



The Digital Consumer Journey

Best Markets for Sustained E-Commerce Growth

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The data included in this document is accurate according to Passport, Euromonitor International's market research database, at time of publication: October 2020



Identifying Markets Best Prepared for Sustained E-Commerce Growth

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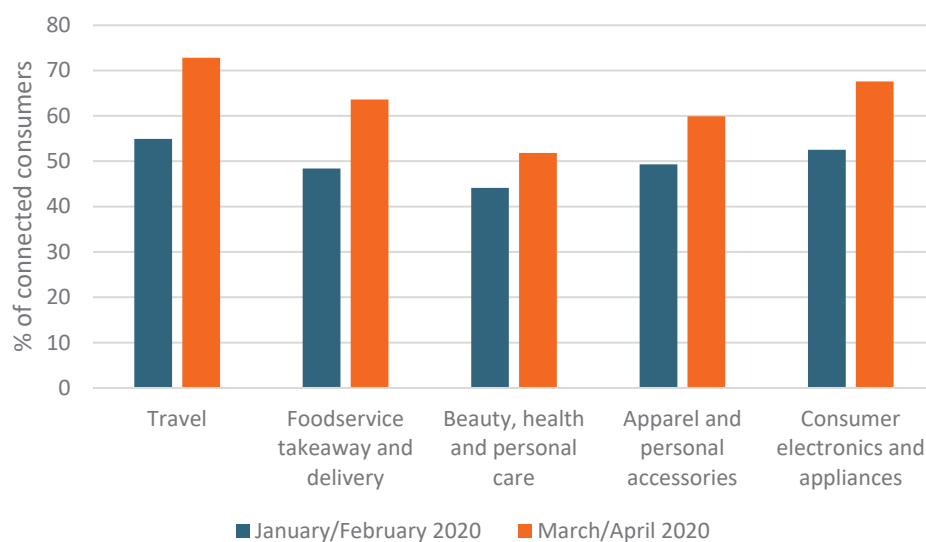
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The Crisis-Inspired Surge in E-Commerce

Fears over transmission of Coronavirus (COVID-19) has led to government-mandated travel restrictions and non-essential business closures. As a result of these pandemic-driven changes, consumer spending underwent unprecedented levels of channel shifts, with the digital channel becoming the default for many consumers, giving way to what will likely be a permanent e-commerce boost.

Comparing results of two consumer surveys Euromonitor International fielded in 2020 about path to purchase habits provides insights into these drastic shifts and subsequent surge in e-commerce. Nearly every category showed a double-digit increase in the percentage of consumers making digital purchases between the two fielding timeframes. Beauty, health and personal care purchases were exceptions to this increase, and jumped only eight points.

Digital Purchase by Category 2020

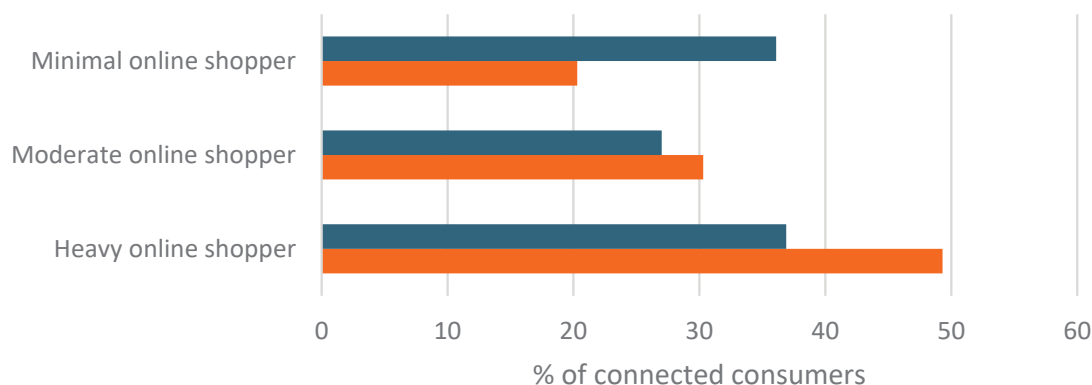


Source: Euromonitor International's Lifestyles Survey, fielded January to February 2020 and Digital Consumer Survey, fielded March to April 2020.

Note: Digital purchases includes connected consumers who reported using computers, mobile or tablets to make purchases.

Besides shopping more often in already-familiar categories, connected consumers have turned to e-commerce across a broader range of products and services during the pandemic. The percentage of minimal online shoppers, consumers who did not use digital or only used digital to shop for one category, dropped significantly between fielding timeframes. In early 2020, minimal online shoppers and heavy online shoppers were evenly split at the purchase step at 36% and 37%, respectively. By March, there was nearly a 30-percentage point gap between minimal online shoppers (20%) and heavy online shoppers (49%).

Purchase Online Across Number of Categories 2020



Source: Euromonitor International's Lifestyles Survey, fielded January to February 2020 and Digital Consumer Survey, fielded March to April 2020.

Note: Minimal online shoppers research / purchase across zero or 1 categories. Moderate online shoppers research / purchase across 2 or 3 categories. Heavy online shoppers research / purchase across 4 to 5 categories

The shift to digital platforms has resulted in a greater share of retail purchases being made via e-commerce. However, uncertainty remains around what portion of this e-commerce spike will remain post-pandemic. In a July survey of industry professionals, 64% thought COVID-19 would drive a permanent increase in online shopping, up from 54% in an April survey.

Identifying the Markets Most Primed for Sustained E-commerce Growth

Trying to anticipate where these more permanent shifts may occur so companies can make investment and resource allocations today to be best prepared for the consumer landscape of tomorrow is a challenging endeavor. To help companies understand which categories are most primed for sustained e-commerce growth post-pandemic, Euromonitor developed the E-Commerce Readiness Model. This tool uses analytic modelling to determine which countries and categories have the best market conditions to support higher e-commerce sales. The model assessed 16 industries and 76 countries for potential long-term e-commerce growth. Findings from three industries were shared in this white paper.

The E-Commerce Readiness Model uses a Gradient Boosting Machine methodology that leverages more than 280 socioeconomic variables to identify market conditions that are most related to a higher share of e-commerce sales. The model then uses 7,000 data points that measure e-commerce sales by category and country as of 2019, in order to predict which markets are most likely to be able to support sustained e-commerce growth. Since market conditions would have supported higher e-commerce sales pre-pandemic, the E-Commerce Readiness Model helps companies anticipate which categories are likely to see long-term e-commerce growth, even after pandemic concerns subside.

E-commerce Readiness Model

Access E-commerce Landscape

Examine over 280 socioeconomic and category market size data

Predict Potential E-com Share

Identify unmet opportunity based on variables

Identify Key Variables
Determine most impactful variables

Rank E-commerce Potential
Quantify and compare unmet market potential

Opportunity Markets for Sustained E-commerce Shifts

Promising Markets for Sustained E-commerce Growth

Although COVID-19 impacted industries somewhat differently, all can expect to see a long-term boost in e-commerce as a result of the pandemic-inspired shifts in shopping behavior. The following analysis uses the E-Commerce Readiness Model to explore the unmet potential for e-commerce across three industries: Alcoholic Drinks, Beauty and Personal Care and Packaged Foods.

Industry spotlight: Alcoholic Drinks

The landscape for alcoholic drinks is rapidly changing due to global closures of on-trade establishments, in some cases going bankrupt, in addition to what is described as the worst recession since the 1930s. Despite headlines suggesting spikes in at-home consumption, off-trade has been slow to capture volume from on-trade's collapse. In Euromonitor's current forecast baseline, the industry is set to experience a comparatively moderate decline, as the shift to at-home consumption and changing occasions are not likely to be enough to offset the decline in on-trade consumption.

Channel migration trends will be intensified and the "hometainment" trend will subsequently accelerate as more consumers turn to their homes to wind down. This disruption also affects the mix of non-store retailing with e-commerce at the centre of the storm and traditional stores benefiting from proximity and affordability to the consumer. Even though alcoholic drinks have historically been very hesitant to embrace online, the share of e-commerce was rapidly rising from a low base before the crisis and has accelerated since the pandemic.



Key markets for alcoholic drinks growth potential

In 2019, China was the most penetrated market in the world in terms of channel share for alcoholic drinks in e-commerce. Even so, Euromonitor's E-Commerce Readiness Model, suggests the channel could be performing even better both in percentages and actuals. It tops the list for absolute value potential.

When it came to the percentage difference between the model's prediction versus actual share, South Korea surpassed China. Although South Korea is very advanced in terms of consumer use of digital channels in many industries, in the case of alcoholic drinks market, only beer can be sold via e-commerce. Owing to the weight of multipack beer SKUs and subsequent fulfillment costs, the actual share for e-commerce is less than 0.1%.

The click-and-collect model has really begun to take off in the US and Western European markets as the preferred means of alcoholic drinks purchases. The variance in regulations on a state-by-state basis for alcohol sold online is a likely underlying reason for why the US is under-indexed.

Rank	Country	E-Com Channel Potential	Rank	Country	E-Com Value Potential (USD mn)
1	South Korea	5.99%	1	China	6,837.4
2	China	3.78%	2	USA	1,289.1
3	Georgia	2.74%	3	South Korea	296.6
4	Vietnam	1.79%	4	Canada	133.4
5	Nigeria	1.27%	5	Japan	122.4

Source: Euromonitor International's E-Commerce Readiness Model

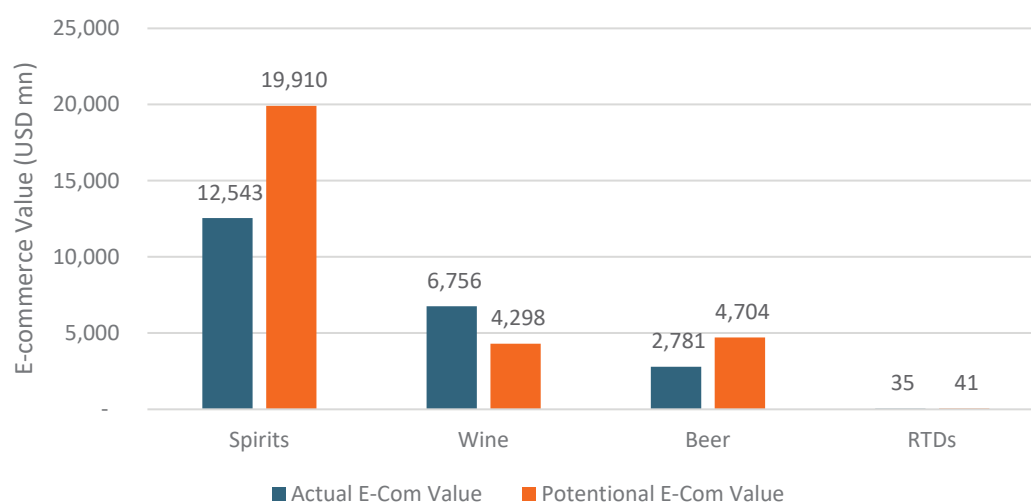
Market spotlight: Chinese Baijiu makers push digital transformation

In China, spirits are the most under-indexed category. Based on Euromonitor's E-Commerce Readiness Model, e-commerce spirits sales are under-indexed by more than USD7.5 billion.

Local Chinese spirit, Baijiu, accounted for over 95% of the country's total spirits volume sales. Some Baijiu manufacturers have teamed up with internet companies to increase online distribution and build digital marketing. For example, Anhui Gujing is cooperating with JD.com to launch smaller bottle volumes and herbal Chinese spirits. They are also developing a new marketing approach by leveraging livestreaming in Gujing's Baijiu Museum to showcase culture and processing techniques to online consumers.

Wuliangye is going further than just offering online sales, by leveraging digital platforms to manage distributors and take stronger control of price and volume. In addition, Wuliangye co-founded the China Alcoholic Business Big Data Centre with internet companies, academics and associations to explore digitalisation initiatives in the supply chain and consumer interaction.

China Alcoholic Drinks E-Commerce by Category



Source: Euromonitor International's E-Commerce Readiness Model

Industry spotlight: Beauty and Personal Care

The beauty and personal care industry is still largely reliant on store-based retailing with one-third of value bought at health and beauty specialists in 2019, making it one of the slower areas to embrace e-commerce. Only 11% of products were sold through e-commerce.

This low penetration has made it difficult for the industry to ease the full impact of physical stores shutting down during COVID-19 and the need for a quick shift to digital. In fact, only 55% of connected consumers have used digital platforms to execute purchases, according to the Digital Consumer Survey, which began fielding in late March. This figure is lower than other digital-first categories, indicating an opportunity for e-commerce.

Key markets for beauty and personal care e-commerce growth potential

Even in the most sophisticated markets for beauty and personal care e-commerce, such as South Korea, there is room for e-commerce growth. South Korea, for example, is currently second in the world, for e-commerce penetration with 23% of beauty and personal care sales made through e-commerce in 2019. Despite a high e-commerce penetration rate for this category, the model predicts South Korea could have supported a further USD200 million worth of e-commerce sales in this category during 2019.

Euromonitor's E-Commerce Readiness Model identified Germany as the most under-indexed country for beauty and personal care e-commerce, both in terms of the share of e-commerce as well as the value difference. Based on our proprietary model, Germany could have achieved around USD400 million more in sales of beauty and personal care products through e-commerce in 2019, twice what was estimated in South Korea.

Rank	Country	E-Com Channel Share Potential
1	Germany	1.81%
2	Belgium	1.65%
3	Hong Kong	1.60%
4	Malaysia	1.46%
5	South Korea	1.41%

Rank	Country	E-Com Value Potential (USD mn)
1	Germany	389.3
2	South Korea	196.7
3	Italy	112.6
4	Thailand	71.8
5	Australia	65.3

Source: Euromonitor International's E-Commerce Readiness Model

Market spotlight: German skin care is driving online beauty opportunities

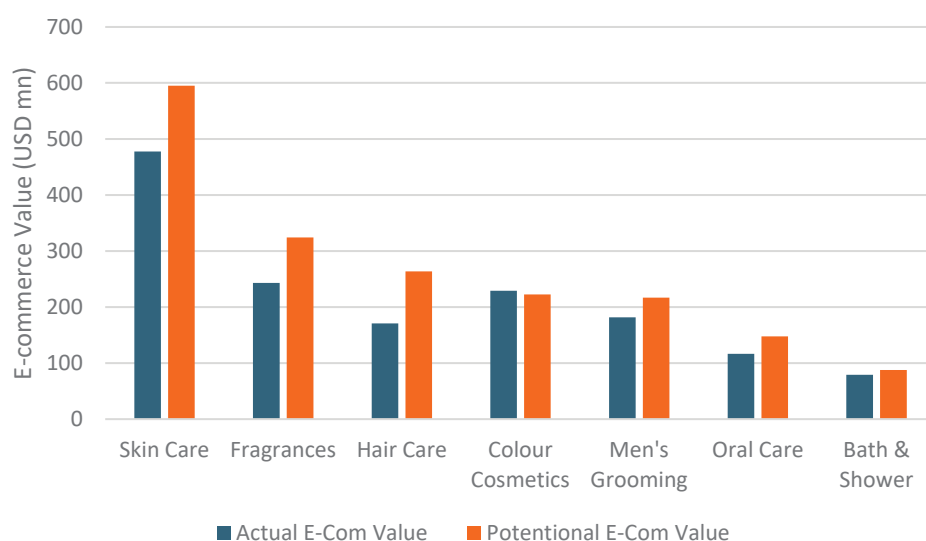
In Germany, the e-commerce opportunity within beauty and personal care is driven by skin care, as it is the most under-indexed both in terms of the share of e-commerce as well as value difference.



Of the additional USD389 million that the beauty market could have supported through e-commerce in 2019, around 30% would have come from skin care. Before the pandemic, skincare e-commerce was showing signs of significant growth while brick-and-mortar retailers continued to struggle to attract consumers. The popularity of e-commerce retailers such as Zalando as well as popular online pharmacies such as DocMorris and Apotheke.de, which offer heavily discounted skin care and other personal care products, are predicted to continue growing post-pandemic, given that market conditions were already ripe for e-commerce in this category.

While the COVID-19 pandemic has had, and most likely will continue to have a negative impact on commerce, skin care has been largely resilient to the effects, with the hand care subcategory being the key exception as a result of consumers frequently washing hands and using hand sanitizers to prevent the spread of the virus.

German Beauty and Personal Care Categories with Greatest E-Commerce Potential



Source: Euromonitor International's E-Commerce Readiness Model

Industry spotlight: Packaged food

Grocery is by far the dominant channel for packaged food, but e-commerce has seen some significant growth in recent years, posting an 18% compound annual growth rate (CAGR) during the 2014–2019 period. While e-commerce only accounted for 3% of sales in 2019, we anticipate continued growth as more consumers turn to online shopping options.

COVID-19 led many to try online grocery ordering for the first time which created a short-term spike with potential long-term implications. The percentage of connected consumers ordering groceries online during the pandemic was highest in India (79%), Indonesia (70%) and South Korea (68%) based on the Digital Consumer Survey.



Key markets for packaged food e-commerce growth potential

Countries like India, Vietnam, Uzbekistan and Italy, which all traditionally have limited packaged food sales via e-commerce, emerged in Euromonitor's E-Commerce Readiness Model as potential future hotspots for higher e-commerce penetration. While e-commerce represented less than 1% of sales in these countries in 2019, the model indicates these markets have the potential to support more than double their current e-commerce sales or USD2.2 billion in sales.

Even in a country like China, where e-commerce is more developed and accounts for nearly 11% of packaged food sales, the model points to greater opportunity. If realised, an additional USD1.8 billion could have been sold online in China in 2019, signalling high potential for sustained e-commerce growth in packaged foods moving forward.

Rank	Country	E-Com Channel Share Potential
1	India	1.57%
2	Vietnam	1.46%
3	Uzbekistan	1.18%
4	Italy	1.17%
5	China	0.67%

Rank	Country	E-Com Value Potential (USD mn)
1	China	1,846.5
2	India	1,169.8
3	Japan	912.8
4	Italy	834.4
5	Germany	493.3

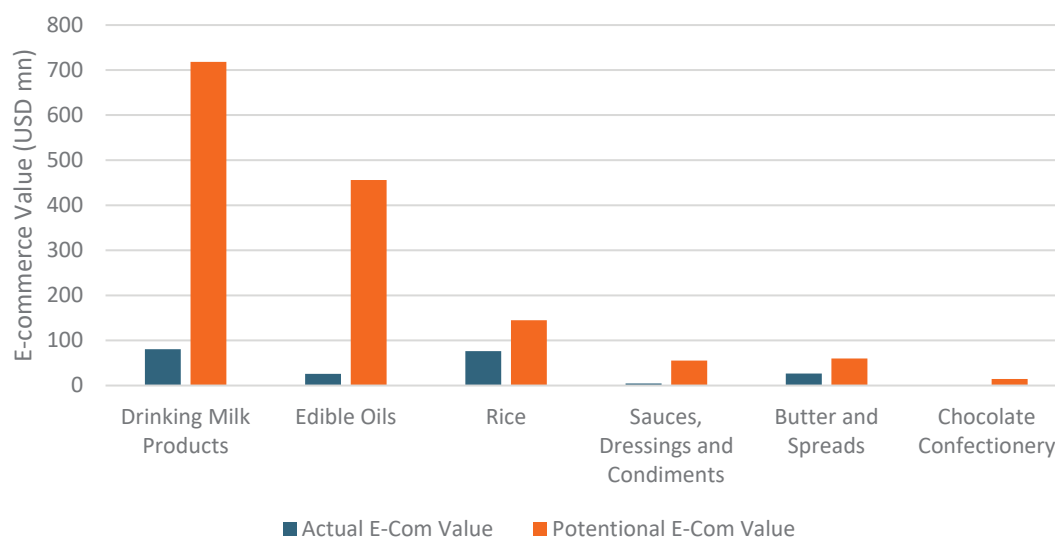
Source: Euromonitor International's E-Commerce Readiness Model

Market spotlight: India's packaged milk and oils have greatest potential

Drinking milk products and edible oils are the most under-indexed in India. While both categories had less than 1% of sales through e-commerce in 2019, India's market could have supported an additional USD1.1billion in online sales. Other packaged food categories in India like yoghurt, noodles, pasta and cheese already have higher e-commerce saturation, suggesting higher online sales in related categories like drinking milk products and edible oils are achievable.

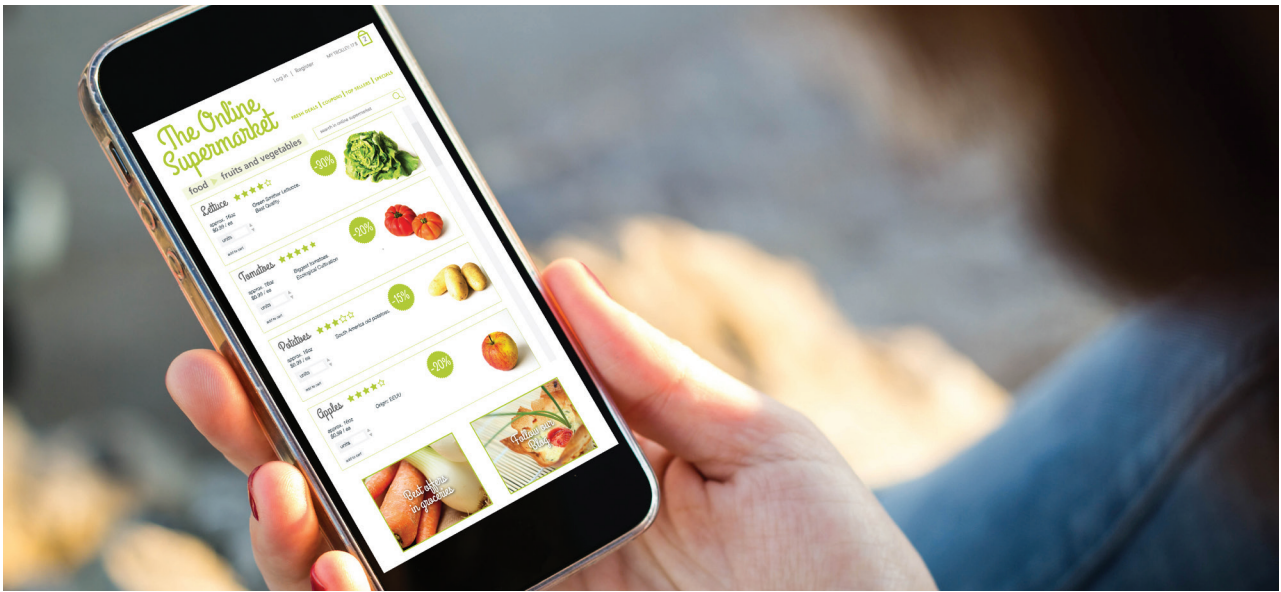
Store-based retailers continue to invest in their digital platforms to better connect with consumers. As more stores look to omnichannel retailing to enhance the consumer shopping experience, options like click and collect have the potential to help drive online sales. As of now, the ready meals category has the highest e-commerce share, accounting for nearly 20% of sales in 2019. Many retailers have already responded by adapting their infrastructure to support the surge in online purchases, which could eventually make it easier for other categories to follow.

India Packaged Food Categories with Greatest E-Commerce Potential



Source: Euromonitor International's E-Commerce Readiness Model

Key Takeaways



COVID-19 has radically shifted consumer shopping behaviors. Besides shopping more in already-familiar categories, consumers turned to e-commerce for a range of categories for the first time during the pandemic, permanently widening the pool of e-commerce shoppers.

An increase in the number of goods sold online will outpace those sold in store not only in 2020, but in the foreseeable future. Euromonitor projects that goods e-commerce will expand by a 12% CAGR over the 2019–2024 period while growth of store-based retailing will remain relatively flat. E-commerce will remain a key growth opportunity for brands and retailers, underscoring the need to identify which countries and categories are best positioned to retain the surge in e-commerce unfolding globally.

Euromonitor International's E-Commerce Readiness Model showed markets globally could support more than \$77.7 billion in additional e-commerce sales without any further infrastructure expansion. Across the 16 industries included in the E-Commerce Readiness Model, industries currently with relatively low e-commerce sales like fresh and packaged food as well as alcoholic drinks have potential for significant movement towards online sales (\$38.5 billion globally), while other more developed e-commerce industries like apparel (\$3.4 billion globally) still show prospects for growth.

In a similar capacity, countries at varying stages of e-commerce maturity point to continued prospects for online shifts. From developed online markets in China and the US to emerging markets in India and Brazil, there is room to grow in nearly all geographies.

Top 10 Markets with Greatest E-Commerce Potential

Rank	Country	Total E-Com Value Potential (USD mn)
1	China	42,982.6
2	USA	7,329.5
3	Japan	3,003.9
4	India	2,952.9
5	Italy	2,398.6
6	Germany	2,393.6
7	South Korea	1,955.2
8	Brazil	1,780.6
9	France	1,699.2
10	Mexico	1,545.8

Source: Euromonitor International's E-Commerce Readiness Model

Note: These figures do not include those categories with negative predicted e-commerce share.

Methodology

About Euromonitor International's E-Commerce Readiness Model

Euromonitor's E-Commerce Readiness Model ranks categories in 16 industries and 76 countries based on their potential for sustained e-commerce growth. To determine this ranking, Euromonitor used a Gradient Boosting Machine methodology that leveraged more than 280 socioeconomic variables to identify the market conditions that are most related to a higher share of e-commerce sales. The model then used 7,000 data points that measure e-commerce sales by category and country as of 2019 in order to predict the markets most likely to be able to support sustained e-commerce growth.

Gradient Boosting Machine is an analytics approach that involves evaluating data across relevant socioeconomic and market variables to create a model for predicting e-commerce share of sales. Unlike linear regressions, this type of model leverages a learning algorithm to develop multiple decision trees that are continuously improved through the Gradient Boosting process. The advantage of this approach is that it can incorporate many variables to better represent the set of conditions most conducive for higher e-commerce penetration.

The primary output of this approach is a predicted share of e-commerce that could have been supported by the market in 2019 before COVID-19 became a global pandemic. The difference between this predicted share and actual share of e-commerce signals which countries and categories had the most unrealised e-commerce potential before the pandemic and are therefore most likely to sustained e-commerce growth afterwards.

Industry Coverage

Alcoholic Drinks	Home and Garden
Apparel and Footwear	Home Care
Beauty and Personal Care	Hot Drinks
Consumer Appliances	Packaged Food
Consumer Electronics	Personal Accessories
Consumer Health	Pet Care
Eyewear	Soft Drinks
Fresh Food	Tissue and Hygiene

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Michelle Evans is the senior head of digital consumer at Euromonitor International. Based in Chicago, Michelle has been at Euromonitor for 10 years. In her current role, she provides actionable insights and in-depth analyses into how technological advances are changing commerce globally.

Recognised as a thought leader in digital commerce, she was named a Power Women in Fintech by conference organiser Innotribe in 2015, a Woman on Top in Tech by business magazine Asian Entrepreneur in 2016, a Top 200 Fintech Influencer in Asia by fintech publications Fintech Asia and Lattice80 in 2018, a Woman to Watch by social think tank Remodista in 2018 and 2019 and was a finalist in Money20/20's Rise Up programme in 2019.

She shares her expertise across industry events, including Money20/20, Finovate, Mobile World Congress, Retail's Big Show, Seamless, Trustech and Forum E-Commerce Brasil, in the capacity of a speaker, chairperson or juror. Leveraging her master's degree in journalism from Northwestern University, she has a reoccurring column in Forbes and is regularly quoted in publications globally.



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