sales and a third from wholesale.

Its latest quarter reflects the broader downturn in online shopping, with its ecommerce business down 39% from a year ago, while wholesale sales fell 6%. As with other home-products sellers, Purple has been hit not just by the shift away from online shopping, but from spending on physical goods to things like travel, eating out and other services.

Still, the company this year plans to open another 14 of its own stores for a total of 54, while seeking to improve sales at its existing 3,200 wholesale locations, including 700 added in 2022.

Online fashion retailer Asos has likewise made the leap to wholesale, albeit through a much more exclusive partnership. Last year, Asos entered a joint venture with the American luxury department store chain Nordstrom's, in which the latter would become the sole bricks-and-mortar seller of the Asos Topshop and Topman brands worldwide. Earlier this year, it built on that relationship by adding its Asos Design label clothing to 11 Nordstrom stores in the US.

In June, Allbirds also struck a deal to start selling a selection of its shoes through Nordstrom. That move followed closely behind the company's first two third-party retail partnerships with Public Lands, which is an offshoot of Dick's Sporting Goods, in the US and Zalando in Europe.

Taken together, the wholesale moves show that ecommerce brands are aiming to build brand awareness and attract new customers via different channels.

Bloomberg/Contributor via GettyImages

Prices going up, up, up

If online has long been the land of discounting, flash sales and bargains, surging inflation has inspired a new strategy among ecommerce firms: raising prices. That, in turn, can help bolster revenue and margins even as unit sales decline in the post-pandemic slump.

Direct-to-consumer businesses have not been afraid to take that step despite customer expectations of cheaper prices online. Even when they're selling dog food. Sumit Singh, CEO of online pet supplier Chewy, recently said the company pre-emptively raised prices this year in anticipation of higher costs due to inflation.

"Where we're finding the opportunity to benefit and take in margin, we're not giving up those opportunities, whether it's in sharper pricing or executing sharply," he told analysts in August.

The company had a profit of $22.3m on revenue of $2.4bn in the second quarter, compared to a loss of $16.6m on sales of $2.2bn a year ago.

Even those under more pressure aren't shying away from price hikes. Allbirds, for example, said price increases helped boost its average order value. Its top-end running shoes, made with 'biofoam', sell for around £150 in the UK and $160 in the US.

"This increasing consumer demand for natural and sustainable materials allows us to take price and to enhance the value for our consumers," said Allbirds co-founder and CEO Timothy Brown, in the company's earnings call.

In other words, speciality products carry premium prices. But after going public only last November, Allbirds has a way to go to prove its business is sustainable.

For his part, Fader views direct-to-consumer upstarts like Allbirds maintaining or raising prices as a welcome step, along with cost-cutting measures, to operate more efficiently after riding an early wave of venture capital funding.

"They have to start running these businesses like businesses, and be accountable on those terms," he says.

Delivering bigger fees

For the larger ecommerce players, increasing or adding new fees is another way to counter inflation and generate additional revenue for the business.

In mid-August, for instance, Amazon told third-party sellers it was raising the amount it charges for warehousing and shipping their items during the upcoming holiday season - the first time it has done so. Merchants in the US and Canada will pay an average fee of 35 cents per item sold using Amazon's fulfilment services.

That comes on top of an added 5% "fuel and inflation" surcharge it imposed on merchants in May to minimise the impact of rising gas costs. On the consumer side, in February it also raised the annual fee for an Amazon Prime membership by $20 to $139 (£123).

For critics of the ecommerce giant, the fee increases are further evidence of Amazon holding monopoly power over the online market. But during the company's second-quarter earnings call in July, Amazon CFO Brian Olsavsky said Amazon added the fuel surcharge "grudgingly" to compensate for inflation. He added that neither that increase nor the Prime fee hike, "come close to covering our costs".

In any case, Amazon is not the only online marketplace boosting fees. In April, Etsy raised the transaction fee for sellers on its crafts website from 5% to 6.5%. When it was announced earlier this year, the move provoked a week-long strike by Etsy merchants.

Etsy was a big beneficiary of the pandemic shift to at-home shopping. Sales of face masks and home goods on its website

Bloomberg/Contributor via GettyImages

helped the company more than double revenue in 2020 to $1.7bn (£1.5bn).

In its latest quarterly report in July, Etsy noted that the 11% gain in its marketplace revenue was largely due to the seller fee hike. CEO Joshua Silverman added there had been no noticeable change in the seller base because of the increase, and that funds it generated had been "reinvested" into the business in areas such as TV advertising and a new purchase insurance programme.

Retail marketplaces turn ad networks

In the quest for new revenue streams, online retailers have also jumped into the digital ad business. Specifically, they've started offering advertising across their own ecommerce websites and apps and, in some cases, on third-party sites as well.

Amazon has become the biggest player in this area, emerging as a credible challenger to Google and Facebook. In its latest quarter, Amazon's ad sales grew 18% to almost $9bn (£7.9bn), or 7% of overall revenue.

Competitors from Walmart to Instacart to Chewy are now getting in on the act. "Advertising is certainly attractive as a higher margin revenue stream than retail," notes Kate Scott-Dawkins, head of business intelligence for WPP's GroupM unit. And with third-party cookies going away, retail media networks are luring advertisers as sources of valuable consumer data.

For its part, Etsy in 2020 introduced a new service called Offsite Ads, which allows its sellers to run ads on other sites. Etsy pays the upfront costs for the ads but receives a fee when someone clicks on an ad and then makes a purchase. That's in addition to ads it runs on its own marketplace on behalf of sellers. "It's an area where we see a long runway for continued growth," Silverman told analysts in July.

Its ad business, along with the increased seller fee, helped the company post a 10.6% revenue gain despite a 6% drop in gross sales in its marketplace in the latest quarter compared to a year ago.

Overall, spending on retail media networks this year in the US is expected to surpass $41bn (£36bn) this year, according to research firm eMarketer.

DANIEL LEAL via GettyImages

CRYING OUT FOR DIRECT-TO-CONSUMER SIMPLIFICATION

Businesses feel hindered, rather than helped, by their complex supplier ecosystem

7in10 businesses use four or more suppliers to run their DTC operations

Over **25%** use seven or more suppliers

2in5 businesses agree that too much time is spent in supplier pitches

3in5 business leaders would welcome the chance to work with one end-to-end partner

75% of company leaders believe recruiting the right people to manage their DTC offering is challenging

Censuswide, 2022

Take direct action on sales

Brands of all sizes are looking to build direct to consumer channels for stronger customer relationships, creating businesses fit for the future

It's not often that established brands face an existential dilemma. As the power of direct customer engagement has become evident in recent years, even multimillion global consumer packaged goods (CPG) brands find themselves seeking direct-to-consumer (DTC) routes to market.

But it's not a question of just flipping a switch. Retailer-reliant brands face a host of challenges when it comes to pivoting towards DTC, not least the cost and rarity of new talent, building the supply chain and logistical solutions and a need for significant internal reorganisation. This is why established brands of all shapes and sizes – yes, even those household names – are looking to outsourcing to bring them up to speed in the DTC market quickly and effectively.

Why is speed and expertise of the essence? Ecommerce adoption has been steadily rising over the past two decades at least and, even after the pandemic peak when the trend slipped back somewhat, ecommerce sales have stayed generally higher than they were pre-2020. In the UK, the Office for National Statistics (ONS) reports that seasonally adjusted internet sales in May 2022 accounted for 26.6% of all official retail sales, compared to 19.7% in February 2020.

This, of course, includes both DTC and retailer figures. One report from CapGemini suggests that, while official DTC sales would appear to hover around 2.5%, when analysts dug into shoppers' receipts, the percentage of online sales could be in the order of ten times more.

"Companies of all sizes that might previously have relied on retail outlets for exposure are recognising the power of DTC," states Mark Steel, CEO of WPP-backed fully managed commerce provider, Everymile. "Medium-sized businesses who have grown organically, built a brand and a loyal customer base have seen the size of the market and are looking to take the next big step to scale. Large consumer packaged goods businesses are looking at the potential – the imperative – of gaining deeper customer insight and building closer customer relationships and see that DTC is the most effective way to deliver it."

This is where many are beginning to consider partnering with fully managed commerce companies to achieve growth and market prominence quickly. Economic conditions demand that companies make the move quickly if they're to have a chance in a market that is filled with opportunity – but also challenges.

Not least because everyone has had the same idea. There has been an explosion in competitors. Standing out isn't just difficult because of the noise, the cost of getting noticed has also risen. "Having tested the waters of DTC, now is the time to professionalise, seeking economies of scale for cost as well as the expertise," insists Julie Austin, chief digital officer at Everymile.

No time to go it alone

Overcoming these obstacles is challenging when you are an experienced DTC operator with scale and an established brand. When you are either new to the channel or looking to scale, it is several degrees harder, and going it alone is fraught with difficulties.

Take, for example, the technology needed to adapt to an agile DTC environment where everything from marketing to last-mile delivery is in play. "Large CPG businesses are working with legacy systems that are not fit for DTC purpose and reconfiguring is hugely disruptive and punitively expensive," warns Austin. "For smaller businesses, trying to scale up from a basic suite of solutions, often from a range of providers, is also costly and risks a certain amount of 'throwing the baby out with the bathwater' as recent purchases would have to be jettisoned due to compatibility issues."

> **"When you are outsourcing piecemeal, you are handing over control of your customer experience to a third party... you might feel your brand's distinctiveness is just being absorbed into a supplier's cookie-cutter approach**

The next challenge is human resources. Whether you subscribe to the great resignation or quiet quitting, the simple fact is that, in every size of organisation, it is incredibly hard to find the ideal mix of talented, experienced employees in an in-house setting.

Outsourcing becomes the natural solution but there are still more concerns, not least the issue of control. Steel explains: "When you are outsourcing piecemeal, you are handing over control of your customer experience to a third party, to a degree. They may have different standards, or their own experience has a different look and feel. You might feel your brand's distinctiveness is just being absorbed into a supplier's cookie-cutter approach."

Partner for prosperity

This is where a collaborative, fully managed commerce service provider has a huge role to play. Everymile saw this as a significant opportunity. With the challenges these brands face, there is a need for outsourced commerce services that can protect brands through the value chain, lower their cost of entry to the DTC channel and simplify supplier management.

Not only does a full-service partner have the capability and experience to provide end-to-end support in the creation of a fully operational ecommerce platform, they can advise on building brand equity or creating multichannel communications campaigns. With access to a broad range of expertise, collaborative managed services providers can 'put their arms around' an organisation's burgeoning D2C operation.

What does it mean to be collaborative? "One of the critical issues is going to be trust," admits Steel. "Whatever you do, in one way or another, you are branching out into the unknown." When you work with a end to end commerce partner, you need to rely on them to bring expertise and knowledge that is beyond your own scope. You have to be able to trust that, while you don't have the capability to develop an ecommerce platform or the creative idea behind a social campaign, that they understand your business strategically and will make decisions that are absolutely on brand and in its best interests.

"At Everymile, the ideal is for it to feel like you have in-housed your outsourcing. You really want to forge that close a partnership so you retain your brand's individuality, while also benefiting from a broad network whose expertise has been honed across a range of best-in-class clients," Austin says.

This, Steel adds, is part of Everymile's unique offering and is the first in the sector among the large communications holding companies to enter the end-to-end DTC market. As part of the wider WPP group, the provider has access to a wide network of expertise from creatives to performance marketers, platform builders, technicians and more. Similarly, a leadership populated by former high-level executives of leading companies (former executives at Disney Store, ASOS and Sainsbury's to name a few) brings the commercial nous that is the backbone of any partnership.

The rigour and accountability that a team with Everymile's pedigree brings cannot be understated. Companies on the verge of transformational change – whether into a new offering, like CPG into DTC, or embarking on a significant scale-up – are inevitably laser-focused on cost and ROI.

Steel spells out Everymile's position. "Businesses need reassurance, beyond all the claims about being your outsourced in-house team and strategic brand alignment. They need to know their bottom line is being equally well cared for."

All too often, this isn't the case, with accountability being a key sticking point. How do clients really know the proposed strategies are going to deliver on targets, and that they won't get beyond the point of no return before finding out about some significant flaw?

"Across all areas of Everymile, we've lived that life," Austin claims. "We've been in the board meeting where projects haven't been going the way they should have been. We've had to pivot and do something quick, or look to the long-term KPIs and their return on investment. We can be a true extension of the team because we've lived that experience."

For more information please visit everymilecommerce.com

everymile

LOGISTICS

A robot revolution in deliveries

Autonomous robots are increasingly used for last-mile deliveries. But do they have a commercially viable future?

Emma Woollacott

DANIEL LEAL via Getty Images

"Hungry? I can help," reads the label on the small white box, which rolls busily along the pavement, dodging pedestrians. Since Starship launched in Milton Keyes in 2018, small, autonomous delivery robots have become a common sight, ferrying everything from pizzas to loo roll across the city.

"People are so used to seeing them, they just walk around them," says Henry Harris-Burland, Starship's vice-president of marketing. "The biggest compliment we get is that our delivery robots aren't special anymore – they're part of the infrastructure."

But are delivery robots set to become as mainstream elsewhere – or are they no more than a flash-in-the-pan?

Starship's model has two strands to it. It runs its own delivery services, while also partnering with retailers such as Tesco and the Co-op.

"Residents choose from a range of grocery items, schedule their delivery, then drop a pin where they want their delivery to go," explains Jason Perry, Co-op's head of online development.

"They can see the robot's journey in real time, on an interactive map. They get an alert when the robot arrives, then they use the app to unlock it."

Perry says the robots have become an integral part of the supermarket's offering, particularly for small households or those short of time.

"The robots form part of our delivery network. They do not replace conventional deliveries, but where geography and basket size mean they are suitable, or there are limited last-mile options, they certainly have a function," he says. "Customers are often shopping for top-up items, treats or meals for the evening in. But they can also do a full grocery shop."

Most delivery services carried out by humans are subsidised by the retailer to the tune of a pound or two. Harris-Burland says that a robot delivery costs Starship or one of its grocery customers less than using a person. A study by the market data company ResearchAndMarkets.com found that delivery by robots can cut costs by between 80% and 90%.

There is also a reduction in the retailer's carbon footprint. Last year, research from Starship and Milton Keynes Council found that in the three and a half years it had been operating, 280,000 car journeys had been avoided, equating to more than 500,000 miles-worth of emissions.

This, they say, meant that 137 tons of CO2 and 22kg of NOx were saved. In addition, the volume of harmful airborne micro-particles, measured in units of particulate matter (PM), saw a reduction of 23kg of PM-10 and 12kg of the smaller PM-2.5.

But delivery robots are not suitable for all environments, observes Tim Jones, director of marketing, communications and sustainability for delivery firm DPDgroup UK. DPD is currently trialling delivery robots from California-based Cartken around the Milton Keynes traffic-free Redway network to access the residential neighbourhoods of Shenley Church End and Shenley Lodge.

"We chose Milton Keynes partly because of its Redway network. We're being realistic.

> **On-demand delivery is multimodal. In future, we might live in a world of autonomous electric vans and cars, scooters, humans, drones and robots**

We aren't going to see huge numbers of delivery robots on every street in the UK. But there are plenty of places where they can operate very successfully – for example, in campus-style locations," he says.

"The key is to think differently about the delivery model and infrastructure. In addition to the traditional delivery depot on the edge of town, we're looking at much smaller operations within communities, closer to the end customer."

Starship also operates successfully in locations outside Milton Keynes, recently extending its arrangement with the Co-op to cover Wellingborough, Higham Ferrers and Rushden in Northamptonshire. The robots also deliver in Northampton and around Cambourne, in Cambridgeshire.

There are, naturally, limitations for the robots. "Heavy traffic and lots of people can reduce the average speed of the robot, which reduces the quality and speed of the service to customers," notes Perry. "As these robots evolve, we expect more of the UK will become accessible and suitable."

Starship has had success in trials in London's Southwark and London Bridge. The robots operated well, if a little more slowly than elsewhere because of the extra obstacles to navigate. But congestion isn't as much of a hindrance as might be expected, with Starship finding that pedestrian footfall one street back from the main road is around 10 times lower. The robots' software is updated "almost daily" as the devices learn from their experiences.

Harris-Burland says there are other reasons, however, why robot delivery may not become the norm in urban areas.

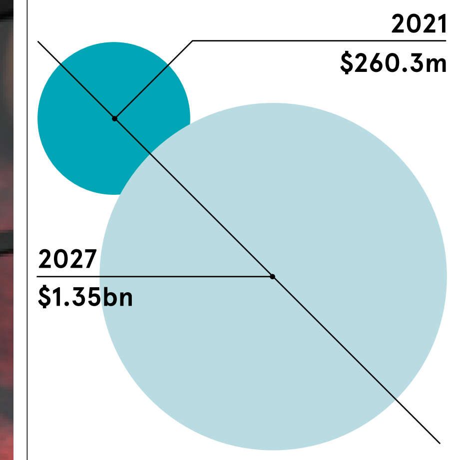
"There would not necessarily be as much demand in central London – which has an incredibly high density of on-demand services – as there might be in the suburbs, where other on-demand delivery is not available," he says. "We see robots operating in cities like London, but at the moment we can make a bigger difference – and a bigger cost saving – outside these high-density city centres."

Manufacturers and retailers alike agree that delivery robots do have a mainstream future as part of a portfolio of delivery methods that can be offered to customers. Other options include autonomous vans, which look set to be widely used as soon as technology and legislation allow, while companies such as DPD are looking into using drones for delivery.

"On-demand delivery is multimodal. The size of the goods being delivered should match the vehicle or the robot delivering it," Harris-Burland points out. "The most efficient and low-cost method should be used, depending on what's going on. That might mean we live in a world in the future of autonomous electric vans, autonomous electric cars, scooters, humans, drones and robots. There's absolutely no reason why that can't be the case."

DEMAND FOR DELIVERY ROBOTS LOOKS SET TO SOAR

Global delivery robots market forecast



90%

cut in costs possible when using delivery robots

Research and Markets, 2022

INSIGHT

'In the cost-of-living crisis, retailers must be wary of chasing growth purely to increase revenues'

Following the explosion of ecommerce during Covid, **Graeme Howe**, managing director of the upcoming Ecommerce Expo, details what retailers should be watching out for next

Q What are the biggest challenges facing the ecommerce sector?

A One is the impending economic climate. That's undoubtedly going to have an impact as consumers become more price-conscious. Then, sustainability remains high on people's agendas and it's only going to become a larger issue. Consumers are increasingly aware of the impact that consumption has on the planet, so retailers have to get their story in order and have a good, sustainable set of credentials.

Delivery will continue to be a challenge. As the cost of fuel rises, we'll doubtless see delivery costs increasing. Returns are not only an issue from a sustainability point of view, but they are also eating into retailers' profitability and increasing the cost of acquiring customers.

Fundamentally, retailers must be wary of chasing growth purely to increase revenues. They have to be conscious of the margins because continually chasing growth, then suddenly looking behind you to realise that that growth is not turning into profit, will present a series of serious challenges.

Q Can you tell us a little more about the Ecommerce Expo and what you hope attendees will gain from it?

A It is the largest ecommerce exhibition in the UK, has been going since 2007 and features 250 exhibiting companies. That makes it the definitive showcase of the new and existing technologies that underpin the ecommerce ecosystem and its key players.

We've been through a tough time in the events world, but ultimately, you've seen an acceleration of ecommerce with huge growth rates over the Covid period. There's been an acceleration to digital and although growth rates have slowed, you will continue to see significant migration from the high street.

There will be more than 220 seminar sessions, so there's a wealth of information both from suppliers of technology products and services, and from ecommerce practitioners themselves. That means plenty of opportunities to learn. The expo will also bring the community together to allow them to learn, network and, ultimately, share ideas and experiences with their peers.

Q What are some of your ecommerce predictions for the next 12 months?

A We're seeing the growth of live shopping and social commerce as the big social media platforms enter the ecommerce market. With that comes the whole area of product discovery, the ability to buy via social media channels.

I already mentioned the increasing cost of customer acquisition. There's going to be much more focus on customer retention, which is made up of a wide range of touchpoints. Brands need to manage their digital presence across multiple channels so that, when a customer wants to buy, they have opportunity irrespective of the channel they are using.

Strong customer service will be vital, particularly on transactional websites, with options such as frictionless payments, the capability to choose the type of delivery and the speed of that delivery. This also ties into questions of customer data. The demise of third-party cookies will hamper retailers' ability to track customers and make having a good relationship with customer paramount.

The interplay between the high street and digital channels is going to be ever more important, particularly when it comes to brands using their retail presence on the high street as part of the omnichannel experience. And that's against the backdrop of those increased economic pressures. Digital lends itself to people getting price transparency, so it's going to become more competitive while costs are rising and consumers are becoming more cost-conscious.

All these factors are going to play a role and there are going to be winners and losers. Ultimately, the companies that will win are the ones that have the strongest customer relationships, retain their customer base and are deeply engaged with it across as many channels as possible.

Graeme Howe
Managing director,
Ecommerce Expo

AsiaVision via iStock

BUSINESS BUYING

Thinking outside the B2B box

The business-to-business sector has been slow to pick up on cues from the consumer world, but those who have adjusted are reaping the rewards

Morag Cuddeford-Jones

The contrast between today's B2B ecommerce leaders and "the way it has always been done" is as different as night and day. Traditional structures have been slow and inefficient, and as far from "customer friendly" as it's possible to be. Strictly nine-to-five dedicated delivery days and long lead times mean delays often stack up.

Compare this with a set-up such as that of Catering24.co.uk. The business is open from 7am to 11pm, delivering six days a week, with a 7pm cut-off for next-day delivery. "It sounds very retail but these are wholesale products to businesses only," says its director, Oliver Lloyd. "Customers really like the convenience of being able to order on their mobile, 24/7."

Convenience is key and the B2B sector is clearly looking to B2C brands for inspiration. It helps if your offering straddles both. The tools retailer Screwfix is largely trade but also has a consumer arm. It brings many typical B2C ecommerce facets to its commercial audience, including rapid delivery and click and collect.

Screwfix Sprint was launched in 2021 and is available in more than 300 UK stores. It offers customers delivery in 60 minutes, with the fastest recorded drop taking just five minutes.

"The majority of our customers are plumbers, electricians and multi-skilled people, and their level of work has accelerated,"' explains Jack Wallace, Screwfix's marketing director. "One used it 34 times in a single month. Time is money and it's a savvy thing to use because, when you're thinking ahead to your next job and what you need, you get it delivered to the site you're at now and take it with you."

Successful B2B ecommerce doesn't just mean having couriers on speed dial. Backend systems have to cope with rapidly refreshing inventory, which isn't something many are set up to deal with.

Wallace explains that the difference between Screwfix and traditional merchants is its ability to handle real-time inventory: "We know where every SKU [item] is." This fuels a rapid-turnaround click-and-collect function, where customers can order an item via the app or online and, in some cases, find it ready to collect in one minute. "It's a truly omnichannel, connected digital experience. We saw significant levels of customer acquisition [during the pandemic] and we've kept a lot of them because people appreciate convenience and certainty," he says.

This is not a trivial endeavour. Lloyd emphasises that everything from staffing to backend technology needs to be reappraised to meet today's exacting B2B consumer's standards.

"We had to invest a huge amount in technology with enterprise resource planning software and warehouse systems. It has involved negotiating with nationwide couriers, so you can reach every corner, because that's expected, too," says Lloyd.

He cautions against an "off-the-shelf" website package because of the sheer backend complexity. "There are so many other requirements, from stock availability, to payment access and credit accounts, to where your invoices go – they don't always go to the place the goods are being delivered. It's not your normal B2C website."

He also recognises there is a cost to bringing B2B ecommerce operation up to today's customer expectations, saying "it can knock you off your chair a bit", but he wholeheartedly recommends making the leap. The difference in accessing new customers, a broader market and a broader product base is stark. It is also financially astute.

"What's really good for B2B businesses is cash up front. Payment by credit or debit cards – it's cash in the bank within a couple of days, which is a massive transformation from an industry that was mainly driven by cash on delivery or credit accounts."

Indeed, one of the critical factors determining B2B ecommerce success seems to be control – the ability to control your own supply chain, your own logistics, your own platforms and technology, and your own service proposition.

John Steele, trade marketing director GB at drinks wholesaler C&C Group, explains that the sheer size of the business – the company supplies around one in four of every drink (or 'serve') sold in the on-premise or "on-trade" – is a natural advantage. The company uses its economies of scale to offer highly competitive prices but, while very important, it isn't the only benefit.

One key part is logistics; the business owns its own fleet, which helps drive efficiency. "If you think about what we can do on price in terms of the volumes we can purchase, on top of the convenience of 24/7 ordering [publicans rarely keep office hours] with one delivery, one truck, one invoice," he says.

Not every B2B supplier can compete on scale but there are lessons in terms of havig the most effective supply chain. With control over inventory and logistics, it opens up everything from cost efficiencies to enhanced customer experience. Control over the full product and customer journey also generates a wealth of insight that B2B ecommerce companies can then use to drive stronger long-term relationships and business growth.

> **Customers really like the convenience of being able to order on their mobile, 24/7**

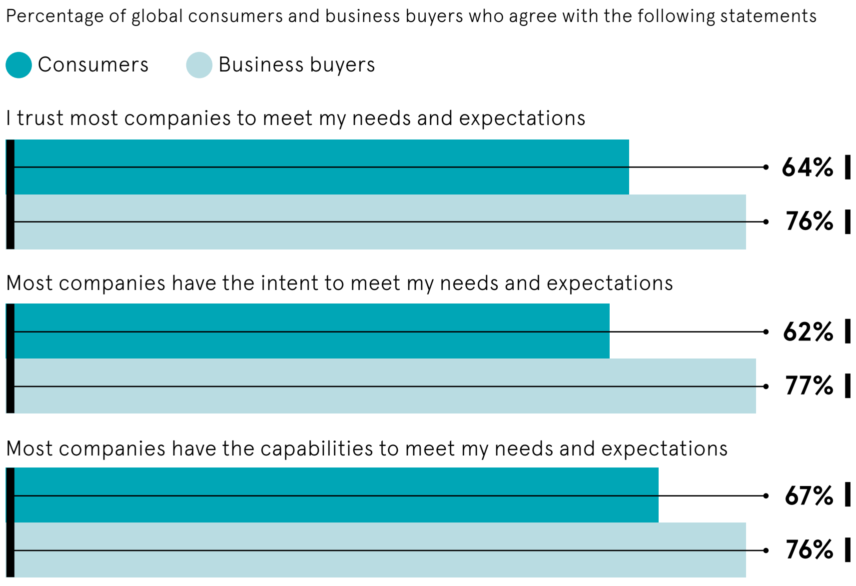
C&C Group is an avid consumer of data, with the company owning its own insights business. This makes sure customers not only have access to the products they need, when they need them, but, Steele adds, "we have a level of insight that can feed into the platform that lets customers be educated on what will drive profit for their venues".

With personalisation pivotal to a successful B2C ecommerce operation, it's interesting to see how companies such as C&C Group are bringing that to bear on their own relationships. Inevitably, data-led insight helps the company develop its own proposition and range but, by sharing those insights with its customers, the company brings added value to the relationship. Steele claims the data can go into such granularity that it can reveal how drinking habits change, postcode by postcode.

Following the model set by B2C ecommerce companies will not always be appropriate – the B2B environment has a unique set of complexities that, as Lloyd says, can't just be poured into a one-size-fits-all package. However, there are clear advantages to adopting as many tried-and-tested B2C strategies as possible.

HIGH TRUST SUGGESTS OPPORTUNITY FOR B2B ECOMMERCE

Percentage of global consumers and business buyers who agree with the following statements



Salesforce, 2022

Commercial feature

Buy or build? Securing competitive edge for ecommerce businesses

For online retailers, making smart investments in technology is essential both for competitive gain and for customer retention. But as they develop their strategies, success depends on choosing whether to purchase off-the-shelf tech or build it themselves

The explosion of choice for online shoppers means businesses are under immense pressure to keep ahead of the competition. Building and retaining competitive advantage is ever harder, as smart competitors continue to emerge by the week. Firms need to consistently attract more customers and keep them spending money, but this requires enormous investment in the right areas.

"Loyalty is hard to win, and is dependent upon the ability to predict customer needs and expectations and meet them effectively," says Mark Fisher, chief commercial officer at Ciklum.

Online retailers succeeding in this environment include the biggest household names offering frictionless experiences, which reflect what customers want at any given moment. Such businesses make buying enjoyable and easy, with "a set-up that is absolutely tailored to customer needs," explains Fisher. "This is the only way to delight customers, create amazing shopping experiences and grow loyalty."

In sharp contrast, some rivals are stuck with a complex buying process, confusing customer journeys and poor service, which results in customers not coming back. "Any firms not getting this right can be sure their main competitors will," Fisher adds.

Achieving personalisation

Companies yield 40% more revenue, according to McKinsey, when personalisation is at the heart of their customer journey. Consumers presented with content and products relevant to them are continually more likely to spend with that brand. For companies, the ongoing development of their platform and applications is now absolutely necessary in matching these needs.

In today's multifaceted, multi-platform world, however, achieving consistently relevant personalisation is becoming particularly complex, given the many personas and their very varied ways of researching or buying products. And when presented with extensive choice, people change their minds more frequently than ever before. Personalisation, therefore, has to be at the cutting edge if it is to work.

To compete well with a personalised offering, brands need to understand consumer behaviour and need to continuously add new features as customer demands and expectations change. "It is essential to harness data in order to understand your consumers and create relevant, frictionless journeys," Fisher says.

Ensuring agility

Businesses may be tempted by off-the-shelf products and solutions, in a bid to solve these challenges quickly. However, integrating and customising them can be far from straightforward. "That approach is highly problematic, as platforms are unlikely to be responsive to real-time, changing needs," Fisher explains. "Keeping ahead of competition requires continuous platform innovation. This is hard to achieve with off-the-shelf vendors that have their own release timelines and priorities around new functionality."

This need for greater agility is resulting in the uptake of bespoke platform development, Fisher argues: "The sheer pace at which consumer expectations are evolving is tipping the scales towards building rather than buying. When you go onto a great platform or application, that sets the bar for every other one you use."

Nevertheless, when businesses attempt to build their platforms, going it alone in-house tends to be slow and costly, and requires a wealth of extra expertise. Increasingly, successful companies are tackling this by bringing in outside help from the start. "Choosing to build, with the right support from experts, is key to doing this well and efficiently," Fisher notes. "Harnessing the knowledge and expertise of those who have done this before is an obvious choice."

> **The sheer pace at which consumer expectations are evolving is tipping the scales towards building rather than buying ecommerce applications**

Success in practice

Successful design and implementation of the build process means companies require the right mix of technology, methodologies and people. Many are turning to Ciklum, an industry-recognised leader in custom platform development. Ciklum deliver industry-redefining platforms through agile development and the application of future-proof delivery methodologies.

"A key part of our work is integrating teams into our clients' operations to foster agility and ensure effective collaboration," says Fisher. Ciklum's consultants work closely with the client and their end customers to design and build a tailored product roadmap. This is underpinned by multiple data points to ensure that platform development is driven by what their consumers want.

Companies working with Ciklum to achieve such targeted, rapid development include the online food ordering giant Just Eat, which currently partners with over 580,000 restaurants worldwide. Ciklum has helped Just Eat scale effectively and evolve their core product over the past decade. During this time they have helped to make changes such as post-acquisition system migrations, application improvements, the creation of self-service tools for partner restaurants, and simplified restaurant on-boarding. Ciklum also works closely with companies across a range of sectors, including consumer, gaming and banking to help them differentiate their experience.

> **Companies increasingly recognise they are wise to step away from off-the-shelf platforms that can't keep up with customers' changing expectations**

The vast increase in competition and customer expectations means now is the time for companies to advance rapidly with dedicated technology. To establish and maintain success, online offerings must be able to appeal to customers' specific needs and guide them without friction through entire engagement journeys.

"Companies increasingly recognise they are wise to step away from off-the-shelf platforms that can't keep up with customers' changing expectations," Fisher concludes. "They know it's time to focus on unlocking agility and bringing in the right expertise to build platforms that engage and delight consumers. Doing so builds powerful loyalty and reliable, sustainable success."

If you are looking to gain a competitive edge through your platforms and applications, visit ciklum.com

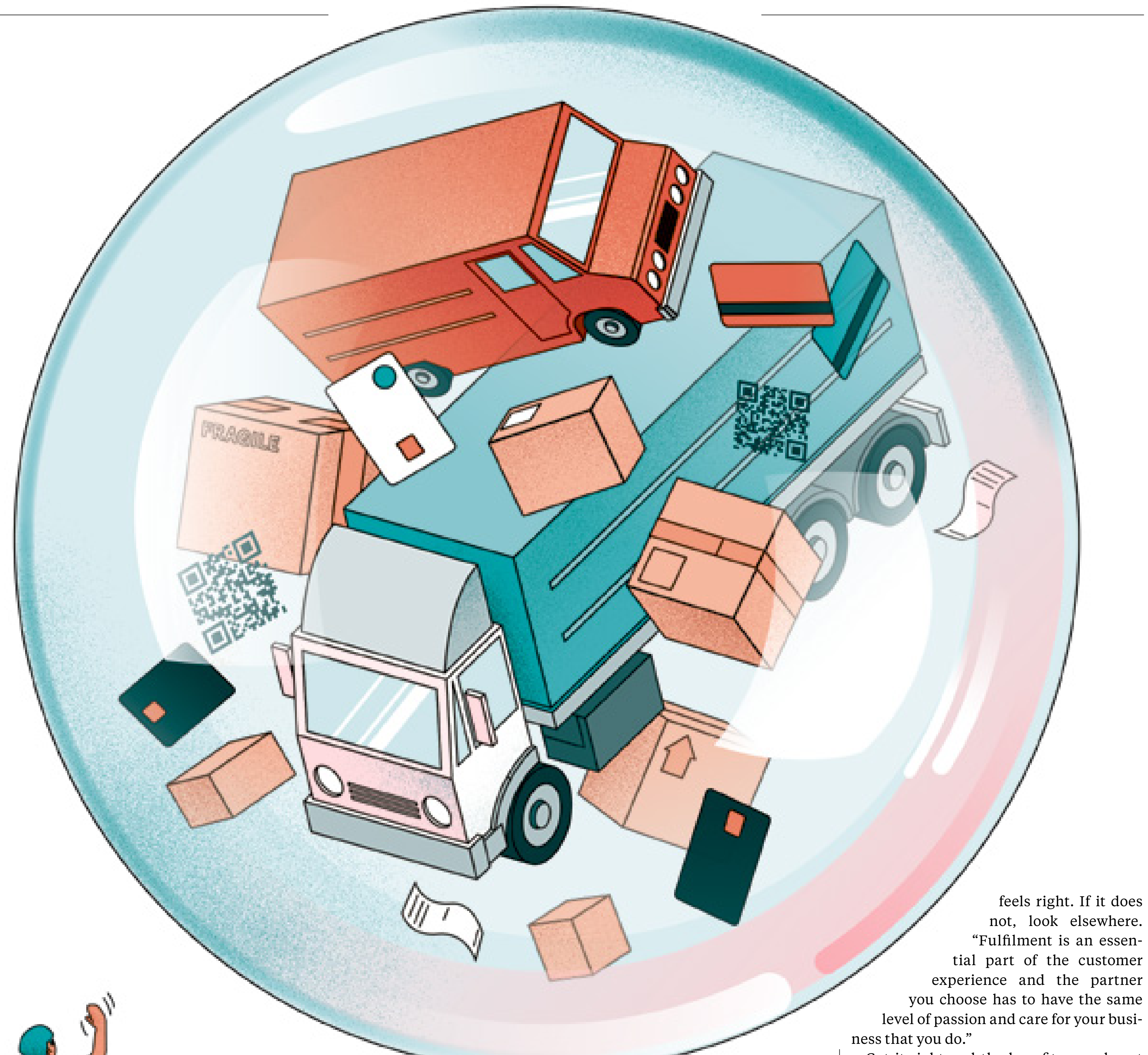
CIKLUM

FULFILMENT

Let someone else sweat the small stuff

Outsourcing to a specialist provider can supercharge ecommerce business growth, but how do first-timers avoid the pitfalls?

Chris Stokel-Walker



Ecommerce is booming, and with it the businesses that have launched off the back of the push towards more specialised online retail companies are beginning to scale up rapidly. But any founder knows that standards have never needed to be higher, with strengthened competition and increasingly picky customers.

What could once be explained away or blamed on poor courier firms, delayed post and glitchy customer service is no longer tolerated. The sector has matured and so have customer expectations.

Which is why end-to-end fulfilment – from processing orders and packing items, through to delivery, returns and aftersales communication and support – has become a major area of interest for companies looking to build their presence and revenues in the world of ecommerce.

Enabling a seamless customer experience takes lots of time. Enter end-to-end fulfilment. By working with third-party partners, organisations can streamline and brand every element of the customer journey, right down to branded “Sorry we missed you” delivery slips.

End-to-end fulfilment takes the hassle out of one of the hardest parts of any ecommerce experience. However, it comes with as many risks as it does rewards.

“Getting a package from A to B is a lot more difficult than it sounds, particularly for a business that is expanding,” says Enda Breslin, general manager for Europe at ShipBob, a fulfilment company.

“The logistics of shipping multiple packages every day is a massive time drain and can hold you back.”

“That division between being a retailer and being a delivery company that handles fulfilment has always been quite problematic,” says retail analyst Bryan Roberts. “Obviously, there are economies to be had if you run your own fulfilment and operations – you're not paying a premium for a third party to deliver that service for you.”

But for many companies that aren't major players like Tesco or Amazon, the cost and hassle of doing so is far too expensive. It's like running a business within a business.

For that reason, it's become more common for ecommerce companies to outsource the end-to-end fulfilment process to third parties, which are expected to carry the weight when it comes to the tricky business of bringing products to customers.

Yet doing so comes with its own drawbacks, says Roberts. “A lot of retailers have realised that by outsourcing fulfilment to third parties, they are putting their brand equity in someone else's hands,” he says.

While many customers can identify most major delivery companies, in many cases the delivery process is white labelled, with third-party employees presenting themselves and their processes as the business they're providing a service to. Rather than a courier such as DPD or Evri slipping a branded missed delivery note under a customer's door, these are increasingly in the brand's name.

That's all well and good if the delivery driver genuinely calls when your customer is out but it jeopardises a company's reputation if something goes wrong, or the person supposed to be doing the delivering fails to knock on the door. “That's where reputational damage can occur,” says Roberts.

Avoiding reputational damage is why it's more important than ever that businesses looking to contract out their end-to-end fulfilment services ensure the company they choose is reputable and has their best interests in mind. “You need to be cognisant that they are, to some extent, holding your brand equity,” he says. “And if they don't fulfil their side of the bargain in an elegant fashion, you're getting dragged into it, even though you're not responsible for that part of the supply chain.”

Of course, ensuring that anyone a business enter an agreement with shares its interests and brand values is only part of the equation. There's also the bottom line to consider. “For lots of retailers, it doesn't make sense to have that end-to-end capability,” says Roberts. “The capital investment in buying a fleet of trucks and delivery drivers to staff them doesn't make sense, so you're often looking at picking fulfilment partners based on price.

But don't compromise on quality in exchange for lower cost, warns Roberts. “The ability for consumers or shoppers to separate out various parts of the chain can be hard to pick apart,” he says.

“If you order from a retailer and the delivery company doesn't deliver in a satisfactory fashion, it's you that can be affected.”

Still, businesses often seek out delivery “at an appropriate – and generally lowest – cost point”, says Carmen Carey, chief executive of delivery platform Sorted.

However, that's just one of four key areas that Carey believes businesses should think about when contracting with an end-to-end fulfilment partner. They also need to consider how the delivery process matches the promises made to consumers when they check out. They need to be aware of the content and updates that they and their customers will be given about the progression of their package, on both the outbound and return journeys (if needed).

“The return [process needs to be just as] seamless and frictionless,” says Carey. “That's what we're trying to do with our customers – to fulfil all angles of that customer experience through different elements of that parcel lifecycle.”

Before flicking through those four questions and trying to answer them, though, there's a more fundamental question to pose. Do you need a partner at all?

“There are circumstances when handling fulfilment internally is the right call,” says Breslin. “For low-volume, personalised products, delivering yourself can make more sense than outsourcing. But once you break the threshold where delivering internally is becoming so time consuming it is stopping your progress, it is time to outsource. If your product is featured on TV or an influencer shares it, that threshold can be crossed quickly.”

Once that is the case, it's about finding the right partner – and making sure to follow the dos, rather than the don'ts, of end-to-end fulfilment. Two examples of small ecommerce businesses that weighed up the options of whether they needed a helping hand to grow their business – and came to different conclusions – can be seen in the boxouts below. But alongside the four key checks that Carey recommends, Breslin has some more pointed questions businesses will need to consider.

One major thing to consider is whether the provider is the right fit. Packing, handling and delivering T-shirts is quite different to meal packs – and specialised suppliers with experience in specific areas exist for a reason. “If you're a fresh food specialist, you'll want to partner with a business that is an expert in keeping foods cool on the move. Scope is also a big consideration,” says Breslin. “If you just sell products locally, you'll need a different partner than if you are planning to expand nationally or even internationally.”

Likewise, what kind of data do they provide on key metrics that help keep track of business? While a business might be willing to hand over their public perception to a third-party provider, not everything can be outsourced effectively.

“By outsourcing with the wrong partner, there is a danger that you will lose some of the control of your quality standards,” warns Breslin. “Find a partner that provides real-time information on stock levels, delivery status and number of returns so you can maintain or better your standards, and react quickly to opportunities.”

Businesses must also ensure that the partner and their relationship with them feels right. If it does not, look elsewhere.

“Fulfilment is an essential part of the customer experience and the partner you choose has to have the same level of passion and care for your business that you do.”

Get it right and the benefits are almost immeasurably large. “By partnering with the right fulfilment business, you can unlock savings,” says Breslin. “The partner will have relationships with delivery firms and, due to economies of scale, be able to reduce costs for you. They will also provide access to tools and features that you simply don't have the time to develop.”

That means you can get on with building your business – focusing on the big picture while they sweat the small stuff.

> “The logistics of shipping multiple packages every day is a time drain and can hold a business back

31.4%

of UK customers say they would be willing to pay more for excellent retail service in the UK in 2022

up from

29.8%

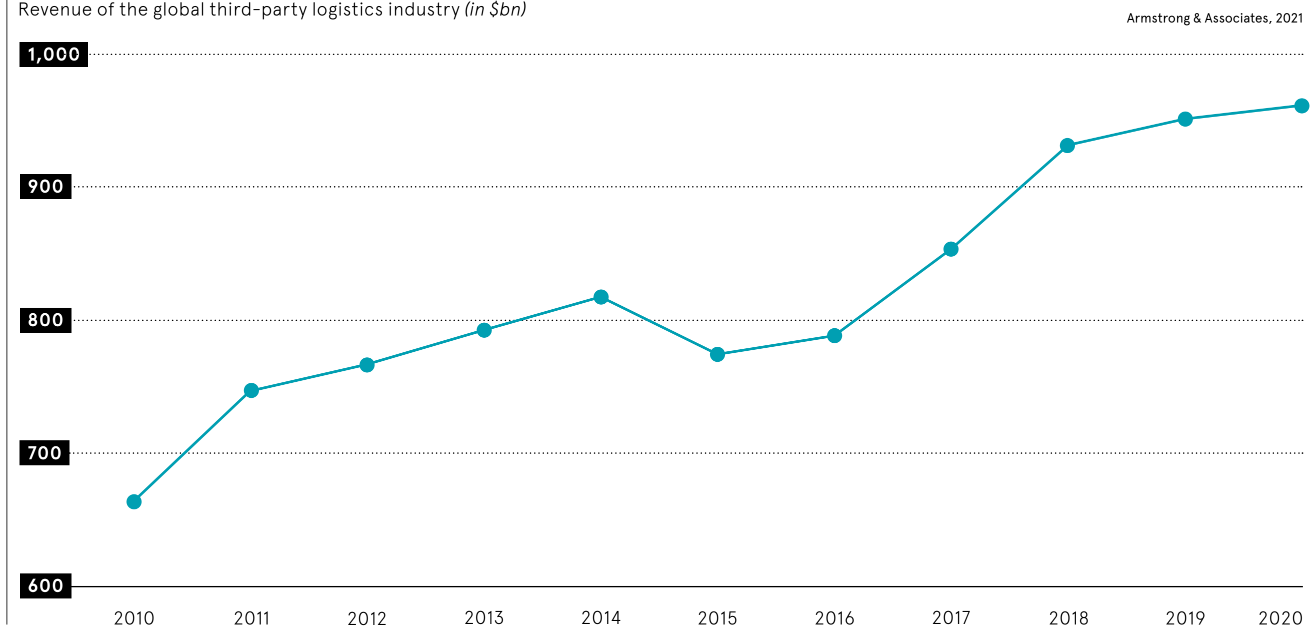
in 2021

Institute of Customer Service, 2022

THE THIRD-PARTY LOGISTICS INDUSTRY HAS EXPERIENCED RAPID GROWTH

Revenue of the global third-party logistics industry *(in $bn)*

Armstrong & Associates, 2021



The beginning of the end-to-end

London-based compostable coffee-pod company Moving Beans kept all its inventory in the shed of one of the founders, packed wall-to-wall with boxes. “As we started growing, doing daily runs to the Post Office carrying all these boxes became unfeasible,” co-founder Daniel Hardej says.

“It was quite a nice problem to have,” he admits, but it did dawn on them that something needed to be done.

They began to realise that, in order to scale up, they would need to outsource delivery of their product. Shuttling boxes of coffee capsules back and forth was proving too time consuming and eating away at their ability to build up other parts of the business.

“It was at that point we thought, if we wanted to scale beyond this, it'll be really important to get a good fulfilment partner,” he says.

“We weren't able to juggle all the tasks that come along with packing, labelling and posting all these parcels ourselves by hand.”

Hardej and his co-founders realised they'd soon need help when orders began reaching double digits in a day. “But once we got to towards 100 a day, that's when we really saw the value, not just in terms of time but in cost as well,” he says.

They shortlisted half a dozen firms based on recommendations and a Google search. Then they whittled it down to the ones that had experience working with small-scale but fast-growing companies – and that had handled perishable products.

“We were looking for economical pick-and-pack costs that made sure our courier fees wouldn't erode any money we made,” he says.

Initially, the founders tried one fulfilment company and found it good, but decided to change because of a lack of proactive communication. Another company offered a competitive bid to take over the business and promised to keep Moving Beans in the loop. That has paid dividends, says Hardej.

“As we grow, we might have more niche requirements for certain customers,” he says. “Knowing we've got that person helping us take care of anything that might go wrong, that's a lot of security and peace of mind.”

The sums didn't add up

Lawrie Jones set up his Bristol-based health supplements business, Stronger Bones, in December 2021.

“At the moment, it's small volume and we're trying to build up our brand name,” he says.

Of course, building a brand takes time – and devoting brain space to that comes at the expense of tackling other key parts of the business. That's why Jones scoped out the possibility of outsourcing end-to-end fulfilment to a third-party provider.

But, ultimately, he decided not to contract with a fulfilment company. The reason? Primarily cost.

“We sat down and looked at the products we had, looked at the margins on the products and looked at what it would cost to outsource the fulfilment,” he says. The sums didn't add up.

In part, that's because of scale. At the moment, fulfilling orders isn't a major time sink for Jones and his employees. He also found that some outsourcing companies wouldn't consider Stronger Bones as a client because of its current scale. “With some organisations, there are minimum volumes,” he says.

Most suppliers offered a fixed fee as a baseline, then a variable fee on top depending on the number of orders they were expected to process on Stronger Bones's behalf.

“When we did forecasted turnover and trade volumes, it was easy for us to say, 'Is this going to work for us or is it not going to work for us?',” he explains. “With the products we have got, it simply wouldn't.”

There were other considerations, including the risk of returns. Customers who send back products to large online retailers that handle end-to-end fulfilment, such as Amazon, are often granted refunds as soon as the product is received.

For a supplements business such as Stronger Bones, reselling any returned products is nigh-on impossible. “It does make it easier for international trade and puts you in front of millions of customers,” he says. “But you don't own those customers.”

That said, Jones doesn't rule out redoing the sums later on. “There will come a point when we're not shifting 1,000 units a month but 5,000,” he says. “That's a different proposition.”

Safe delivery: how leading beverage producers are combatting harmful drinking

To keep pace with the rise of on-demand services, the not-for-profit organisation IARD collaborated with ecommerce leaders to establish the first ever global standards and training to prevent the underage sale of alcohol online

The pandemic changed the way people consumed their favourite beer, wines and spirits. With all cafes, bars and restaurants closed, total sales of alcohol fell by 6% during the 2020 lockdown.

Some 54% of almost 12,000 adults polled across nine countries – including the United Kingdom and the United States – missed socialising and dining out at restaurants or bars during the coronavirus lockdowns, according to a 2021 YouGov survey for the International Alliance for Responsible Drinking (IARD).

With venues shuttered, many people turned to online platforms such as Uber Eats, Deliveroo and Gorillas to have food and alcohol delivered directly to their homes. Indeed, McKinsey research calculated ecommerce retail sales in general grew almost fivefold in the UK.

"When hospitality closed, the way people purchased alcohol beverages shifted, with rapid growth in online delivery," says Henry Ashworth, CEO of IARD who convenes the global CEOs of 13 leading beer, wine and spirits producers. The not-for-profit organisation brings together responsible producers to raise standards and its members are focused on combating harmful drinking.

Meanwhile, the Euromonitor Alcoholic Drinks Passport 2021 calculated global ecommerce alcohol sales grew by 33% in 2020. That shift in consumer behaviour looks likely to stay. IWSR Drinks Market Analysis predicts that, across 20 key markets, the value of ecommerce sales is set to grow by 74% by 2024.

"It was clear we urgently needed to establish a set of standards and tools," says Ashworth.

Preventing those underage or intoxicated from buying alcohol online

IARD's member companies had already made significant progress to ensure alcohol was not sold over the counter to those below the legal age before the start of the pandemic, having worked closely with traditional retailers and entertainment venues.

For example, in the UK safeguards such as Challenge 25 – where customers who look under 25 are challenged to prove they are 18 or older – have been adopted by the vast majority of retailers.

These initiatives came ahead of a United Nations political declaration in 2018 that the industry take "concrete steps towards the elimination of marketing, advertising and sales of alcohol to minors".

Ashworth says: "When the pandemic struck, and because of the explosive growth of ecommerce, the CEOs requested us to work out fast how to publish standards that were parallel to the traditional retail standards."

> It's not a 'one-size-fits-all' situation, but these standards are principles that leading producers and retailers have already signed up to that can be rapidly applied and adopted in a national and local context

By collaborating with retailers, ecommerce and delivery platforms, and listening to key voices from the public health community in a series of dialogues over a number of months, IARD developed the first ever global standards for the online sale and delivery of alcohol.

These seek to enhance safeguards to prevent delivery to those underage, knowingly intoxicated or prohibited by law. Fourteen platforms signed up initially, including JD.COM – one of the biggest online retailers in China – UberEats, HipBar in India and Drizly in the US. Now IARD is set to announce on-demand services Deliveroo and Gorillas have signed up to the global standards.

It means a total of 17 platforms have now signed up to the standards, including Jumia in Africa, Mercado Libre in Latin America and Retail Drinks Australia.

Five key safeguards were identified to prevent online sales to underage customers and to combat harmful drinking as ecommerce growth accelerates.

These are:

- Verifying sales to those over the legal purchase age
- Preventing delivery to those underaged, intoxicated, or where prohibited by law
- Training tools, information, and education of drivers
- Enhancing consumer information and control
- Monitoring

"It's not a 'one-size-fits-all' situation, but these standards are principles that leading producers and retailers have already signed up to that can be rapidly applied and adopted in a national and local context," says Ashworth.

These first-ever standards support IARD's broader commitments to ensure alcohol is marketed responsibly online. For instance, IARD worked with Google to give people greater control over whether they see alcohol-related marketing online. IARD has also collaborated with Meta to age-gate posts on Facebook and Instagram.

IARD has also established global standards to prevent influencer marketing reaching minors, partnering with global advertising, public relations and influencer agencies including Dentsu, Havas, McCann London and the Publicis Groupe.

Empowering frontline delivery agents

Ashworth points out that preventing the sale of alcohol to underage customers is arguably easier via online retailers compared with traditional retailers, because the delivery drivers, with the proper support, offer an additional layer of protection. IARD has helped here, too.

"As we developed these standards, we consulted with an array of people from the public health community, national governments, and others," he says. "The importance of systems supporting frontline delivery agents – whether employees, outsourced contractors, or self-employed – kept coming up. That person has to be incentivised not to complete the delivery where necessary, instead of being penalised for not delivering."

To assist, in addition to the global ecommerce standards, IARD crafted a training package – available in eight languages – for frontline delivery agents. The training aims to support the responsible delivery of alcohol to those over the legal age and prevent delivery to those who are underage. It also helps agents to deny delivery to those who are intoxicated and gives agents communications techniques for handling difficult situations.

"This training package provides lots of tips and pointers to handle tricky situations when they are confronted by somebody who's clearly underage or intoxicated, and they need to deny delivery," says Ashworth.

He is delighted to see that online retailers, including Spain-headquartered Glovo and HipBar in India, are constantly looking at ways in which they can support and empower delivery drivers to deny delivery where necessary.

"For example," Ashworth says, "if a HipBar delivery driver refuses a sale, that address will be blocked. We want to encourage more online retailers to sign up, to achieve a critical mass and create real, meaningful change at a national and international level."

He believes that increasing stakeholder pressures means that alcohol producers and ecommerce platforms that sell alcohol are more likely to join the IARD-led initiative.

"As regulation catches up with the pace of change, the best way for these organisations to show that they are serious about doing the right thing is to adhere to the global standards," he says. "Most realise they can't do it individually, but by coming together, they can do so."

Finally, Ashworth argues there is a compelling business case to join IARD. "Ultimately, my ambition is to show that companies that set standards around reducing the harmful use of alcohol have better commercial prospects, and better relations with key stakeholders than those that don't get onboard," he adds. "That way, standards will be raised much more quickly, and society as a whole will benefit."

> Companies that set standards around reducing the harmful use of alcohol have better commercial prospects than those that don't

$47.4bn
the total value of alcohol ecommerce in 2021

5.7%
of the value of off-trade sales globally is now represented by ecommerce, up 16% from 2020

11.1%
of all off-trade value in the UK comes from ecommerce, amounting to £3.1bn

8.5%
of all off-trade value in France comes from ecommerce

Euromonitor International

IARD's mission to reduce harmful drinking

The International Alliance for Responsible Drinking (IARD) is a not-for-profit organisation whose mission is to combat harmful drinking worldwide.

Thirteen leading beer, wine and spirits producers – commercially active in over 100 countries – are signed-up members of IARD. They are Anheuser-Busch InBev, Asahi Group Holdings, Ltd., Bacardi Limited, Beam Suntory, Brown-Forman Corporation, Carlsberg, Diageo, Heineken, Kirin Holdings Company, Limited, Moët Hennessy, Molson Coors, Pernod Ricard, and William Grant & Sons.

Together, the group embraces a whole-of-society approach to combating the harmful use of alcohol in support of the UN's Sustainable Development Goals. Additionally, to advance the shared mission and raise standards in various areas to reduce harmful drinking, IARD also works and partners with public sector, civil society, and private stakeholders.

IARD, its core members, plus the members of its Partnership Council and the broader ecosystem, are focused on making a genuine difference. They acknowledge that the development and implementation of programs will be more effective as part of a multi-stakeholder approach, coordinated with the work of the World Health Organization and other United Nations agencies.

Standards in action: delivering alcohol in the right way

While setting world-first standards for the sale of alcohol online, stakeholders voiced a common concern: how could and should frontline delivery agents be empowered to deny a sale if the customer was seemingly underage or intoxicated? So IARD created a training package – available in eight languages – providing valuable tools and techniques to help delivery agents and the organisations they serve, whether on a full- or part-time basis.

Several case studies highlight how leading ecommerce retailers who are part of the IARD global standards coalition support frontline agents.

UberEats has protocols in place to prevent the sale of alcohol to minors. The app guides the delivery person through customer ID verification and sobriety checks for compliant deliveries in accordance with local laws. At the point of delivery, a customer must present a valid ID so that the delivery person can verify that they are of the legal drinking age. If the customer is deemed to be underage, intoxicated, or not at home, the app routes the delivery person back to the merchant and the delivery person is compensated for the return trip.

In Spain, Glovo has collaboration agreements in place with the National Police and the Madrid Municipal Police to help drivers deny delivery, where appropriate. If a delivery driver suspects that a customer has misused Glovo's app to make an illegal purchase, or should the driver encounter some other situation where they require extra assistance, they can directly report this to the police through a dedicated resource. The police will then attend to assist and to verify the order. Glovo is working to expand this type of collaboration in further cities and countries.

To discover more about IARD and its work please visit iard.org

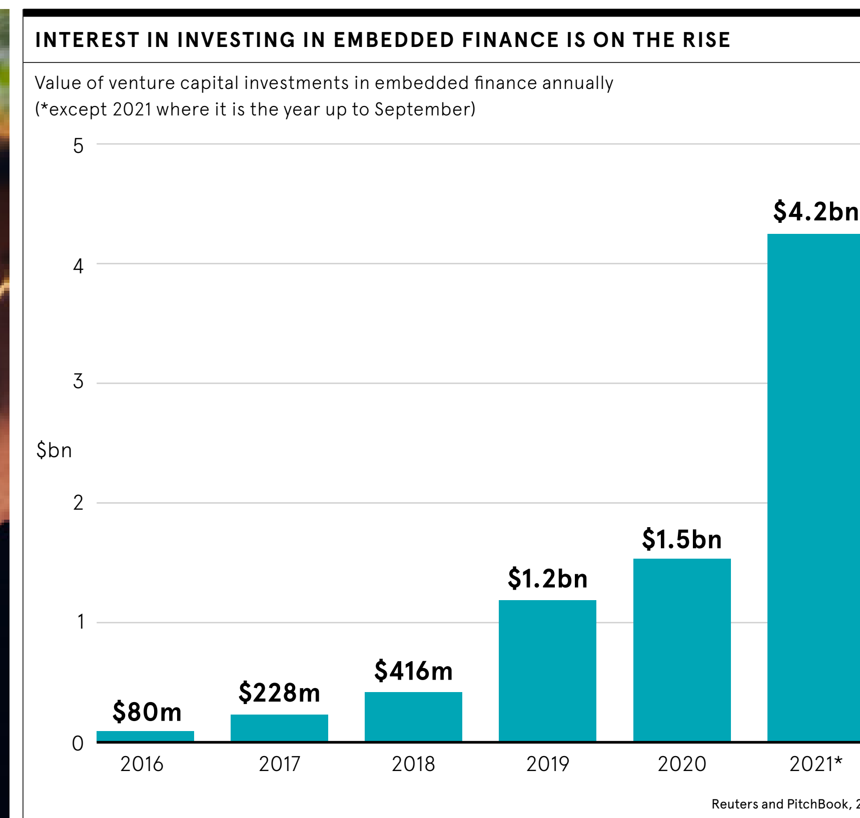
For more information on IARD Global E-commerce standards visit iard.org/actions/E-CommerceStandards

For more information on the IARD frontline agent training visit edapp.com/iard/signup

Available in 8 Languages: Chinese, English, French, German, Korean, Portuguese, Spanish, Vietnamese

IARD
INTERNATIONAL ALLIANCE FOR RESPONSIBLE DRINKING

SouthWorks via iStock



FINTECH

Apps on tap

Embedded finance can do far more than enable retailers to offer their customers a smooth purchasing experience. As the convenience economy expands, so too does this technology's transformative potential

Adrian Bridgwater

When the UK's pubs reopened after the first Covid lockdown ended in the summer of 2020, they weren't allowed to serve people at the bar.

Anticipating this restriction, several pub chains provided their own apps, which patrons with smartphones could download and use at their tables to pay for food and drink, rather than waiting for a member of staff to come and take their order.

Most of these customers were generally so relieved at completing such transactions and getting hold of their first pub pint for months that at no point did they stop to question how that process had worked so smoothly.

Had their local hostelry used the lockdown to design its own banking service to handle payments while promoting its burger-and-a-beer combo offers? Clearly not. This was embedded finance in action.

In essence, embedded finance is the integration of financial tools and functions (usually from a bank) into the services layer of another organisation (typically one without any form of finance specialism) to handle the pecuniary aspects of the latter's interactions with its customers.

Contactless 'digital wallet' payments by smartphone rely on this model, for instance. As expansive and ubiquitous as Uber's rideshare service is, the company still channels customers' bills through an embedded finance function.

Embedded finance can support a wide range of transactions. Some apps have lending functions embedded into them, for example. Ideal for retailers, merchandisers and marketplace-type apps, such facilities offer shoppers a loan from an approved lending service in a seamless way.

Sometimes mentioned in the same breath as banking as a service (BaaS), facilities for handling retail banking payments, point-of-sale financing options and small business loans are among the key growth areas in embedded finance.

Simon Torrance is the founder and CEO of fintech consultancy Embedded Finance & Super App Strategies. He views BaaS as "a key subset of embedded finance. Ultimately, this provides a new tool to rejuvenate old business models that are being battered by digitalisation. Financial technology, like mobile telephony and the cloud before it, has become so powerful that brands can harness it to compete more effectively in a hyper-connected world."

Embedded finance can be seen happening at numerous levels. Consider online storefront technology and alternative payment platforms such as Klarna and Sezzle, which allow customers to buy goods in instalments at the click of a button.

Rob Straathof is the CEO of Liberis, a fintech firm on a "mission to provide small businesses with accessible and responsible finance". The way the Liberis platform works is straightforward.

The company receives customer data from its trusted partners, which enables an embedded finance provider to do all the heavy lifting, such as underwriting and customer verification, even before the customer – in this case, a small business owner – decides to apply for anything.

They see a pre-approved offer of funding pop up on their dashboard, they select it and see that their application form is already populated with their data. Many applicants will receive the money in a matter of minutes.

Straathof describes embedded business finance as "a positively disruptive technology. It enables small firms to buy inventory at their favourite discount wholesalers, run seasonal online marketing campaigns or pay for urgent repairs to their premises without having to apply for a bank loan or deal with an expensive increase to their credit-card borrowing limit."

Nigel Verdon is the co-founder and CEO of Railsr, which has designed a turnkey platform to help brands "harness the power of embedded finance". He believes embed finance is the future.

"It is changing the way financial services are delivered to the consumer at every level.

> **Every organisation is now able to offer the integration of financial services within its existing offering**

Old finance is dead and we have entered a new era. What we are witnessing is the movement away from basic banking, card or financial products towards a deeper and richer finance experience that works seamlessly as a part of a brand's customer journey.

"Its potential is practically unlimited. Every business can integrate financial services within its existing offering."

Verdon believes that the key word is experience. "We know that consumers expect slick and secure payment services. Embedded finance enables companies to introduce financial touchpoints and build new experiences to retain customers, attract new ones and create new revenue streams," he says.

If we look at brands such as Starbucks, with its money-loading app; Volvo, with its app-based car subscription service; and Uber, we can see how these firms have embraced the power of seamless embedded finance experiences to take what the IT industry loves to call 'frictionless consumer engagement' to another level.

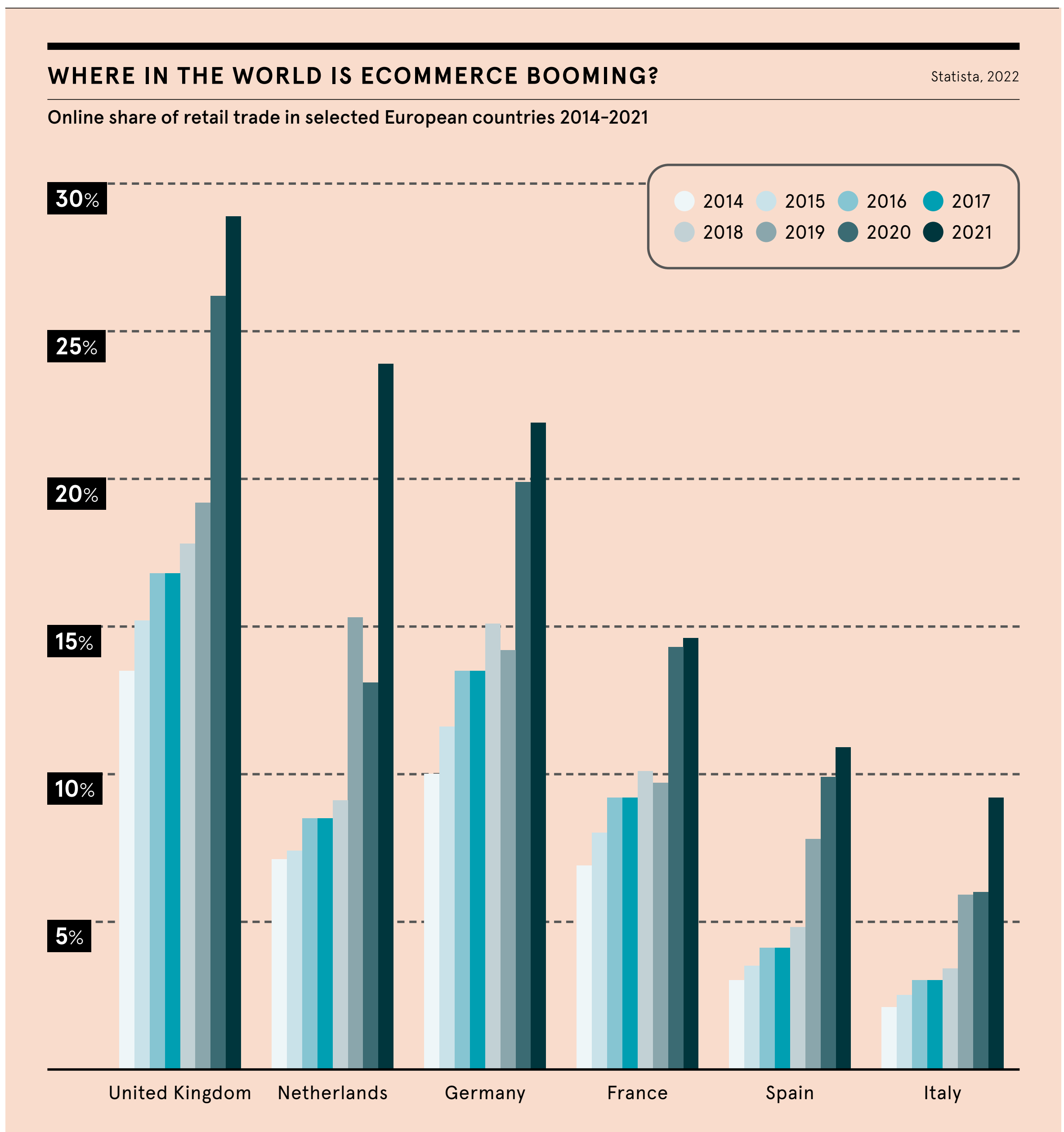
The scale of the opportunity embedded finance offers businesses to deliver seamless services is clear to Constance Minc, CFO of enterprise software company IFS.

"Its benefits can go a lot deeper in terms of helping organisations to manage their value chains more competently," she says.

"Customer and market demand intelligence can be fed into a company's core business systems to use real-time data for modelling. The ability to plan, take advantage of peaks and build resilience for troughs can be key to a company's growth, especially when we reflect on the most recent trading period, which has presented so many supply chain challenges."

The technology is developing apace and such changes have already happened. We as users don't find it strange to download a coffee chain's app, say, and load it with payment value, for instance.

The floppy-disk icon on our computers that denotes 'save' has become a remnant of history. As we accelerate towards a cashless society, we may soon have to explain to generation alpha exactly why people used to carry so-called wallets.



Unleashing the power of global ecommerce

Amid an increasingly saturated domestic market, ambitious ecommerce companies are looking globally for growth. To do so successfully, they'll need a powerful network of trade partners

Ecommerce has exploded over the last decade. Even before the Covid-19 crisis, annual growth rates were in the double digits, but there's no doubting the enormous acceleration the pandemic then fuelled. Demographics that previously resisted digital platforms suddenly had little choice but to conduct their shopping online – and as a result, ecommerce soared.

In 2020, ecommerce growth leapt nearly fivefold, according to McKinsey, representing 25% of total retail sales, from a baseline of nearly zero 15 years prior. In January 2021, in the depths of the UK's final lockdown, internet sales accounted for 37.8% of total retail sales, a figure that has now settled back at around 25%, data from ONS has revealed.

Given society has, mostly, returned to a sense of normality, it's clear that people who embraced ecommerce for the first time during the pandemic are continuing to go online to shop, albeit while also returning to some level of in-store consumption. More people than ever have discovered the huge choice available online with competitive prices and fast delivery.

"The ecommerce volume growth has outpaced traditional B2B growth due to a major change in consumer behaviour," says Toby Hay, managing director, ecommerce marketing at FedEx Express. "We see from the data that consumers who had never been online before found it's not quite the terrifying experience they might have perceived it to be. On the contrary, they've seen that it's a convenient way of shopping with enormous choice and flexibility. As a result, a lot of them are staying online."

The colossal choice that consumers love online, however, is now beginning to result in a feeling of saturation and excessive competition for merchants in the UK. Fierce competition can be sustained when consumer demand is high, as it was during the pandemic, but the return to in-store shopping has collided with a cost-of-living crisis which is now softening demand. The Bank of England has predicted the UK will fall into recession later this year.

In light of the growing saturation in the domestic market, it's increasingly vital that merchants now look to exploit opportunities for global trade. Despite the general slowdown in the economy, ecommerce growth continues to outpace regular commerce, but perhaps more significantly, cross-border ecommerce growth is outpacing domestic ecommerce.

> Ecommerce is a team sport. You need to be extraordinarily fast into the market and then extremely creative and adaptive to local market requirements

Global expansion is a golden opportunity in the ecommerce space, but that doesn't mean it's easy. Setting up a local presence and supply chain in different regions around the world is a heavy investment for giants of the retail world, let alone smaller players, and meanwhile there continues to be significant disruption in global supply chains to contend with. Add the kind of protectionism seen in the China-US trade wars to the global ramifications from the conflict in the Ukraine, and there are clearly numerous barriers to successful global expansion.

"It's critically important that merchants look globally for growth opportunities," says Hay. "Due to the softening demand in the UK domestic market, you've got very established retailers going after the same customer base. Unless you're offering something truly unique, there's a chance you're going to be losing out to the big players in the market.

"Looking overseas is a great way of expanding your base to try and achieve further growth by serving a broader population of consumers. Even if you're working out of a garage today, the world is basically your marketplace. If you have the right tech tools, transportation capabilities and localisations in your online store, you can very quickly be a global player. However, you're going to need support from a whole ecosystem of global trade partners."

This is where companies like FedEx Express can help. FedEx International Connect Plus is a robust cross-border shipping solution for ecommerce businesses, enabling them to access global markets with ease and confidence, and without the need to invest huge sums in relocating supply chains. Crucially, FedEx partners across the whole ecommerce value chain to ensure merchants are supported on all areas of their global expansion – from when consumers initially think about what to purchase and try to find the right products for them, to crucial processes like customs and fulfilment.

"All of that is extremely hard to navigate under one roof," says Hay. "We partner with various ecommerce platforms and other technology providers which allow us to support customers in driving that growth. Ecommerce is a team sport. You need to be extraordinarily fast into the market and then extremely creative and adaptive to local market requirements, which vary country to country. We've seen this as a partnership opportunity in order to bring an overall proposition to merchants."

"Merchants want to know what the online sales channels are that they need to leverage to attract customer demand, and how to combine that as seamlessly as possible into the transportation process, including returns, in order to drive potential customers from inspiration to activation. We work hard to ensure that FedEx is fully and easily accessible across the ecosystem for all merchants as they grow internationally."

The reach of FedEx's global network expands to 220 countries and territories but combining reach with speed and reliability is particularly crucial. The network strengths at FedEx's core are helping merchants to be competitive on a global landscape. This will be essential to the growth ambitions of retailers and merchants as the UK economy enters a period of contraction. While there may be a domestic slowdown, huge opportunities exist elsewhere.

"We're seeing huge demand from the US for European merchandise," Hay adds. "For merchants struggling to grow domestically, that's a very good market, largely driven by the strong dollar at the moment. There's also a pull for higher value, higher quality goods out of Asia online, so merchants should look intercontinental. That feeling of a single global marketplace will continue to evolve, and that's where our combination of reach and speed will be invaluable.''

"Looking overseas is a great way of increasing sales by serving a broader population of consumers. With years of experience, FedEx partners across the ecommerce value chain to ensure merchants are supported on all aspects of their global expansion – providing global access, simple returns, advising on localisation and supporting crucial customs processes to minimise cost whilst ensuring compliance."

More information, visit fedex.com

RETAIL ECOMMERCE SALES

12%

Global ecommerce sales CAGR 2020-2025

27%

Global cross-border ecommerce sales CAGR 2019-2026

Facts & Factors, 2022

Lounge Underwear co-founders Daniel and Melanie Marsden

INTERVIEW

Smarty pants

British ecommerce brand Lounge Underwear has gone from strength to strength since its inception in 2015, but, as the cost-of-living crisis bites, its founders are having to think laterally to prevent profits going south

Emily Seares

British lingerie brand Lounge Underwear has experienced phenomenal growth since its inception in the living room of co-founders Daniel and Melanie Marsden in 2015.

On track to hit sales of £100m in the current 2022-23 financial year, the social-first brand has used a purely direct-to-consumer (DTC) strategy combined with influencer marketing to propel it forward.

But, with the cost-of-living crisis and soaring inflation likely to result in challenging times ahead for many businesses, the entrepreneurial couple say a shift in marketing strategy, an omnichannel approach to retail and a new, lower-price-point 'everyday' collection will help the brand.

"We will always be an ecommerce-first business," says Daniel. "But the idea moving forward is to have flagship stores in major cities in the UK and mainland Europe. These will serve as a brand piece where people can purchase, touch and feel the product," he explains.

As a social-first ecommerce brand moving into physical retail post-Covid, it is not alone. British athleisure brand Gymshark is due to open its first bricks-and-mortar store in Regent Street, London, at the start of October, as it looks to engage with its customers in a real-life experience.

But rolling out physical stores comes at a cost, so the Marsdens says they'll dip their toes in the waters at first, which could mean experiential pop-ups or brand activations before they commit to a permanent base.

"To be a true global brand, you need a physical presence," says Melanie. "As a very human and value-driven brand, we want to give people an experience as they step into the space. We want people to walk out of the store having felt emotion and experienced a connection in real life, then have conversations with their friends about it."

This new approach to omnichannel retail for the ecommerce brand is in part due to a shift in marketing strategy that will focus more on brand awareness than product.

Melanie says: "We are looking at some of the more traditional marketing methods, such as brand awareness pieces and PR. People see us as a social-born brand and, as a business, we have been focused on product within our marketing. But we believe what will really drive growth is switching that dial.

"Product is still important, as is the way we communicate to our community, but the focus of our marketing will be what's the purpose and what are our values. It will be a huge brand awareness piece," she adds.

Part of this will is about connecting and communicating with people in different ways, says Daniel. It will be marketing campaigns that focus on driving a message to their community, which isn't just about buying the product.

But this change of tack is also in response to challenges around social media and digital marketing. "We can't shout as loudly as we used to be able to through digital and social, due to the algorithm changes," says Melanie, who admits content no longer reaches the same numbers it once did.

Soaring influencer marketing costs (in some cases increasing by 1,000%) over the past few years have also prompted a rethink for the brand.

"Influencers and partners have helped grow our community to 3.2 million on Instagram and we are the biggest underwear brand on TikTok," says Melanie. "But the way we work with partners will shift going forward."

She says the brand will look to influencers who have genuine relationships with Lounge Underwear to become content creators, so the company can retain ownership of the content.

"The value is in our community's engagement with the content then, rather than relying on their audience to engage with it," she says.

Building strong customer relationships has always been intrinsic to Lounge Underwear, a key factor for successful DTC brands. "Our customers have always received more from the brand than just product," says Melanie. "We are very personal in how we speak to them. I used to spend hours talking to everyone on Instagram when we first launched, so people felt like they'd had a genuine connection with us.

"It was about building a community, so people felt like they were part of something; we were not just an underwear shop. From our tone of voice, to how we speak with customers and the service we can offer, from next-day delivery to free returns, this still remains true," she adds.

Serving this community was part of the reason behind creating its everyday collection, which Lounge Underwear has spent the past 18 months developing.

It is due to debut in October and an underwear set will be around 50% cheaper than any currently available from the brand, with a full "foundational offering" on the shelves by April next year.

"We are looking to build out our product offering over the next three to 12 months," says Daniel, "to build Lounge to be an everyday brand", which he says will help the business grow and scale.

"To grow and be a global player, we need to compete by offering the foundations of an underwear brand," he says. This means offering bras separate to bottoms and the ability to buy bundles, as well as lower price points. The plan is for bras from £20 and under, and bottoms from £10 and under, which makes the entry point for the customer "a lot more accessible," he adds.

Although Daniel is quick to point out that the strategy was devised long before the current cost-of-living crisis, he admits that the timing is spot-on, as customers' discretionary income is squeezed by rocketing energy costs and soaring inflation.

> To be a true global brand, you need a physical presence

The current climate is putting increasing pressure on the direct-to-consumer business model more generally, with rising customer acquisition and shipping costs, supply-chain headaches and an increasingly crowded marketplace.

Daniel says: "We saw insane growth through Covid but the following 12 months were really tricky, as people were venturing out to physical stores.

"We've managed to maintain all the customers we acquired through Covid but the cost of acquiring new customers now is a lot higher than it was through that period. It's been a tricky year but the past couple of months, we've been trading really well."

Despite a tough market, he says international sales offer big growth opportunities for the business, with Germany overtaking the UK as the brand's biggest market in terms of sales.

"We're seeing the same spike as we had in the UK, with the work we're doing on our influencer programme in Germany," Daniel explains. "They are very receptive to it. We're expecting north of 100% growth in Germany this current financial year."

He says 80% of their sales now come from international markets, driven by mainland Europe, the US and Australia. But owing to the lack of competition in Europe, they are leaning more towards the continent, which he says offers "lower hanging fruit", with markets such as Spain and Italy next on their radar.

With a growing product offering and the everyday collections, a shift in marketing strategy and new international markets on the horizon, Lounge Underwear is tackling the challenging winds head on, staying true to its roots as an ecommerce-first brand but also testing new waters with a physical retail push to achieve future growth.

AUTOMATION

Resistance is futile

A decade since Amazon introduced robotics to its warehouses, reluctance to automate among smaller firms is being broken down by lower tech costs and rising staff shortages

Virginia Matthews

"We took a leap of faith when we moved from a traditional paper-based, manual warehouse to a robotised one and although we did as much research as we could into potential impacts on the business and our people, there were still a whole lot of question marks."

So says Ian Shay, director of L&S Engineers, which stocks in excess of 35,000 spare parts for construction, plant hire and the general public, and employs 100 people.

Since it invested about £1m in the installation of 40 robots 15 months ago, the firm's 25,000 sq ft warehouse has doubled its daily shipments and halved the error rate. Daily mileage among the staff has been slashed from between five and 10 to practically zero.

"Like every other retailer, we'd ogled Amazon's technology for many years but didn't think it possible that a small 'widgets-in-bins' type of operation like ours could ever use something similar," says Shay.

It has, he says, "surpassed" all expectations in terms of added efficiency. He urges other small and medium-sized enterprises (SMEs) to "follow our example and take a leap into the unknown".

It took until 2019 for the UK to catch up with the global average of 85 robots per 10,000 employees and today use of automation continues to lag behind that of other industrialised nations.

Price has historically been an inhibitor, as has the fear of slow payback. Yet at a time when prices are falling and return on investment looks increasingly attractive, it's the belief that some firms are simply too small for a tech overhaul that is proving most pernicious.

"The truth is that any business which has a warehouse should be looking to automate, even if the scale of the operation dictates that this should be a semi-automated pallet wrapper rather than an all-singing and dancing robot," says George Thompson, chair of the British Automation and Robot Association (BARA).

With labour shortages making an impact throughout warehousing and logistics, he believes SMEs can use automation to boost recruitment and retention, as well as cut future legal bills.

"Warehouse work is often dull, dirty and dangerous, and all too many businesses face employee litigation costs further down the line as a direct result," says Thompson.

"There's no value in adding a walnut to a Walnut Whip, so why not leave the routine stuff to the machines and allow humans to do more of the interesting, value-add tasks that keep them engaged and productive?"

Another myth BARA is keen to scotch is that automation involves tearing up existing warehouse facilities and starting again from scratch.

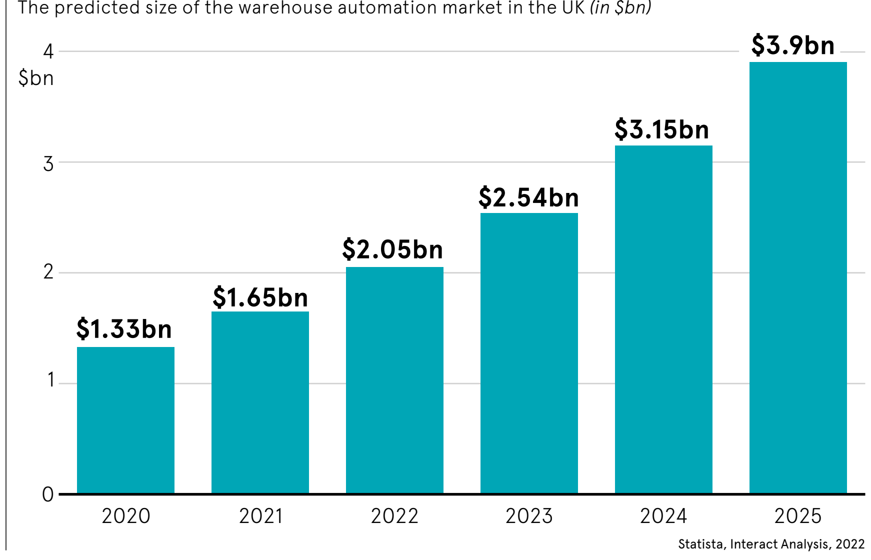
From the collaborative robot, known as a cobot, that works alongside staff without the need for safety devices, to the autonomous mobile robot or automated guided vehicle, the variety of tech solutions on the market has made retrofitting commonplace.

For SMEs unwilling to take any financial risk, robotics as a service (RaaS) is also proving an attractive way in.

svetikd via iStock

THE WAREHOUSE AUTOMATION MARKET IS GROWING

The predicted size of the warehouse automation market in the UK *(in $bn)*



Statista, Interact Analysis, 2022

Devised to provide maximum flexibility, the RaaS business model – where SMEs pay a small upfront fee to lease robotic devices, as well as services such as maintenance – allows businesses to scale up and down at speed in response to changing market conditions.

Along with SaaS, warehouse sharing or third-party logistics, trying before you buy is viewed by the industry as a game changer in terms of adoption by SMEs with no previous experience of automation.

One such firm, Oddbox, which was started in 2016 as a response to food waste, delivers 45,000 boxes of "wonky" fresh produce directly to customers' doorsteps each week. In a bid to expand its offer, the firm recently ran a feasibility study into semi-automation of its two production lines, an exercise that has given chief operating officer Phil Eaves much food for thought.

"We were given two scenarios by our consultancy: one costing under £1m and using the existing warehouse facilities, and the other costing more than £5m and involving moving to purpose-built premises."

Having chosen to retro-fit, the firm is now considering a £750,000 investment, a move that Eaves says is meant to boost customer satisfaction rather than increase the speed of throughput.

"For us, a goods-to-person system makes far more sense than a robot, which may be able to handle raspberries or melons but will not be able to handle everything in the way that a human being can," he says.

> **As soon as you see how effortlessly the robots move about and take in the quieter, calmer atmosphere, you know this is the only way forward**

The aim is to replace the paper labels, which tell a packer that a particular customer wants to try avocado, for example, but can't abide broccoli, with an automated control system that has already identified what is required for each box. The firm believes this will enable it to expand its product range without having to increase staff numbers.

"At this stage, we're still looking at the numbers but we'll only go ahead with the investment if we are sure the payback can be achieved," Eaves adds.

Robots may no longer be the stuff of science fiction but the majority of SMEs need the help of a specialist automation consultancy or 'integrator' before they decide on the right strategy for them.

Thompson advises calling in two or three such experts, just as people would with plumbers or electricians, and "listening carefully to what they have to say about any pinch points you're experiencing on the production line".

While most lines are either starved of product or over-saturated, he believes that it takes a "fresh pair of eyes to identify the problem, locate exactly where it's coming from and build the right tech solution".

For Shay, the new robots have not only boosted efficiency but have made the warehouse a more attractive place to work.

"As soon as you see how effortlessly the robots move about and take in the quieter, calmer atmosphere, you know this is the only way forward.

"Robots are the future – pure and simple – and for us, it was a risk worth taking."

Bloomberg via GettyImage

GLOBAL TRENDS

India: open for business

An initiative on the subcontinent could change ecommerce as we know it. Should UK firms be paying attention?

Natasha Khullar Relph

The world's lowest data and smartphone costs, increasing levels of online shopping in small cities and villages, and a pandemic that forced people into digital purchases have led to a dramatic rise in ecommerce in India.

The ecommerce market on the subcontinent is expected to reach £103bn by 2026 from £32bn in 2021, with online shoppers from rural areas expected to account for 24% of online retail spending by 2030.

However, India also has an ecommerce duopoly, in which Amazon and Walmart-owned Flipkart control more than 60% of the market, squeezing out kirana stores, the locally owned shops that provide daily supplies and essentials to small neighbourhood communities.

The between 12 and 20 million kirana shops in India contribute 10% of India's GDP and employ 8% of the workforce. However, they lag behind in terms of digital adoption.

A recent government initiative aims to do address this. The Open Network for Digital Commerce (ONDC) is a non-profit established by the Indian Department for Promotion of Industry and Internal Trade. Its goal is to develop open ecommerce and level the playing field for small businesses across retail, travel, hotels, food ordering and delivery, and other sectors.

ONDC will allow store owners to sign up to the network once and have their products appear on all participating ecommerce platforms and in search results across all apps. Commissions are capped at 3%, a 10th of what sellers pay on larger platforms.

For shoppers, this means that instead of having to do price comparisons by logging in to each individual ecommerce store, there will be a single app where results from all participating buyers will be shown.

"ONDC goes beyond the current digital commerce model, where the buyer and seller have to use the same platform or application to be digitally visible and do a business transaction," the union minister of state, commerce and industry, Som Parkash, noted in a response to the Lok Sabha (the Indian parliament).

"ONDC protocols would standardise operations like cataloguing, inventory management, order management and order fulfilment. Thus, small businesses would be able to use any ONDC-compatible applications instead of being governed by specific platform-centric policies."

The pilot phase of the project launched in April 2022 in five cities: Coimbatore, New Delhi, Bengaluru, Bhopal and Shillong, with 100 more cities serviced by August. The goal is to have ONDC covering the entire country by the end of the year. It is hoped that the initiative will bring 1.2 million sellers and 900 million shoppers to the network, while achieving a gross merchandise value of £4bn.

In theory, the concept is appealing and aims to answer the questions that advanced and emerging economies are grappling with, says Amol Kulkarni, director of research at Consumer Unity & Trust Society International, an organisation that seeks to protect consumer rights through research-based advocacy. On the one hand, big tech networks bring credibility, trust and some level of certainty but they can also be exclusionary, with high prices and sometimes anti-competitive practices.

"The government is saying that because we're pioneers in technology and have good use cases of population scale in government tech and digital public goods, we'll come up with both seller- and buyer-side apps, and connect these apps to create an ecosystem and marketplace where sellers don't need to reach out to buyers themselves."

In practice, there are still a few kinks to be ironed out. For one, there is no clarity on how smaller players will defend their competitiveness on the platform, says Sanjay Mehta, a venture capitalist who has invested in more than 150 global startups, including Wizzy.ai, a search engine for ecommerce stores that is working with ONDC.

"We might see bigger players use their abundant resources to scavenge the market early on, dismissing any sort of democratisation in its real sense. Price differentiation may favour larger players as they might burn a lot of money initially to gain market share on the network."

Another issue is that the more complex the ecosystem, the harder it will be to get both buyers and sellers on board. A senior employee at Amazon was reported as saying that one of the reasons Amazon, Flipkart, and other platforms are reluctant to join ONDC right now is because of the lack of clarity about the architecture.

In August, Microsoft became the first big tech company to join the ONDC initiative. The software giant said it intends to introduce social ecommerce in the Indian market. The company will establish a shopping app in India, which will be available on the ONDC network and allow buyers to discover the best prices offered by retailers. Amazon, Flipkart and Google are also reportedly in talks to join.

Despite some reservations, most experts and businesses are excited about ONDC and how it could change the ecommerce landscape, not only in India but globally. Infosys co-founder Nandan Nilekani, who is advising the government on the adoption of ONDC, calls it "an idea whose time has come". He told *Fortune* magazine that ONDC "will provide a glimpse for the whole world of how open commerce can drive positive non-zero-sum outcomes for business and society."

> "Price differentiation may favour larger players as they might burn a lot of money initially to gain market share on the network

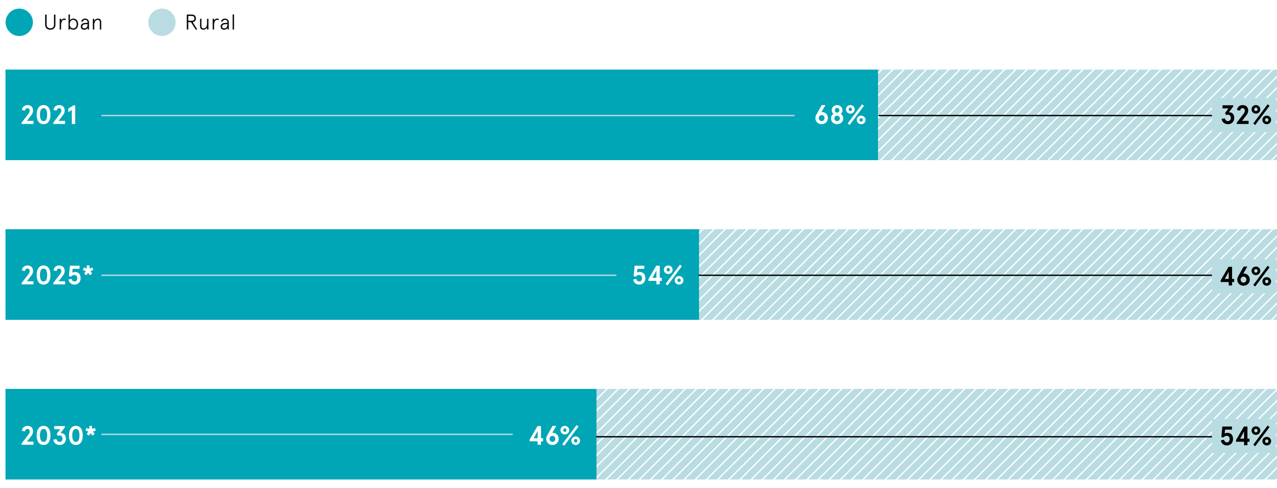
If successful, ONDC could be a template for how to democratise ecommerce globally. Much like the Unified Payments Interface (UPI), a payment system developed by the National Payments Corporation of India that simplified peer-to-peer money transfers – and which is being introduced in countries including Singapore, Malaysia, Thailand, Hong Kong and the UK – ONDC could easily become the go-to model for digital commerce.

"All of us have seen the exponential growth of UPI over the past few years," says Mehta. "The ONDC has the potential to be the UPI of the ecommerce space."

It is likely to be a number of years before ONDC's full potential can be realised. But, in the meantime, the initiative is encouraging small kirana shop owners to digitise their stores and start competing with – and often beating – the bigger platforms in their own communities.

THE RURAL POPULATION IS DRIVING THE ECOMMERCE REVOLUTION IN INDIA

Current and *forecast share of total online shoppers across India



BCG, 2022

Commercial feature

How hyperlocalisation is transforming ecommerce

Local fulfilment, employing digital technology to optimise warehouse operations and the availability of asset-based financing all drive ecommerce forwards, says **Jack Williams**, CEO of Selazar

The growth in ecommerce since the Covid-19 pandemic has proven just how much consumers value convenience. Same- and next-day delivery is now an expectation of an online order, rather than a premium that customers are willing to pay for.

Today's demand for consumers and companies to be as sustainable as possible is a significant catalyst for change within the global supply chain, especially for that important 'last mile'.

Hyperlocalisation is the strategic spread of stock across a localised network of hubs; bringing businesses closer to their customers with fulfilment centres, delivery locations and collection points tailored to their regional markets.

This drives businesses to leverage warehousing to their advantage, enabling them to reach as many customers as they can in the shortest possible time.

Spreading stock across a wide network is becoming the desired goal and this doesn't – as many companies believe – mean they must hold a high amount of stock in each location to be able to fulfil same-day delivery expectations.

In fact, through the intelligent use of technology, a whole range of efficiencies can be gained to make the process more cost-effective with a lower environmental impact.

This is to be welcomed at a time when economic headwinds look set to impact bottom lines. As inflation rises, fuel costs increase and business spending cutbacks are universal, getting much more from much less becomes a commercial imperative.

There are two strands here that connect for the greatest success: hyperlocalisation and warehouse virtualisation. They go hand in hand. Hyperlocal operations facilitate same-day delivery expectations and support efficient local returns. What's more, the shift towards localised stock distribution has far less of an impact on the wider environment.

For example, there is no need to use big diesel-laden lorries when orders can be sent by bike carriers or electric vehicles. Retailers know their customers want hyperlocalisation. Who wouldn't like to receive their order fast, whether that's first thing the following day or within hours of making a transaction online?

In the US, micro-hubs have become a necessity due to the country's vast geography. In the UK, they can be employed strategically to enhance customer experience.

Hyperlocalisation is a boost for UK exports

For most companies today, competing solely on price is no longer an option. Instead, retailers of all shapes and sizes are turning to customer experience as their key differentiator – and fast delivery times are a significant factor in ensuring that it is a positive one.

At Selazar, we plan to offer same-day delivery in 15 cities across the UK from our warehouses later this year through a network of micro-hubs. Not only does this benefit our clients' last mile, but it also helps them meet CSR targets on the environment and sustainability. We aim to achieve this in the US, South America and Europe too.

Growth-oriented businesses need the ability to expand their customer base into overseas markets to increase their turnover and boost profitability – this is especially the case for smaller and more regional brands. If you are a cosmetics company in the UK wanting to sell to Latin America, it shouldn't take three weeks to ship your product there to a customer's home. It also shouldn't take the same time – or longer – for that customer to return it.

According to Shopify, 32% of consumers have abandoned a purchase due to estimated shipping times being too long (37% in North America).

That is why hyperlocalisation is a huge opportunity. You ship a product selection in bulk and then delivery is taken care of locally on the ground. Not only does this open new markets, but it reduces customs paperwork, delivery and returns times, all while mitigating environmental impacts.

No longer is the experience clunky for the consumer or the company they are buying from, which in turn builds brand loyalty and promotes word-of-mouth recommendations.

However, the key to successful hyperlocalisation is warehouse virtualisation. This is what makes hyperlocalisation economically viable and provides consistently outstanding service across the globe.

Through warehouse virtualisation, businesses have complete control over their logistical operations globally via cloud-based technology. This ensures consistent fulfilment operations; from guiding storage and packing practice to managing couriers and delivery speeds.

Brands that opt to partner with Selazar have the benefit of clearly understanding how much stock they need to keep at hand and what SKUs are most likely to be ordered.

As we make advancements in tech-led fulfilment, it is clear to see that the legacy way of owning and operating dozens of globally filled warehouses comes with high fixed costs, overheads, employee wages, and the initial capital outlay. Replicating stock across them all also means tying up a lot of money; this can be a big challenge for a brand, whatever their size, blocking them from their true growth potential.

Asset-based financing to free up cash

By working with a trusted partner such as Selazar, companies can take advantage of intelligent stock propagation that is all set up and ready to go via a prebuilt warehouse network. This uses artificial intelligence and machine learning to understand where stock is required, what stock that is and how much must be held in each location. Forecasting promotes efficient distribution.

Our systems can tell what is needed where, and how to load balance your operations. It does this by analysing historical data and making educated predictions, mitigating many risks.

The more data you have, the better the outcomes. Over time this will measure, track and predict seasonal trends and promotional activity. It helps to manage peaks and troughs in demand and supply; real-time oversight allows different stock locations to be turned off and on as order levels dictate.

> "Growth-oriented businesses need the ability to expand their customer base into overseas markets to increase their turnover and boost profitability

Alongside hyperlocalisation and warehouse virtualisation, there is another solution to a common problem. Many businesses lack the liquidity to make these options work for them. At Selazar, we offer asset-based financing, with money released against the value of the stock held. We also have 90-day credit terms to ease cash flow worries.

Towards localised global fulfilment

Since Covid-19, ecommerce expectations have changed. Consumers want things faster; brands want a simple solution to meet that expectation.

Hyperlocalisation and warehouse virtualisation work together neatly to achieve this, successfully meeting demand, driving revenues and cutting carbon. It reduces management and operational efforts too.

Downtime, friction and products being out of stock are dealt with, as is having to find the right talent internally to run warehouses or implement effective logistics technologies and software. Cost savings come through scalability.

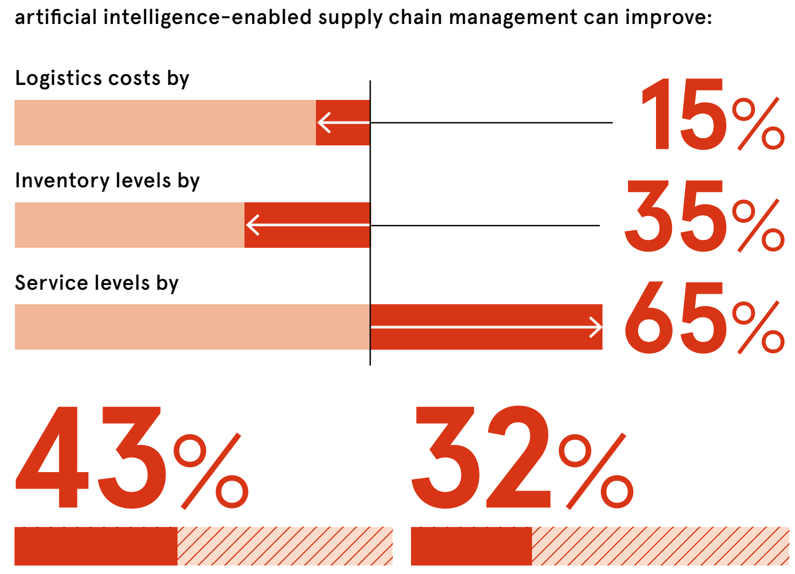
As a future-thinking 3PL, we customise everything we do to each of our client's requirements on a global level and provide a single user interface for 24/7 visibility and control.

Shopify's research suggests early adopters of artificial intelligence-enabled supply chain management can improve logistics costs by 15%, inventory levels by 35% and service levels by 65% - compared with slower-moving competitors.

However, a move away from the traditional way of doing things throws up many fears. Some companies, especially bigger ones, have invested significantly in costly warehousing infrastructure or are tied to long leases.

But as ecommerce continues to grow fast, fulfilment will head further in this direction. The choice now for C-suites is how quickly they accept joining this journey.

When compared with slower moving competitors, early adopters of artificial intelligence-enabled supply chain management can improve:



of brands are changing shipping strategies to reduce the impact of global shipping delays

of consumers have abandoned a purchase due to estimated shipping times being too long

Shopify, 2022


Tetiana Shustyk via iStock

PHARMACEUTICALS

Healthy profits

From furniture to food, clothes to household essentials, we have become used to having everything we need delivered online but, post-pandemic, it is healthcare products that may represent the new frontier of ecommerce

David Stirling

Given the rise of online deliveries and the increased focus on the fragility of our health, it is little surprise that the pandemic gave a shot in the arm to healthcare ecommerce.

According to Edge by Ascential, online sales and delivery of NHS prescription drugs, over-the-counter (OTC) medicines and personal-care products at UK pharma and health-chain retailers, such as Boots, Superdrug and Lloyds Pharmacy, are expected to grow by 36% between 2021 and 2026. Store-based sales growth of just 5.6% will take the overall UK health and pharma retail channel to a value of $18bn (£16bn) by 2026.

The figure is small compared to the total market, where revenues, dominated by food and fashion, are expected to hit $285.5bn by 2025 – but it is healthy progress.

Globally, pharma and health ecommerce sales are expected to rise at a compound annual growth rate of 7% over the same time period, with demand in the US (the biggest market) driven by Amazon. It bought online pharmacy PillPack, which delivers multiple daily medications, as well as over-the-counter medicines, vitamins and supplements straight to customers' doors in discreet packaging, in 2018.

It also set up Amazon Pharmacy in 2020, where customers can have their prescription medicines, such as blood pressure pills, delivered to their home. In the UK, it has secured an Amazon Pharmacy trademark with expectations of a launch at some point, although when remains unclear.

"Healthcare ecommerce has been growing over the past five years, but it was certainly boosted by Covid," explains Chris Elliott, head of market insight at Edge. "People bought more vitamins online, particularly through Amazon, as they focused on their health and got more of their prescriptions delivered online.

It's continued to grow post-pandemic and it is being driven by convenience: people needing medicine might not be the most mobile so in-store shopping at a retailer or pharmacy can be arduous. If major players such as Amazon are throwing their money into this zone, there must be something significant there."

The pandemic has also led to growth in smaller online healthcare retailers selling all kinds of products, from wipes and oils to wheelchairs. Hearing Direct, which sells and delivers hearing aids, accessories, amplified phones and doorbells, experienced a sales increase, says general manager David McLaren.

"We saw a direct impact in the number of customers reporting hearing loss as a result of contracting Covid-19. In addition, people weren't able to go to the high street. We were there online when they needed us."

McLaren confirms that the demand has continued post-pandemic. "There has been a definite shift in that more people now appreciate this is something they can buy online."

It also tackles the stigma that can be associated with hearing loss. "Some people just don't want to be seen on a packed Saturday afternoon going into a high-street chain and talking about their hearing problems," he says.

Online menopause specialist Health & Her has also experienced growth in the sales of its supplements direct from its website and via Amazon, as well as through online and in-store retailers, including Holland & Barrett. "We saw huge demand. The menopause market is growing rapidly but it is a difficult area for women to navigate. Everyone has a different experience and symptoms," explains co-founder Kate Bache.

As a result, Health & Her is not only focused on products, it has developed services such as an online symptom checker and a menopause app, where women can download tools including pelvic-floor exercises, meditation information and expert subject articles. "It's self-care to improve general lifestyle and it fits this category very well," Bache says. "We get a deeper relationship with customers in a digital way and the data we receive also fuels our innovation."

This service and trust element is a crucial differentiator compared with many other forms of ecommerce. This is because for most people, our healthcare is unique to us.

Roni Jamesmeyer, senior healthcare product manager at Five9, a cloud contact-centre software group, says: "Offering healthcare in a commercial fashion will never be like a true online retail experience. While we can consumerise certain aspects, healthcare delivery will never be commoditised. One person's health differs from another person's, even if they both buy the same T-shirt."

Hearing Direct has developed HDcare, which offers its customers advice on how to choose the right hearing aids, how to look after them – including cleaning – and access to a fully trained audiologist. It also has an app that can help remotely fine tune and update hearing aids.

"It's boosting our sales as we think it is a better service than you get on the high street," McLaren explains.

It is part of a growing trend of health-at-home technology, such as consumer health apps and blood-pressure monitors, which are relieving the strain on the NHS post-pandemic.

Elliott points to two deals in 2020 that signal the direction of travel – US pharmacy group CVS Health buying homecare healthcare group Signify Health for $8bn this month and US supermarket Walmart buying start-up CareZone, which makes apps to help people manage their medicines. "There is a huge market in home-health technology because it is often hard for people to see a doctor," Elliott says.

Rather than making acquisitions, he believes new healthcare ecommerce firms will increasingly turn to third-party marketplaces and Amazon to get their products out market. Indeed, Walgreens Boots Alliance has announced plans to start an online, third-party marketplace in the UK, next spring.

> "Healthcare will never be the same as other online retail experiences. We can consumerise certain aspects but delivery can't be commoditised"

"Over the next five years, sales from third-party marketplaces will make up the largest and fastest-growing retail channel globally," explains Elliott.

Another industry expert who spoke to *Raconteur* expects Google and Apple to begin selling healthcare devices and products directly to consumers, with fast-moving consumer goods players also entering the health space.

However, pharmaceutical manufacturers will find it harder to go direct with their medicines because it will upset existing relationships with high-street pharmacies and distributors.

There are challenges to the growth of healthcare ecommerce, particularly around the security of customer data and prescription medicine, where a doctor's validation is needed before sale.

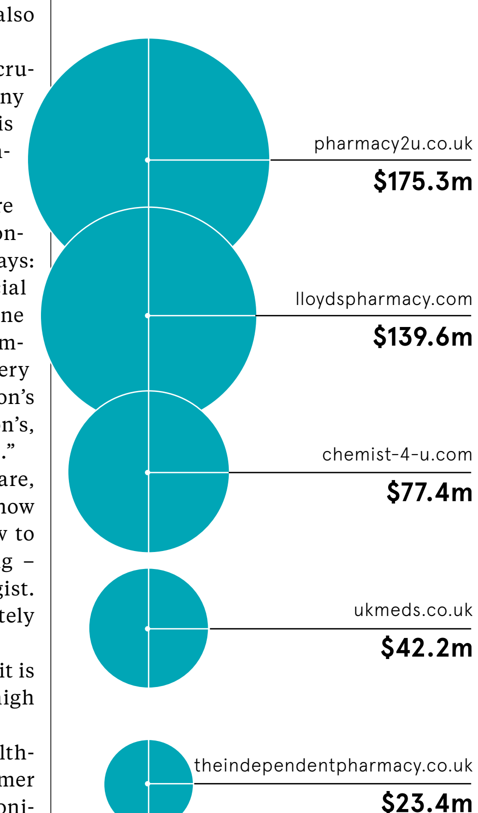
In France, even OTC medicines are mainly limited to independent pharmacies but, in the UK, such products can be sold across the majority of channels.

Elliott sees OTC growing in the UK and, potentially, prescription delivery becoming a "battleground for UK pharmacy retail as they seek shopper loyalty".

"It's a new era of consumer behaviour and retail transformation," he says. "In the aftermath of the pandemic, there is an urgent drive to get people to take better care of themselves."

THE LEADING ONLINE PHARMACISTS IN THE UK

By ecommerce net sales



Statista, ecommerceDB.com, 2022