THE FUTURE OF E-COMMERCE IN FMCG

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E-COMMERCE: DRIVING GROWTH FOR FMCG?

THE GLOBAL PICTURE

HOW AND WHY REGIONS ARE DEVELOPING DIFFERENTLY

FORECAST 2025

PREDICTIONS FOR THE FUTURE

KANTAR WORLDPANEL

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E-COMMERCE: DRIVING GROWTH FOR FMCG?

By **Stéphane Roger,** Global Director of Shopper and Retail

In previous years, we have stressed the urgency for packaged goods retailers and brands to invest swiftly and decisively in e-commerce. Simply put: we demonstrated that the FMCG e-commerce market is unkind to latecomers. For brands, the priority is to get on the shopping list. Our data shows that 55% of online shoppers use the same shopping list from one purchase to the next, giving a significant first mover advantage.

While the industry as a whole is relatively flat – growing just 1.6% in the 12 months to June 2016 and forecast to slow further to 1.2% in 2017 – grocery e-commerce has a value growth of 15% on the previous year. It now accounts for 4.4% of all packaged goods sales generating $48bn in 2016. This is forecast to increase even further: by 2025, online packaged goods sales will be worth an estimated $150bn, growing to 9% of total FMCG value.

Consumer's needs are changing as they become increasingly time-poor and value conscious. In China, 79% of shoppers choose their store depending on its proximity to their home or commute. In Spain, 44% are looking for products that help save them time. And where waiting isn't an option, next hour delivery is becoming increasingly available, although currently at a premium price.

Shifting demographics are hastening these changes. In the next 10 years, GenerationZ will be making the shopping choices. This generation has never drawn breath in a non-digital world. They are constantly connected to their devices, where social media elevates their voice and gives them a direct line to once faceless brands. Today, over half of the adult population owns a smartphone; by 2020, 80% will. If brands wish to reach shoppers, they need to meet them on their platform.

Supply is fast meeting demand. The past 12 months have seen a rise in the availability of new offers from Alibaba, Amazon, Uber and Instacart. Built on a different model to traditional FMCG retailers, they cater to the global consumer's main demand – convenience. Their rise presents an acute problem for incumbents: our figures reveal that first-to-market online retailers enjoy higher market share than their next competitor, a difference of at least 40% in France and up to three times for the UK.

These figures would suggest that online is the place to invest for FMCG: huge business opportunities, valuable shoppers and an exciting future. But unfortunately, it's not quite as simple as that. Of key importance for packaged goods retailers and manufacturers is making sure that going online doesn't cannibalise their offline business. Comparative research we conducted across the UK, France and China, showed that after one year of e-commerce adoption, British and French shoppers spent less overall. This demonstrates a major risk of lost value for the industry if there is no clear differentiation when marketing offline and online offers.

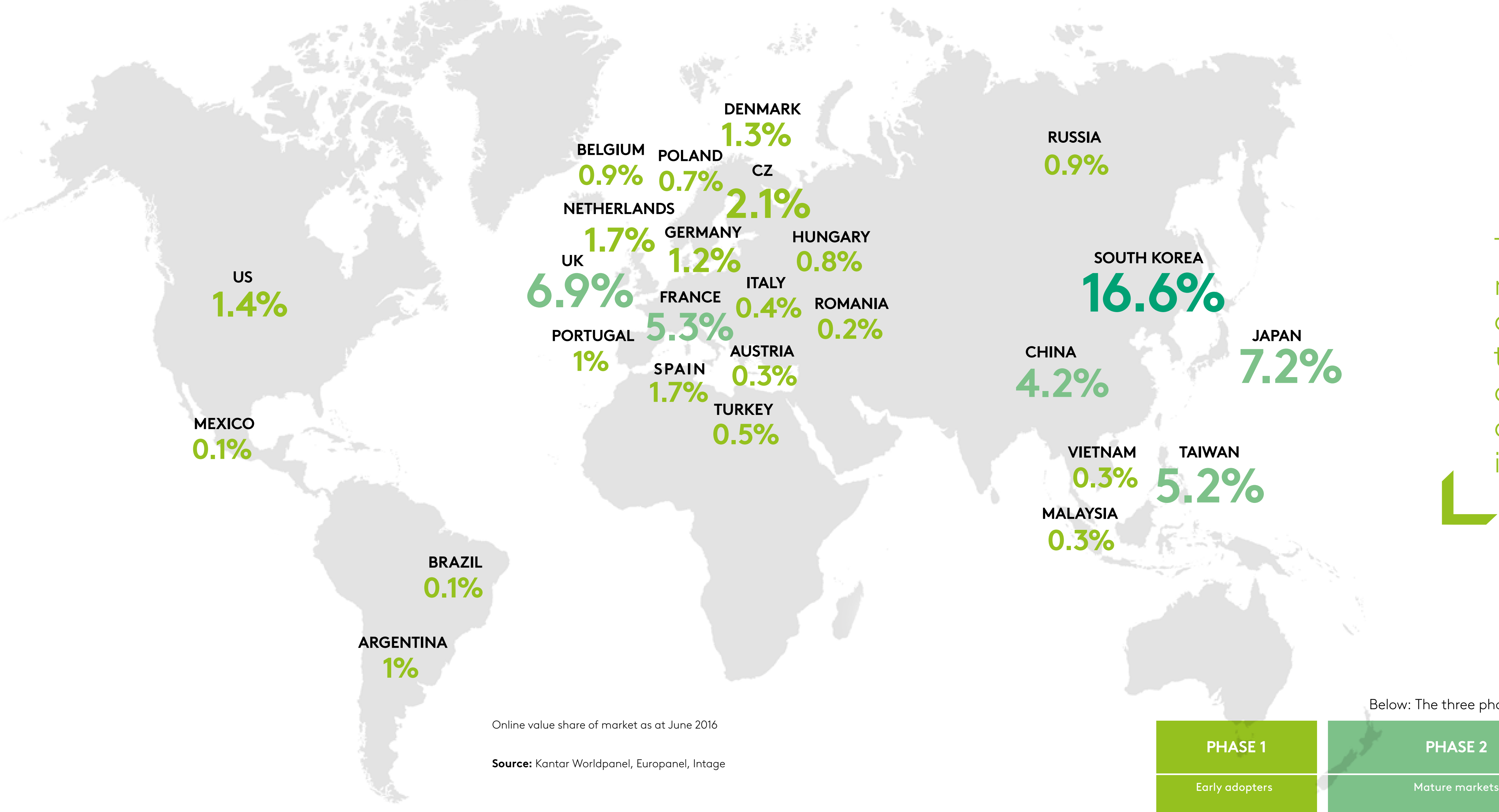
This report will focus on three pillars to help retailers and brands navigate a future in e-commerce:

- E-commerce hotspots – this year, we have investigated the reasons why some of the world's consumers have made the switch to online so seamlessly, while others stay wedded to legacy retail. By comparing individual country's similarities and differences, we can spot patterns and successes, offering the right advice for each market.

- A world of opportunity – generating additional, or incremental, spend is possible. By looking across retail channels, this section will help brands to understand whether e-commerce provides additional value to the offline business.

- The future of e-commerce – our experts will look at the market as it stands to predict how e-commerce will look in 2025, allowing retailers to prepare for the future today.

E-COMMERCE HOT SPOTS



Online value share of market as at June 2016

Source: Kantar Worldpanel, Europanel, Intage

The question retailers must ask is how to continue growth in the highly digital East and encourage further development in the West

THE GLOBAL PICTURE

Online grocery shopping is steadily growing across the world but, confusingly, countries where we might expect to see a discernible adoption of online grocery – in mature economies such as the US and Germany, and emerging markets including Brazil – e-commerce's share remains small.

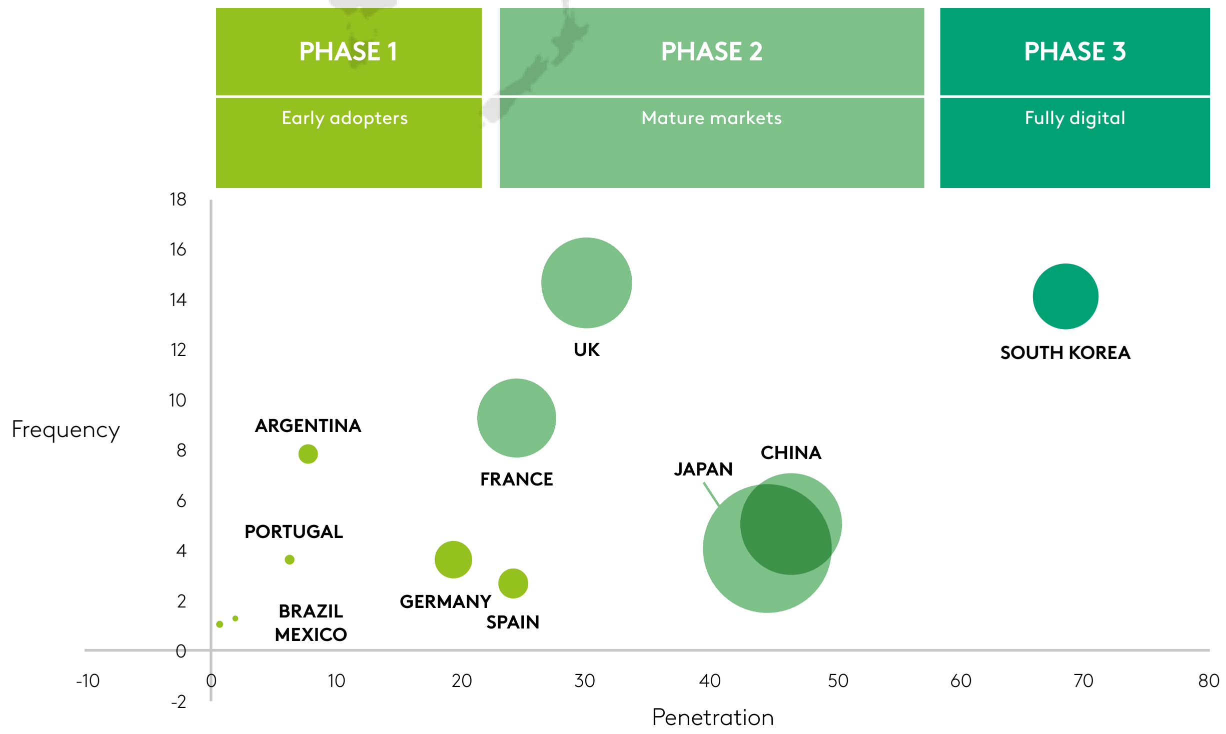
Such a wide spectrum of adoption represents a global "puzzle of performance" for FMCG e-commerce.

This year, we have endeavoured to investigate the reasons why some of the world's consumers have made the switch to online so seamlessly, while others stay wedded to legacy retail.

While countries like South Korea and China are embracing the digital shopping experience, the US and Latin America remain less engaged – although e-commerce is still on the rise in these regions. The question retailers must ask is how to continue growth in the digital East, and encourage further development in the West.

The future development of e-commerce is strongly connected to the culture, habits and beliefs of each country. Retailers and brand owners need to understand where a target country is positioned in order to design marketing and sales strategies which will properly impact those shoppers. A one size fits all approach will not work.

Below: The three phases of FMCG ecommerce development



Source: Kantar Worldpanel, Gfk, Intage, iri 2015

ASIA

ASIA: EASTERN PROMISE

Asia has been leading the way in e-commerce for the past decade, most notably in China where more online purchases are made than anywhere else in the world. South Korea is the world's largest market by value share for purchasing packaged goods online (16.6%). Japan, Taiwan and China are the next biggest in Asia.

In contrast, there are many developing markets within this region that still rely on more traditional trade and have very low online adoption, but it is possible that as they develop they will skip over the stage of modern trade, such as supermarkets, and go straight to online.

The swift level of adoption of the online shopping models in Asia doesn't necessarily follow economic strength or even growth. So what does unite it in its race to digitisation?

One possible explanation is that Asia, like Latin America, shares a collectivist culture: one that is based on valuing the needs of a group or a community over the individual. This manifests in a higher incidence of risk-seeking behaviour because of what sociologists call the 'cushion effect,' a trait found in places like China, by which family and social networks will help out any group member who loses a lot of money after selecting a risky option. In contrast, in individualist cultures such as the US, a person is expected to bear the consequences of their own decision.

This closeness between groups and individuals in society means that adoption of new technologies diffuses fast. Trends, word-of-mouth, and activities where people can work together are valued highly, particularly in comparison to cultures which value third-party advice and research over recommendations or advocacy.

Celebrities and social influencers are unsurprisingly huge drivers of e-commerce in China, particularly among younger audiences.

This year, using the video sharing app Meipai, Maybelline promoted a live internet stream of its new brand ambassador, Angelababy, and various other internet celebrities (known locally as "internet reds") trying new lipstick products from Maybelline. Consumers could comment via a live message board within Meipai and a direct link embedded in the video stream directed visitors to the Tmall site of Maybelline, where they could buy the lipsticks they saw. 10,000 lipstick products were sold in just two hours.

Whilst the shopping festivals play to many types of product besides groceries, there is a natural benefit for retailers and brands in this space as the familiarity of buying online spreads. Singles Day has led to an increase in families trying the e-commerce channel for groceries from 30% in 2013 to 49% in 2016.

EMBRACING THE CHALLENGE OF CHANGE

By **Jason Yu**, General Manager, China

E-commerce in Asia is very good at creating 'artificial festivals' or events to celebrate a certain day. Often this manifests through an acronym or a word that sounds similar to something else, to create a reason for people to buy something for their loved ones.

An example of this is China's May the 20th (520) celebration. When pronounced in Chinese, 520 sounds like 'I love you'. Using this wordplay as the perfect excuse retailers created the internet's answer to Valentine's Day. Meanwhile, 520's platonic antidote – Singles Day (11th November) – has become the largest online shopping day in the world, with profits exceeding the US's 'Black Friday'. Last year, it achieved record high sales of 91.2 billion RMB ($20 billion), 62.6 billion spent through the mobile app alone. It plays to key category strengths for e-commerce: 30% of sales were baby related; 22% comprised cosmetics.

This year, P&G China and Alibaba VR Lab jointly launched the "VR Boy Friend" and "VR Girl Friend" marketing campaign on 20th May, using VR technology on Alibaba's Taobao app. In their virtual world, fans can have their idols wake them from their sleep, make them breakfast; even propose to them, all through VR technology. And that's not all, their idols also shopped with them for P&G Rejoice products, which were easily added to their carts or followed through a click.

South Korea has the world's most developed digital economy and owes this largely to a combination of innate cultural appetite for new technologies and digital accessibility. Thanks to high internet speeds and 85% smartphone penetration, almost 100% of consumers aged between 10 and 40 shop online, especially through mobile. In additional, South Korea is very advanced in their financial payments systems, which makes the purchase process easier.

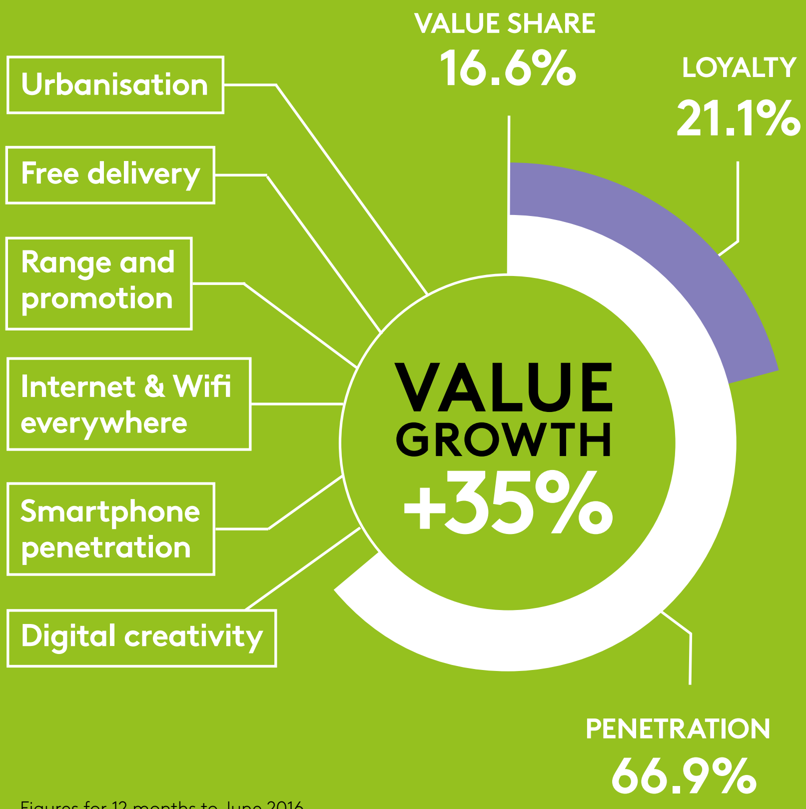
The situation is different from the early days of online retail, four or five years ago. Now, the online channel is positioned as one of the most important purchase channels, particularly for the baby categories. And it is becoming more pronounced due to the increase of cross-over shoppers, who make purchases on- and offline.

Traditionally, Koreans used the internet for social and recreational purposes but not necessarily for commerce. Marketers looked for innovative ways to draw consumers online socially: strategies such as building and maintaining chat rooms, sending out regular e-newsletters or special deal emails to opt-in consumers, developing company blogs or advertising on social network websites helped lead users from social communities towards communities of transaction.

This is now being mirrored in China with the advent of social commerce. Chinese e-commerce company JD.com has partnered with social platform WeChat, enabling its users to browse merchandise offered by JD.com while staying in the chat app.

In the next decade, South Korea is expected to see online FMCG share surge to 25%. Because crossover shopping will accelerate and omni-shoppers will become more common, existing e-tailers will be trying to enter the offline market, and existing offline retailers will be trying to develop their online business.

WHY IS SOUTH KOREA LEADING?



Figures for 12 months to June 2016

Source: Kantar Worldpanel

ALMOST 100% of consumers aged between 10 and 40 shop online

TRIPS PER YEAR 14

JAPAN: THE MOBILE SHOPPER

Intage, our partners in Japan, share their insight on how changing media consumption is shaping the online shopper.

Changing media consumption in Japan

Smartphone usage has been growing in Japan for many years: as of the end of 2014, 64.2% of all households had a smartphone[1].

Moreover, with the widening range of content available, the ways in which people access information – e.g., watching TV content through the Internet – is growing more diversified.

Therefore, when considering promotional activities for e-commerce, we need to consider the ways in which people access information. Using data from its internet-based panel, Intage segmented consumers in accordance with "how they access information" in order to identify "information exposure patterns". This resulted in the creation of a profile of specific segments designed to identify which promotions might be effective for each audience.

1. 2014 Communications Usage Trends Survey, Ministry of Internal Affairs and Communications

A look at the extent to which each segment shops online and collects online shopping information shows that e-commerce shopping is particularly prevalent in the “Trend-Chasers” and “Positive Individualists” segments

▶ A look at the extent to which each segment shops online and collects online shopping information shows that e-commerce shopping is particularly prevalent in the “Trend-Chasers” and “Positive Individualists” segments.

Their profiles suggest that their attitudes and behaviours are widely divergent: whereas one segment is easily influenced by mass media, the other is highly responsive to information that is highly individualistic. By identifying these groups and what makes them tick, retailers working online in Japan can focus their marketing and advertising accordingly.

Interview with **Mayuko Suzuki**, Intage Japan

How is the retail landscape changing in Japan?
Online has certainly developed and effected a change in the landscape. But, it is interesting that even though we have an online channel now, we still have the same shopping frequency in offline channels compared to 20 years ago.

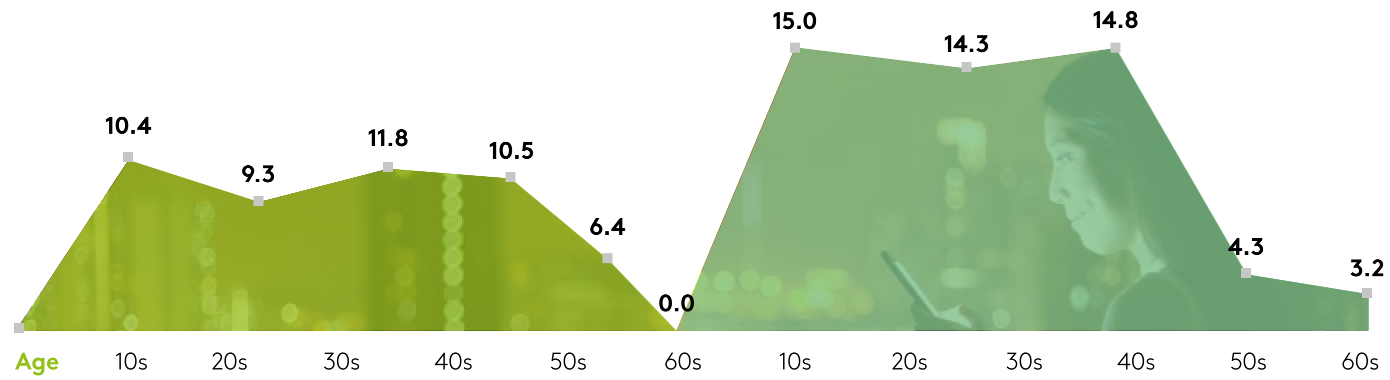
Is the future of retail more convenient and accessible?
Definitely. Even online retailers are thinking about hybridisation. At least one online retailer has a service where goods are delivered to a locker. They then let the purchaser know which locker the parcel is in to go and pick up whenever they want to.

Where do you see the retail landscape going in the near future?
Actually, the innovation that we’re having is not just around the product, but how a service is wrapped around it. There are hints of this in traditional retail too: Japan views its malls like one-stop shops for everything you need; you’ll not only see a cash store, but also a hospital and nail care service all in one place.

Online we’re starting to see retailers not only selling wine or liquor but advising what kind of liquor or wine is recommended for you. It’s this additional helpful human element that is thriving in Japan.

TREND-CHASERS

Gender age distribution **Male 48.3%** **Female 51.6%**



Personality

People in this segment spend a lot of time watching TV, often using their smartphone at the same time. Easily influenced by mass media, the ‘trend-chasers’ view adapting to and getting along with other people as very important.

Brands and retailers should not make assumptions about the behaviour of certain demographic and age groups. In Japan particularly, the older generation are not as technology-illiterate as many assume.

Information / brands to which they respond best

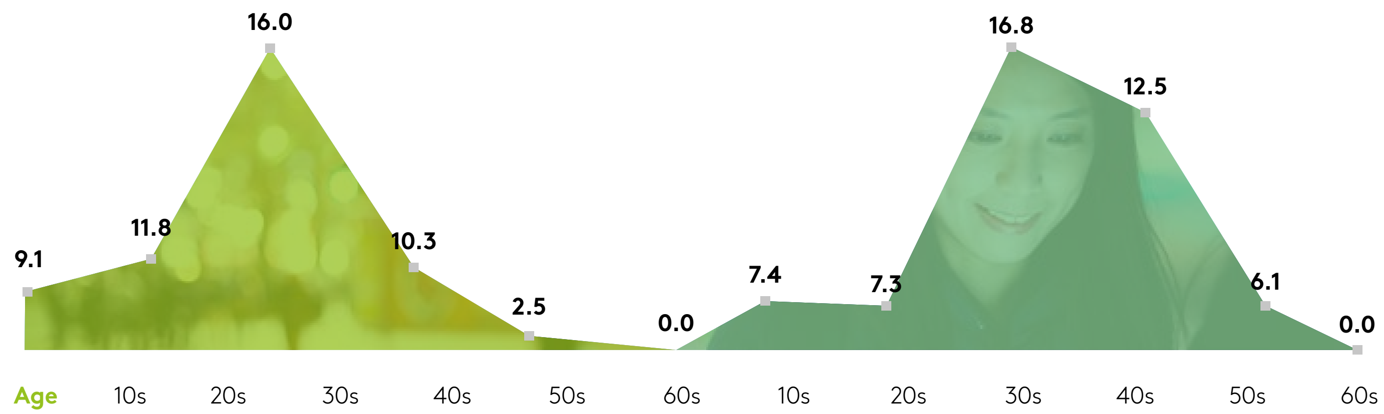
- Brands and products seen in magazines/commercials
- Limited edition/out of stock products
- Brands and products claiming to be authentic
- Items that stand out on the shelf
- Content marketing information
- This group moves most easily from a television commercial to the manufacturer website or official social networking page

Preferred medium

- Out of home advertising
- Facebook

POSITIVE INDIVIDUALISTS

Gender age distribution **Male 49.7%** **Female 50.3%**



Personality

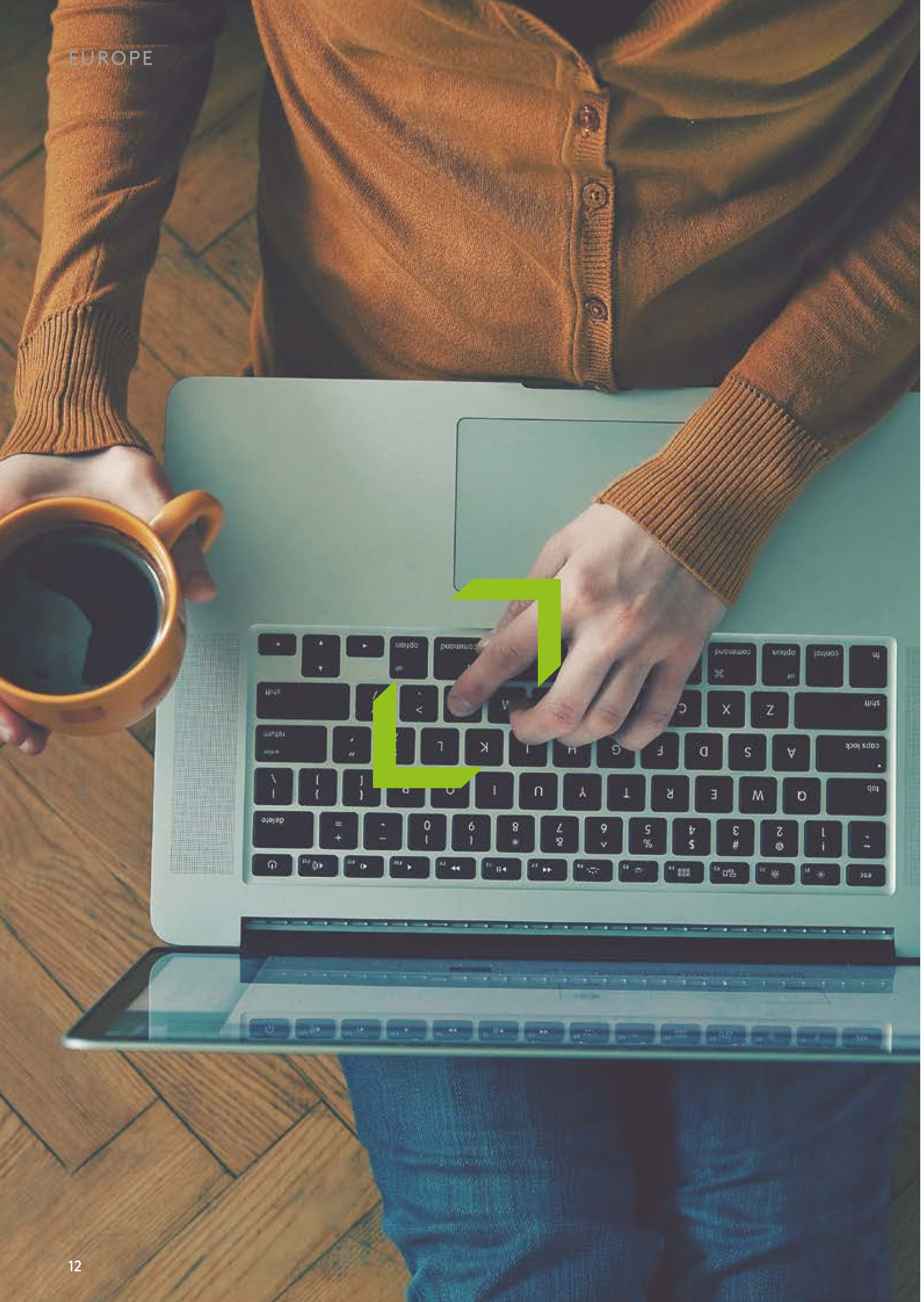
For this group, expressing individuality is important. They enjoy finding and sharing information based on their own tastes, and actively interact with other people.

Information / brands to which they respond best

- Brands and products that differentiate them from others
- Brands that express their individuality/taste
- Brands that are “talked about”
- Information and brands trending on social media

Preferred medium

- YouTube
- Curation apps
- Instagram



EUROPE: A CONTINENT DIVIDED

WHY IT WORKS OVER HERE, BUT NOT OVER THERE

At an internet penetration rate of 73.5%, the European region is second only to North America in terms of connectivity. Still, varying levels of FMCG e-commerce share across the continent remains a puzzle. The UK (6.9%) and France (5.3%), for example, stand far ahead of Germany (1.2%), despite their proximity both geographically and as three of the five largest economies in the world.

In fact, this incongruity should barely come as a surprise. Unlike their Asian and Latin American counterparts, European countries remain extraordinarily different from one another in terms of cultural values. Here our experts explore three nations and how e-commerce is working to meet the diverse needs of each population.

$69 online

$32 in-store

Average spend in France

Source: Kantar Worldpanel 2016

By **Frédéric Valette**, Director of Retail Insights, France

As a notoriously individualistic culture and home to the hypermarket, France would initially be seen as an unnatural ground for e-commerce growth. But in recent years the popularity of the unique Click-and-Drive model has soared; now accounting for 5% of all FMCG value share and has grown by 20% in the last year. A drive-thru version of click-and-collect, it allows shoppers to order online and then pick up their orders without having to leave their car.

So why is this model so peculiar to just one country? While click-and-collect certainly exists in other markets, nowhere else is it the dominant format for e-commerce sales.

Firstly, the French retail network is rooted in its own invention – the hypermarket – which represents 50% of all sales. The Drive model works so well here because it satisfied the same replenishment and stock-up shopping mission as the hypermarket but adds the crucial element of convenience, with no extra charge.

Secondly, in France, Drive attracts suburban families: while for the overall French population penetration is around 22%, it jumps to 50% for families with young children.

LESSONS FROM FRANCE

Market-leading supermarket chain E.Leclerc has embraced Drive as a key element of its channel strategy. The concept of hybridisation is something that traditional retailers will pursue, not merely as an opportunity but in order to rein in their expenditure and maximise their margins. Retailers simply can't afford to keep buying vans and hiring drivers and pickers, it's a very expensive way to make money.

Supermarkets should try ideas such as part-bagging, where staple goods are packaged for consumers before they arrive at a store, freeing them up to shop for other more peripheral items.

Anything that retailers can do to get consumers to take part in the shopping experience rather than do it themselves is important for their continued success.

By **Helen Passingham-Hughes**, Managing Director, Europanel

With only 1.2% value share, Germany represents one of the rich laggards in FMCG e-commerce standing out with the USA as a strong, technologically-competent economy which paradoxically enjoys a comparably slow diffusion of new models for FMCG distribution.

Why? Firstly, while the proponents of e-commerce assume that the incumbent model is unfit for purpose, Germans often find that the typical benefits of e-commerce – greater convenience, more information, lower costs – are already being met to a high standard.

Unlike France, Germany has a well-established and distributed decentralised power meaning that travel time to stores is rarely a problem and accessibility to goods is high.

But it is the available payment methods which really hinder Germany's e-commerce revolution. Most of the population (94%) prefer to receive an invoice for goods or services rendered rather than pay up-front; while key online retailers operate almost universally on advanced payments.

WAYS TO WIN IN GERMANY

Once payment on receipt rather than on order is offered on a broader scale, Germany will likely see an uptake in demand for online grocery. Its existing decentralised infrastructure lends itself well to both click and collect and home delivery models and both will be driven by propositions promising real utility (perhaps broader assortment, better deals or cheaper goods) rather than emotion.

Improvements in logistics should also aid the deployment of free, next-day and same-day delivery formats which will better suit the Germans' need for immediate transactions.

By **Ed Nash**, Director of Shopper and Retail, UK

E-commerce share of grocery in the UK is the third-largest globally, which in relative terms means that the UK is fairly developed. It's growing fast too: the past few years have seen it grow around 20% annually (although more recently slowing to under 10%).

This doesn't mean it is simple for online retailers to operate in this channel effectively, or that the average UK shopper sees it as a complete replacement for more traditional routes to buying groceries.

Around a quarter of households have shopped online for groceries in the latest year but not all of those are as committed as we might think. In fact, the majority of an online shopper's spend (around 75%) is still in bricks and mortar stores.

What's more, most retailers are forced to impose minimum basket sizes – typically £40 – as well as delivery charges in order to maintain profitability. Current e-commerce offers therefore can only serve potential shoppers with their 'main' shops, rather than the significant number of smaller trips that shoppers make in between.

This isn't new news to retailers: the race to change and improve logistics is hotter than ever. It's also no surprise that there is a reasonable amount of anticipation of Amazon's future in this space. Recent developments include:

- Expanded offer: Amazon teaming up with Morrisons to include private label products in their product offer.
- Convenience: Sainsbury's trialling same day delivery around London; Chop Chop mobile app – small basket deliveries by bike within an hour.
- New entrants: AmazonFresh finally launching in the UK, with two hour delivery to some parts of London.
- New approaches: Tesco trialling lower minimum spend (£25) – with success – but has now reverted back to £40 for logistic reasons; Asda developing the Drive (Click & Collect) model – which offers the retailer a margin somewhere in between shopping in store and home delivery; Morrisons teaming up with Ocado to address logistics.

Cracking the logistical challenge of delivering groceries profitably is central to the future growth of e-commerce groceries in the UK. If these issues are successfully overcome then retailers can turn their attention to the twin growth drivers of attracting more shoppers to e-commerce, and increasing the commitment of existing shoppers to the channel.

WAYS TO WIN IN THE UK

- **Improve the experience:** currently, only 13% of households use mobile devices for online grocery shopping. Improving the online shopping experience in line with the development of devices and apps alongside omnichannel strategies should increase this figure.
- **Be convenient:** new entrants into the market including AmazonFresh and subscription-based offers including HelloFresh, Etify, and Gusto are all tapping into convenience and top-up shops, thus addressing a current gap in the market. Offering a service is one thing, finding sufficient consumers willing to pay the inevitable premium is another hurdle in the way.
- **Be innovative:** developments already seen across the Atlantic will likely mark the future for e-commerce in the UK. Octocopters delivering packages for Prime Air and Instacart's personal shoppers.

USA: BEHIND THE CURVE

The US has long been at the crux of the e-commerce 'puzzle of performance'. Home to Silicon Valley, Uber, Amazon and the city that never sleeps, its staid efforts at moving grocery shopping online have baffled onlookers.

Last year marked the painful end of Tesco's ill-fated American venture, Fresh & Easy. Most American shoppers, especially those in car-dominated California, are accustomed to grocery shopping on a considerably larger scale. The company was also forced to expand quickly, and on unsatisfactory retail sites, to try to meet the overheads of its large-scale infrastructure.

Analysts pegged the poor uptake of the small convenience retail model on a tacit misunderstanding of American values. Reports showed that US shoppers disliked Fresh & Easy's shrink-wrap food packaging and its self-checkout system: alien to a nation that prefers to reward personal service. Pre-packaged sandwiches went squarely against the supermarket tradition of deli counter dishes prepared to order in-store where people prefer to ask for precise measures of ingredients to suit their taste.

There are clear parallels here to the lagging e-commerce market. The high level of individuality ingrained deep in American culture makes it very difficult for businesses which require the relinquishment of choice and autonomy on the part of the shopper to succeed in the long term.

UNITED STATES OF AMERICA

Interview with **Bryan Gildenberg,** Head of Research at Kantar Retail

Why has FMCG e-commerce not taken off in the States as we might have thought?

When considering what enables a retail ecosystem to be successful, we break it into three variables: connectivity (can people access the system easily?), consumer (culture, income, geography) and profitability (can anybody make any money doing this?).

It's also important to understand the primary category holding back value share. In the States, the share of non-food e-commerce in is relatively consistent with other technology-connected markets. There are certainly selected grocery categories that have very relatively high e-commerce share, like diapers for example.

Geography

The population density of the US is difficult for e-commerce because people in incredibly densely populated areas or very sparsely populated areas and you've got a number of population centres that are quite significant.

In the UK, if you put down four poles: one in central London, one somewhere between Manchester and Liverpool, one in the northeast, and one in Scotland, you'd probably get 80% of the purchasing power in the UK from about 100 kilometres of those four poles. That's a good market for e-commerce because you can very easily reach lots of people who are spending a lot of money. That's why e-commerce developed the way it did in the UK, where you've got a very strong home delivery component. That was the way everybody initially approached the problem because the assets you need to make e-commerce work are small: anybody can go buy a van.

The way e-commerce developed in France is more indicative of how it may evolve in the US. France's geography is a lot more like the States: a couple of very big cities on opposite sides of the country; about 15 or 20 major population centres in the middle, and then a lot of empty space. Home delivery doesn't make any sense in

> France's geography is a lot more like the States: a couple of very big cities on opposite sides of the country; about 15 or 20 major population centres in the middle, and then a lot of empty space

When you ask people under 35 what a stress-free shopping experience is, two-thirds of them will describe it as a digital experience

France for a variety of reasons, and that's probably one. French retailers found a way to create built-for-purpose facilities that drove e-commerce while meeting the needs of that geography.

Fragmentation of retail landscape

Because the US is so much bigger than France, all of the retailers that sell food within those different geographies, except for Walmart and Kroger, are fairly local businesses. The food industry in the US is still driven largely by regional supermarket chains and by Walmart and then by Kroger.

I think the biggest reason why most Americans weren't buying food online is that the retailer that they bought food from didn't offer it, and most Americans are creatures of habit. The reality is that a lot of Americans still buy their food from companies that just simply don't have that capital to go out and build a robust e-commerce infrastructure.

Non-food-centric approach to retail

Lastly, a key barrier is simply the very nature of how e-commerce has grown up in the States: shoppers' expectations of e-commerce is so defined by Amazon that the idea of being able to buy your groceries on the web is very foreign. The US is the only market in the world in which Amazon first introduced e-commerce to people. In many European markets, it was largely food retailers. In China, it was the marketplaces like Alibaba and JD.com.

What do you think the retail landscape will look like in 2025?

When you ask American shoppers why they pick the retail outlets they do, 'I want to feel like I got a good deal' and 'I want to save as much money as possible' poll very highly. There's a very strong value-centric notion to a lot of how Americans buy food. They are used to an environment in which price is a really big driver of deciding where they're going to get products. The cost of delivery associated with e-commerce doesn't fit.

Interestingly, over the last couple of years, the third variable – 'I want to have a stress-free shopping experience' – has become almost as important to American shoppers as the first two. When you ask people under 35 what a stress-free shopping experience is, two-thirds of them will describe it as a digital experience. For older shoppers, it's inverted: two-thirds physical versus one-third digital. For the boomers, it's probably about a 50-50 split.

Today, the problem of last mile economics is being solved by businesses that have nothing to do with retail. Walmart last month started testing home delivery with Uber in Phoenix and Lyft in Denver. You go online, pay the normal delivery charge with your groceries, and then Walmart pays Uber. This has the potential to start to accelerate the growth of e-commerce.

Amazon is starting to be more strategically focused on speed of delivery in densely populated urban areas. AmazonFresh is obviously a big part of that on the food side, but they've also been leaning forward on their Prime Now service where, for a select number of items, two-hour delivery is free.

Amazon is beginning to reset people's expectations on how long something should take when you order it online, and that real-time delivery capability is one that a number of retailers are either going to have to replicate or, in all likelihood, outsource to people that already have efficient last mile distribution models in place.

What are the models most likely to succeed in the United States?

The most successful e-commerce models in the States are those that were built-for-purpose. Firstly, I'm confident that Amazon will figure out AmazonFresh, particularly in the context of Prime Now. They're too smart and spending too much money not to.

Secondly, Walmart will continue to be in a position to provide the many Americans who earn well below the average salary with help to spend as little money as possible on everyday needs. We have many positive attributes as a nation but the ability to spread prosperity is not one of them. Indeed from an income distribution point-of-view, the US is better aligned with China than France.

Lastly the Instacart model – owning no produce itself, rather acting as the e-commerce engine for retail partners – is likely to be very successful in meeting the needs of high-end spenders; willing and able to pay a premium for the food they want, delivered to their door.

LATIN AMERICA

LATIN AMERICA: CONNECTED BUT CONVENTIONAL

At first glance, it might be easy to dismiss the lagging growth of FMCG e-commerce as a mere symptom of the region's comparatively poor connectivity.

Nicaragua and Guatemala, for example, report a woeful 27.1% and 31.5% penetration respectively, far below the global average of 49.7%[2].

But Latin America as a whole succeeds the Middle East, Asia, and Africa in the proportion of its population using the internet. More developed markets like Argentina, Chile and Brazil boast more internet users per capita than Italy, Turkey or even China.

So, with 55.9% of the population online, why is e-commerce and – specifically – FMCG e-commerce still in such an embryonic stage? Generating just $345 million each year, it accounts for only 0.2% of the total FMCG market value. The appeal of online grocery shopping to Latin American shoppers is – unarguably – extremely low.

CULTURAL BARRIERS TO E-COMMERCE ADOPTION

By **Cecilia Alva**, Client Business Development Director, Latin America

For the majority of Latin America, e-commerce is lagging far behind traditional methods of shopping, with the exception of Argentina where it is exceeding usage compared to the rest of the region.

This Argentinean anomaly provides a guiding light for online retailers trying to succeed in Latin America. Compared to those countries which are not seeing notable growth in e-commerce, Argentina's main customers are seniors and small families looking for the convenience of getting regular trolley items, delivered to their front door. Other countries have a much younger audience and do not reach these other demographics.

The lesson to be learnt here is that other territories in Latin American need to expand their shopper base by attracting and then recruiting new consumers. That said, Argentina needs to catch the attention of the younger shopper to continue to see growth.

One issue faced across the entire Latin American market is a lack of trust in e-commerce. This firstly lies in payment methods where shoppers don't feel safe sharing their credit card details and data online. Secondly, there is the lack of trust when purchasing 'fresh' FMCG items. This is even seen in regular online shoppers, they tend to avoid buying fresh meat, fruit and dairy through e-commerce, favouring those items less likely to expire.

Another barrier for e-commerce in Latin America is that shoppers perceive online to be more expensive than traditional bricks and mortar stores. Both these obstacles for retailers can be combated by educating shoppers to help them overcome these concerns.

Research from Kantar Worldpanel confirms how this negatively affects the very premise of e-commerce more than other regions. It explores confidence issues related to this unwillingness to change, and how brands and retailers can overcome them.

For the majority of Latin America, e-commerce is lagging far behind traditional methods of shopping, with the exception of Argentina where it is exceeding usage compared to the rest of the region

[2] www.internetlivestats.com

Routes to success: a customer's perspective

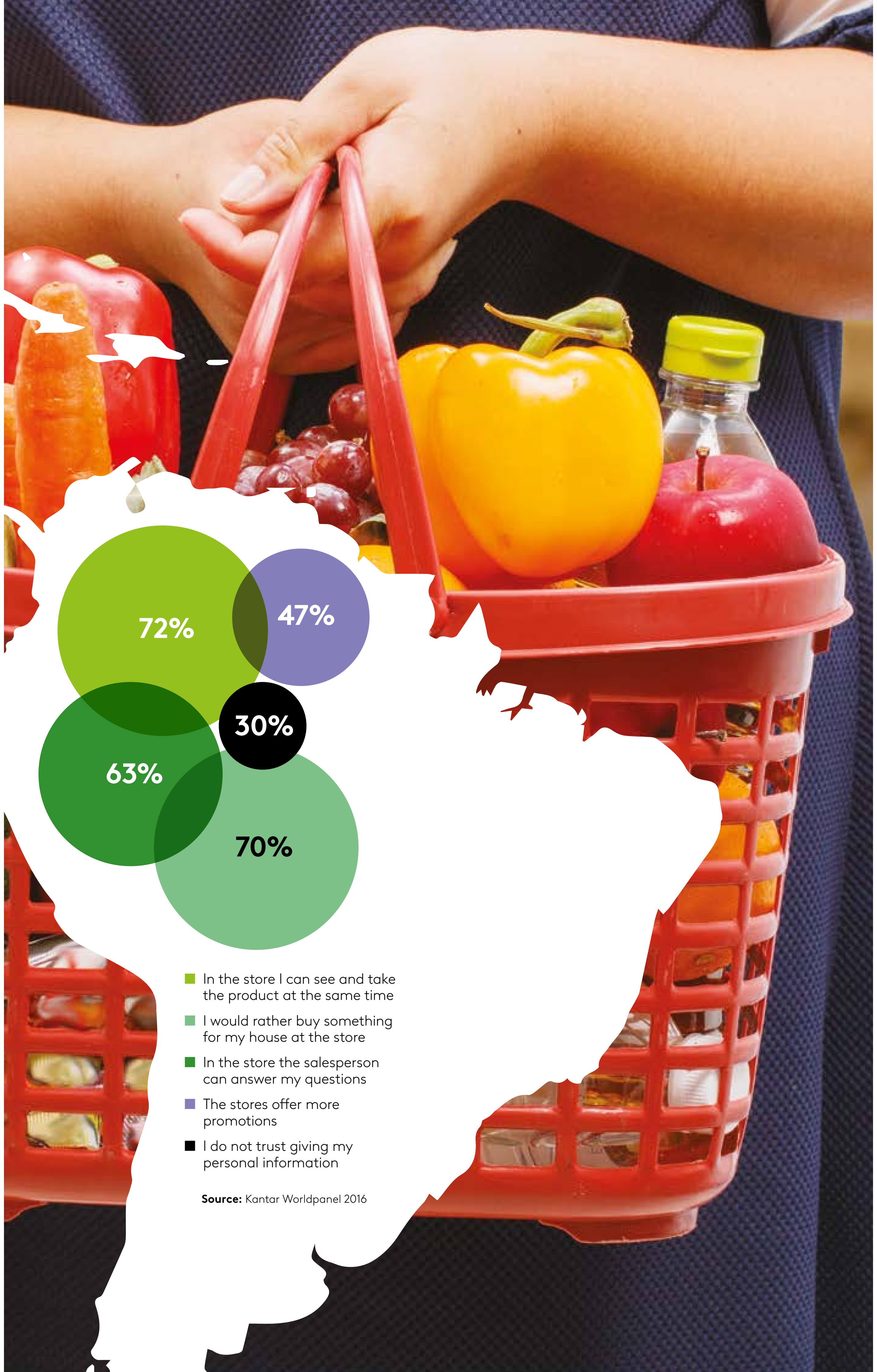
Research from Kantar Worldpanel asked shoppers across Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela what was stopping them from purchasing online. The answers were unsurprising: Latin Americans simply prefer the conventional shopping experience, they like to see produce, touch it and be advised by salespeople they trust.

The road to a thriving market for FMCG e-commerce across Latin America is undoubtedly strewn with deep-rooted barriers. But, it is not without its proponents. The majority of shoppers recognise the benefits of shopping online: in Mexico, 58% actually enjoy the process of ordering from home. In Colombia, over half of those we spoke with admitted the channel was effective at avoiding long lines at the checkout and saved time.

Four-fifths of shoppers in Brazil appreciate that e-commerce enables them to shop at any time. Over half of Peruvians declared a value in accessing exclusive online promotions and over two-thirds of Argentineans think home delivery is the biggest benefit offered by e-commerce.

These advantages have been well communicated by retailers and brands alike. Consumers understand them clearly, but their cultural tendency toward loss aversion means that the messages are often not strong enough to outweigh the risks. In short, to succeed, retailers and brands must either heighten the end-value of these benefits or significantly lower the barriers preventing shoppers from enjoying them.

For many, a lack of knowledge fuels their uncertainty and suspicion. Even Millennials shy away from FMCG e-commerce, with 76% reporting that they like to see a product before making a commitment to purchase. In older generations, this uncertainty grows into mistrust.



WAYS TO WIN IN LATIN AMERICA

1. Encourage incremental change

Familiarity is the key to success in Latin America. Retailers should begin introducing technology into stores such as cashless payments and easy-to-use interfaces where customers can compare products and pricing. Store-to-door delivery would be a preferable model in this stage of the market. Customers have all the benefit of home delivery while minimising the uncertainty created by a long time distance between payment and true ownership.

2. Guarantee value

'Wanting to see and touch produce' is top on the list of many consumers' reasons for not shopping online, but it scratches the surface of a much larger issue: quality of goods. This has been overcome in other more developed markets by promising, even guaranteeing, that only the best quality goods will be chosen.

Models through which the customer pays on delivery would not only better emulate the traditional 'door-to-door' trade understood by Latin American consumers but would also cede them greater control, allowing them to refuse purchase of products deemed to be not up to standard.

3. Emulate offline customer service

The proliferation and development of smart devices has created a world of opportunity in which retailers and brands can retain a service relationship with their customers outside the store. Our data shows the act of using the internet to search for information is a good indicator of their propensity to buy.

Service personnel should use their advisory role, prized among Latin American shoppers, to recommend websites and apps which can help the shopper navigate the online resources available.

4. Ignite advocacy: online shopping as a social norm

Countries in Latin America invariably have a collectivist culture; that is to say, there is a high reliance on and loyalty to their community. The most powerful marketing tool, therefore, is advocacy. Brands and retailers should provide the tools needed to encourage e-commerce shoppers to recommend the service to their peers, reducing the perceived risks with which it is often associated.

Almost half of Generation X finds sharing their personal information too much a risk. The Boomers (over-50s) simply do not have access to the internet, and – even if they do – have little or no idea how to use it.

Even among the 15% who have made online purchases in other sectors, the phrase most used to describe why this behaviour had not extended into FMCG was a simple: 'I am not used to it.'

Our research asked shoppers what would need to happen in order to increase online purchases in FMCG. Interestingly, having previously cited a lack of trust and physical contact as barriers to entry, their recommendations did not include either as items for improvement. Instead, the focus remained purely commercial and value-oriented. Exclusive online promotions came top, with 48% quoting it as a reason they or their fellow shoppers would shop more online.

The second and third most suggested improvements relate to delivery: speed and cost respectively. This correlates well to the main benefit of traditional shopping: being able to order an item and take it home immediately. By shortening the time between the point of purchase and the moment of delivery, consumers would not only reduce uncertainty anxiety but also retain the impulsive reward-based enjoyment of shopping in general; a characteristic much more prevalent in the Latin American culture.

WORLD OF OPPORTUNITY

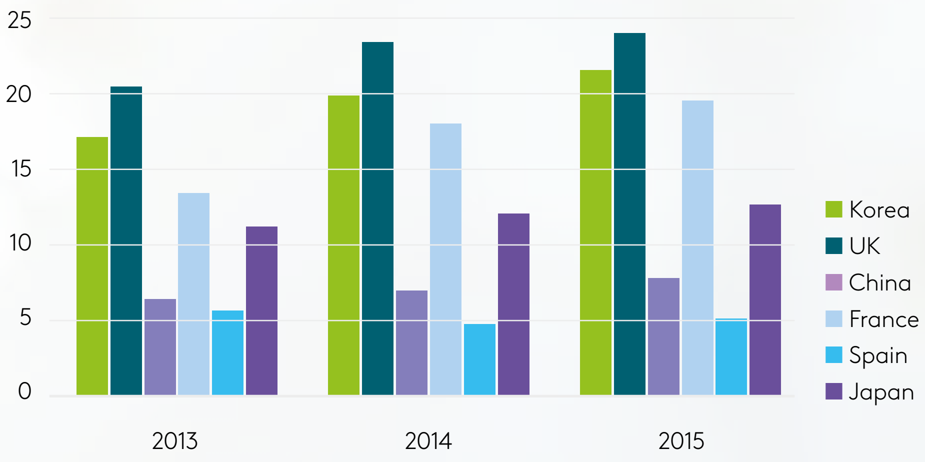
HOW BRANDS AND RETAILERS ARE DRIVING ONLINE SALES

The issue of cannibalisation

Brands and retailers the world over are having to invent new ways to engage with shoppers online. With the risk of cannibalisation of bricks and mortar stores, it's vital for them to offer something new and exciting to drive them to this channel, without losing interest in physical channels.

Comparative research we conducted across the UK, France and China showed that after one year of e-commerce adoption, British and French shoppers spent less overall. This is partly because online still fails to generate impulse purchases: 55% of shoppers re-use the same shopping list for the next purchase.

AVERAGE MARKET SHARE OF ONLINE AMONG SHOPPERS WHO USE THE CHANNEL



Source: Kantar Worldpanel 2016

PERCENTAGE EVOLUTION OF ONLINE PLUS OFFLINE SPEND 2015 VS 2016

	CHINA	FRANCE	UK
ALL SHOPPERS	+5.4%	+0.7%	+0.3%
ONLINE ADOPTORS 2016	+5.9%	+0.6%	+0.8%
ONLINE REPEATERS 2015 AND 2016	+8.1%	-1.4%	-2.4%

Source: Kantar Worldpanel 2016

In China as beauty products represent 50% of all e-commerce purchases in FMCG, we do not see this risk of cannibalisation yet. Online purchase is still a premium or prestige occasion and a greater tool to connect with brands that are not available offline.

Once shoppers have begun shopping online they are more likely to continue doing so. Among this group in the UK, for example, almost a quarter (23.3%) of all spend is through e-commerce, resulting in fewer trips to physical stores.

Online has proven to be fertile ground for brands. Kantar Worldpanel data shows that the share of the market for branded goods is on average much higher online than it is in store. For example, in Spain brands have a 75% share of market online compared to 64% offline.

BRAND MASTERCLASS

By creating innovative ideas and listening to the culture of the market they are aiming at, the below brands are establishing a strong e-commerce market on a global scale.

Driving sales through communications

Some brands have found success by pairing social media marketing directly with e-commerce to drive frictionless sales. Last year, Coca-Cola launched Freestyler in the UK. The app allows users to create a cocktail of 100 Coca-Cola brands, including Lilt and Dr Pepper. Recipes can be saved and taken to places with a Freestyle machine, where they simply scan a QR code to get their personalised beverage. Users can also share their favourite mixes with other users and friends over social media. The concept has also been launched in the US, where the app has 1.1 million downloads.

Creating a frictionless product experience

The possibilities afforded to brands by the much-touted Internet of Things are already being realised. Nestlé has recently introduced a Nespresso coffee machine, Prodigio, that connects to an app on a consumer's phone via Bluetooth. Prodigio keeps count of how many capsules used, the app 'knows' how many have been ordered.

The app then alerts the consumer when they are running low and offers a one-touch re-order button. The technology blurs the digital with the physical, providing a seamless journey from consumption to delivery.

Adding something extra

Online shopping can feel like a gamble for many consumers, with the potential to fail to live up to expectations in real life.

To combat this, L'Oréal launched a MakeUp Genius app – which has now been downloaded over 6 million times – allowing shoppers to virtually try on makeup, swapping out colours and shades all while teaching you how to better apply the products.

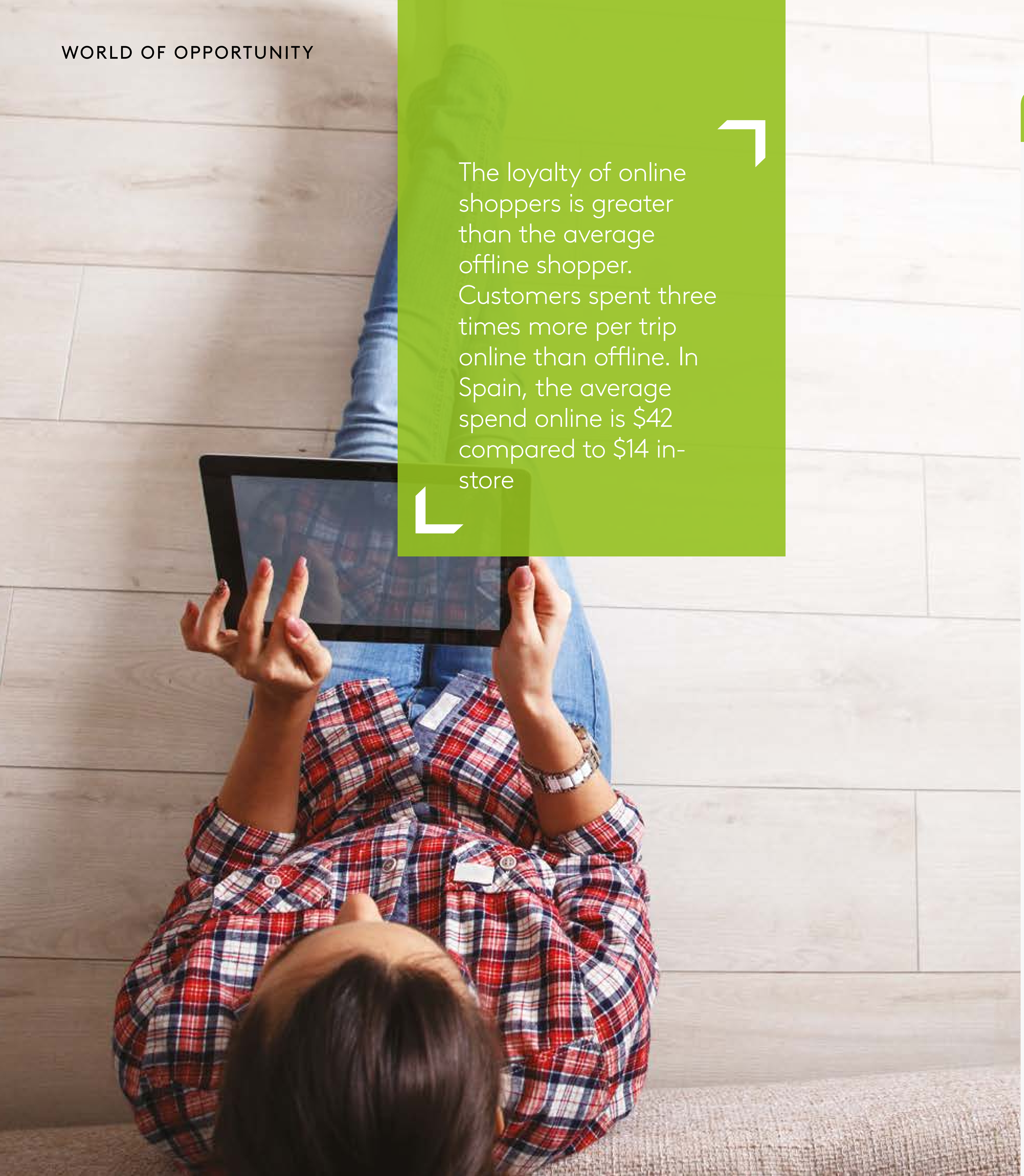
Accelerating the new product development process

In China, many players have started to launch their innovations exclusively in Tmall stores to capture the lucrative early bird sector, create the 'vibe' through digital campaigns as well as executing a very pragmatic test and learning process that is useful to fine-tune the marketing mix when launching in other markets or channels.

Protecting your offline sales

Brands need to find ways to make online an additional way to sell products, not cannibalise their in-store activity. Offering products exclusively through certain channels is a popular move.

P&G China sells lines specific to Alibaba's Tmall while in Japan, Nestlé has launched the first ever Kit Kat made with toppings on it – individually packaged in a customised box – which is available only in Kit Kat Chocolatory shops in Tokyo or through the LOHACO online store.



> The loyalty of online shoppers is greater than the average offline shopper. Customers spent three times more per trip online than offline. In Spain, the average spend online is $42 compared to $14 in-store

WORLD OF OPPORTUNITY

RETAIL MASTERCLASS

While the cannibalisation of offline sales makes for a potentially damaging entry into e-commerce for retailers, they cannot afford to ignore it. Our insight shows there to be a huge first-mover advantage and, with pure-play tech companies like Amazon opening in markets across the world, securing a shopper base early is crucial to survival.

Online offers many opportunities to grow. There is growing evidence, for example, that the loyalty of online shoppers to store is greater than that of the average offline shopper. What's more, customers spend three times more per trip online than they do offline. And when comparing online spend to big formats in physical stores, there is still a considerable gap. In Spain, the average spend per supermarket trip is $14 compared to $42 online.

Remembering what people want from purchasing their everyday goods – convenience, value, time-saving – retailers need to configure their whole offer across all channels and come up with an approach to how they service customers which works.

Understand shopping missions

Certain categories naturally play well to convenience and time-saving needs. Bulky items which are difficult to carry – toilet tissue, nappies and bottled water, for example – cede a lot of value share to e-commerce.

This is easily explained in consideration of the underlying shopper missions which tend to be much more specific online and – in France, USA and the UK especially – are heavily driven by the need to stock up the store cupboard, and are hence a bigger trip.

Think differently about impulse purchases

Our data shows that impulse purchases in the traditional sense – buying extra products during an unplanned shopping mission – considerably wane when customers move online. But with the proliferation of mobile, an impulse purchase no longer has to take place when someone is already shopping. Now, consumers can be persuaded to buy anytime, anywhere.

Last year, Birds Eye used the e-commerce tool Slingshot to allow British fans to add items to online baskets at Tesco, Sainsbury's, Waitrose and Ocado with one click on a Facebook ad. Shoppers could select products directly from posts about its "Story on a Plate" campaign and head straight to the checkout.

Reclaim the shelf appeal

In an effort to close the gap between how people actually shop for FMCG and the existing mobile commerce platforms, augmented reality platform, Grability, launched in 2013. It mimics shopping habits in a digital environment, bringing the experience of actually going to a physical store, seeing a product, wrapping it up and putting it into a basket.

Amazon: same day delivery to door

In the last year, Amazon has introduced several innovations, the most prominent being AmazonFresh, its grocery delivery service. Customers can use the service to shop for fresh groceries online, like dairy, meat and fresh fruits and vegetables, as well as prepared meals, health and beauty products, pet supplies, baby products, and other household goods. There were over 95,000 different items available at launch, which can be delivered on the same day if the orders are placed by 10am or next day if ordered later. The service has now been launched in London and major cities across the US.

Alibaba: larger selection, branded stores

Alibaba has increased the number of international brands on its Tmall platform over the past year. The e-tail giant has worked with manufacturers Unilever and Mondelez, as well as supermarkets like Sainsbury's, expanding product lines from across the globe. Instead of appearing alongside other manufacturer's brands, each partner has its own online 'shop within a shop'.

2025 FORECAST

Stéphane Roger, Global Director of Shopper and Retail
Paul Murphy, Global Director of Data Science

The future of retail is somewhat challenging, as the population grows and the sales of FMCG/CPG slow. However, this oncoming storm could provide the perfect opportunity for e-commerce to thrive. By looking forward and predicting the needs of consumers, as well as tackling the issues found in today's market, such as cannibalisation of offline and a decrease of impulse shopping online, e-commerce retailers can build a bright future.

Digital has blown the doors open on new ways for brands and retailers to reach consumers, offering a plethora of channels to market; from social commerce allowing consumers to buy direct through a business's social media page, to the much-touted (but, so far, little-utilised) Internet of Things, from augmented reality that lets consumers use their smartphone to overlay their living room with prospective new buys, to hybridisation.

Here are our predictions for the future that today's retailers should be preparing for:

New shoppers

As of the end of 2015, more than 4 billion people were still not connected to the internet, and 10% of the world's population was living outside the range of cellular connectivity. As connectivity improves, a new group of consumers will be available to shop online for the first time, most likely on mobile.

Greater convenience

The quest for more convenience, to make FMCG shopping easier for increasingly time-poor consumers, will continue. For the e-commerce channel, getting the delivery right will also be more important than ever in terms of both speed and the price. We can already see from our data that in the most developed e-commerce market, South Korea, fast and free delivery is a key factor and we will see this continue to grow in other parts of the world.

A payment revolution

Improvements to, and development of, payments must also be a consideration for retailers and brands looking to forge further ahead into e-commerce. Anything that makes it easier to pay for your e-commerce delivery will be welcome. We can already see this in smartphone payments and apps like Ali Pay or Apple Pay which allow shoppers the convenience of not even needing a wallet to pay in stores. Making the process quicker and more streamlined is a must. In Latin America and Germany for example, paying on delivery and in cash would make a big difference in the attractiveness of e-commerce shopping.

Seamless shopping experiences

The blend of online and offline makes for an exciting playground. How can e-commerce retailers make shopping more 'real', and bricks and mortar store more 'interactive'? The use of augmented reality is allowing shoppers to try before they buy, or shop for groceries in a virtual supermarket, through apps on their phones. Augmented reality brings the much needed human element to the digital world, allowing those more sceptical cultures to have better control of their shopping experience.

The Internet of Things

Surely the Holy Grail for the technophile retail marketer is the cupboard that talks directly to an online retailer and orders your food, in effect cutting out the middle man. The much-talked-about but still nascent Internet of Things is making its mark but is far from becoming mass market.

A recent piece of research in the UK by Salmon, the digital e-commerce experts, into what they term programmatic commerce, has found that 57% of consumers will be ready for automated purchasing within the next two years, and they will be most keen to purchase FMCG goods.

Online forecast

Our projections show that, in 2025, online FMCG will be a $150bn industry, grown from 4% value share today to 9% globally. South Korea and China will continue to lead the way and Asia in general remains at the cutting edge of online adoption.

Interestingly, while it took between 10 and 15 years to build 5% e-commerce value share in France and 7% in the UK, with the benefit of better knowledge and clearer business models, the USA and Latin America are likely to catch up much faster.

STREAMED SHOPPING, THE FUTURE OF FMCG?

Luis Simoes, Global Chief Strategy Officer

Though very impressive, the rise of the e-commerce channel is not adding revenue to the FMCG sector as a whole. Indeed, the impact is often quite the opposite as deal hunting becomes easier and shopping lists limit impulse purchases.

What the development of FMCG e-commerce does mean though is that an unprecedented shake-up and redefinition is taking place in the industry. The cards get thrown up into the air, with traditional players being offered opportunities to better or transform. This results in the most complex, competitive, unpredictable and interesting era in the industry yet.

Bricks and mortar retailers have the most contradictory task: investing in online development, all the while knowing it will cannibalise their in-store sales rendering them less profitable. Their challenge is to combine their online presence with their physical stores and a unique understanding of shopper behaviour. They also need to redesign their relationship with manufacturers and brands, which are both eager to go direct to shoppers.

Pure players are the new kids on the block and they have little to lose: born digital, they can focus on attracting shoppers and delivering quickly. Until they need to make a profit – which might prove more complex – these agile players are disrupting all sectors and challenging the incumbents.

Manufacturers need to add new performance indicators such as presence in the shopping list and visibility on screen, but the development of digital shopping and delivery platforms offers them an opportunity to cut the middleman and own the relationship with shoppers. Here also, there is more competition to expect from new brands whose cost of entry has dropped as they can either go direct or use online marketplaces.

For now, shoppers clearly benefit from this growing rivalry as it puts pressure on price, increases their options and improves convenience dramatically. Not only do we see greater competition among more players but, more importantly, a blurring of purposes appear between them: 'traditional' retailers go online, pure players consider developing stores and manufacturers become also retailers. We can also foresee payment giants and media owners joining the party where media and retail converge to deliver a seamless and integrated path to purchase. Only time will tell how many players actually survive this battlefield.

Eventually, with the growing ubiquity of connected technology in our homes, I can anticipate a world of fulfilment without shopping, where my "things" are able to precisely order what I need, where replenishment is delivered conveniently, where grocery becomes a service I subscribe to and forget about.

Much the way streaming is the new experience of music, isn't the future of shopping actually not shopping at all?

ABOUT US

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The findings in this report are based on tracking the purchase of more than 500,000 shoppers in key countries spanning three continents. All of the data is correct as of June 2016 and annual increases are the 12 months leading up to this date.

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

About Kantar Worldpanel

Kantar Worldpanel is the global expert in shoppers' behaviour.

Through continuous monitoring, advanced analytics and tailored solutions, Kantar Worldpanel inspires successful decisions by brand owners, retailers, market analysts and government organisations globally. With over 60 years' experience, a team of 3,500, and services covering 60 countries directly or through partners, Kantar Worldpanel turns purchase behaviour into competitive advantage in markets as diverse as FMCG, impulse products, fashion, baby, telecommunications and entertainment, among many others.

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