THE KNOWLEDGE BANK

Delivered by
Scotland Food & Drink Partnership

ECOMMERCE PLATFORM GUIDE

JULY 2021

INTRODUCTION

Ecommerce refers to any type of buying and selling transaction made over the internet.

There are other terms for ecommerce such as online retailing or digital sales, but they all refer to the same central component which is, buying and selling.

This transactional aspect sets ecommerce apart from associated activities such as marketing, advertising or promotion.

Mcommerce, buying and selling via mobile phone, is the largest subset of ecommerce.

Whilst there are lots of choices for food and drink producers of how and where to sell online, with the main options detailed in this report, there are, broadly, two approaches to managing it.

Being your own retailer – when a manufacturer uses its own ecommerce enabled website or online shop (e.g. via Shopify) to sell and deliver its products directly to shoppers.

Selling via other retailers – whether through a traditional multiple retailer (e.g. Tesco.com), online only grocer (e.g. Ocado.com) an online marketplace (e.g. Amazon, Tmall) or restaurant delivery service (e.g. Deliveroo).

Each approach has its advantages and disadvantages, and it depends on the culture of the food and drink producing company, its resources, and its ambitions which, if any of these, will suit.

INTRODUCTION

In every market in the world selling food and drink online is growing. It was growing steadily before the Covid-19 pandemic and accelerated rapidly in 2020 as store visits became more difficult and restaurants, bars and cafes round the world shut down.

Whilst the spectacular rate of growth has slowed in 2021 it is still rising much faster than the traditional supermarkets. This is mainly because people are switching from one channel to the other, not because they're buying more food and drink.

But what is exactly is it that's growing?

- The number of shoppers using ecommerce for all or part of their food and drink shop.
- The amount of times they shop online.
- How much they spend each time they shop.
- The range of grocery products that shoppers can buy from ecommerce sites.

However, as producers and retailers shift their focus to ecommerce one of the big challenges is making the same profit from the new channel. Or, for some retailers, any profit.

INTRODUCTION

The predominant model for grocery shopping developed over the last 60 years has been based on shoppers coming to stores, where economies of scale and the ability to promote the same offers to everyone has driven efficiency for the big supermarkets and multi-national brands.

But ecommerce has turned this on its head. For the online shopper it's all about bringing the shop to them and offering much higher levels of personalisation.

As the larger players work out how to quickly adapt their old model newer entrants, and Scotland's food and drink manufacturers, have plenty of choices to make about their own way of making the most out of the potential ecommerce opportunity.

This guide is intended to help inform those choices.

However, shoppers' expectations and technology are changing quickly. This means new models are emerging and some are becoming more prominent so we'll be updating the guide as often as necessary.

THE KNOWLEDGE BANK TEAM

July 2021

PLATFORMS

BRICKS AND CLICKS

- Traditional retailers launched online operations in response to changing shoppers' expectations and to remain competitive.
- In the future, bricks and clicks retailers will expand their online operations and make them more efficient. They will integrate online with their physical stores to remove friction e.g. in-store collections or shoppers' access of product information.

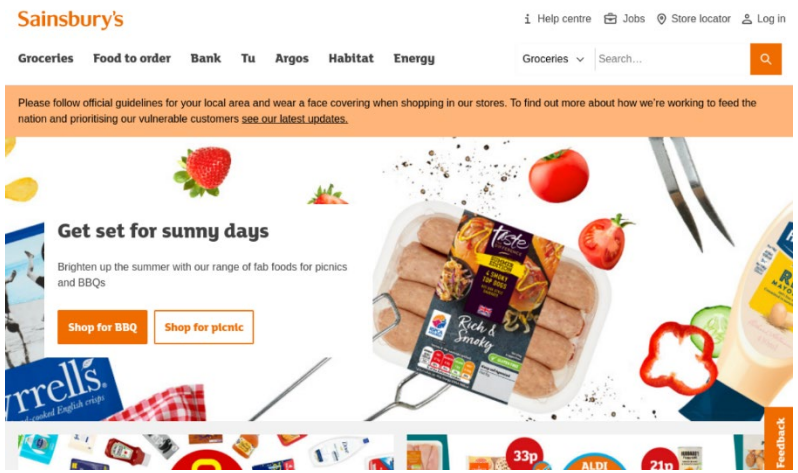
Things to consider:

- **Does your range review process consider online and its future growth?**
- **Do your marketing campaigns help online *and* offline shoppers?**
- **Do you have the processes in place to maintain strong online availability?**

What are bricks and clicks?

Established grocery retailers that sell from stores and online.

Examples: Walmart, Tesco, Carrefour, Ahold Delhaize (all various)



How do they operate?

- They will pick customers' orders from their stores. They might also have dark stores (online dedicated warehouses) on the outskirts of major cities.
- Orders can be delivered to customers' homes or collected at stores.

Bricks and clicks' strengths

- These retailers have higher brand recognition, making it easier to establish online. Their stores act as fulfilment centres, ideal for less densely populated areas. Their proximity to customers' homes reduce delivery costs and facilitate same-day and within the hour deliveries.

Bricks and clicks' weaknesses

- In-store picking is slower than a dark store. An order picked in-store can take c.1hour 14mins. An online store is used by online and offline shoppers and this can impact online availability. Online ranges, picked from store, are space constrained and therefore offer less choice.

PURE PLAYS

- Pure play grocery retailers are online retail only, and they have launched across the world as the online market grows.
- We've seen that shoppers want to easily shop both online and offline. We can therefore expect more of these pure plays to partner or be acquired by traditional retailers e.g. M&S & Ocado or Walmart & Jet.com.

Things to consider:

- **Can you collaborate with pure plays to get a better understanding of your online shopper?**
- **Do you understand their supply chain and the opportunities for your products?**
- **Are you working with pure plays to test, learn and improve your advertising?**

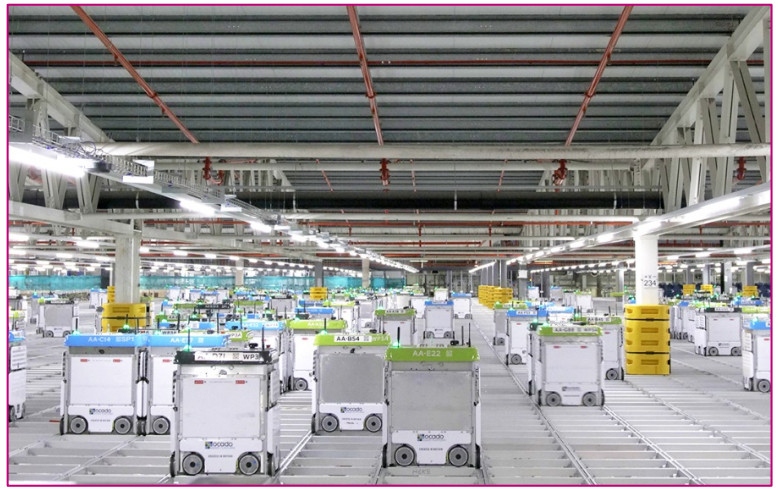
What are pure plays?

A grocery retailer that only sells its products online – it doesn't have any stores.

Examples: Ocado (UK), Ulabox (Spain), Jet.com (USA), bigbasket (India), Picnic (Netherlands)

Pure plays' strengths

- They offer more choice than a store. A fulfilment centre (FC) can hold c.50k products. They're more efficient, Ocado, can pick and order in just 5mins. They can also offer a better customer experience. Ocado's order accuracy is 98.9%. They also have the resource to regularly update the website and app.



Pure plays' weaknesses

- These retailers incur picking and fulfilment costs which impact profitability. For efficiency, pure plays are suited to serve cities. These are also new businesses that must establish their brand and credibility in grocery.

How do they operate?

- Most of these companies will pick online orders from warehouses, often referred to as dark stores or customer fulfilment centres. Many of these will be automated. They are then delivered to customers' homes (as there aren't any stores, there's no click and collect option).

DIRECT TO CONSUMER (D2C)

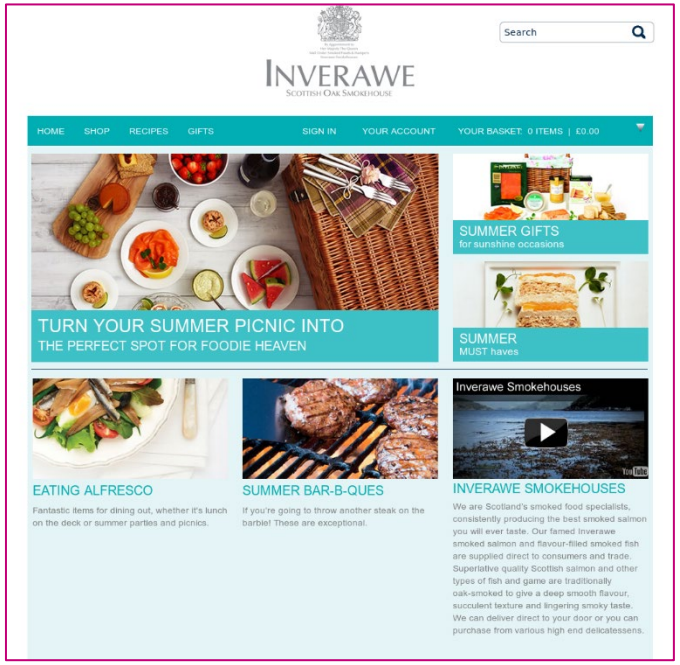
- Online enabled manufacturers to sell directly to consumers (D2C), using their own websites or marketplaces.
- Expect to see more D2Cs in the future. Larger manufacturers will launch new businesses or acquire successful start ups. Expect D2Cs to add further differentiation by offering additional services.

Things to consider:

- **If you go into D2C, what is your unique value proposition? What is the consumer-facing proposition that really justifies you being there and gives you a right to win customers?**
- **Is a D2C model sustainable? Can it provide a high life-time customer value (does it have a high average selling price or will shoppers remain loyal and buy frequently)?**
- **How can you implement a lower risk test?**

What is D2C?

When a manufacturer uses online to sell its products directly to a consumer.



D2C weaknesses

- It's hard and costly getting traffic to a D2C website. It's costly setting up the operation and then incentivising shoppers to try it and remain loyal. It's more suitable for higher value items, used regularly. Many companies are reliant on third parties for fulfilment which can be detrimental to the brand.

How do they operate?

- Most have a unique products or services. They use a transactional website and third parties to fulfil orders. Some use marketplaces. For lower value items, most D2Cs offer subscriptions to lock in loyalty and deliver lifetime customer value.

D2C strengths

- It can deliver incremental sales and profit. It can make digital marketing more effective (directing shoppers to the D2C website). It can keep shoppers loyal, through subscription schemes. It can act as a test for new products. It can provide a better understanding of shoppers.

MARKETPLACES

- Online enabled the launch of marketplaces, offering shoppers vast choice and value.
- We've seen marketplaces evolve into ecosystems (see later). We're also seeing more specialist marketplaces in high value, high engagement categories e.g. heath and beauty, beers, wines and spirits.

Things to consider:

- **Do you know how to be the preferred supplier of a product?**
- **Do you have a test, learn and improve strategy to acquire new customers?**
- **Do you understand the marketplace's supply chain and scoped out the different ways to fulfil orders?**

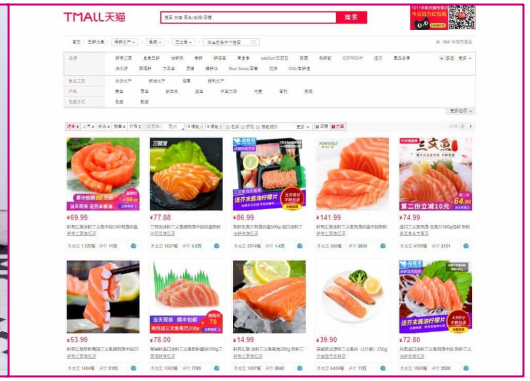
What are Marketplaces?

A website that sells products from multiple third parties. Some offer vast selections; others are more specialist.

Examples: Amazon, Jumia (Africa), 11 Street (Korea), Rakuten (Japan),Tmall (China), Tokopedia (Indonesia)

How do they operate?

- Third party sellers list their products on the marketplace. As more sellers join, shoppers benefit from greater choice and lower prices.
- The operator can generate revenue through sales commissions, providing a fulfilment service and advertising.



Marketplaces' pitfalls

- It can be hard to make a full 'trolley shop' order on a website designed for third party sellers. Marketplaces can struggle to compete on fresh and private label food and consumer goods. Some marketplaces struggle to prevent the sale of fake goods. Without stores, the returns process can be difficult.

Marketplaces' prospects

- Using third parties they offer even greater choice than pure plays. The competition also drives down prices meaning they can offer better value. Successful marketplaces have established market-leading supply chains offering faster deliveries such as, same day and within the hour.

BUSINESS TO BUSINESS (B2B)

- Traditional wholesalers have launched online operations to meet their business customers' expectations and remain competitive.
- In the future, we'll see these companies continue to invest in their websites and operations. Ecosystem and bricks and clicks retailers will use online to try and steal share.

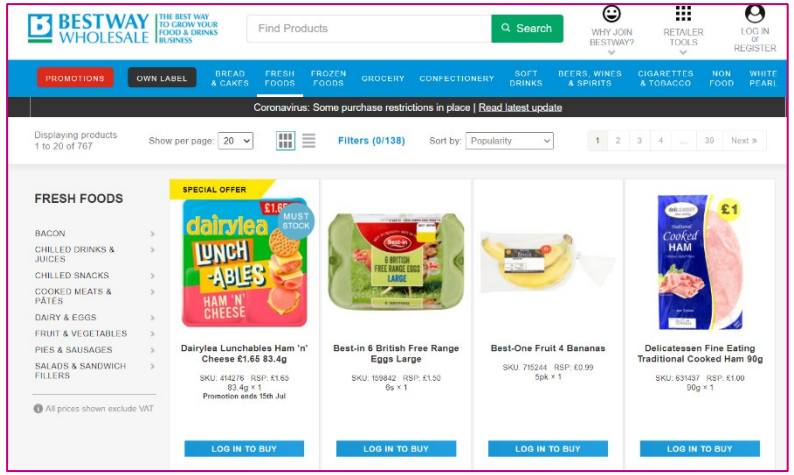
Things to consider:

- **Do you have the measurements in place to understand the scale and growth of your business-to-business sector?**
- **Do you tailor your online advertising to make it relevant to businesses?**
- **Can you provide content (expert advice) for the website to help these businesses grow?**

What is B2B?

A retailer that sells to businesses using online.

Examples: Bestway (UK), Costco (various), Metro (various)



How do they operate?

- Businesses order from the retailers' website and can either collect from the warehouse or receive delivery

B2B weaknesses

- Many websites lack the functionalities available from bricks and clicks retailers and pure plays. This can mean placing an order is more difficult and businesses can miss key promotions and the latest new products.

B2B strengths

- Online should make the ordering of frequently purchased items quicker. Delivery of large, bulky packs is easier than shopping offline. Online can provide support, such as help with ranging, promotional plans and menu planning.

CROSS BORDER COMMERCE

- Successful marketplaces established logistical networks to enable companies to sell internationally.
- We're now seeing international logistics companies such as DHL become retailers, launching their own marketplaces to benefit from cross-border commerce.

Things to consider:

- **Are your brands and products being sold cross border by third parties and should you be fulfilling that demand?**
- **How can you test the cross-border commerce opportunity?**
- **As cross-border commerce grows, what does this mean for country pricing, production planning etc.?**
- **Tax regulations vary by country and compliance can be mandated by region, such as GDPR and PSD2**

What is Cross-Border Commerce?

A website that enables a business to sell products internationally.

Examples: Amazon Global, AliExpress, DHL Africa eShop

Cross-Border weaknesses

- The local shopper must be aware of the brand and product benefits. The opportunity is restricted to long-life products that can withstand long-distance shipping. They must be higher margin and higher value to justify the additional delivery costs. It can result in sales cannibalisation for manufacturers.

How does it operate?

- The website converts product information to the local language, displays the local currency and includes the international shipping costs. The website operator can manage the shipping using its own network.

Cross-Border Commerce strengths

- It could provide incremental sales and profit by reaching new shoppers. It could act as a test and justify international expansion.

ECOSYSTEM RETAILERS

- Ecosystem retailers have evolved from successful marketplaces. They're more than just retailers and offer a broad range of services.
- In the future, these retailers will establish themselves as grocery retailers. Through data, they'll offer frictionless offline and online shopping and a unique, personalised experience

Things to consider:

- **Do you have the resource and structure to understand best practice and apply it to current and new markets?**
- **Should you be selling as a third party or directly through the retailer?**
- **Do you have the skills to maximise the omnichannel opportunity?**

What are Ecosystem Retailers?

They provide a network of retail and services, linked by logistics, financial services and technology.

Examples: Amazon, Alibaba

Amazon Ecosystem Overview – by Benjamin Talin, MoreThanDigital

How do they operate?

- Shoppers can easily buy in-store or online. They're more than retailers and also service providers e.g., payment, logistics, entertainment, hardware, cloud computing. Through data and technology, they can provide new, personalised and seamless ways to shop

Ecosystems' pitfalls

- The ecosystem retailers tend to evolve from marketplaces and have similar weaknesses. They're still in the process of establishing themselves as credible grocery retailers e.g., opening stores, developing a private label, providing a competitive fresh range.

Ecosystems' potential

- They're regularly interacting with customers in and out of the home and that data helps them provide a better customer experience. They're efficient, automated logistics provide quick and accurate deliveries. They're able to develop technology to establish new revenue streams.

SOCIAL COMMERCE

- Social platforms are evolving to offer targeted advertising and frictionless purchases.
- In the future, some of these social platforms will develop into 'super apps', similar to WeChat in China. A 'super app' offers multiple services e.g. social, retail, payment, money transfers, messaging, access to public services etc.

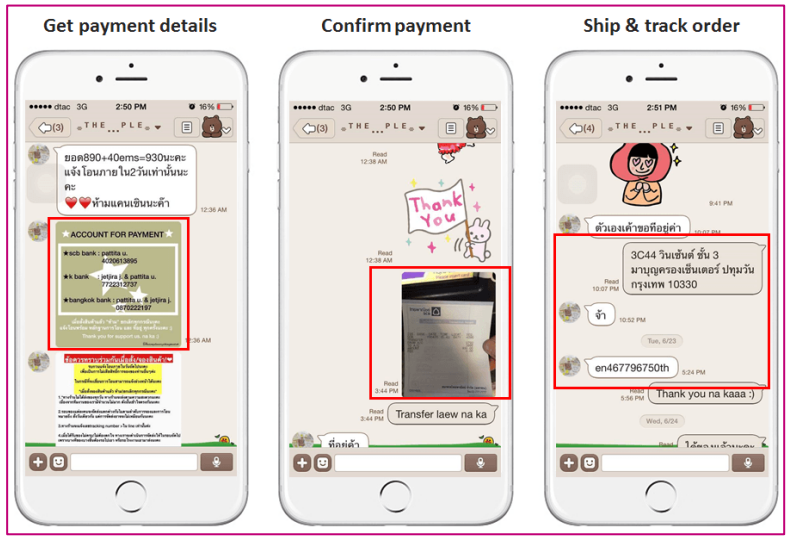
Things to consider:

- **Do you have the processes in place to ensure your social media activity enables a frictionless purchase?**
- **If you're an international business, how are you sharing the learnings from these emerging models e.g. C2C**
- **Do you have a Test, Learn and Improve plan to maximise the social commerce opportunity?**

What is Social Commerce?

It's when a shopper makes a purchase from a third party within a social media platform.

Examples: Facebook, YouTube, Pinterest, WeChat, Taobao Pintuan, Line, WhatsApp, Meesho



Social Commerce weaknesses

- Category suitability will vary by market and the platform. Many factors impact usage, such as, the social platform's ecommerce capability, the cost of the last mile, online and offline competition. Avoid expensive influencers, working with multiple brands, that shoppers don't trust.

How does it operate?

- Purchases could be made through shoppable social networks e.g. Instagram; or group buying platforms e.g. Pinduodo; or messaging apps e.g. Facebook Messenger or consumer to consumer (C2C) apps e.g. Meesho

Social Commerce strengths

- You can develop a direct relationship with the shopper to drive usage, loyalty, expand shoppers' repertoire and provide excellent customer service. It could improve your return on investment for acquiring new shoppers. It could lead to offline purchases and improve your understanding of shoppers.

QUICK COMMERCE

Quick commerce players deliver groceries and essentials to customers in less than one hour, often targeting the sub-30 minute, and now even sub-15 minute, fulfilment. With quicker deliveries, key missions include food-to-go, top-up and meal-for-tonight.

Asda became the first UK supermarket to launch (June 2021) a one-hour delivery service for its full online range.

- **Aggregators**

- Aggregators are third party websites offering on-demand fulfilment. They differ from marketplaces as pricing and branding can be determined by the aggregator. Three types of aggregator exist: takeaway aggregators (Deliveroo) that now offer grocery delivery; grocery focussed aggregators (Instacart); and service aggregators (Glovo) that offer grocery as well as a range of other services.

- **Pure plays**

- These emerging operators are building their proposition around a high-speed delivery service, often with delivery in under 15 minutes. They run their own fulfilment centres, or dark stores, in urban highly populated areas for quick delivery. Players include Jiffy, Dija, Getir, Gorillas, and Fridge No More.

- **Retailers**

- As well as partnering with third party players for delivery services, established retailers have also launched their own on-demand services. These include Sainsbury's Chop Chop and Ocado Zoom. Fulfilment is varied with some retailers using in-store pick and some using automation.

Source: IGD Research

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