

McKinsey
& Company

E-Commerce strategies under uncertainty

Duarte Braga, McKinsey

November 2022

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company
is strictly prohibited

Volatility is top-of-mind for e-commerce executives in Europe and North America

We asked 100 e-commerce executives what currently is top-of-mind for them



Macro, consumer and retail outlook is characterized by high level of uncertainty and negative short-term expectation

- 1 Macro outlook is uncertain**

Major disruptions happening simultaneously – **COVID (including ongoing China response), Ukraine and the energy crisis, Inflation, and the long-term threat of increasing sanctions (or worse) between China and the West.** Still uncertain the duration and scale of disruption, with multiples scenarios at play in the coming year
- 2 Consumer sentiment is negative**

Consumer confidence has fallen, consumers **cut/delay spending** and **seek cheaper alternatives**
EU consumers spend less: -34% in 3 months leading to July) on non-food discretionary items, and **expect further cuts (-39%)**
3/4 of EU consumers have changed shopping behavior in response to concerns and pressures faced, e.g.: switched brands, delayed a purchase, testing private labels
- 3 E-com, parcel volume growth normalizes**

Out of the pandemic, we have witnessed a **roll-back of the e-commerce acceleration witnessed in 2020**, particularly in Europe
Early indicators suggest **growth returning at the pre-Covid trendline**
- 4 Long-term outlook stays solid, volatility is a concern**

Long-term e-commerce growth outlook stays robust. E-commerce became a “way to save”, McKinsey’s Digital Sentiment Survey found that digitized industries are most resilient in times of consumer uncertainty. Current forecast sees **gradual decline in growth rates, but robust growth** (still 7.0% in Europe 2025 to 26)
Volatility is the **key concern for EU and NA e-commerce executives**
- 5 Disruptions creates margin pressure**

Disruptions today coupled with inflation put pressure on both demand stability and sourcing and logistics costs, e.g.: **13% increase in drivers’ costs, 30% fuel cost increase, cost increase for multiple goods above 15-20%, while disposable income under**

Eurozone consumer confidence has fallen precipitously with spike in inflation

Consumer expectations of inflation over next five years remains close to 3%



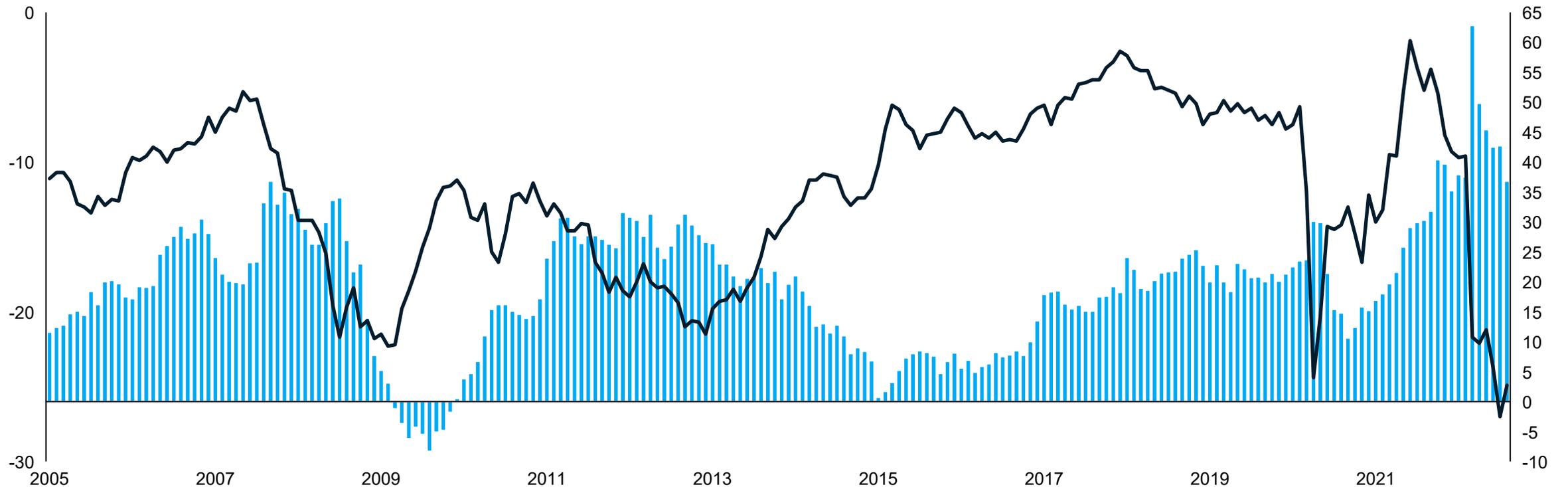
— Consumer confidence (left scale) ■ Price trends In the next 12 months (right scale)

Consumer confidence indicator

Percent balance, SA, through August 2022

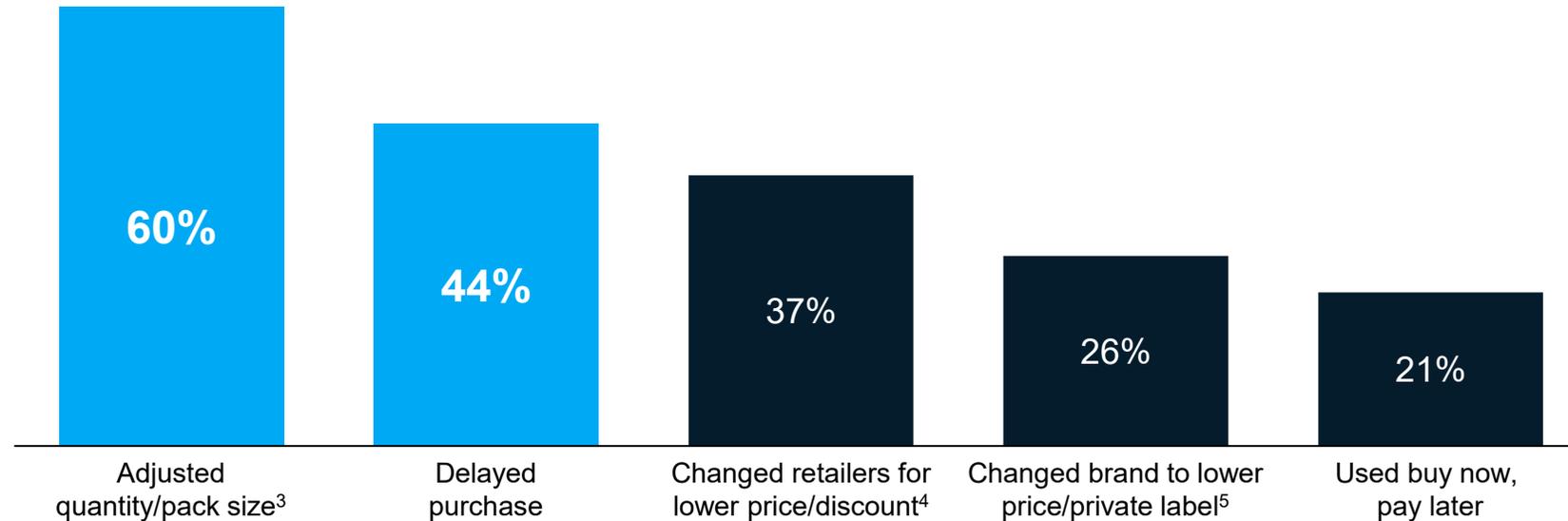
Price trends in the next 12 months

Percent balance, SA, through August 2022



Most EU consumers that traded down adjusted quantity or delayed a purchase

Shopping behavior that is representative of trade-down¹
 % respondents, N=2,957



1. Q: Within the past 3 months have you done any of the following when purchase a product (asked across multiple categories)? % respondents selecting one of the options: shopped from a lower priced retailer, shopped from lower priced brand, bought private label, bought a brand for which you had a coupon, used buy now pay later, delayed a purchase, bought a larger size pack for lower price, bought smaller size or quantity, made more shopping trips in search of discount
2. Low income = less than \$50,000; Medium income = between \$50,000 and \$100,000; High income = greater than \$100,000
3. Consolidates respondents who answered "Bought a larger size pack / bulk quantity with lower price per serving/ unit (than you normally would)" OR "Bought a smaller size or quantity than you normally would because of current prices." These categories had minimal overlap for a given respondent.
4. Consolidates respondents who answered "Shopped from a lower priced retailer/ store/ website (different from where you normally buy)" OR "Made more shopping trips (in store or online) in pursuit of sales or promotions"
5. Consolidates respondents who chose "Bought a lower priced brand (different than the brand you normally buy)" OR "Bought a private label/ store brand"

Source: McKinsey & Company EU Consumer Pulse Survey, 7/6–7/10/2022, n = 4,009 sampled and weighted to match the general population 18+ years

Across categories, more **lower-income²** consumers stated they **delayed purchases** than did higher income consumers. Categories with biggest differences included

+14 pp
Footwear

+9 pp
Groceries

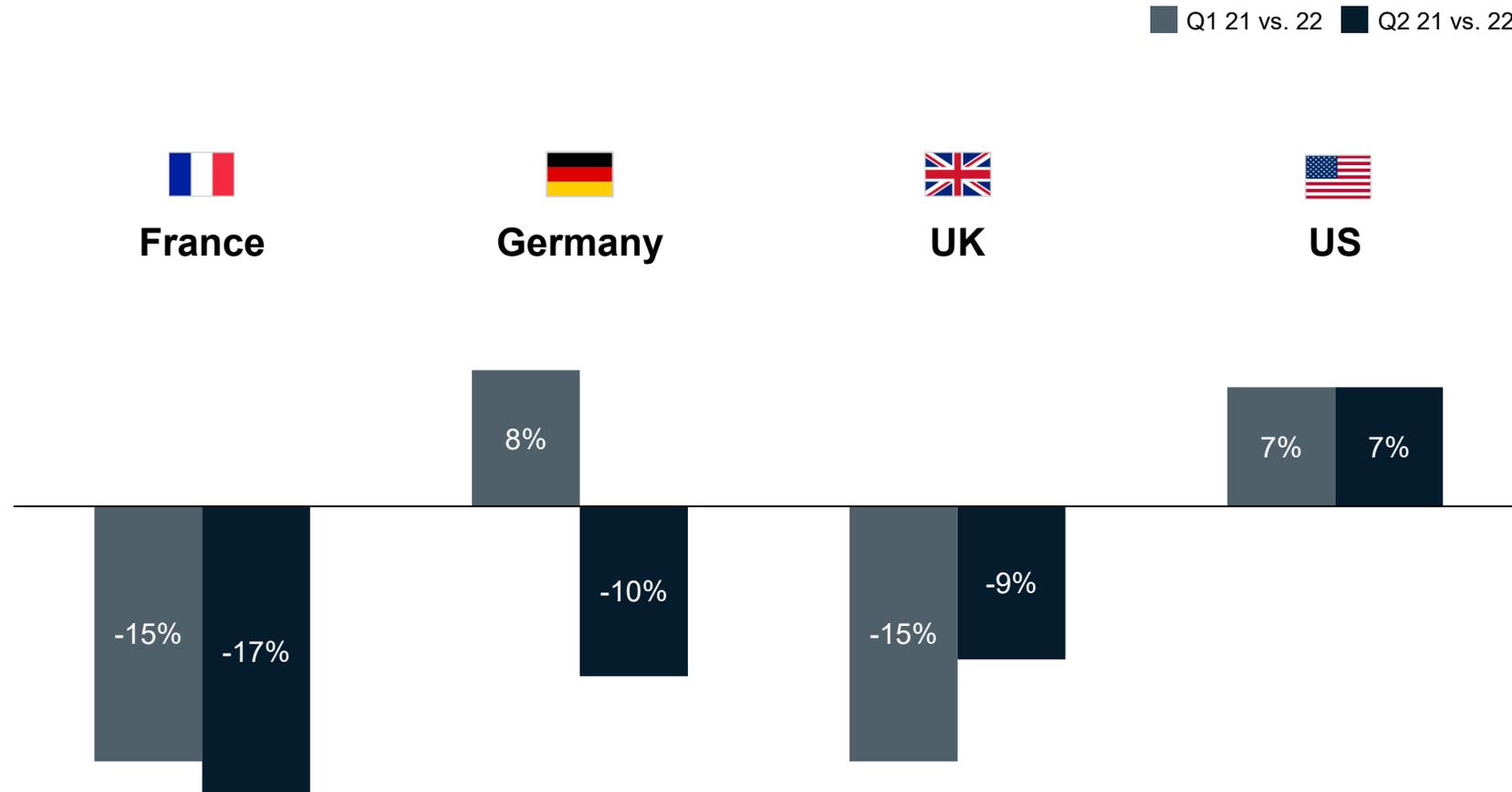
+8 pp
Home improvement

+6 pp
Consumer Electronics

+7 pp
Apparel

In 2022, e-commerce growth has decelerated in Europe while the US still experiences growth

Ecommerce growth rates (YoY)

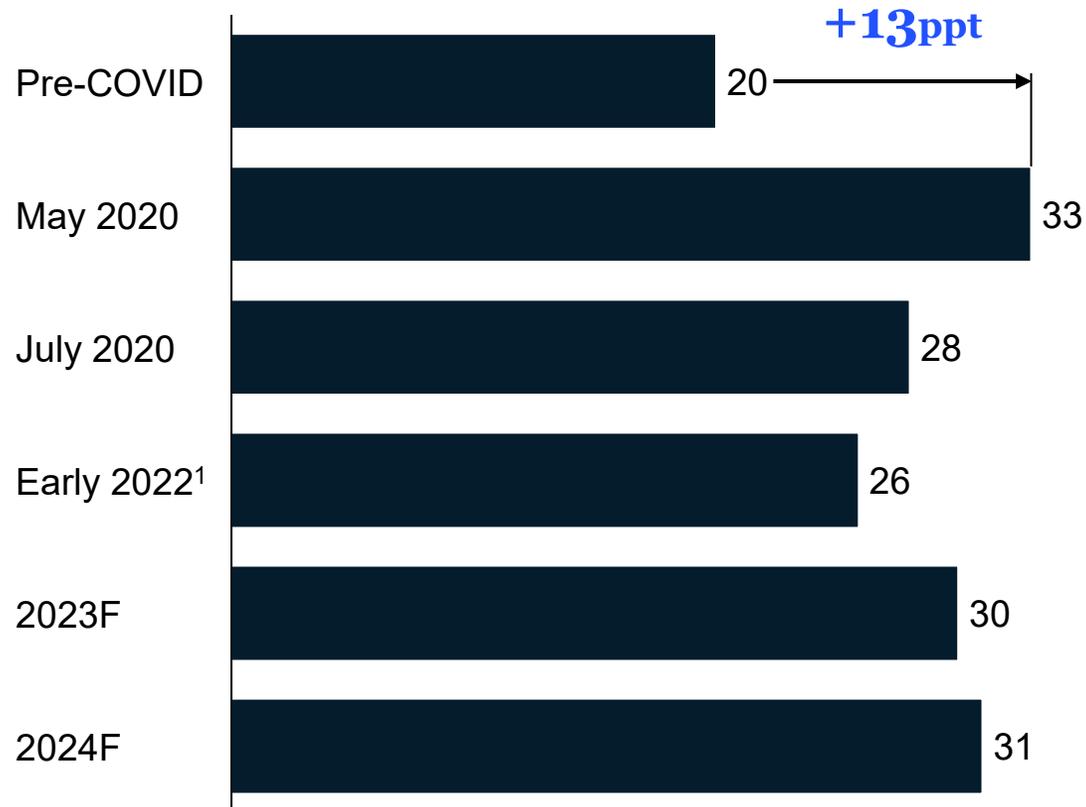


E-commerce sales have experienced **negative growth in Europe** in recent months due to a combination of **stores reopening**, changing **consumer sentiment**, and the **economic pressure**

The higher growth in the **US** may be driven by the **more developed digital ecosystem**, established e-com players such as Amazon, **higher investments in digital**, and consumer behavior that are more accustomed to digital businesses

In Western-Europe, long-term e-com growth seem still strong, at 7% p.a., even if lower than previous period and prediction

UK e-commerce penetration in retail sales



UK online penetration grew 2x as much during 2 months of lockdown than in previous 5 years (May 2020)

Online has proven resilient to the reopening of the high street (July 2020)

Continued stickiness but first signs of declining consumer sentiment and uncertainty (Early 2022)



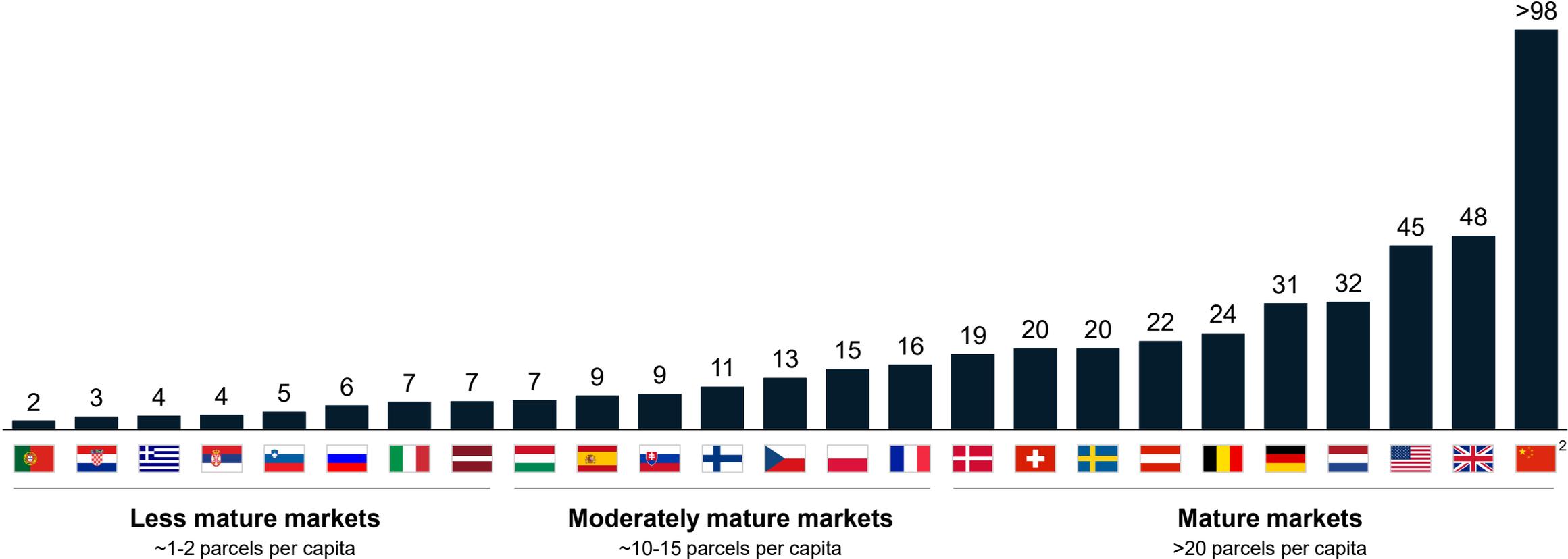
In W-Europe, current e-commerce forecast² predicts

- **Solid growth of around 7%³ CAGR to 2025-26**
- Lower growth than pre-COVID (same metric at ~11% 2014-19) and few percentage-point downgrade from first post-COVID forecasts (~8-9% for 2022-24)
- A gradual decline in growth rates

1. Q1 data from UK government statistics
2. Constant prices
3. Consensus of different sources

Many markets, including Portugal, with significant potential to catch up

e-Commerce-relevant parcel penetration¹ (2020). Number of parcels per capita per year



1. "E-commerce-relevant" is defined as domestic B2C parcels, with speed typical for e-commerce shipments in the given country
 2. Shanghai and Beijing average, assuming 80% B2C share

Despite worsening of key economic indicators executives are still putting their bets on e-commerce

**Customer confidence¹
at 10 year low**

97.4

Values below 100 indicate
negative expectations

**Inflation² expected to
peak in 2022**

~9%

**E-commerce
penetration**

~95%³

... of executives are not fearing structural e-commerce slow down

**Channel
shift**

~55%³

...of executives are still investing heavily in their DTC channels, despite cost reduction initiatives ongoing in many companies

**New channels
growth**

30%⁴

... expected annual growth in new channels such as social/live commerce and Metaverse

1. OECD Consumer Confidence Index, September 2022

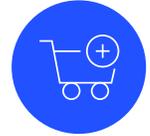
2. Euromonitor International Macro Model, August 2022

3. Future of E-commerce 2023 executive survey

4. Grandview Research / Statista: Estimation for 2022; excl. Live Commerce by Brands; Growth rate based on compound annual growth from 2021 to 2028

How to get ready: breaking down the most pertinent questions executives in e-commerce should be unpicking for 2023

Six strategic needs for the future



1. Create more flexible supply chains and sourcing

Questions to address

Are you able to **quickly react to supply disruptions in the short term (eg China COVID policy) and potential regionalization in the long term?**



2. Survive in a trade-down market

Is your e-commerce offer and price/promo strategy **adaptive enough for the current demand shifts?**



3. Work on the “persistent” profitability challenge

Can you build resilience in your system through **more efficient and flexible operations, fulfillment and logistics?**



4. Continue driving acceleration of e-commerce

Do you have a **distinctive e-commerce proposition** to not miss out on the acceleration?



5. Adapt to fast-changing customer behaviours

Are you **differentiating your proposition across channels** and platforms, while still ensuring a seamless experience?



6. Deliver on “unrealistic” customer expectations

How to create **broader ecosystems** to make customer more captive and more involved so they stay within the ecosystem?