

United Kingdom

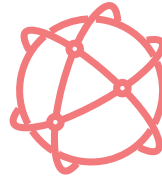


2018 ECOMMERCE STUDY





ECOMMERCE



GLOBAL

OPPORTUNITIES & RISKS

2018

BUSINESS SOLUTIONS IN THE FACE OF NEW CHALLENGES BROUGHT ON BY ECOMMERCE

Given the digitization spree, e-commerce as a global marketplace has gained significant momentum. Together with the Ecommerce Foundation, Mazars has produced a series of country-specific studies and thought leadership pieces exploring the trends, challenges, and opportunities brought on by the emergence of e-commerce. As global advisors, Mazars' experts provide you with perspectives and tools to best leverage this new ecosystem. Our experts specialize in topics such as tax & legal, ethics & compliance, logistics & footprint, digitization & technology as well as business models and customer experience, all of which are evolving with the emergence of e-commerce.

Discover more on our website at www.ecommerce.mazars.com



The Ecommerce Foundation is an independent organization, initiated by worldwide national e-commerce associations as well as online and omnichannel selling companies from industries such as retail, travel & finance.

Our mission is to foster global digital trade as peace is the natural effect of trade. By facilitating digital commerce we hope to make the world a slightly better place. We facilitate the development of practical knowledge, insights and services for which individual institutions, retail and e-commerce associations and B2C selling companies do not have the (financial) resources and/or capabilities.

By combining collective goals and efforts, the Ecommerce Foundation is able to realize projects which could not have been realized on an individual basis.

Visit us at www.ecommercefoundation.org

ECOMMERCE IN THE UNITED KINGDOM



“When it comes to digitalization and implementing new systems, my clients often worry about the costs of investment, whether they have the staff with the required skills and the cost of maintaining systems. These items certainly require consideration, but for many, the return on investment will justify the cost.”

Gareth Jones, Partner, Mazars in the United Kingdom

1. THE BACKDROP

The United Kingdom (UK) is a thriving financial and culture-driven island nation located in northwestern Europe, which operates under a constitutional monarchy. It hosts a population of ~66 mn, covering an area of 243,610 sq. km. The GDP has grown from GBP 1,706.9 bn in 2012 to GBP 1,903.6 bn in 2017 (CAGR of 2.2%), and is forecast to reach GBP 1,931.4 bn in 2018, at a year-on-year growth of ~1.5%. The British population is projected to grow by another 0.7% this year with over ~70% of constituents under the 55 age bracket and ~41% concentrated between the ages of 25-54 (i.e. the working class). This is why ever since the aftermath of the global financial crisis, the unemployment rate in the UK has been on the decline, dropping from 8.1% in 2011 to 4.4% in 2017. Hence, with people working and earning more, along with being exposed to latest technological developments, various industries such

as retail – specifically online retail – are gaining significant footing in the domestic market. Further, there is a strongly-connected infrastructure base and well-developed institutional framework, which despite a negative internet penetration growth of ~-2.2% has maintained an internet user base of 95%. Performance wise, the UK ranks 7th out of 86 countries and 4th amongst EU on the Inclusive Internet Index, which outlines the current state of internet availability, affordability, relevance and readiness. The UK fares quite well when it comes to availability and affordability (with affordability being a key strength in its competitive environment), while relevance is a stumbling point. Its local content ranked 35th in the world, due to its low concentration of websites with country-level domains. Hence, there is greater need to build connect with the local population, given a diverse area of ground that falls within the nation, as well as the presence of other non-English languages such as Gaelic, Welsh & Irish.

UNITED KINGDOM



GOVERNMENT
CONSTITUTIONAL
MONARCHY



POPULATION
66,181,585
(UP BY 0.6%)



**INTERNET
PENETRATION**
95%
PENETRATION
DOWN BY 2,15%



GDP
GBP 1,903.6 Bn
(YOY 2.05%)

INCLUSIVE INTERNET INDEX



OVERALL SCORE 85.3/100

RANK 7

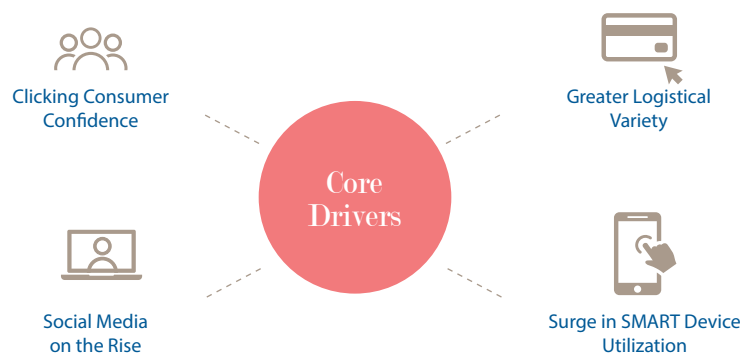
LOGISTICAL PERFORMANCE INDEX

Logistically, the UK ranks 1st on UN's E-Government Development Index, which showcases a high-level of concurrent past and present investments in telecommunication, human capital and online services - hence, the building up of a strong e-infra base. Apart from that, it is also placed 8th on the LPI (Logistical Performance Index), highlighting a strong customs clearance process, trade and logistical services quality, as well as transport infrastructure. While ease of doing business is also there, many SMEs are left under the grips with Brexit uncertainty looming over the next 2-3 years. Certainly the EU support in terms of increased demand, supplier network, logistics etc. will decrease and smaller retailers will find it hard to remain competitive in a constantly evolving marketplace with global giants. However, the key here would be to keep a flexible business model, focus on high performing activities and emphasize upon delivering exceptional quality service so as to secure a loyal consumer

base. Retail organizations providing support at the government level can in-turn facilitate firms in their export strategies. Meanwhile, newer opportunities may crop up here, such as the imposition of lower/zero tariffs and charges that were previously put in place by the EU. Firms, especially those engaged in e-services, can leverage this competitive position to streamline their supply chains and global logistics. On a macro level, the UK hosts a promising digital market due to its heightened online connectivity and utilization. 77% of households use a fixed broadband for access and 21% make use of mobile broadband services via a mobile phone network, in order to generate a surge of multi-purpose online activity such as sending/receiving email, browsing for information on goods/services, social networking, e-banking etc. Internet usage is over 90% for almost all the age groups (95% for the aggregate population), making the online domain become a bustling market for various players.

2. THRIVING ECOMMERCE LANDSCAPE

Specifically, these developments have largely fueled the growth of the e-commerce industry till date, with internet purchases growing year-on-year to constitute over 16% of total retail sales in 2017 (as opposed to 3.4% in 2007). UK online spending now amounts to over GBP 1.1 bn per week, with local consumers being viewed as one of the tech-savviest and go to market in Europe for online shopping.

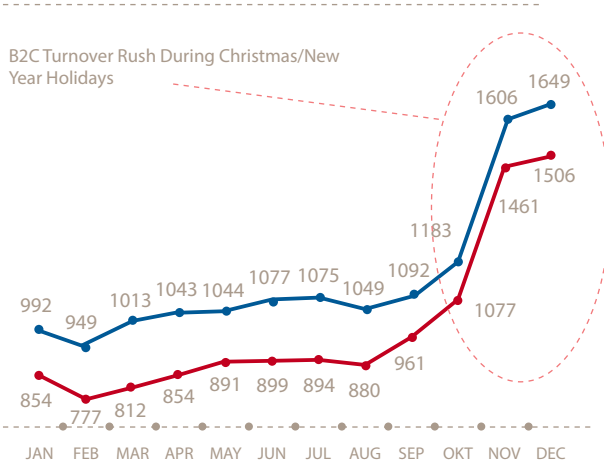


CONSUMER CONFIDENCE SOARING HIGH

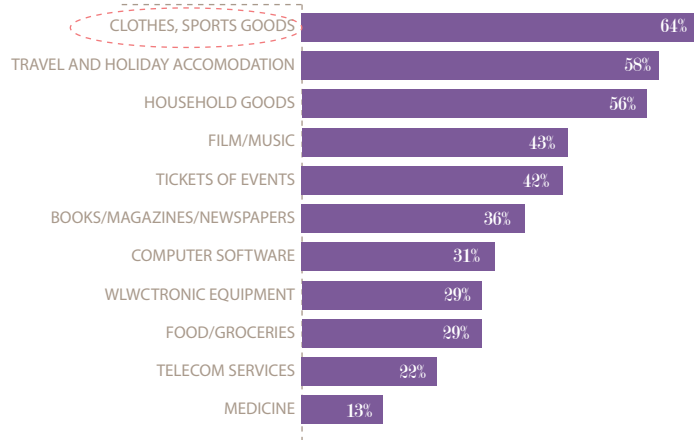
The largest boost for the e-commerce landscape is growing demand and belief in e-sales. Over half of consumers surveyed feel there is more choice online when compared to in-store shopping and prefer the ease at which they can compare products to get the best deals. This also works well on the domestic front, given that UK webshops are still by far the most popular, with national sellers accounting for 93% of the shopping share as opposed to 31% taken by sellers in other nations. In terms of preferences, clothing/sports goods are the most purchased online category, constituting 64% of online purchases; this is followed by travel & holiday accommodation and household goods, with a share

of 58% and 56% respectively. Choices here are dependent on the types of customers that readily engage in online shopping. While over 80% of people aged 16-54 and ~50% aged 55+ shop online, the greatest concentration lies in people between 35-44 years. These are the highest spenders on average, with 31% of the lot having e-shopped over 11+ times in the last 3 months of 2017. All this has contributed to a substantially growing UK e-commerce demand, which kicks in even stronger during the holiday season. For example, internet retail sales have jumped by 12.1% and 8.3% between September-October in 2016 and 2017 respectively, with the activity steadily increasing till the end of the year.

UK Internet Retail Sales (GBP Mn)



Popular Online Purchasing Category



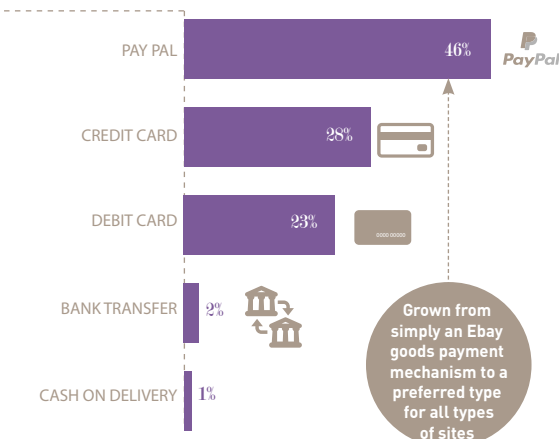
However, the mix between online and traditional sales is not a zero-sum game. Over 93% of consumers surveyed in 2017 stated they also shop in-store. This is because each avenue has its own features – i.e. 24/hour availability & ease in e-markets vs. greater product examination/trial in physical markets. Given the nature of their purchases and contextual setting, consumers either make a choice between the two or opt for a complete omnichannel experience altogether. This preference will keep rolling ahead as over 82% of Generation Y and 79% of Generation Z are omnichannel shoppers. Meanwhile, though gender-wise priorities differ slightly when it comes to e-shopping – i.e. men placing greater weight on price whilst women concerned more with convenience – both the groups readily purchase online.

INCREASED LOGISTICAL OPTIONS

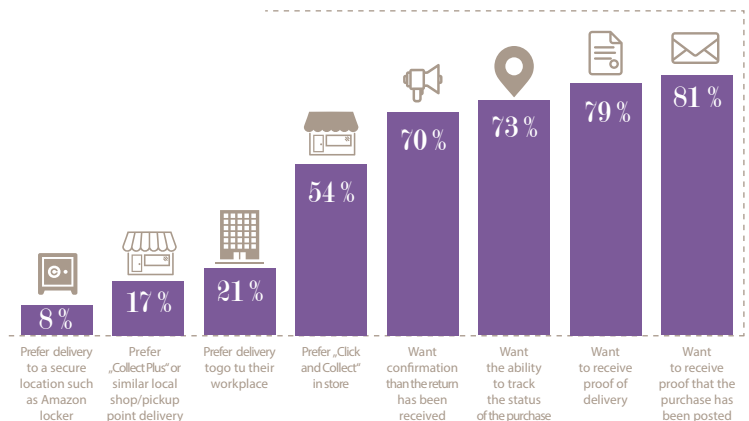
The prevalence of cash is slowly depleting in the retail arena as various new e-payment options have cropped up. This further creates buzz in the e-commerce domain as consumers utilize debit/credit cards, bank transfers, and e-wallets to make payments beforehand, getting hassle-free deliveries. In-fact PayPal has become the most preferred method of payment for all kinds of online purchases with a 46% share, while the cash on delivery option stands at a mere 1% preference. This trend will keep mounting ahead as even more digital wallet players

open up in the space, amidst mobile banking on the rise. Meanwhile delivery has become a market of its own, with e-shoppers preferring to choose between multiple options such as home/workplace/secure locations etc. Over 54% of consumers prefer the “Click and Collect” in-store feature, while local collect from the Royal Mail is also popular. With that consumers also demand proof of postage, proof of delivery, ability to track the status of purchase etc. This need centered on availability and convenience is largely present in the e-shopping platform.

Popular Online Payment Methods

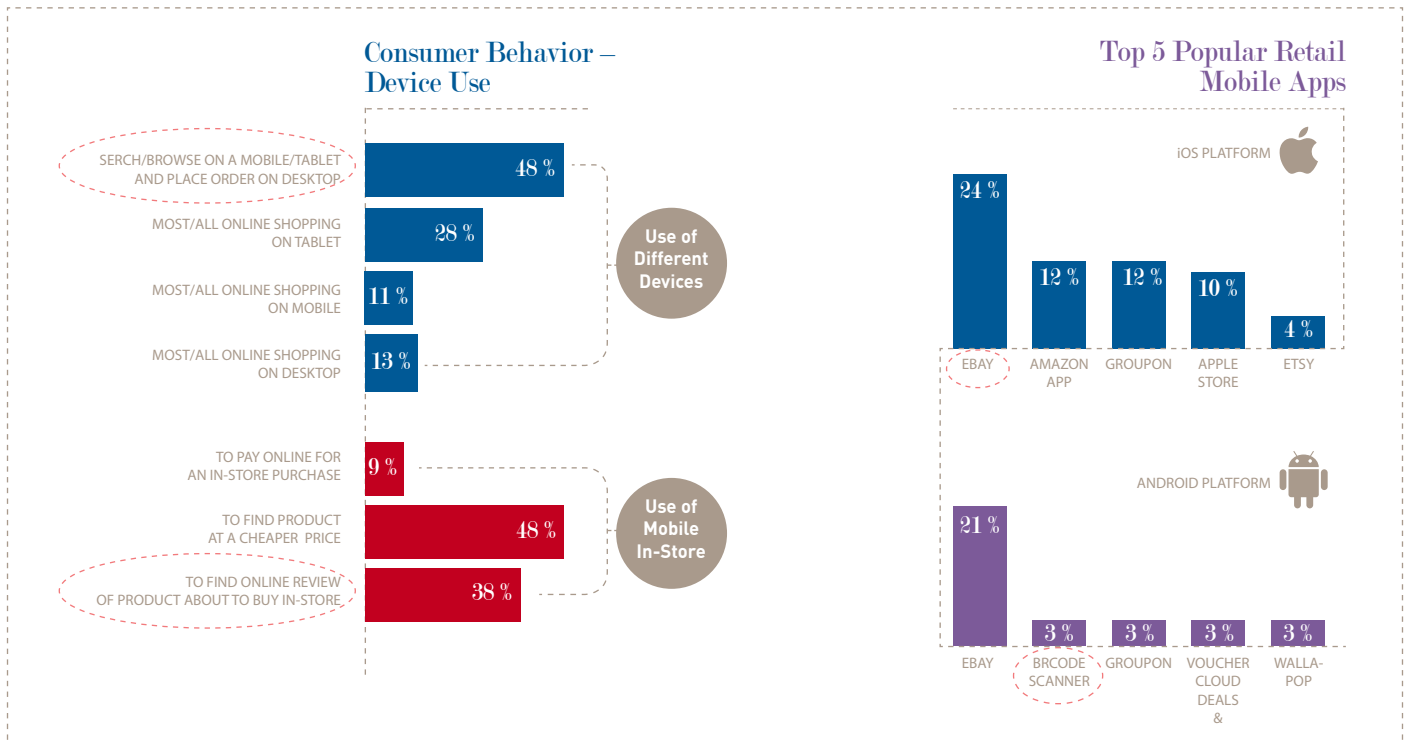


Consumer Delivery Preferences



THE SMART SURGE

The purchasing journey is far from singular and consumers no longer make use of a single mechanism to transact. Rather, the rise of various SMART devices – i.e. smartphones & tablets – have also become a part of different stages in the shopping experience. For example, over 48% consumers generally search and browse for products via mobile/tablet and then place an order on Desktop. Alongside this, some also make use of mobiles in-store to cross-check purchases and make comparisons. All this has fueled the growth of the online retail market, where global giants such as Amazon largely dominate the sphere, being the choice amongst 91% share of respondents. In-fact, over 49% of the respondents check prices on Amazon itself. Meanwhile, eBay is the most popular retail app across mobile devices, with a market reach of 24% and 21% on iOS and Android respectively.



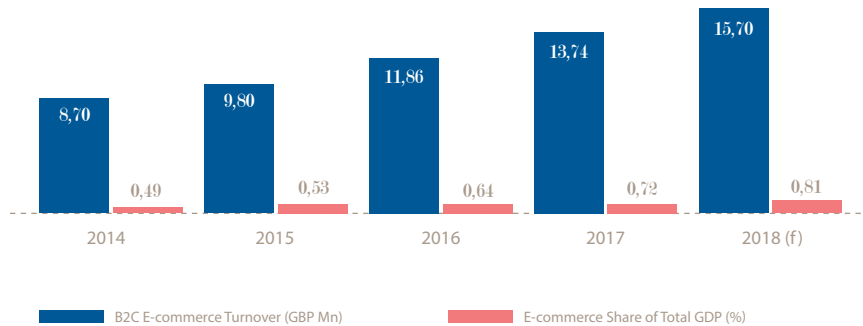
GROWING SOCIAL MEDIA POWER

Greater use of smartphones also paves the way for social media penetration, where consumers can actively network and communicate around the clock with other buyers on platforms such as Facebook, WhatsApp, Twitter, Messenger, Instagram etc. Facebook is the most used app in the UK, capturing a 37% and 28% population share of women and men respectively. Such social media sites are largely used as a review platform, as well as an

advertising base. Hence, though search advertising leads the way with a 46.5% revenue share (and over 54% of surveyed consumers finding about retailers via Google), social media is also gaining rising importance due to its fundamental effect on product awareness – 48% individuals state they had brought something online after seeing recommendations on Facebook. Along with this, 22% state they would directly buy on Facebook itself.

PROMISING MARKET

Given the online activity and preferences towards SMART channels, the turnover growth for online retail has been on an upward trend, with B2C e-commerce revenue growing at a CAGR of 16.4% between 2014-17; it is projected to reach GBP 15.7 bn in 2018. With this, the E-GDP share of total GDP has also steadily grown from being ~0.5% in 2014 to ~0.7% in 2017, and is forecast to reach over 0.8% in 2018. Market sentiment is largely positive for the upcoming years.



Steady Growth of B2C Turnover (14%) and E-commerce Share of GDP (11%) over the next year...

3. KEY CHALLENGES

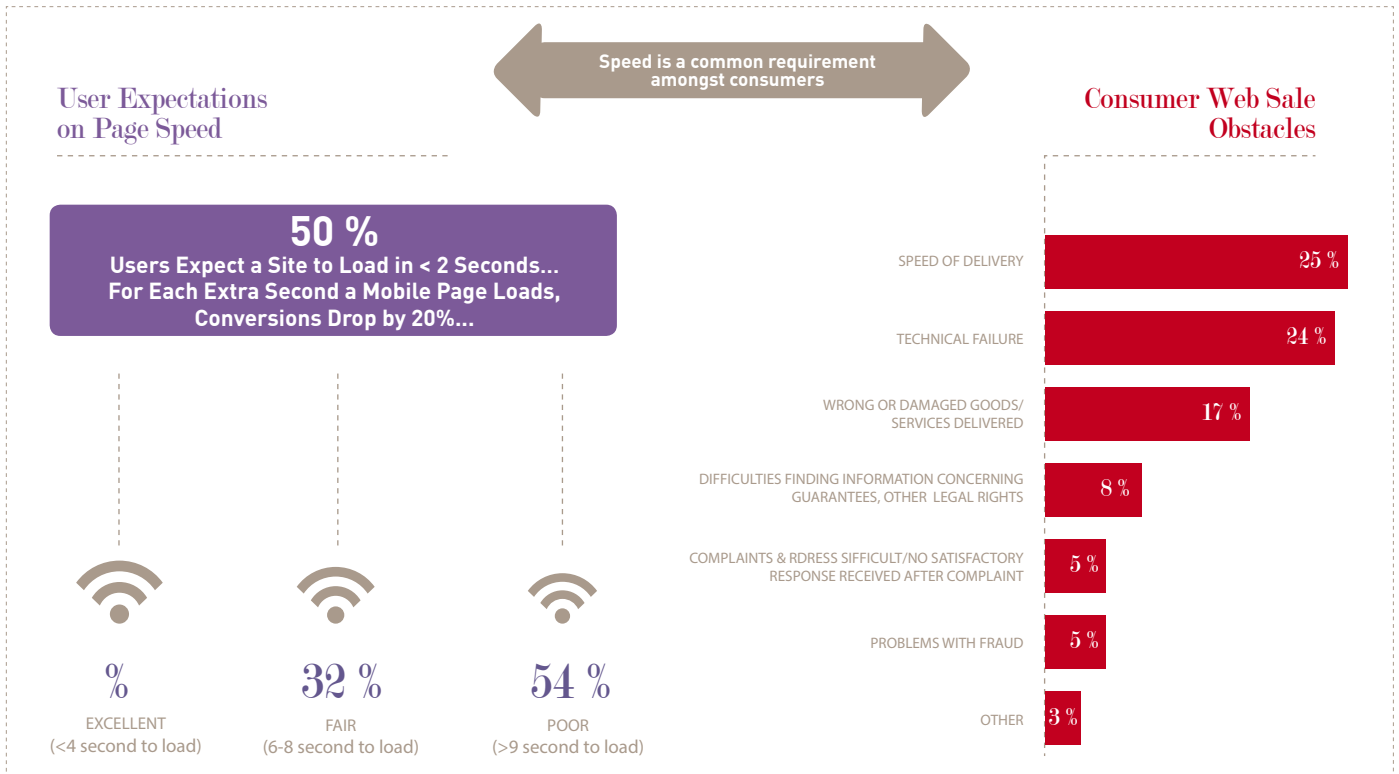
Nevertheless, while the e-commerce landscape has potential to develop further in the UK landscape, given its advanced infra and institutional standing, there are key issues and external uncertainties that firms must watch out for when designing their business models.



ACHIEVING SUSTAINED EFFICIENCY

In general, digitization opens up buyer options and hence makes them habitual to getting things done in real-time. This is evident in the UK where given the advanced infra development and online connectivity, consumers expect instantaneous service and feedback mechanisms. For example, if a product is scheduled for a 10 am delivery, the consumer will start to engage with the concerned retailer on social media should there be

no delivery made by 10:05 am. Delivery speed is the most common obstacle faced by online consumers in 2017, accounting for 25% of share of problems. In-fact, time is of great importance when it comes to e-commerce, with 54% internet users rating e-tailing websites that take more than 9 seconds to load as "poor." People expect a site to load in less than 2 seconds.



Apart from this, there is also demand for a variety of feedback mechanisms such as phone, email, text and live-chat agents, so that support can be provided 24/7. In light of this, firms must pay extra caution when

it comes to designing supply chains and streamlining business processes so that each phase of the purchasing journey is catered to in a timely manner, keeping the review platform largely positive.

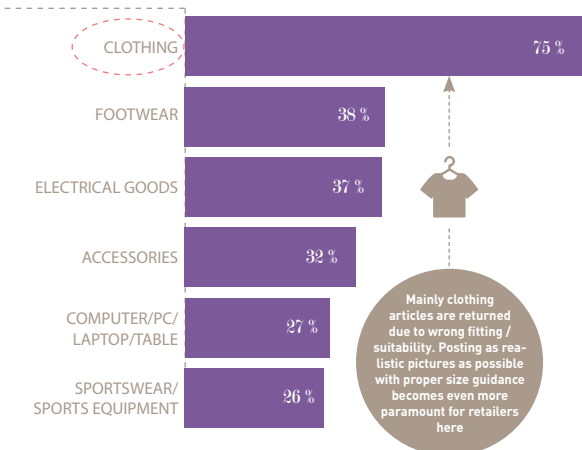
UPGRADATION OF PURCHASING STEPS AND PROCEDURES

Returns are an inevitable, regardless of the nature of sale. While firms can mitigate potential call backs by ensuring products are well packaged and entrusted to a credible logistics supplier, this step cannot be negated in entirety. Rather, high performing firms are those that take this into account and have in place a clear, free-of-cost and expedited returns process, where consumers are provided with a return label and re-sealable packaging. While over 63% UK consumers believe that the return mechanism is getting easier,

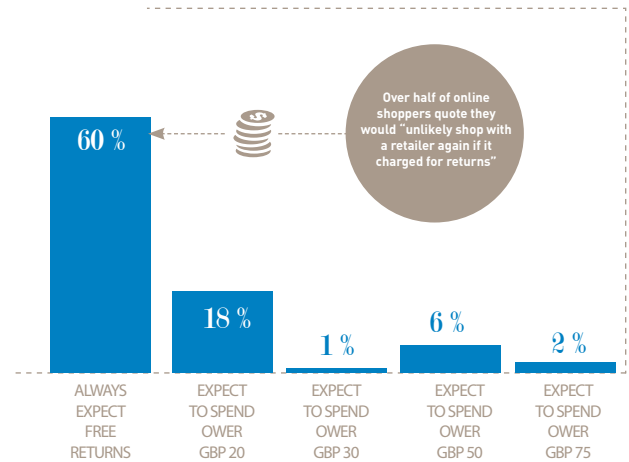
firms should continue seeking for more improvement and informing consumers at each step. Around 96% of surveyed consumers want to be notified when their refund has gone through. Meanwhile 60% say they are less likely to purchase from a webshop with a difficult returns process.

With this, users are also demanding upgraded security procedures such as biometrics to not only protect their privacy but also take their payment experience to a new level.

Commonly Returned Categories



Consumer Expectations – Price of Returns

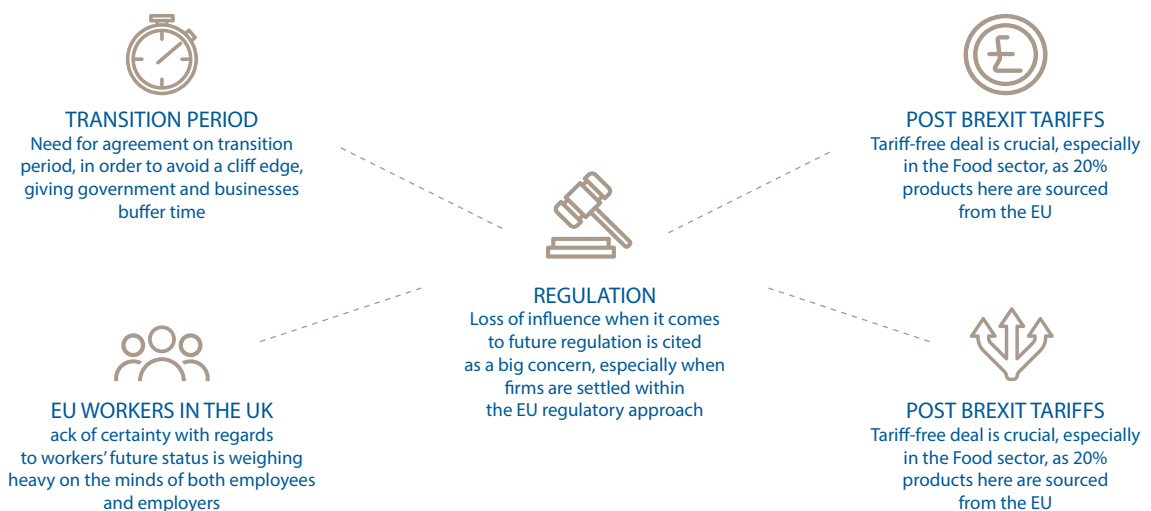


BREXIT UNCERTAINTY

Undoubtedly Brexit instability poses one of the greatest challenges to any industry in the UK, given the fact that employee retention/recruitment will become an issue, supply chains will change and firms will need to operate within a new regulatory ambit. The extent of impact depends upon the nature of each industry – i.e. SMEs in tech/e-commerce sectors, which are largely reliant on EU national workers that require no visa processing steps,

can come under a significant bottleneck once the free movement of people is minimized. On the contrary, SMEs that have much of their target base outside the EU may not suffer too much. While the exact repercussions to e-commerce are yet unknown, all companies are required to rethink their market positioning, both on a strategic and operational level. In-fact, fostering new partnerships and flexible business models can rather turn this challenge into to a new opportunity.

Brexit Perspectives





4. WAY FORWARD

On the whole, e-commerce is deeply embedded in the UK market and this trend will only mount ahead as consumers become even more entrenched in going for the omnichannel experience. The nation has the requisite infrastructure, amidst a backdrop of equally enthusiastic consumers.

There is no doubt that Brexit poses a significant challenge as the entire market is in a fix of what to

expect come the end of the transition period – i.e. agreement on the Irish border, agreement on a dispute resolution mechanism, divorce costs etc. While the exact implication on e-commerce players is yet to be seen, the key remains in maintaining high efficiency standards and creating a global trust mark to bridge the trust gap post Brexit. The online space can flourish devoid of any borders.



GARETH JONES

PARTNER, MAZARS IN THE UNITED KINGDOM



How do you foresee new and innovative technologies positively and/or negatively impacting smaller online retailers and/or entrepreneurs in the UK?

From my experience, technology is the most significant disruptor across all sectors. However, many smaller companies have been slow to embrace technology and therefore they aren't reaping the vast benefits that it can bring. When it comes to digitalization and implementing new systems, my clients often worry about the costs of investment, whether they have the staff with the required skills and the cost of maintaining systems. These items certainly require consideration, but for many, the return on investment will justify the cost.

With the right professional advice and a sound digital strategy, an enhanced digital presence is transformative – it opens up new markets, improves connectivity, provides a better understanding of their customer and ultimately drives top and bottom line growth.

What are some of the main challenges you see for small- to mid-sized online retailers in the UK?

On a daily basis, we meet with businesses who have great products, talented management teams and a modern infrastructure, but they are just not achieving the performance levels necessary to compensate for the risks and effort involved.

Many of these businesses are stuck in a rut, as the time taken up managing the day-to-day challenges leaves them with little time to focus on long-term strategic planning.

Some of the areas where small and mid-sized businesses tend to fall down include:

- A lack of clarity and alignment on overall purpose and goals
- A lack of formal and long-term strategic planning
- Quite often, value drivers and KPIs are not identified and tracked
- Sometimes investments are made without a robust appraisal process so that expected returns are not quantified or tracked- or sometimes the investment isn't made at the right time
- Some companies find it difficult to be agile so that they are unable to reposition their product to make it more appealing to the changing market or changing customer preferences

The best performing companies are those who make the time to stand back and critically assess the strategic direction of their business over the next 3-5 years.

Ultimately, business owners need to make the time to work 'on the business' as well as 'in the business' - however, this is a difficult balance to achieve.

This is our focus at Mazars. We fully acknowledge that our clients are experts in their industry or sector. So, what we aim to do is bring our business expertise, insights, tools and methodologies and partner with our clients to help push them out of the rut.

The external perspective and ongoing support and advice that we provide helps our clients to take their business to the next level by realigning their focus onto the long-term.

“With the right professional advice and a sound digital strategy, an enhanced digital presence is transformative...”


In what ways do you think e-commerce in the UK for small- to mid-sized companies will be impacted by Brexit, both in the near future, as well as in the long-term (5-10+ years)?

The direct implications of Brexit can be broadly categorized into 3 areas:

1. Employees: Ask most CEOs what their key asset in their business is, and they will say it is their human capital. With Brexit, we are going to see a change in how businesses operate and where they operate; we have already seen and heard there are going to be issues from an immigration perspective, but we are uncertain in regards to what they are going to be. Does it mean non-UK nationals currently in the UK will have to apply for permits? Will people who are here before a certain date be accepted and not have to apply for permits? The answers to these questions will determine how easy it will be in the future for UK businesses to attract talent. I am sure that the way these businesses recruit will change as well.

2. Supply Chain: The e-commerce segment is fundamentally underpinned by supply chains and global logistics. Brexit will mean changes in trade barriers which in turn could place significant new tariffs, charges and restrictions on logistics companies. However, this could also represent opportunities for online businesses as new

supply chains emerge and companies are able to purchase their inputs from cheaper markets. The UK may decide to lower or even remove tariffs and charges which were previously imposed by the EU – thus resulting in a boost to the UK competitive position. So, although again there is uncertainty, it may also represent an opportunity.



“Brexit will mean changes in trade barriers, which in turn could place significant new tariffs, charges & restrictions on logistics companies.”

3. Regulatory and Legal: The third item is in relation to the regulatory and legal side, particularly the issue regarding intellectual property. At the moment, UK companies that have intellectual property enjoy the benefits of having patents which are registered and protected by EU legislation. This is another area for consideration.

As for 5-10 years, in truth that is anyone's guess! My advice would center around focusing on the known variables at this point in time and then planning for the long term once we have improved visibility.

Regarding business planning strategies, what are the 3 most important pieces of advice you would give to a foreign online retailer attempting to enter the UK e-commerce market?

1. Business planning should involve all departments, functions and levels of staff. I work with a lot of companies on their strategic business plans and some of the best ideas come from the lower levels of staff.
2. The uncertainty of Brexit has caused many companies to re-think their market positioning, both physically and in terms of their business model. It is a great opportunity for companies to stand back and really consider what their customer value proposition is. Getting clarity on the exact customer need that their service/product is satisfying should be one of the first steps. How they will then deliver this in a sustainable and profitable way, i.e. the business model which they will operate, is critical to any plan.
3. Now, more than ever, all sectors are changing rapidly and companies need to keep abreast of these changes and be prepared to change or tweak the way they operate. A business plan should not be set in stone and it should be reviewed on an ongoing basis with changes made where needed. The key to success is in the ability of a company to be agile.



MAZARS IS AN INTERNATIONAL, INTEGRATED, AND INDEPENDENT ORGANISATION, SPECIALISING IN AUDIT, ACCOUNTANCY, ADVISORY, TAX AND LEGAL SERVICES. AS OF 1ST OF JANUARY 2018, MAZARS OPERATES THROUGHOUT THE 86 COUNTRIES AND TERRITORIES THAT MAKE UP ITS INTEGRATED PARTNERSHIP. MAZARS DRAWS UPON THE EXPERTISE OF 20,000 WOMEN AND MEN LED BY 980 PARTNERS WORKING FROM 300 OFFICES WORLDWIDE. WE ASSIST CLIENTS OF ALL SIZES, FROM SMES TO MID-CAPS AND GLOBAL PLAYES AS WELL AS START-UPS AND PUBLIC ORGANISATIONS, AT EVERY STAGE OF THEIR DEVELOPMENT.