US equities

e-Commerce: Beyond Amazon - an update

- Explosive 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.
- We remain Overweight the Consumer Discretionary sector and believe tailwinds such as improved job growth and lower oil prices will continue to be near-term catalysts for this theme.

"Stores are the new black in e-Commerce . . . Pure play retail - whether pure e-Commerce or pure brick-and-mortar - is dying. Simply put, Amazon’s low-cost and fast delivery options have made it too expensive for any brand to compete with an online-only model. But stores are where brands can and should compete. Smart e-tailers (Warby Parker, Birchbox, Rent the Runway, Bonobos) realized early on that their customers prefer to pick up or try on items in-store at their own convenience rather than wait for (and often miss) deliveries. The last-mile problem – or the yellow slip left at the door – is Amazon’s Achilles heel."

- Scott Galloway, Founder & CEO at L2: Business Intelligence for Digital

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 on-line. In addition, firms are using digital marketing strategies to complement their on-line 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 (8 August 2013, e-Commerce: Beyond Amazon) and our last update (22 October 2014) 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.

What is omni-channel . . . a refresher
There is no bigger buzz-word among retailers today than omni-channel. 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 a "pop-up" store in midtown Manhattan over the recent holiday season in a bid to establish a physical presence where shoppers could pick up or return merchandise, as well as view a limited range of products.

Mobile growth continues to accelerate
Mobile commerce continues to grow rapidly with performance marketing technology company Criteo reporting that mobile now represents 29% of e-Commerce transactions in the U.S. and 24% globally. By the end of 2015, mobile share is forecast to reach 33% in the U.S. and 40% globally. The smartphone has become a disruptive force in retailing with the majority of mobile transactions taking place on devices such as Apple’s iPhone and the Samsung Galaxy. According to Criteo, mobile share of e-Commerce transactions grew by 10% in 1Q15 and, for the first time ever, Japan and South Korea had the majority of their e-Commerce transactions via mobile during the same time period. So what does this all mean for retailers and brands? In our opinion, it is imperative that a company’s mobile experience is on par with, or even better than, its desktop site. In addition, a brand must speak with the same voice across all of its distribution channels - physical store, desktop, mobile, etc. Finally, we think the recent release of the Apple Watch and introduction of Apple Pay will only help to fuel continued mobile expansion.
## Appendix

### Terms and Abbreviations

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<th>Description / Definition</th>
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<td>1Q, 2Q, etc. or 1Q11, 2Q11, etc.</td>
<td>First quarter, second quarter, etc. or first quarter 2011, second quarter 2011, etc.</td>
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<td>actual i.e. 2010A</td>
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<td>E</td>
<td>expected i.e. 2011E</td>
<td>UP</td>
<td>Underperform: The stock is expected to underperform the sector benchmark</td>
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<td>WMR</td>
<td>UBS Wealth Management Research</td>
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Appendix

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