

e-Commerce

Beyond Amazon - an update | **24 January 2018**

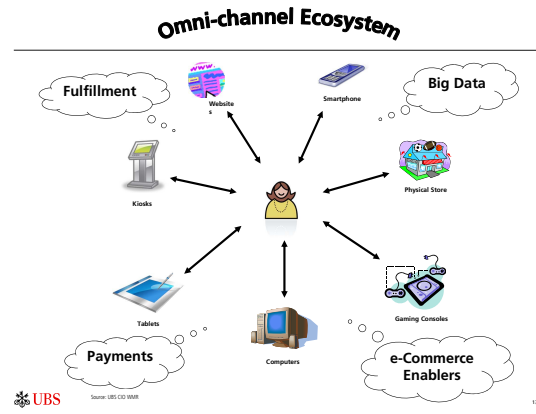
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- Impressive growth in e-Commerce continues to alter the consumer landscape and omni-channel companies will lead the way. An omni-channel retailer is one that is completely agnostic to how, where and when a consumer shops or interacts with a brand. Long-term positive drivers of digital growth, including the rapid adoption of mobile devices, will hasten market share-shifts online.

e-Commerce thesis still on track

We continue to have high conviction that opportunities around the e-Commerce theme extend beyond just owning pure-play online shopping or e-Commerce companies like Amazon. US-based companies in consumer-focused industries such as retail, apparel, consumer packaged goods and restaurants will benefit as they take an omni-channel approach to their business and more consumers shift their shopping and spending online. In addition, firms are using digital marketing strategies to complement their online efforts, including social media, search, and big data, to name a few. Companies that facilitate e-Commerce transactions, from IT providers to the payment of goods, should also be beneficiaries of the e-Commerce theme. Since our initial report, the pace of change continues to accelerate as companies undertake omni-channel investments and this theme remains on track. All of the arguments that we laid out in our original report (*e-Commerce: Beyond Amazon*, 8 August 2013) and our last update (20 June 2017) are still valid today. Longer term, rapid adoption of mobile devices such as smartphones and tablets, combined with the convenience and selection on the Internet, will hasten market share-shifts online. The digital shift has continued to gather speed with the transition to mobile happening even faster than expected.



Source: UBS

What is omni-channel...a refresher

It's been almost five years since our original report yet omni-channel remains a buzzword amongst retailers. You hear it in conversations with management teams and on almost every quarterly conference call. So what does it actually mean? Essentially, a true omni-channel retailer is one that is completely agnostic to how, where and when a consumer shops or interacts with their brand. The goal of omni-channel retailing is that a retailer's stores become an extension of the supply chain, in which purchases may be made in the store, but are researched through various methods. At an omni-channel retailer, all purchase channels are effortlessly connected providing a convenient and seamless way to shop. Pricing is typically consistent across all channels and purchases made online can easily be returned in store, and vice-versa. We find it interesting that Amazon opened its first brick-and-mortar bookstore in a bid to establish a physical presence where shoppers can not only purchase books but also a range of Amazon-made devices, including the Kindle tablet, the Fire TV set-top device and Echo, the company's home speaker and virtual assistant. We would not be surprised to see additional store openings this year.

Amazon Go - the store of the future

On 22 January, Amazon finally opened the doors to its checkout-free convenience store in Seattle called Amazon Go. And judging by the long lines to get in, it appears that consumers are eager to get a taste of the future of retail. Upon entrance, customers are asked to scan the QR code on their Amazon Go App, grab a shopping bag, and start shopping. Every time an item is removed from a shelf, the item is automatically put into the shopping cart of their online account. There are no cashiers or self checkout kiosks, so a customer just walks out of the store when finished shopping. Now that is a seamless shopping experience!

The company won't say if they plan to open any other Amazon Go stores but we wouldn't be surprised to see more of them sometime in the future. Amazon can also choose to place this technology inside its Whole Foods stores, although management commented that they have no plans to do so. The interesting thing to watch is if Amazon chooses to sell this technology to other retailers, though we suspect the company would choose to keep something like this for itself. Whatever happens, the future of brick-and-mortar retail is certainly upon us.

Appendix

Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
A	actual i.e. 2010A	E	expected i.e. 2011E
Shares o/s	Shares outstanding	CIO	UBS Chief Investment Office

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