



The Chief Investment Office expects the e-commerce market to grow from USD 5tr in 2021 to more than USD 7tr by 2025. (Shutterstock)

E-commerce growth is here to stay

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Consumers are set to spend an estimated USD 5tr on online shopping this year, accounting for nearly 20% of total global retail sales. While the pandemic accelerated the rise of e-commerce, we believe the structural drivers of the online shift remain intact as economies reopen.

The pandemic accelerated the shift to online shopping, with global e-commerce revenues growing 26% year-on-year to USD 4.2tr in 2020, according to eMarketer estimates. But even as economies reopen, the e-commerce market is continuing its rapid expansion.

Adobe Digital Insights this week projected that US online sales this holiday season will reach USD 200bn, growing 10% year-over-year. This comes despite supply-chain concerns—“out of stock” messages are up 172% compared with January 2020, Adobe said—and the likelihood that firms will offer smaller discounts. Online sales in the US in the November/December period only breached the USD 100bn mark in 2017.

Globally, e-commerce revenues are on track to reach USD 5tr this year, according to eMarketer, accounting for almost 20% of total retail sales. We forecast they will rise to more than USD 7tr, or around 25% of overall retail sales, by 2025.

This structural shift is being fueled by drivers such as technological evolution, digitalization, increased consumer convenience, and the expansion of companies’ online channel offerings. We expect these to develop further as the e-commerce market evolves:

1. Technological advances make online shopping more compelling. Enabling technologies including virtual and augmented reality (VR/AR) are helping to facilitate a new e-commerce experience via simulation and visualization, both of which reduce the number of product returns and raise sales conversion ratios. They make it possible, for example, to visualize how new furniture or artwork would look in an apartment. Artificial intelligence (AI) also enhances the consumer experience by boosting data analytics, upgrading website performance, and enabling greater personalization (e.g., search rankings based on individual needs or product suggestions based on personal taste and previous purchases).

2. Online shopping is also becoming more convenient as the industry matures. Delivery options are becoming faster and cheaper. Consumers need not venture beyond their doorstep to pick up or return the products they've ordered. Technology has also eased the payment process (e.g., in-app payment opportunities), and entering a credit card number is no longer necessary for every transaction.

3. High barriers to entry should support growth. Building an online store does not require a great deal of investment, and the costs associated with setting up a website are relatively low. But successful e-commerce companies have to spend heavily to gain consumer traction. So online companies sacrifice earnings growth in the short term to establish their business model and turn profitable in the long term. In our view, the highest barriers to entry result from economies of scale, brand recognition, product differentiation, technology, logistics, and delivery options.

E-commerce remains one of our longer-term investment themes, due to strong momentum in our quantitative model as well as a positive qualitative assessment. In the near term, robust economic growth and seasonal holiday shopping should lend additional support. We see opportunities for investors including in online marketplaces, online retailers, logistics companies, payment facilitators, and cybersecurity firms. For more on investing in long-term themes, [click here](#).

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