



INDUSTRY UPDATE

QUARTER 2
YEAR 2022

E-Commerce

The landscape for e-commerce has changed substantially since the arrival of the COVID-19 pandemic.

As consumers and governments start to move past lockdown restrictions, retailers are faced with a new future vastly different to what they once knew.





E-Commerce Overview

B2C, B2B, C2C

E-commerce can be defined as the buying and selling of products and services over the internet. Purchased products can be directly downloaded from the internet or physically delivered to customers. Included in this definition are mobile purchases via smartphones and tablets, as well as purchases via computer.

There are three broad categories of e-commerce activity:

- ▶ The sale of goods to a private end user (B2C)
- ▶ The sale of goods to a business (B2B)
- ▶ Sales between private individuals (C2C)

This report will focus on the online sale of goods to private end users (B2C).

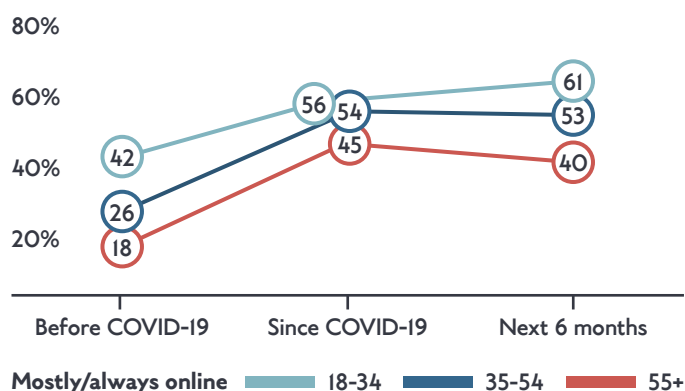
COVID-19 Impact

Lockdown measures and the enforced closure of non-essential brick-and-mortar retailers during the COVID-19 pandemic have accelerated a shift in consumption habits towards online retail. According to the Office for National Statistics, the proportion of total UK retail sales conducted online grew from 19.1% in February 2020 to 26.4% in April 2022. This shift has prompted a wave of e-commerce-related M&A throughout the period.

The increased popularity of e-commerce has been sustained, even as restrictions have been lifted. According to a recent study by consultancy Hahnbeck, 32% of consumers said they would continue to shop online after the pandemic.

Figure I shows the change in shopping preference amongst different age groups following the pandemic; many still prefer online shopping for various consumer items compared to before the pandemic. With online retail consumption habits likely to persist long term, significant acquisition and investment activity is expected as firms seek to take advantage of new digital ways of doing business to bolster their market positions.

Beauty



Fashion

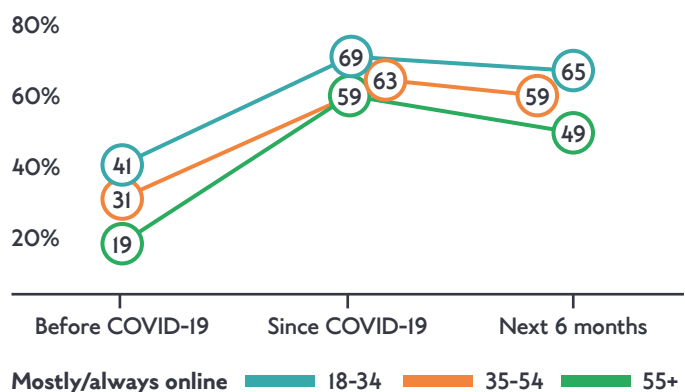


Figure I. Shifting Preference for Online Shopping across Age Groups (Think with Google, 2021)

Market Structure

According to data from eCommerceDB, industry revenue for UK e-commerce businesses grew by 12% to reach £98 billion in 2021, making it the fourth largest market for e-commerce globally and the largest in Europe. The UK e-commerce market is projected to grow at a 3% CAGR, reaching £110 billion by 2025.

Market Segmentation

The UK e-commerce market can be segmented by product type, as shown in figure II. The largest segment is fashion, with the remaining subsectors each accounting for a similar share of the market.

E-Commerce Segmentation by Revenue

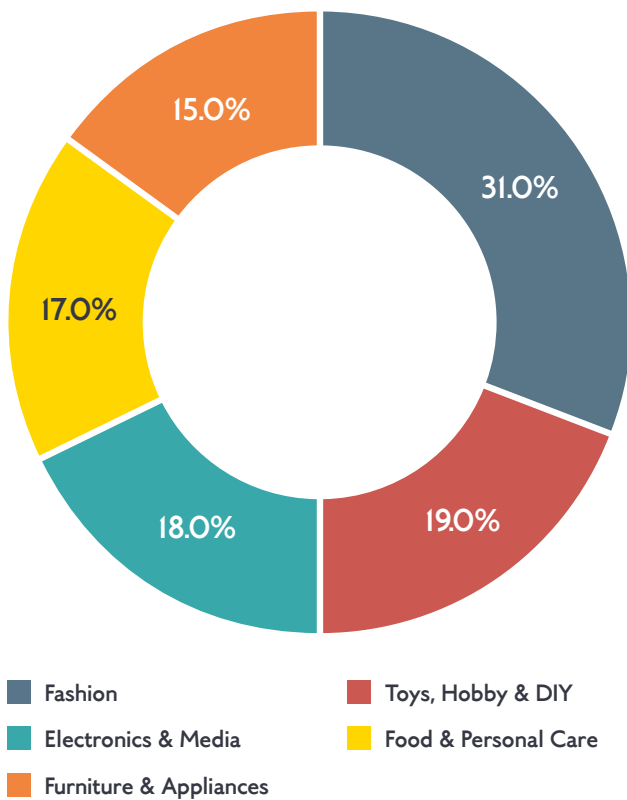


Figure II. E-Commerce Segmentation by Revenue (eCommerceDB, 2021)

Significant Market Players

Figure III shows the largest e-commerce stores based on online revenue generated in the UK. In 2021, the largest player in the UK e-commerce market was Amazon. Notably, each company had an established e-commerce operation and sizeable presence in the market prior to the pandemic. Cumulatively, the top three stores account for over 25% of e-commerce revenue in the UK.

E-Commerce Market Store (£bn)

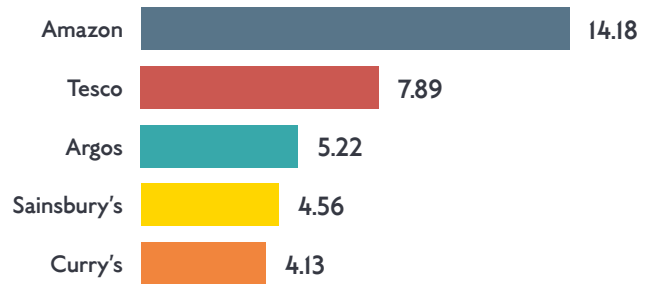


Figure III. E-Commerce Players Ranked Based on UK-Generated Revenue Online (eCommerceDB, 2021)

Industry Trends

New Sales Channels: Mobile and Social Commerce

With all age groups now having strong levels of smartphone ownership, new sales channels such as mobile commerce and social commerce are gaining traction and changing the dynamics of how e-commerce is transacted. Figure IV highlights the rapid increase in smartphone ownership amongst the 55-64 age group, who were less likely to possess a smartphone prior to the pandemic.

E-Commerce Market Store

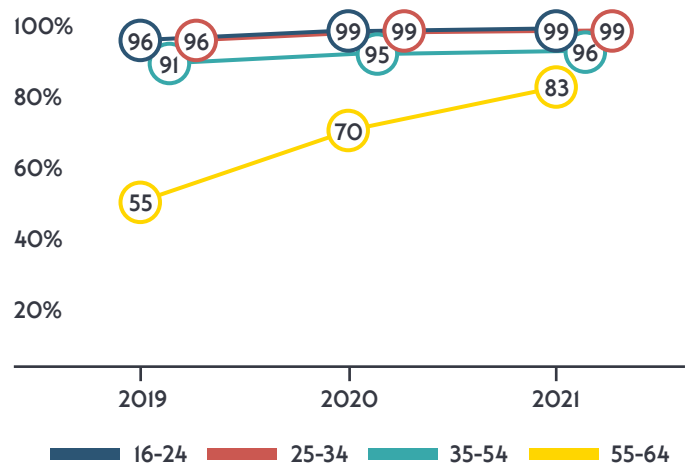


Figure IV. UK Smartphone Ownership by Age (Statista, 2022)

The increasingly integrated nature of the internet and smartphones in everyday life has been pivotal for the growth of e-commerce, enabling convenient methods of transacting between vendors and consumers. Figure V shows the devices used for online shopping by respondents of Statista's 2022 Global Consumer Survey in the 12 months prior to the survey. With smartphones, laptops, and tablets being the three leading categories, there is a clear preference for more portable retail formats.

Devices used for Online Shopping (April 21 - March 22)

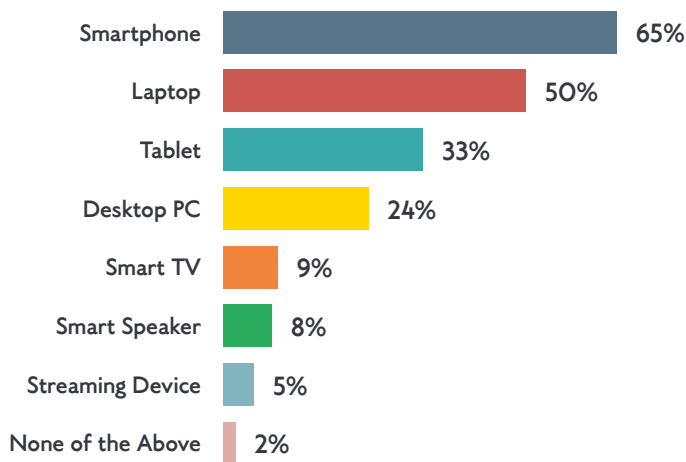


Figure V. UK Online Purchases by Device (Statista Global Consumer Survey 2022)

Mobile Commerce / Mobile Shopping

Mobile commerce is defined as buying and selling products or services online using a mobile device; purchases are usually transacted through smartphone apps, mobile websites, and social media.

Research from Statista found that 65% of e-commerce orders in the UK are placed on smartphones. For comparison, a PwC consumer insights survey prior to the pandemic found that only 30% of consumers had shopped using their smartphone. Mobile commerce channels are convenient and easily integrated, with smartphones being devices used in multiple facets of daily life. For consumers, mobile websites and smartphone apps enable easy browsing and research of products prior to making a purchase.

Research from Statista found that visits to retail websites from mobile phones accounted for over 70% of online visits. With smartphone apps estimated to have a conversion rate 157% higher than websites, mobile commerce also presents a significant opportunity for retailers.

The growing significance of mobile commerce is expected to drive M&A activity and investment from large companies seeking the best digital technologies to integrate in their retail platform to attract consumers.

Social Commerce

E-commerce operators have increasingly used social media platforms as a medium for marketing. Social media platforms such as TikTok gained traction in the pandemic and were quickly used by savvy brands to drive large volumes of traffic.

During the pandemic, Instagram introduced "Shops on Instagram" as a new app feature that allowed users to shop and checkout without leaving the app. Alongside the newly introduced product tagging feature, Instagram now provides an array of methods for retailers to reach potential customers.

Research from Hahnbeck found that social media referrals can have an important role in influencing purchase intent, with 71% of consumers stating they are more likely to make a purchase if referred to a store from social media. It is expected that social commerce will become an increasingly important part of marketing strategies for e-commerce businesses, with firms anticipated to increase investment into digital and social media marketing to reach a wider audience.

Customer Experiences: AR-Driven Solutions

The use of augmented reality (AR) within e-commerce provides consumers an immersive experience, allowing real-time interactions with products while remaining in a different environment. The use of AR bridges the gap between a physical store experience and online shopping.

According to research from Think with Google, 60% of shoppers want to visualise where and how a product can fit into their lives. Argos's AR-enabled app allows users to view furniture items as if placed within their own home. For clothing retailers, AR can be applied to create a virtual fitting room for trying on clothes.

The increasing sophistication of AR technology is making these applications possible, with growing numbers of retailers looking into implementation. With these applications of AR still in their relative infancy, significant deal activity is expected from both trade and financial investors seeking to acquire and develop the technology.

Customer Preferences: Sustainability

A brand or product's sustainability has become an increasingly important consideration for consumers, with 80% of consumers considering sustainability an important factor when making purchasing decisions according to a survey by IBM. According to research from Deloitte, one third of UK consumers have stopped purchasing certain brands and products due to ethical or sustainability concerns. Given the ever-increasing availability of information, expectations of transparency and visibility over product supply chains are increasing.

In a survey of UK online shoppers, 62% of respondents stated they would carefully consider their purchasing behaviours if brands transparently communicated their environmental impact. A preference for sustainable brands and products is expected to drive deal activity as companies reassess their portfolios and try to take advantage of segments that intersect online shopping and sustainability.

Deal Activity

With the instant shift towards a near-total e-commerce trading environment at the start of the pandemic, businesses were forced to adapt or struggle. Many retailers had paid little attention to their e-commerce operations previously and some were already progressing towards a distressed state, with consumers shifting away towards e-commerce platforms while brick-and-mortar retailers struggled with the costs of holding physical stores.

Deal Count 2021

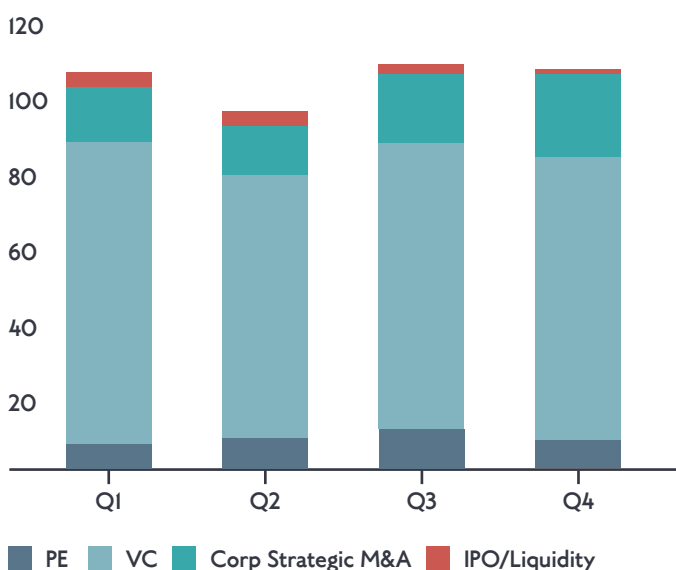


Figure VI. UK Deal Count 2021, (Pitchbook Data, 2022)

Struggling high-street retailers became attractive distressed acquisition targets, with many e-commerce operators adding famous retail brands to their online portfolios. Many large businesses needed to strengthen their online offering or gain some share of the e-commerce market to adjust to the new online-only world, leading to various acquisitions of e-commerce operators and start-ups.

One e-commerce niche, the Fulfilment by Amazon (FBA) sector saw significant consolidation. Many FBA businesses capitalised on the new reliance on e-commerce to achieve record revenue growth. With record revenue levels and high numbers of small FBA players, there were optimal conditions for specialist aggregators to employ buy-and-build strategies focused on FBA businesses.

Alongside frequent acquisitions, significant amounts of capital have been raised by aggregators to deploy for acquisitions. US-based aggregator Thrasio alone has completed over 150 FBA acquisitions since its inception in 2018 and raised over £1 billion in 2021 to be used for acquisitions.

Moving forward, high-street retailers who failed to establish e-commerce operations are expected to create new distressed opportunities. For e-commerce-focused businesses that performed well during the pandemic, consolidation is expected as operators look to boost their online presence and thrive in an increasingly competitive environment. Those that performed well during the pandemic will make appealing acquisition targets for larger retailers and private equity firms.

According to data from PitchBook, there were 505 e-commerce deals completed in the UK in 2021, with 60% of those venture capital investments, 8% private equity investments, and 13% strategic M&A transactions. Figure VI shows that, except for a small dip in Q2, deal flow was relatively consistent throughout the year.



Distressed Acquisitions of High-Street Retailers

Deal Date	Company	Acquirer	Deal Size (£m)
25-Jan-21	Debenhams	Boohoo	55
28-Jan-21	Paperchase	Permira	Undisclosed
01-Feb-21	Topshop	ASOS	293.8
08-Feb-21	Arcadia Group	Boohoo	25

Large Retailers Acquiring E-Commerce Businesses

Deal Date	Company	Acquirer	Deal Size (£m)
01-Mar-21	SimplyCook	Nestlé	Undisclosed
18-Jun-21	Missy Empire	JD Sports	13.9
29-Sep-21	Feelunique	Sephora	132
22-Nov-21	Hawkin's Bazaar	Menkind	Undisclosed

E-Commerce Consolidation

Deal Date	Company	Acquirer	Deal Size (£m)
02-Jun-21	Depop	Etsy	1,140
10-Sep-21	Dija	Gopuff	Undisclosed
28-Oct-21	Eporta	Shopify	Undisclosed
23-Nov-21	Weezy	Getir	Undisclosed

Private Equity Buyouts

Deal Date	Company	Acquirer	Deal Size (£m)
27-Jan-21	Notonthe highstreet	Great Hill Partners	225
02-Jun-21	Gumtree	03 Industries, Novum Capital	Undisclosed
05-Jul-21	World of Books	Livingbridge	Undisclosed
19-Nov-21	Really Comfy Beds	Blue Coast Capital	Undisclosed

FBA Aggregators Raising Acquisition Funding

Deal Date	Company	Deal Type	Deal Size (£m)
17-Feb-21	Unybrands	Seed Round	18
25-Feb-21	Elevate Brands	Late-Stage VC	40
01-Sep-21	Heroes	Debt	145
08-Nov-21	Razor Group	Early-Stage VC	93



Outlook

Underpinned by lockdown measures during the COVID-19 pandemic, e-commerce experienced a significant surge in sales, temporarily becoming the primary medium for retailers to sell to customers. The surge in online sales from the pandemic is expected to continue as many consumers maintain online purchasing habits acquired over lockdowns and older demographics grow more confident with using e-commerce platforms. As cited earlier, 32% of respondents in a Hahnbeck study stated they would continue to shop more online following the pandemic.

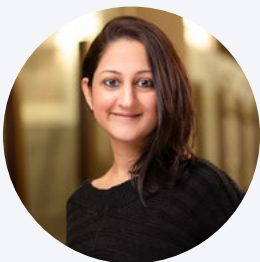
The sustained popularity of e-commerce is expected to create an abundance of growth opportunities, with new methods of marketing, selling, and buying for consumers.

Consumer preferences have begun to shift towards more sophisticated customer experiences and convenient mobile mediums of commerce that will drive future investment and acquisition opportunities.

Although e-commerce has thrived in recent years, a key challenge for operators moving forward will be an increasingly competitive environment due to an influx of new market entrants and the return of brick-and-mortar retailers. Data in the US shows that brick-and-mortar retail bounced back strongly in 2021, outpacing online retail growth. With recent ONS data showing that approximately half of UK adults reported an intention to spend less on non-essentials due to the rising cost of living, there is significant uncertainty to be expected, further exacerbating the challenge to come.



CONTACT US



Sonal Shah

PARTNER

☎ +44 (0)20 7299 1409
✉ scshah@geraldledelman.com

MEET SONAL



Nick Wallis

PARTNER

☎ +44 (0)20 7299 1420
✉ nwallis@geraldledelman.com

MEET NICK



Carl Lundberg

PARTNER

☎ +44 (0)20 7299 1415
✉ clundberg@geraldledelman.com

MEET CARL



City of London Office

📍 73 Cornhill, London, EC3V 3QQ ☎ +44 (0)20 7299 1400 ✉ hello@geraldledelman.com



GERALD
EDELMAN