

The Investment Case for International Ecommerce

Executive Summary

Thanks to ecommerce, the global retail landscape has been permanently transformed. The shopping mall has moved online, giving consumers convenient access to a vast array of products, competitively priced and efficiently delivered to their home or office. Due to increased mobile options, consumers can shop anywhere, anytime.

Online shopping has become a global phenomenon, with many of the fastest growing markets residing outside the United States. In 2017, global ecommerce sales surpassed \$2.3 trillion and this is expected to grow to \$4.9 trillion by 2021, comprising 17.5% of total retail sales.¹

In terms of the largest ecommerce markets worldwide as measured by sales, China ranks first (accounting for more than 40% market share), trailed by the United States, the United Kingdom, Japan, Germany, France, South Korea, Canada, Russia and Brazil.²

Increasingly geographic borders are becoming irrelevant, as cross-border ecommerce is forecasted to account for as much 22% of global ecommerce by 2020, growing at an average annual rate of 25%.³

One of the driving forces behind ecommerce adoption is flexible payment options, such as mobile payment. As payment mechanisms become even more sophisticated and efficient in developing markets, this should further accelerate growth among emerging market consumers.

The investment case for exposure to ecommerce outside the United States is quite compelling as a theme that should deliver impressive growth for many years to come.

A Brief History of Ecommerce

Ecommerce has permanently transformed the retail sector and the way we shop for everything from books to office supplies to shoes and furniture. But how did it all begin? The origins of online commerce pre-date the internet age. The first predecessor of online commerce was the mail order catalog. In the 1970's, protocols such as Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT) were created, providing the infrastructure needed to support electronic transactions.

¹eMarketer, January 29, 2018, <https://www.emarketer.com/Report/Worldwide-Retail-Ecommerce-Sales-eMarketers-Updated-Forecast-New-Mcommerce-Estimates-20162021/2002182>

²McKinsey Global Institute, "Digital China: Powering the economy to global competitiveness," December 2017, <https://www.mckinsey.com/featured-insights/china/digital-china-powering-the-economy-to-global-competitiveness>

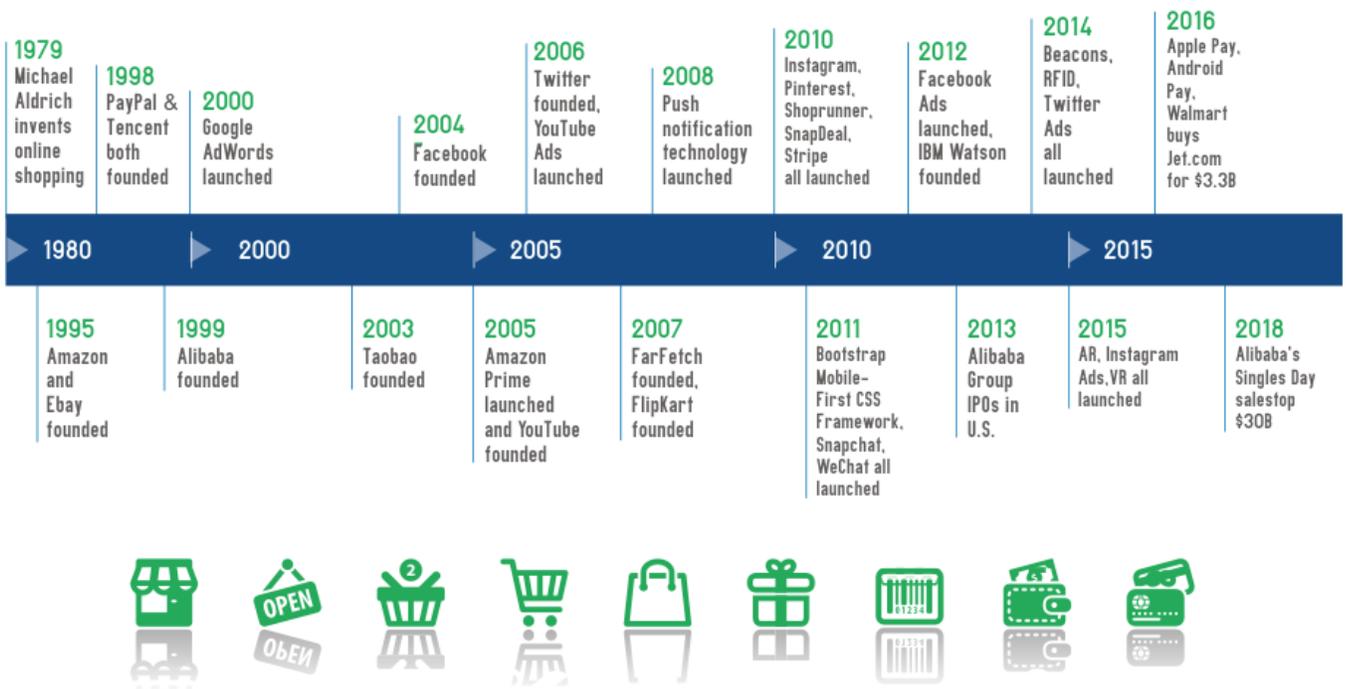
³"The 21st Century Spice Trade: A Guide to the Cross-Border E-Commerce Opportunity," DHL 2016, http://www.dhl.com/content/dam/downloads/g0/press/publication/g0_dhl_express_cross_border_ecommerce_21st_century_spice_trade.pdf

The British inventor Michael Aldrich is credited with being the official “inventor of ecommerce” in 1979.⁴ Aldrich connected a television and a telephone line and invented “teleshopping” or shopping at a distance. Meanwhile in the United States, infomercials (ie., paid television advertisements) were gaining in popularity, paving the way for the first cable home shopping channels. Finally, the internet came along and changed the way we shop forever. Today, not only do we shop online on desktops and mobile devices, but receive targeted ads, and can effortlessly: click, order, pay, and ship merchandise in a matter of seconds.

Here’s a brief timeline highlighting some of the historical milestones on the rise of global ecommerce:

Major Milestones

The evolution of events and ascent of ecommerce



Source: BigCommerce.com, MarketWatch, and EQM Indexes

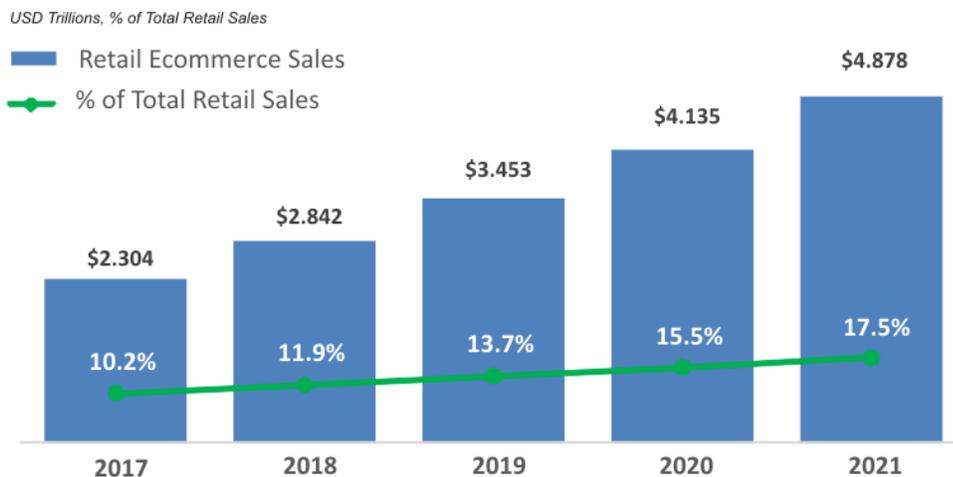
⁴ The Michael Aldrich Archive, http://www.aldricharchive.com/inventors_story.html

Growth of Global Ecommerce

Internet and mobile penetration have spurred a mass disruption of traditional retail, with online sales now accounting for more than 10% of total retail sales globally at \$2.3 trillion. Retail ecommerce continues to accelerate at a rapid pace and is expected to grow to \$4.9 trillion by 2021, representing 17.5% of total retail sales.⁵

Global Ecommerce Sales Are Growing at a Rapid Pace

The sales generated from global ecommerce are expected to exceed \$4.9 trillion by 2021.



Source: eMarketer

Consumers have embraced online shopping due to its convenience, selection, competitive pricing, and flexible shipping options. Ecommerce is truly a global phenomenon with some of the fastest growing markets residing outside the United States. Amazingly, China, which accounted for less than 1% of the value of global transactions a decade ago, is now ranked #1 with 40% of the global ecommerce market share and \$672 billion in sales. The current value of China's ecommerce transactions is larger than those of France, Germany, Japan, the United Kingdom, and the United States combined.⁶

⁵ eMarketer, January 29, 2018, <https://www.emarketer.com/Report/Worldwide-Retail-Ecommerce-Sales-eMarketers-Updated-Forecast-New-Mcommerce-Estimates-20162021/2002182>

⁶ McKinsey Global Institute, "Digital China: Powering the economy to global competitiveness," December 2017, <https://www.mckinsey.com/featured-insights/china/digital-china-powering-the-economy-to-global-competitiveness>

Ecommerce Is a Global Phenomenon

Other top 10 countries based on annual online sales include: the United States, the United Kingdom, Japan, Germany, France, South Korea, Canada, Russia, and Brazil.

Top 10 Ecommerce Markets by Country



Country Rankings by Annual Online Sales (USD)

| | | | | |
|-------------------------|-------------------------|------------------|----------------------|-----------------|
| China - \$672 B | United Kingdom - \$99 B | Germany - \$73 B | South Korea - \$37 B | Russia - \$20 B |
| United States - \$340 B | Japan - \$79 B | France - \$43 B | Canada - \$30 B | Brazil - \$19 B |

Source: *Business.com*

Top Countries/Regions for Ecommerce



China

Annual online sales: \$672 billion

Ecommerce share of total retail sales: 15.9%

China is the largest ecommerce market in the world led by Alibaba ecommerce subsidiaries Taobao, Alibaba.com, Tmall and others. JD.com and Tencent are two other large Chinese e-tailers.



United Kingdom

Annual online sales: \$99 billion

Ecommerce share of total retail sales: 14.5%

Despite its modest size, the United Kingdom is a major player in ecommerce and it has one of the highest percentages of online to total retail sales. Amazon UK is one of the country's biggest ecommerce sites.



Japan

Annual online sales: \$79 billion

Ecommerce share of total retail sales: 5.4%

Japan is one of the fastest growing m-commerce countries in the world. Rakuten is Japan's leading ecommerce marketplace platform, owning many ecommerce sites around the globe.



Germany

Annual online sales: \$73 billion

Ecommerce share of total retail sales: 8.4%

Germany is Europe's second largest ecommerce market after the United Kingdom. Similar to the U.K., Amazon has a significant presence in Germany as does eBay.



France

Annual online sales: \$43 billion

Ecommerce share of total retail sales: 5.1%

Ecommerce in France is dominated by local players such as Odigeo and C-Discount, Amazon has a strong presence as well, but local brands maintain an edge.



South Korea

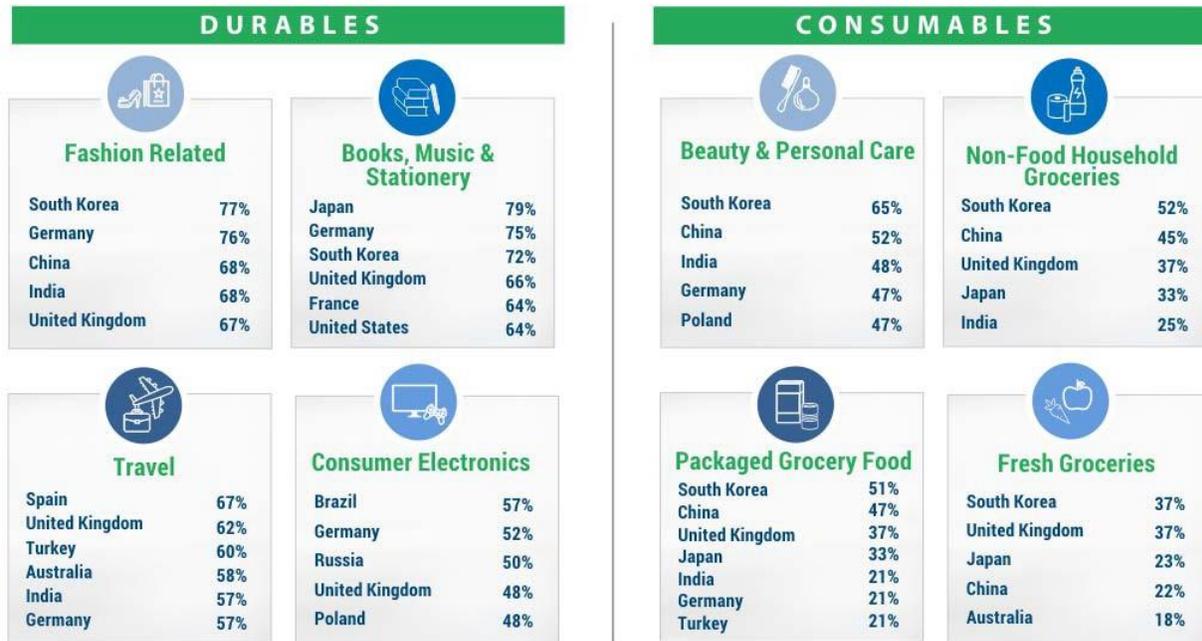
Annual online sales: \$37 billion

Ecommerce share of total retail sales: 9.8%

The country with the fastest wireless network is South Korea, where mobile commerce dominates. Big ecommerce names include Gmarket (owned by eBay) and Coupang. South Korea leads in many online categories, but as demonstrated in the graphic below, the top ecommerce categories vary by country. Spain for example, is the biggest consumer of online travel.

Percent of Consumers Who Have Purchased Goods and Services Online

Top Countries for Each Consumer Segment



Source: Nielsen Global Connected Commerce Survey, Q4 2015

Asia-Pacific Region: Leading the Way in Ecommerce Growth

Asia-Pacific currently has a 60% share of the global ecommerce market and this is forecasted to grow to two-thirds (67%) by 2021.⁷ One of the factors driving growth in the region has been the rise of the middle-class consumer. As a whole, the global middle class is expected to expand dramatically. By 2020, there are expected to be more than 1 billion new consumers worldwide, spending between \$10 and \$100 per day. More than 85% of that growth is expected to come from the Asia-Pacific region from countries like China, India, and Indonesia.⁸ Much of that middle-class consumption will occur online, as technology will continue to be a disruptive force, driving growth in the coming decade.

⁷ eMarketer, August 28, 2018, <https://www.emarketer.com/content/retail-and-ecommerce-sales-in-asia-pacific-2018>

⁸ McKinsey Global Institute, "Digital China: Powering the economy to global competitiveness," December 2017, <https://www.mckinsey.com/featured-insights/china/digital-china-powering-the-economy-to-global-competitiveness>

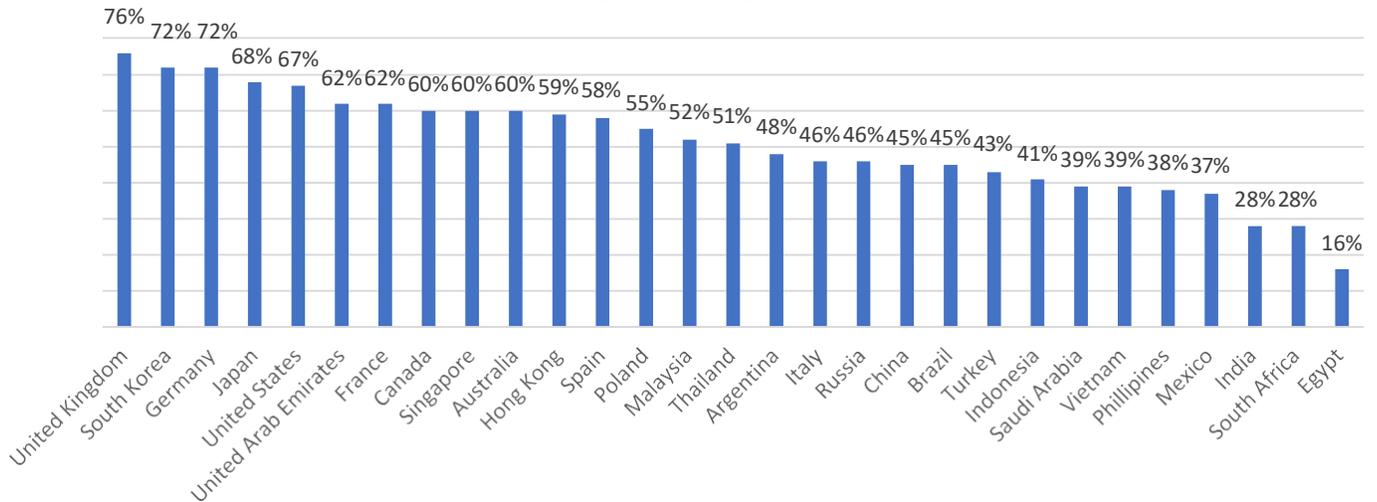
Active Ecommerce and Mobile Penetration

Online shopping adoption and active penetration varies significantly by country. Active penetration is defined as the percentage of the national population that has purchased something online in the last month. According to data compiled by WeAreSocial in collaboration with HootSuite and GlobalWebIndex, the top five countries outside the United States based on “active ecommerce penetration” as a percent of the population are:

- 1) **The United Kingdom** – 76%
- 2) **South Korea** – 72%
- 3) **Germany** – 72%
- 4) **Japan** – 68%
- 5) **United Arab Emirates** – 62%

2017 Active Ecommerce Penetration by Country

% of the national population who bought something online in the past month (survey-based)



Source: WeAreSocial

Currently, more than four billion people worldwide have internet access, with well over half of the world’s population now online. Much of this user growth has been enabled by mobile device access, with 8.5 billion mobile connections.⁹

⁹ “Digital in 2018: World’s Internet Users Pass the 4 Billion Mark,” January 29, 2018, <https://wearesocial.com/au/special-reports/global-digital-report-2018>

In many countries, mobile commerce makes up a much more significant percentage of online sales. Excluding the United States and Canada, the top five countries for mobile commerce market penetration are: South Korea (55%), United Arab Emirates (47%), Thailand (41%), China (40%), and Singapore (40%).

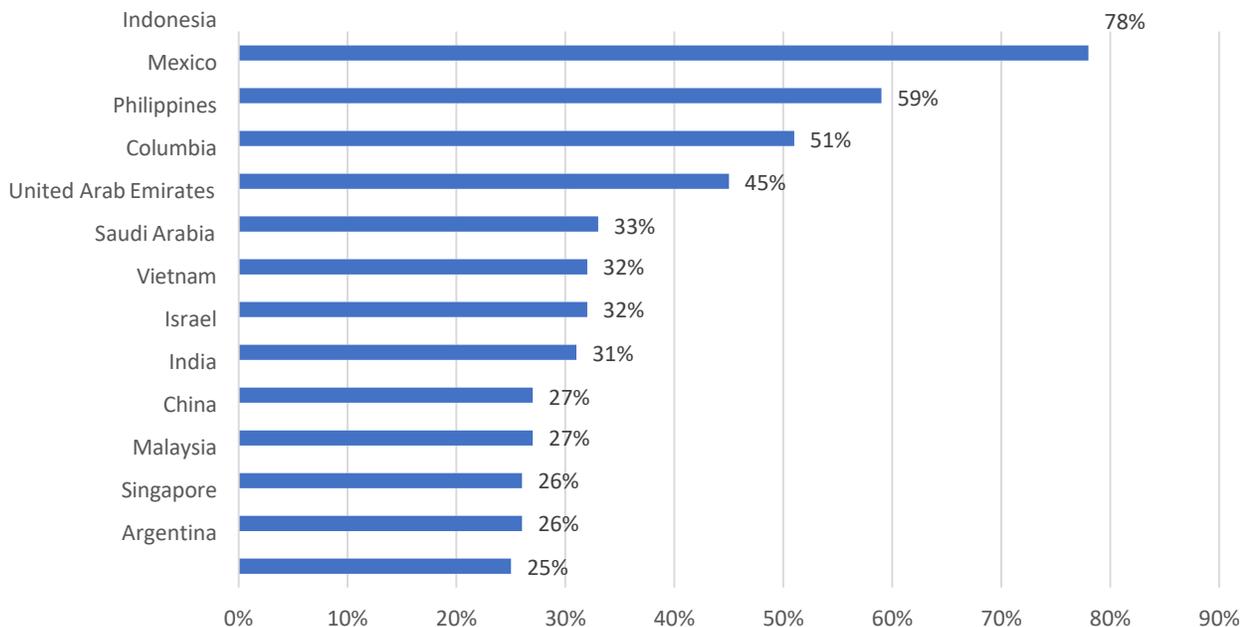
Some of the fastest growing mobile commerce countries on a year-over-year percentage basis include: Indonesia (155%), Japan (101%), the Philippines (85%), India (68%), and Mexico (64%).

Fastest Growing Ecommerce Markets

On a year-over-year basis, the fastest growing ecommerce markets reside outside the United States, primarily in emerging market countries where mobile devices and improved payment infrastructure are stoking demand. It should come as no surprise that China remains one of the fastest growing ecommerce markets today, growing at an annual rate of almost 27%.

The top country for ecommerce growth in 2017 was Indonesia, growing at a year-over-year rate of 78%, followed by Mexico, the Philippines and Columbia.

Fastest Growing Ecommerce Markets (YOY Growth %)



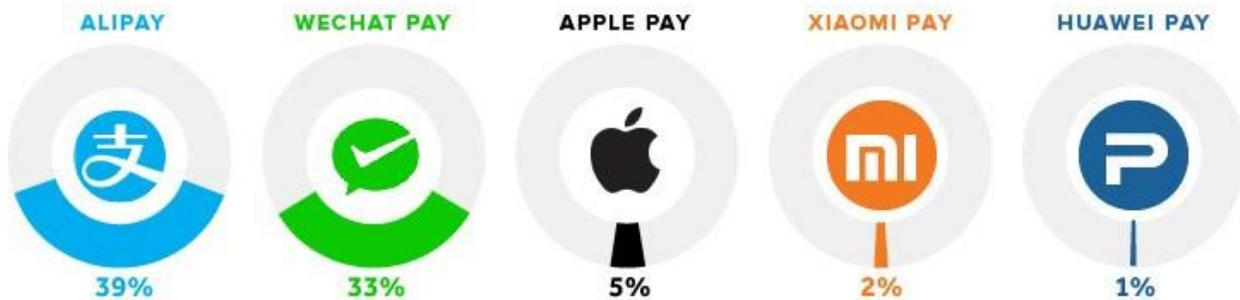
Source: PPRO Group

Importance of Payment Systems

Convenient payment options have been another critical growth driver behind International Ecommerce. This has been particularly the case in China, where digital wallet application market leaders such as Alipay and WeChat Pay have been transformational by creating a frictionless shopping experience for consumers. Chinese consumers conduct 11 times more mobile payment transactions than their U.S. counterparts. According to Forrester Research, the value of mobile payment transactions is expected to surpass \$12 trillion by 2019.

Because Tencent’s WeChat was originally a social application, WeChat Pay’s digital wallet is packed with features ranging from mobile payment to tip jars and bill splitting to ride sharing apps. “Scan-and-pay” is widely popular in China, particularly in big cities where it is difficult to find a product or a service that cannot be purchased directly with a mobile device. According to China Channel, over 90% of Chinese consumers have adopted WeChat as a method of payment in offline purchases. That compares with a 32% adoption rate for debit and credit cards.¹⁰

MOBILE PAYMENT SERVICES, CHINESE MARKET SHARE



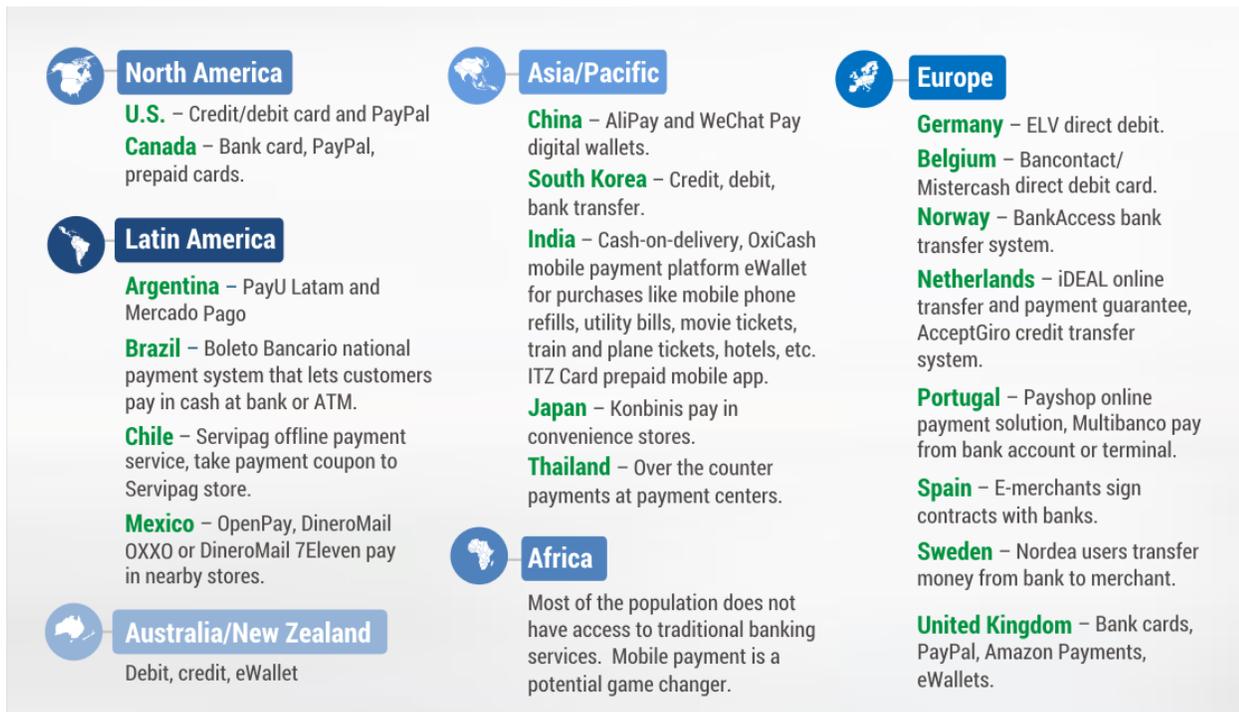
SOURCE: World Core

China is the perfect example of how important ease of payment is in supporting ecommerce and mobile transactions. Other countries do not yet have these systems in place, which portends a huge acceleration of growth in those markets once payment “friction” is lessened.

¹⁰ Visual Capitalist, December 30, 2017, <http://www.visualcapitalist.com/china-digital-wallets-payments/>

Here is a sampling of some of the various ecommerce payment mechanisms utilized in markets around the world.

Global Ecommerce Online Payment Methods Differ



Source: Nielsen Global Connected Commerce Survey, Q4 2015

Rise of Cross-Border Ecommerce

Cross-border ecommerce, the online selling of goods and services to consumers in different countries, is booming as geographic boundaries are eliminated and consumers increasingly purchase products outside their borders. Cross-border ecommerce is forecasted to account for as much as 22% of global ecommerce by 2020, growing at an average annual rate of 25% to \$900 billion.¹¹

¹¹ "The 21st Century Spice Trade: A Guide to the Cross-Border E-Commerce Opportunity," DHL 2016, http://www.dhl.com/content/dam/downloads/g0/press/publication/g0_dhl_express_cross_border_ecommerce_21st_century_spice_trade.pdf

In 2017 alone, China saw an 80% surge in cross-border sales and transactions are expected to reach \$1.4 trillion in 2018.¹² Alibaba has become the largest international trading platform with over 1,000 active overseas buyers. The company receives almost 300,000 inquiry orders daily. Similarly, Chinese online retailer JD.com created a cross-border shopping platform named JD Worldwide which sources products from over 70 countries and allows overseas brands to sell their products on the company's online marketplace.¹³

One key consideration for cross-border ecommerce is the need for localization, specifically the adaptation of the site to fulfill the language, cultural, currency and/or “look and feel” expectations of the target audience.

Conclusion

- ➡ Online shopping has become a global phenomenon, with many of the fastest growing markets residing outside the United States. Global ecommerce sales surpassed \$2.3 trillion in 2017, and are expected to grow to \$4.9 trillion by 2021, comprising 17.5% of total retail sales.
- ➡ Some of the drivers fueling the growth of International Ecommerce include:
 - increased internet and mobile device penetration,
 - frictionless payment options, and
 - the rise of cross-border ecommerce.
- ➡ While ecommerce has already disrupted the retail landscapes in the United States and developed markets, it is still early days in many developing market economies thanks to the emergence of the middle-class consumer.
- ➡ The EQM International Ecommerce Index provides diversification benefits that supplement global online retail exposure, exhibiting only a 0.57 correlation over the last 2-year period with the EQM Online Retail Index.¹⁴

¹² “China's cross-border e-commerce expected to hit \$1.4 trillion in 2018,” <http://en.people.cn/n3/2018/0512/c90000-9459299.html>

¹³ JD.com 2017 Annual Report, <https://ir.jd.com/static-files/fddad3a2-58bc-4c89-b119-320b9e773640>

¹⁴ Bloomberg, as of 10/31/18.

ABOUT US

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Definitions

Ecommerce – Commercial transactions conducted electronically on the Internet.

M-commerce - Electronic commerce conducted on mobile devices.

Digital or eWallet - An electronic device or online service that allows an individual to make electronic transactions. This can include purchasing items online with a computer or using a smartphone to purchase something at a store. An individual's bank account can also be linked to the digital wallet.

Cross-border Ecommerce - The online selling of goods and services to consumers in different countries.