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Customer experience improvement as an M&A deal driver in e-commerce sector

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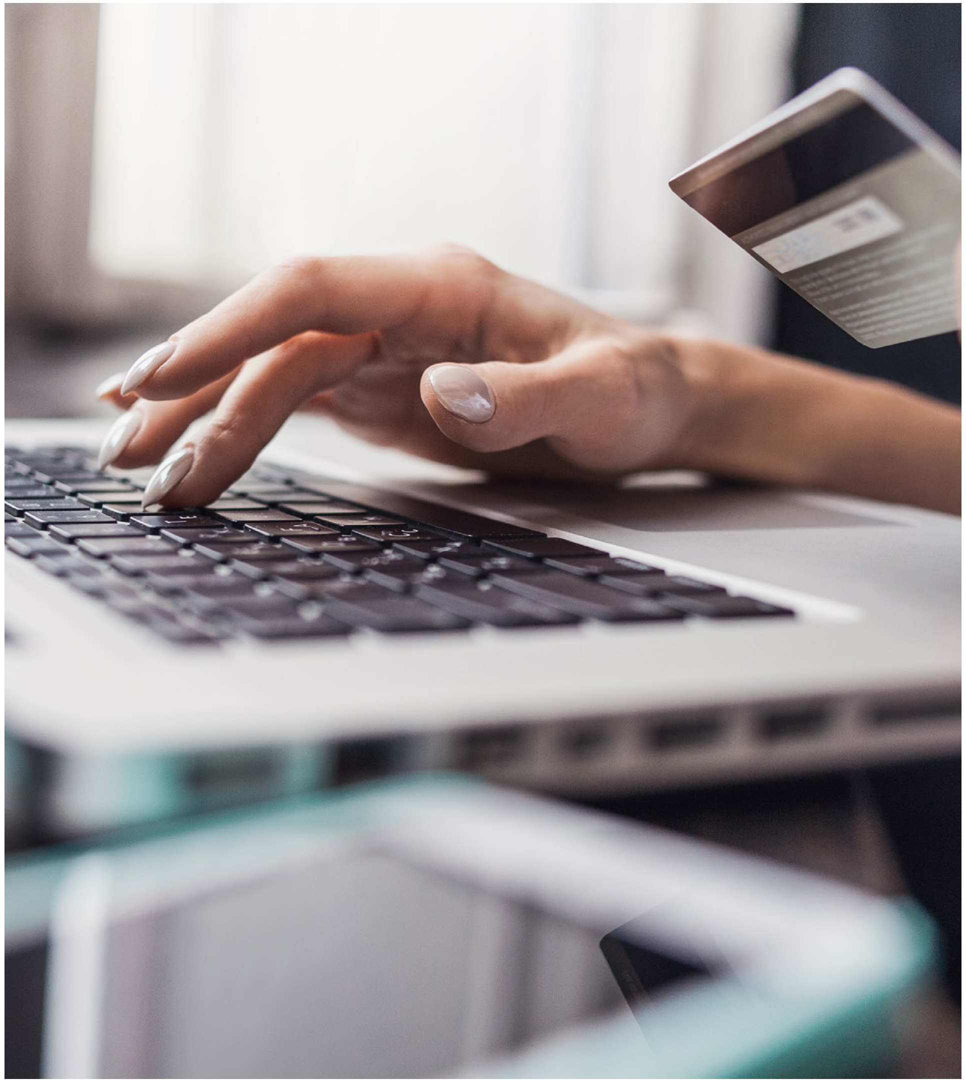
Executive Summary

Online retailers have seen their revenues soar, with total online sales expected to nearly double to €5,591bn by 2023. As growth accelerates, online retailers are exploring new initiatives and solutions to excel in this highly competitive sector.

Delivering excellent customer experience is one of the key drivers for online retailers to succeed in this market. Adopting a more customer-centric strategy has the power to totally transform the online retailing business from a "conventional shop-oriented" business to a "fully customer-oriented" model. Customers who have a great shopping experience tend to buy more, show more loyalty and be more inclined to recommend the online shop to others. In their efforts to improve online customer experience, retailers are focusing not only on speed, but also on convenience and digital stickiness as key goals.

In addition to developing customer-centric solutions in house, online retailers are actively pursuing M&A opportunities to achieve their growth targets. The ability to deliver better customer experience is always at the center of M&A target assessments, when the online retailer's business and technical stakeholders evaluate potential deals.

This paper looks at the key competences online retailers will need to improve customer experience in a holistic and agile way as well as the new challenges e-commerce market players are facing when they rely on M&A transactions to achieve their strategic objectives.



Key implications

1.
Good customer experience across the entire purchase journey plays a significant role in increasing revenue and customer loyalty for online retailers.

2.
E-commerce companies are actively looking for ways to improve overall customer experience and meet individual customer expectations.

3.
Compared to developing proprietary solutions, acquiring or investing in target companies with proven solutions to improve customer experience is often a more efficient way to achieve strategic objectives.

4.
Expanding the portfolio through online-offline channel integration and entering new geographies are two key ways to grow the product range and satisfy cross-border consumer demand.

5.
Automation solutions and smart fulfilment networks are critical factors for online retailers to deliver a better customer experience with fast home delivery and minimized logistic costs.

6.
Personalized marketing and recommendation-based customer insights significantly improve customer experience and subsequently increase revenue for the online retailers.

7.
To succeed in making a business customer-centric in the e-commerce world, retailers must have advanced technical infrastructure with tools for scalable and real-time analytics.

Growing market of e-commerce

In recent years, we have seen an increasing number of digital-savvy consumers opt for the convenience of e-commerce platforms rather than shopping in bricks-and-mortar stores. E-commerce gives retailers a faster, more economical way to expand into international retail markets than opening additional physical outlets. Consumer purchasing behavior is also fundamentally changing the market landscape for both stationary and digital retailers.

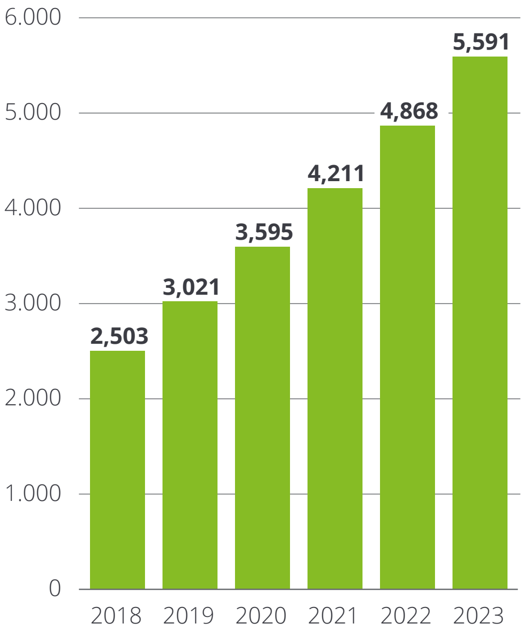
Greater penetration of broadband and mobile devices across the globe offers enormous potential to increase market volume in the e-commerce sector. The obvious advantages such as efficiency, convenience and personalized service models significantly accelerate revenue growth for online retailers.

Global revenue in online retail business amounted to over €2,500bn in 2018, with projections as high as €5,600bn for 2023 (average year-on-year growth at 17%). The number of e-commerce users is expected to reach approximately 4,881 million with ca. €600 in average revenue per user (ARPU) projected for 2023.

Consumer acceptance of online purchasing continues to grow, as does the consumer's power to influence global consumption. This paired with increased customer spending and new digital marketplaces means e-commerce market players will have to keep optimizing their business models in order to meet the growing expectations of digital-native consumers.

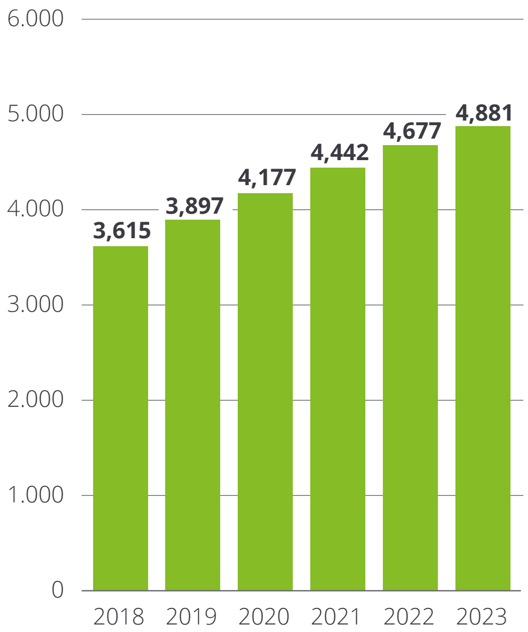
As acceptance of digital innovation and the number of e-commerce platforms expand, we are seeing significant growth in the online retail market . Market and technology disruption drive e-commerce companies to step up their efforts and respond to swiftly evolving customer demands.

Fig. 1 – Global e-commerce retailing revenue worldwide[1] (€bn)



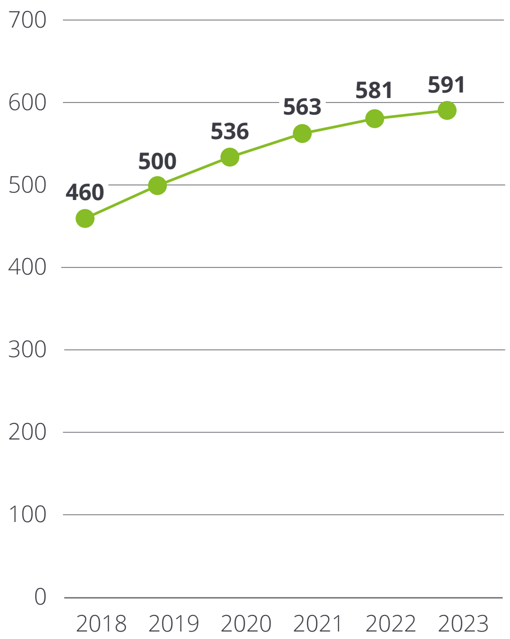
Source: "E-Commerce weltweit", Statista, accessed on February 26, 2020.

Fig. 2 – Development of e-commerce users globally (in million)



Source: "E-Commerce weltweit", Statista, accessed on February 26, 2020.

Fig. 3 – Prognoses of average revenue per user worldwide (€)



Source: "E-Commerce weltweit", Statista, accessed on February 26, 2020.

[1] EUR/USD: 1.17

Mergers and acquisitions are often the preferred option for online retailers looking to optimize their portfolio. Emerging technologies for holistic improvement of the customer experience are strong drivers for M&A deals in the sector.

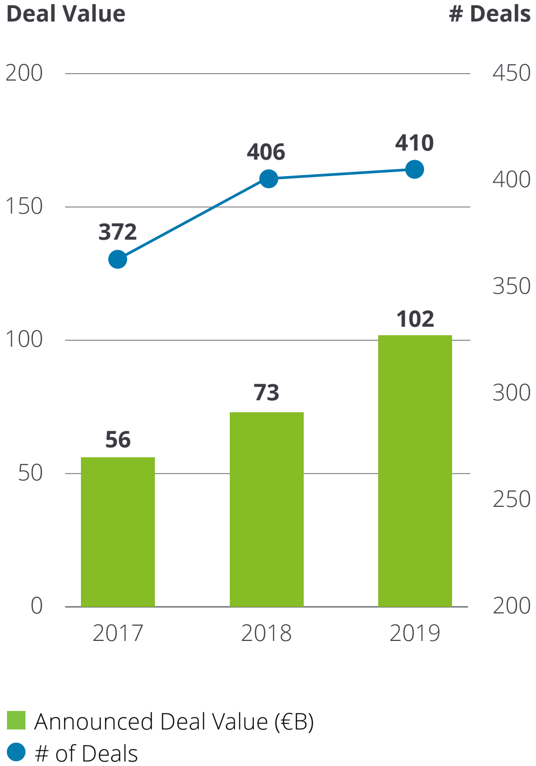
M&A transactions in e-commerce sector

As the market landscape continues to change, recent years have seen increasing M&A activity in the e-commerce sector as part of the so-called buy & build strategy.

Strategic investors have been known to profit from the expansion of e-commerce market-places, the improvement of the multi-channel customer experience and the availability of faster delivery services. Compared to developing cost intensive solutions and platforms in house, many online retailers prefer instead to acquire the capabilities they need in an M&A deal. Financial investors have also played an active role in M&A transactions on the e-commerce market where they see the potential for sus-tained profitability. According to Mergermarket, the number of M&A deals with e-commerce solu-tion providers on the sell-side increased from 372 in 2017 to 410 in 2019. The transaction volume reported for e-commerce targets amounted to €102bn in 2019, compared to €56bn in 2017 (CAGR, 35%). The total deal value reported for transactions with e-commerce buyers decreased from €106bn (2018) to €58bn (2019).

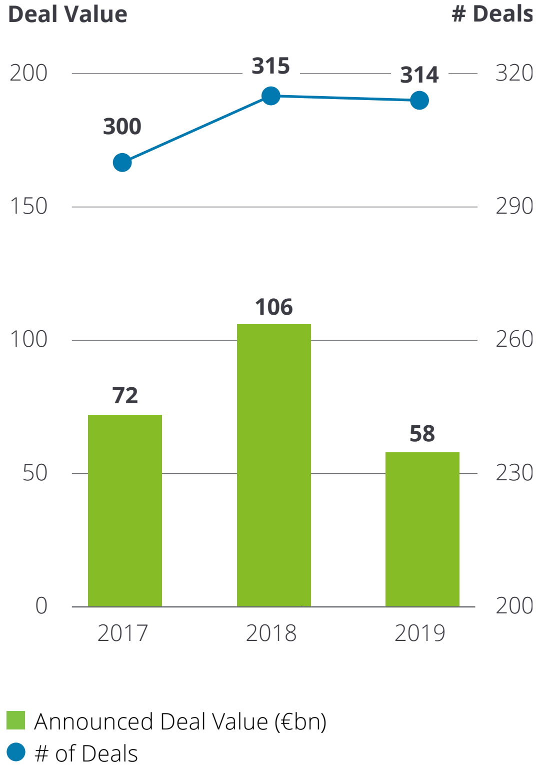
Various geopolitical factors and a slow-down in economic growth in Europe and China were among the key reasons. The majority of the acquired targets in these deals were technology solution providers and online marketplaces.

Fig. 4 – M&A transactions with e-commerce companies on sell-side



Source: Deal Financial Report, Mergermarket, 2020.

Fig. 5 – M&A transactions with e-commerce companies on buy-side



Source: Deal Financial Report, Mergermarket, 2020.

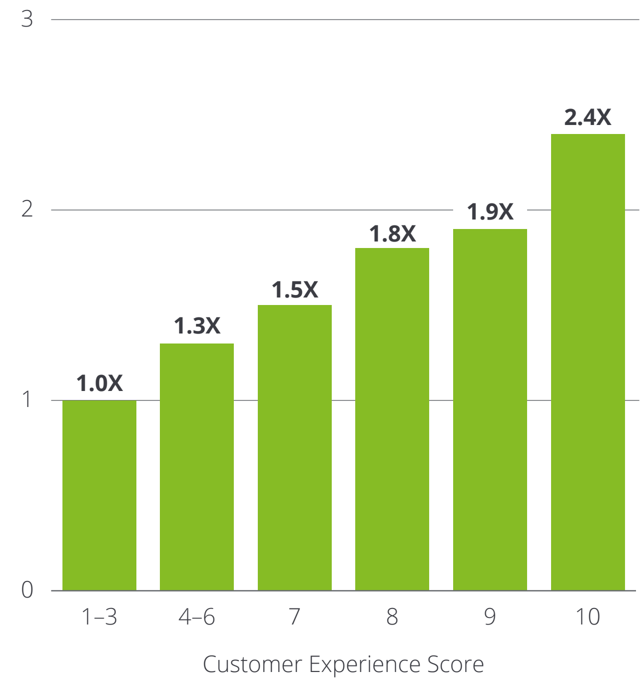
Customer centricity drives e-commerce deals

When you look back over the major market developments of the last 3 years and see the many lucrative sub-sectors targeted in e-commerce M&As, it is clear that most of the acquisitions are focused on improving customer experience and meeting growing consumer expectations. Customer experience plays a decisive role in revenue growth and customer loyalty, as evidenced in an analysis by Harvard Business Review. It found that customers who rated a shopping experience as the best tend to spend 140 percent more than those who had the worst experience in a previous purchase. Customers who report the best experience ratings are also expected to stay loyal to the shop an estimated 6 years longer than those who had negative experiences in the past. On the other hand, 89 percent of customers will stop doing business with the same seller after just one unsatisfactory customer experience. With competitors only a mouse click away, it has never been easier for consumers to switch to other e-commerce platforms. This explains why providing excellent customer experience has become one of the most important focus areas for online retailers.

Customer experience is defined as the overall impression gained by the shopper over the course of the online purchasing journey, which is why it is so essential to enhance all of the relevant elements in the core and supporting functions of the e-commerce business.

A purchasing strategy focused on customer demand, personalized product recommendations and the overall range of available customer services across multiple customer touchpoints all play an important role in a customer's perception of the purchase experience. Support activities in this context include data-based web analytics and business intelligence – both crucial for online retailers to fully understand the behavior and individual preferences of their customers. Using this data as a basis, retailers can pursue further development and continuous improvement on the e-commerce platform to boost customer satisfaction.

Fig. 6 – Annual revenue increase per customer



Source: Peter Kriss, "The Value of Customer Experience, Quantified", Harvard Business Review, accessed on 19 May 2020.

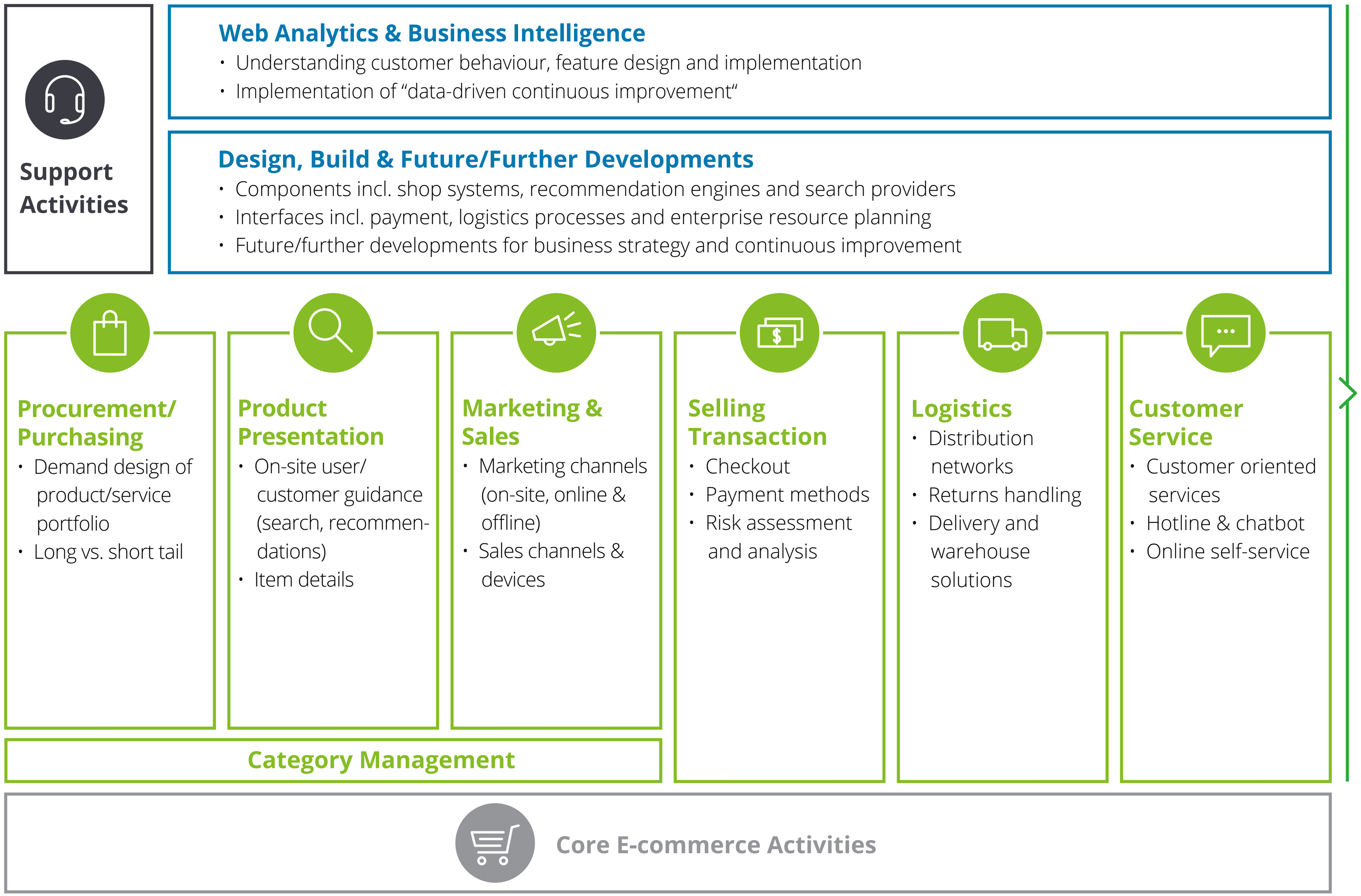
Fig. 7 – Predicted future membership (Years)

Source: Peter Kriss, "The Value of Customer Experience, Quantified", Harvard Business Review, accessed on May 19, 2020.

Much like conventional retailers, e-commerce businesses have core activities directly related to generating sales revenue as well as activities designed to support these primary activities. The "Major e-commerce value chain verticals" chart shows how online retailers are developing improvement solutions for the entire range of processes using web/mobile analytics.

Online retailers are also exploring the opportunities to further improve customer experience through M&A deals in an effort enhance customer loyalty and accelerate business growth. Buyers are particularly keen to acquire target firms with the potential to help improve the UX/UI[2] of their existing platforms.

Fig. 8 – Major e-commerce value chain verticals



Source: Graf, A. & Schneider, H. (2019), Das E-Commerce-Buch (3. Aufl.)

[2] UX/UI: User experience/user interface

The value drivers reviewed in this paper focus on 4 main dimensions – integration & expansion of e-commerce marketplaces, smart logistics processes, personalized customer services and digital infrastructure. M&A activities of online-retailers act as an important indicator for market players, demonstrating that customer centricity, in particular agile and targeted improvement of customer experience, is one of the most significant drivers of M&A activity in e-commerce. Compared to the traditional shop-centric mentality of retailers, we are seeing a major shift in e-commerce platforms towards fully customer-centric business models that determine the fundamental product, pricing and services strategies.

Fig. 9 – Selected key value drivers in e-commerce deals

Marketplace	**Logistics**	**Customer Services**
• Channel Integration • Portfolio expansion	• Smart delivery & warehousing	• Customer journey • Consumer insights

Infrastructures

- Payment services
- Cloud infrastructure

Customer Experience Improvement as a Deal Driver

The overarching channels and geographies of Integrated marketplaces

Online retail and traditional brick-and-mortar stores are moving toward closer integration due in large part to changes in the behavior of today's consumers. While we are seeing numerous retailers shift their business to online market-places rather than open up more physical stores, it is virtually impossible for some sectors such as fresh food and catering to completely replicate their business on an e-commerce platform. To meet customer demand for a wide portfolio of products and services in real time, both online and stationary retailers are pursuing deeper integration of their online and offline channels.

The boundary between online and offline shopping is increasingly blurred, and as a result both e-commerce and traditional retailers expect the strategic fusion of online and offline selling channels to create more synergies. By integrating the massive amount of multi-source information collected in diversified interaction channels, including online shops, smartphones, POS devices and e-wallets, retailers can gain in-depth customer insights and use them to design of additional personalized services. Convenience features such as multi-channel points-of-sale, fast cashless payments and personalized customer services all work together to substantially enhance the customer experience.

It is not only physical retailers that are investing in e-commerce platforms to expand their online presence. Online retailers are also increasing their investments in physical shopping infrastructure. A number of acquisitions announced in recent years reflect the ambition of e-commerce players to grow in the physical retail space.

For instance, Amazon has opened physical outlets as part of its vertical extension strategy and has also purchased organic food super-market chain Whole Foods to expand its grocery business via physical stores. The 10 physical outlets currently operated in Germany by Berlin-based online fashion shop Zalando are an integral part of the retailer's business model in addition to its core online business.

After a series of successful pop-up store experiences, Zalando plans to open a new outlet in Mannheim to further grow its physical retail presence. We have also seen e-commerce platforms in Asia make similar investments in physical supermarkets, targeting cross-channel synergies in joint procurement and the wider sales network.

Online and offline sales channels are more integrated than ever on today's retail market. E-commerce players continue to capitalize on offline sales channels, especially in the fast-moving consumer goods sector, to reach consumers with all kinds of purchase needs, including real-time, need-it-now impulse buys. Combining brick-and-mortar stores and online platforms gives e-commerce players an opportunity to develop new service models that take the customer experience to a new level by addressing individual demands for specific product ranges and providing new innovative customer service models.

Source: Nick Wingfield and Michael J. de la Merced, "Amazon to Buy Whole Foods for $13.4 Billion", The New York Times, accessed on May 20, 2020; "New Zalando Outlet to Open in Mannheim", Zalando Newsroom, accessed on June 1, 2020

Fig. 10 – Integration of online and offline sales channels

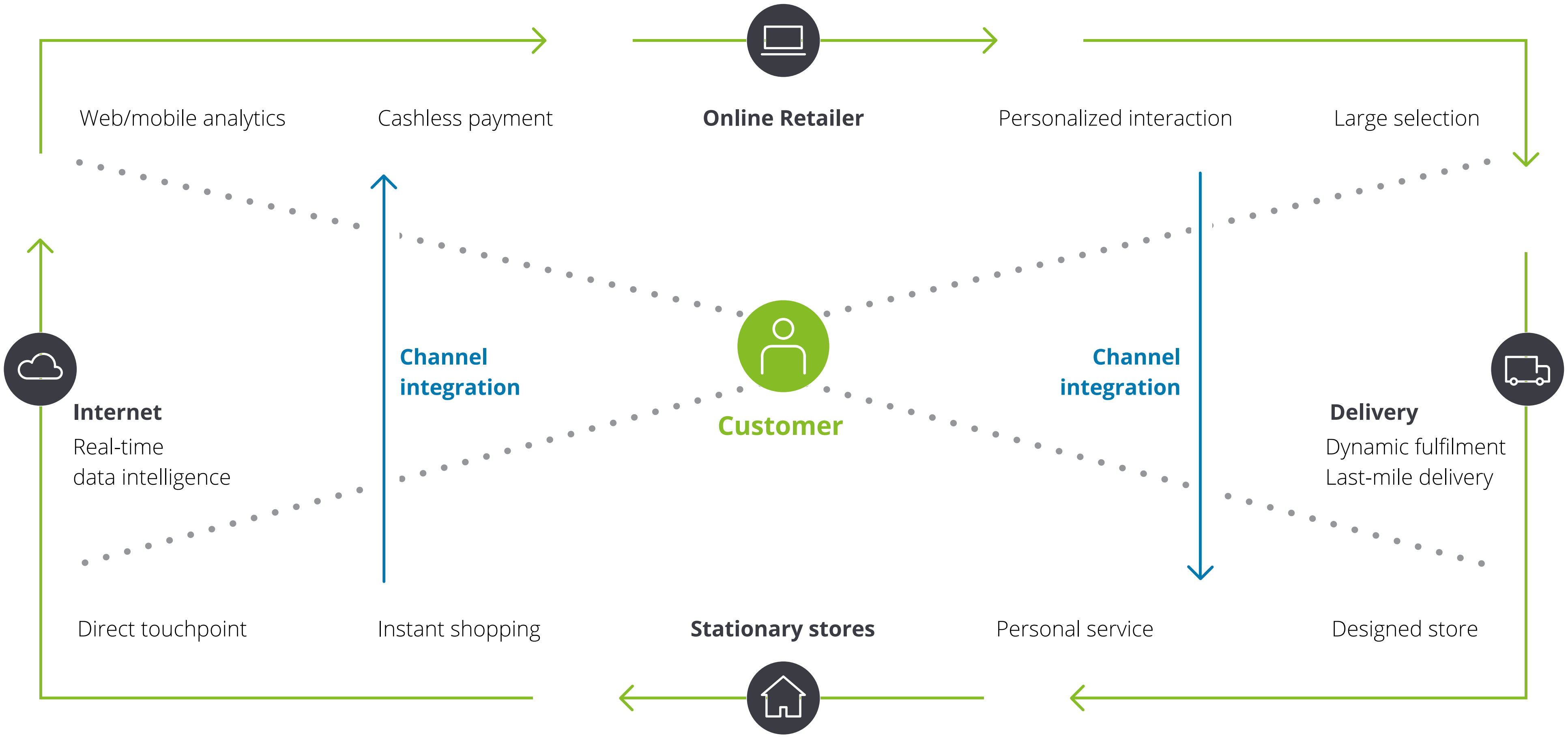


Fig. 11 – Selected milestones of online retailers in developing new markets

amazon
- UK: Investment in Deliveroo
- India and Brazil: Continuous investment in fulfilment networks

eBay
- UK: Acquisition of Motors.co.uk
- Spain: Acquisition of Ticketbis

zalando
- The Netherlands: Investment to construct Zalando's first Dutch fulfilment center

Delivery Hero
- Kuwait: Acquisition of Carriage
- Singapore/South-Korea: Joint venture with Woowa

Source: Bnan Nowak et al., "Amazon vs. Alibaba - The Next Decade Of Disruption", Morgan Stanley Research, accessed on May 21,2020; eBay News Team, "eBay Completes Acquisition of Motors.co.uk", eBay Press Room, accessed on May 21, 2020; eBay News Team, "eBay Completes the Acquisition of Ticketbis", eBay Press Room, accessed on May 21, 2020; "Zalando Announces Plans to Build Fulfillment Center in the Netherlands to Enable Further Growth in Western Europe", Zalando Newsroom, accessed on May 22, 2020; PRESS TEAM, "Delivery Hero announces acquisition of Middle Eastern delivery service Carriage", Delivery Hero Press Release, accessed on May 25, 2020; PRESS TEAM, "Delivery Hero to Expand Asian Operations Through a Strategic Partnership with Woowa", Delivery Hero Press Release, accessed on May 26, 2020.

Expanding the portfolio with new geographic territories, technical capabilities and SKU[3] offerings is a key priority for major market participants in the e-commerce sector. As many online retailers actively expand outside their home markets, widening their footprint is at the top of their strategic agenda. E-commerce market players are increasing their strategic investments to diversify revenue sources across different geographies, especially in emerging markets. Two of the most common approaches to entering a new market are the acquisition of a local platform or setting up a proprietary affiliate.

E-commerce players usually try to speed up entry into high-growth emerging markets with company acquisitions, equity investments and strategic partnerships. Asia, South America and Africa are the new focus markets for many e-commerce companies, as internet penetration rates continue to rise and large numbers of consumers in these regions are still underserved in terms of mobile shopping and online payment. Thanks to improved technology in network infrastructure and digital payments, retailers can address the unsaturated demand for online shopping in these regions and seize the enormous opportunities on the e-commerce market.

With huge differences in the target customer base and regulatory requirements of new markets, it is challenging for online retailers to build their own e-commerce platforms as fast as they would like. Players with sufficient capital backing generally prefer to buy an established local platform as a more efficient way to enter a new market.

There are a number of advantages to acquiring a local player. It allows the buyer to enter into a new market and achieve market leadership as quickly as possible. Better procurement management, marketing plans, customer services and logistics via local networks are key value drivers in (in)direct investments. Vertical penetration is also a crucial factor to harness existing expertise in areas like cloud infrastructure and payment systems to ensure fast shipping, better pricing strategies and secure digital payments.

Amazon operates online marketplaces, fulfilment centers and warehouse units in approximately 20 European countries. With investments in the UK-based food delivery platform Deliveroo and fulfilment networks in India and Brazil, Amazon keeps expanding its international reach in new markets. eBay acquired Motors.co.uk (a leading UK-based platform for car classifieds) and Ticketbis (a Spanish-based ticket

[3] SKU: Stock Keeping Unit

marketplace) to scale its international footprint. Zalando announced its plan to build its first fulfilment center in the Netherlands to drive further growth in Western Europe outside its home market of Germany. German online food ordering marketplace Delivery Hero acquired Carriage, a delivery platform in Kuwait, and purchased shares in Woowa, operator of the largest food delivery platform in South Korea, to strengthen the company's foothold in these regions.

The milestones outlined here provide a glimpse of the way e-commerce players are expanding their strategic geographies and offerings. This demonstrates how dominant online retailers are actively expanding their geographic and product coverage to bolster their market leadership, while smaller market players find it increasingly difficult to access new markets.

Smart logistics increase speed and efficiency

The significant changes in the e-commerce market landscape have made improving logistics solutions a priority for online retailers. E-commerce players are looking for faster and cheaper smart logistics solutions to better serve their customers.

Fulfilment automation and last-mile delivery solutions powered by artificial intelligence are frequently cited as the core elements of smart logistics. Accurate demand forecasting is an effective way to optimize a retailer's warehouses by helping them to make better replenishment decisions using predicted order demand (product, volume and peak time). Intelligent systems can also calculate the coverage area for a single warehouse to allow retailers to make fact-based decisions about opening a new warehouse or relocating an existing facility. A smart warehouse with automated and networked technologies such as robotics can significantly increase efficiency and reduce error rates. These technologies commonly include automated pick-up/loading, accurate inventory tracking as well as IoT and smart space management systems. Last-mile delivery solutions such as real-time vehicle cargo matching and accurate route planning based on historical order data substantially reduce delivery times and charges for both sellers and customers. Offering more click and collect options, including pick-up in store/parcel stations and ship from store, gives customers more convenient options to receive their orders that are not restricted by the opening hours of particular vendors.

Amazon, for example is putting more investment behind its roll-out of free one-day delivery to prime members and has continued to develop its last-mile delivery network by acquiring more fulfilment centers and delivery fleets. The acquisition of robotics solutions provider Canvas Technology is another key milestone in its drive to automate its warehouses by deploying robots to augment the human workforce. Walmart e-commerce acquired Parcel, a technology-based same-day and last-mile delivery company specializing in perishable and non-perishable goods delivery. The plan is to leverage Parcel's last-mile delivery network and technology platform with live shipment updates to further grow its e-commerce business units. In Asia-Pacific, the growing e-commerce market is a strong driver of M&A deals in logistics and transportation. JD.com is just one example of online retailers pursuing investments and acquisitions of a smart logistics network to enhance the shopping experience for their customers. Last-mile delivery networks and fulfilment automation are currently the major focus for e-commerce players investing in customer experience improvement using logistics touchpoints. Faster delivery, reliability/safety of delivered products and lower shipping cost are among the expectations expressed by e-commerce consumers.

The evolution of smart logistics to drive speed, predictability and cost savings is one of the game-changing factors in the online retail sector. We expect the uptick in investment and M&A activity around digital logistics solutions to continue, as delivery services directly impact the customer perception of e-commerce platforms.

Source: Jeffrey Dastin, "Amazon buys warehouse robotics startup Canvas Technology", Reuters, accessed on May 28, 2020; "Walmart Announces the Acquisition of Parcel, a Technology-Based, Same-Day and Last-Mile Delivery Company", Walmart Press Release, accessed on May 28, 2020; Vishnu Rajamanickam, "JD.com buys $432 million majority stake in express delivery giant", Freightwaves, accessed on August 20, 2020

Fig. 12 – Key elements and solutions to enable smart logistics

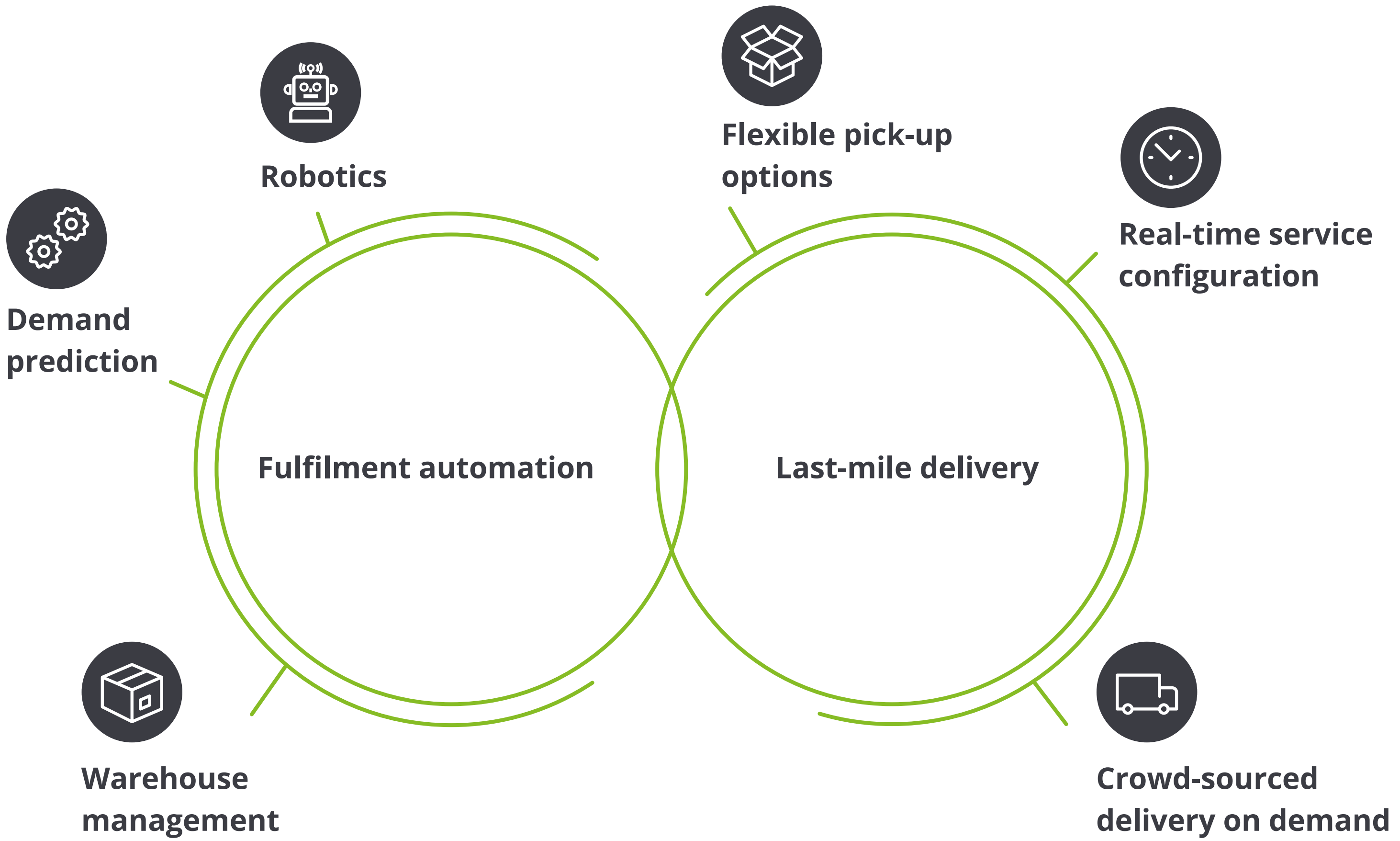


Fig. 13 – E-Commerce Customer Journey

Personalized services to meet individual demands

Customer experience is a shopper's overall perception of the entire shopping journey. These perceptions strongly affect consumer behavior and build cognition that determines their loyalty to the shops and brands. Customers no longer base their loyalty only on price or the product itself. Instead, loyalty strongly depends on their experience during the shopping journey. If an e-commerce company is unable to keep up with shifting and growing expectations, that may very well prevent customers from making future purchases in the shop. Positive customer experiences significantly increase revenue per customer, total sales volume and customer loyalty, while bad customer experiences seriously reduce repurchase rates and require additional effort to deal with customer complaints.

The typical steps in the overall customer journey include awareness creation, shop visit, registration, buy/pick-up coupon, purchase, re-purchase and further promotion.

Each step in the journey has a discernible impact on the overall customer experience. In each of these key steps, convenience and speed significantly influence the shopper's perception of the e-commerce platform and their purchase decisions.

To better understand customer behavior, retailers can use customer insights collected during the shopping process, such as visiting behavior (session time, pages per sessions, scroll depth, etc.) to make fact-based forecasts. Leveraging these metrics allows retailers to pinpoint preferable attributes and develop custom sales initiatives for different customer segments. They can use these insights to optimize the design of the customer journey from in-shop search engine optimization and personalized recommendations to discounts and promotional campaigns.

Online retailers can use the insights gained with dynamic analytics across the shopping journey, e.g., historical visit and purchase behavior, to deliver personalized customer interactions and services. These custom offerings frequently include personalized "You Might Also Like" recommendations and faster paths to purchase with automated preferred payment and delivery details. Based on ad hoc queries, demographics (e.g., age, gender and location) and search preferences, e-commerce platforms can design personalized promotional campaigns with custom feeds and targeted reward programs to improve the overall customer experience and customer attainment.

Metrics that are often analyzed include website visit preference, engagement of customers, shopping preferences and check-out activity. With the help of state-of-the-art cloud technology, online retailers can use real-time analysis of previous shopping events to make instant demand predictions and smart matches of products with features customers might also like.

A better understanding of customer insights helps business and technical decision-makers to design a shopping journey that is more tailored to the customer and to enhance the customer experience over the entire shopping journey. However, these customer insights are strongly dependent on historical customer and purchase event data, which are subject to the local laws and regulations, especially any data privacy provisions.

In addition to developing proprietary solutions in house, recent years have also seen a lot of e-commerce players acquire companies with big data analytics capabilities. Walmart acquired the Indian machine learning start-up Int. AI to complement its AI-powered analytics team in that country. Amazon announced its acquisition of the Sizmek Ad Server and Sizmek Dynamic Creative Optimization (DCO) platform, which specialize in leveraging AI to create individual ads tailored to specific audiences. Zalando invested in Tradebyte, a well-established web analytics SaaS provider in Europe to further develop its digital strategies. eBay completed its acquisition of Terapeak, a Toronto-based technology firm providing analytics tools for supply, demand and pricing data.

Fig. 14 – Frequently used KPIs in customer insight analysis

Visit	Daily/weekly/monthly active users, session time, pages per session, scroll map
Engagement	Retention rate, conversion rate, rate of activity, conversation
Order/Purchase	Average cart value, cart abandonment rate, order number, order amount, customer lifetime value (CLV)
Check-out	Payment methods, redeemed coupon, reward programs and membership point collection

Source: Jochelle Mendonca, "After Appsfly, Walmart Labs acqui-hires Int.AI", The Economic Times, accessed on May 22, 2020; "Amazon übernimmt Sizmek Ad Server und Sizmek DCO", Amazon Advertising, accessed on May 22, 2020; "Tradebyte and Zalando deepen their cooperation", Tradebyte, accessed on May 20, 2020; "eBay Completes Acquisition of Terapeak", eBay Press Release, accessed on May 20, 2020.

Technical infrastructure in era of big data

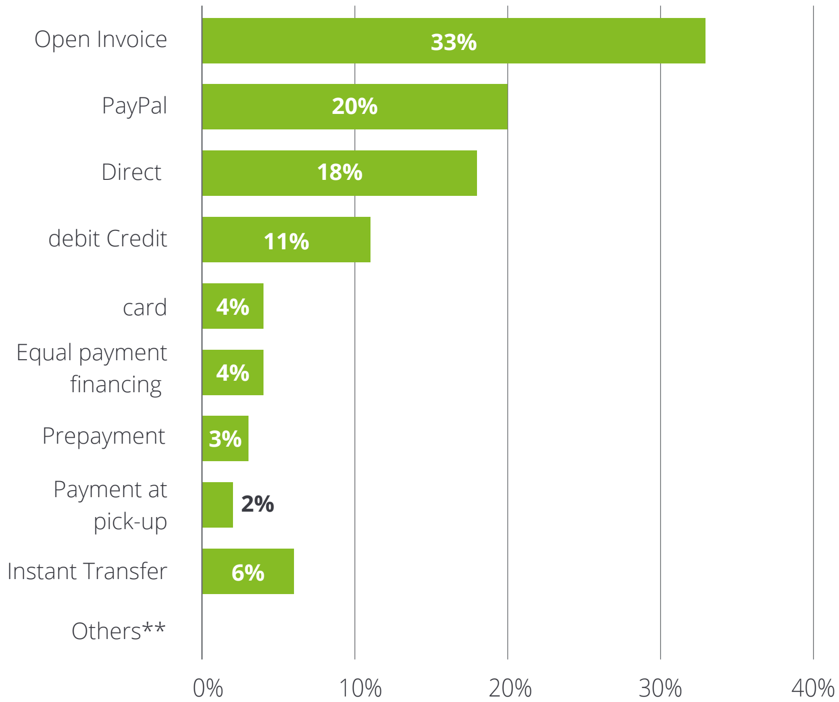
The more we see shifting consumer preferences and regulatory reform on the market, the faster the uptake will be for electronic payments in e-commerce. Digital payments are usually made via digital or electronic channels, including laptops, smart phones, tablets, credit cards, ATMs and POS terminals. It will be vital for retailers to have the right payment system infrastructure in place to provide a satisfying customer experience when it comes to completing a transaction.

Fast, safe payment solutions available on multiple devices have become another deciding factor in delivering customer satisfaction. Convenience and security remain the most important issues for e-commerce providers to consider for both domestic and cross-border transactions. Having the right mix of payment options is critical for online retailers to meet the very different demands of its target customers.

Customers are using digital wallets (PayPal, Apple Wallet, Google Pay) in addition to credit cards, SEPA transfers and payment by invoice more often than ever. With the introduction of new technologies such as API, online retailers can integrate digital payment solutions more easily into e-commerce infrastructure in today's omnichannel retail ecosystem. The wide range of highly complex regulatory requirements also make it more difficult for an e-commerce player to set up its own payment infrastructure in new markets. Particularly when it comes to cross-border expansion, e-commerce companies look to acquiring local payment service providers and integrating them into their main e-commerce platforms. In Germany, payment by invoice is still the most frequently used payment method. PayPal has the largest transaction volume in the German digital wallet space, accounting for a roughly 20-percent share according to 2019 statistics. As user acceptance grows for cashless digital payment, major online retailers will continue to develop digital payment systems, especially for mobile payments, to improve the online purchasing experience via mobile devices.

Amazon invested in Naffa Innovations, an India-based mobile payment technology firm to strengthen its mobile wallet offerings. Before that, Amazon invested in several international payment software developers such as EMVANTAGE Payments in India to pursue further digital business solutions outside its home market of the USA. Apart from strategic investors in the e-commerce sector, we have seen financial investors actively pursue investments in payment solution providers as well. For example, investment firm KKR acquired a majority stake in the German fintech heidelpay, a fast-growing full-service payment provider in Europe.

Fig. 15 – E-commerce payment method split by value in Germany* (2019)



* Total revenue of top-1000 online shops in Germany according to "E-Commerce-Markt Deutschland 2019", EHI and Statista: €bn 46

** Others include Amazon Pay, Alipay, Apple Pay, Giropay, Google Pay, Paydirect, Postpay, Masterpass, Cryptocurrency, Coupon, Prepaid Card and WeChat Pay.

Source: Anda Kania et al., "Payment Methods Report 2019", THE PAYPERS, accessed on May 21, 2020; Juan Marchetti et al., "Addressing E-Payment Challenges in Global E-Commerce", World Economic Forum, accessed on May 21, 2020; Raphael Eisenmann, "KKR to acquire majority stake in German fintech heidelpay from AnaCap", DGAP-Media, accessed on May 21, 2020; Deal Financial Report, Mergermarket, 2020; Caroline Coelsch, "Online-Payment 2020", EHI-STUDIE, September 8, 2020

In their daily business transactions, e-commerce platforms have to handle data generated by millions of customers and orders each day. Cloud-based data warehouses with storage capacity for huge amounts of traffic and transaction data as well as strong internet connectivity and regular updates will have a strong advantage in cross-border e-commerce. Integrating e-commerce with cloud technology enables real-time analytics, which plays a key role in improving the customer experience.

Moving data to the cloud is a key factor for retailers looking to increase flexibility, deepen insights and take the critical decisions they need to act nimbly in global competition. A recent Forrester report on future trends in the consumer product market highlighted scalability, availability, fast go-to-market and cost savings as the main benefits provided by cloud-based infrastructure. Instant access to cross-border data centers around the world and pay-as-you-use pricing models for cloud computing solutions are also gaining importance as value-adding features for e-commerce companies pursuing international expansion.

E-commerce companies are actively seeking cloud solution providers to provide the cloud-based infrastructure they need with lower costs, shorter time to market, on-demand scalability and better security.

Salesforce acquired CloudCraze, an enterprise e-commerce solution to help Salesforce and its customers shift to digital commerce. Public cloud container services provided by Amazon and other e-commerce companies are also giving them new sources of revenue above and beyond their core e-commerce business. Apart from specialized e-commerce market players, leading technology firms with e-shop elements such as Google, Apple and Microsoft have also been actively acquiring cloud solution providers in recent years to accelerate the development of their business intelligence and analytics capabilities.

Cloud infrastructure is an increasingly important factor for online retailers, as it impacts every activity during the e-commerce customer journey. Scalable and stable platform infrastructure plays a fundamental role in providing good customer experience. Larger e-commerce players are not focused exclusively on in-house solutions; they often acquire cloud computing start-ups to supplement the online retailers' cloud offerings.

Fig. 16 – Public Cloud Enterprise Container Platforms, Q3 2019

Source: "Salesforce Completes its Acquisition of CloudCraze", Salesforce, accessed on June 17, 2020; Dave Bartoletti and Charlie Dai, "The Forrester New Wave™: Public Cloud Enterprise Container Platforms, Q3 2019", Forrester, accessed on June 17, 2020.

Conclusion

Implications based on our observation
Online shopping has become the new normal, fundamentally changing customer shopping behavior and the retail market landscape. This paper focused on four dimensions of e-commerce business and the role they play in customer experience improvement. The paper also outlined the rationale of online retailers pursuing M&A deals to help them improve their customers' experience and ultimately grow their business.

Online retailers have made customer experience improvement a top priority among their development strategies. Pursuing M&A deals as a way to harness value drivers to meet evolving customer demands has gained momentum in recent years. Online/offline channel integration and portfolio expansion can help retailers better satisfy customers demanding more choice in SKUs and prices. By optimizing the customer journey from search, purchase, payment, delivery to re-purchase, online retailers can strengthen customer loyalty and retention.

E-commerce companies have stepped up their investments in logistics networks and smart warehouse solutions to reduce shipping costs for merchandizers. Implementing the latest technology plays a key role in providing a better shopping experience by reducing delivery time and fees.

In order to retain customers over the long-term, it is vital for retailers to offer the right mix of payment methods to enable safe and fast transactions. Scalable and elastic infrastructure is the prerequisite for operating an efficient e-commerce platform in an environment where the customer base has such a wide range of purchasing options. Cloud-based infrastructure and software to process customer and transaction data are becoming more important for e-commerce companies of all sizes.

Apart from the primary activities of e-commerce business, online retailers must also implement a wide range of supporting processes including web analytics and business intelligence to better understand their customers. These are essential for customer experience improvement, as they enable retailers to make rapid improvements to components, features, processes and interfaces based on analytics results.

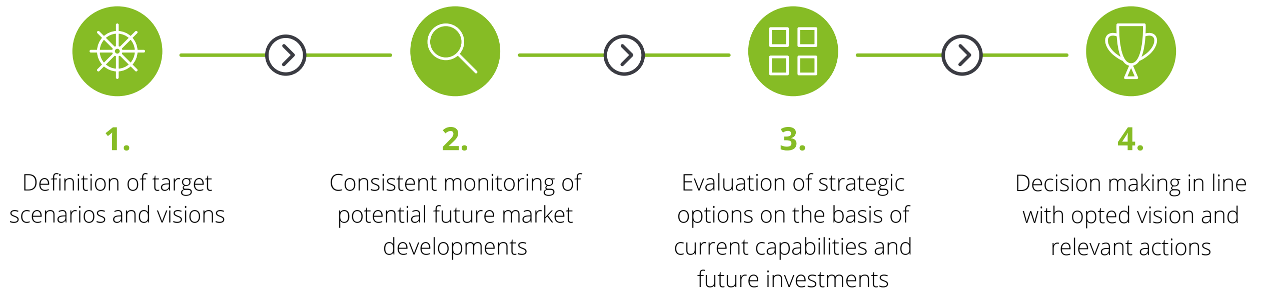
Market consolidation through mergers and acquisitions in the online retail sector is expected to continue in many different geographies. The current Covid-19 pandemic, on the other hand, may also act as a catalyst for further acceleration of the "stay-at-home" economy, where online retail plays a predominant role. The ability to provide excellent customer experience across the entire shopping journey will be a critical success factor in the e-commerce business of the future.

Outlook and recommendation

To avoid being left behind by increasingly agile competitors, the time is now for all market players to take action and secure their chance at future success. Online retailers need to define which strategies will help them meet the challenges of a dramatically changing market. As demands for personalized customer experiences grow among consumers, it is never too late to take an approach that leverages the available potential and mitigates existing risks based on the factors analyzed in this paper. Our team at Deloitte can guide you through all of the necessary steps to develop and implement the right e-commerce strategies for your organization.

Deloitte has deep industry expertise at both the global and the national level, which we combine with our in-depth segment and sector market programs in an effort to grow our industry expertise further and deepen our understanding of what it takes to meet the evolving expectations of today's customers.

Fig. 19 – Steps in dynamic business strategy



The Impact of Deloitte

Understanding individual investor challenges

Consolidation is trending across the e-commerce market, with interaction between a wide range of market participants. The majority of e-commerce investors are established companies looking to buy out competitors in order to exploit further growth opportunities in their space. Deloitte has advised numerous deals in this area, for example when Verdane acquired Momox (2018), Hoffmann acquired Contorion (2017), EQT acquired kfzteile24 (2015) and Nothzone acquired Outfittery (2015). Though the rapid pace of change in the industry has turned many companies into active acquirers, others are finding it increasingly difficult to act. To be sure, each of these entities involved are pursuing different goals and facing individual challenges.

The strategic investors in this market include companies with a strategy motivation for establishing or expanding their e-commerce business, particularly in industries where platform and infrastructure acquisitions are the key to remaining digitally competitive. Above all, their goal is to buy the technologies, platforms and sales channels that enhance their existing business model. Strategic buyers made up 86 percent of all e-commerce deals in the second half year 2018, with the aim of accelerating business growth through M&A activities in the e-commerce market. By acquiring assets in new sub-sectors and entering new areas of business, these e-commerce companies can grow their business and increase sales volumes to boost revenues.

Traditional financial investors, by contrast, have avoided the e-commerce market for many years due to a lack of maturity. The share of transactions by private equity players is still relatively low, although we have seen a sharp increase over the last five years as the market appears to be approaching a level of maturity that attracts traditional financial investors. They have begun targeting e-commerce-oriented businesses more aggressively as a result. Changing consumer demands are driving growth in the industry and technology innovations are disrupting the sector's status quo, which gives private equity firms an easy path to invest in e-commerce and realize returns – and which often leads to more bidding wars.

As growth continues unabated across the e-commerce market, e-commerce players themselves are also looking for capital providers and partnerships to achieve organic or inorganic growth. Securing funding has, however, been a challenge for many early-stage e-commerce companies – unless they can guarantee vertical disruption with a serious data-driven platform, the average start-up will find it quite difficult to obtain seed capital.

Fig. 17 – Market participants in the e-commerce market

Participants

Strategic Investors
Established companies from different sectors

Financial Investors
Private equity funds, venture capitalists, etc.

E-Commerce Players
Players in the e-commerce market

Goals

Obtaining new technology platforms and business models

Investments in value- creating growth models

Capital raised for future organic and/or inorganic growth

Challenges

Transformation risks
Target assessment, synergy creation and culture compatibility are major - often underrated - challenges.

High prices and competition
Strong future prospects and more financial investors mean higher prices for new market entrants (esp. from Asia).

Regulatory issues
Investigations into data privacy violations and anticompetitive behavior have the potential to stall future M&A deals.

Implementation risks
Business and technology concepts that are in development and not yet live-tested pose serious risks.

Funding gaps
Difficulty for start-ups to obtain funding.

Sources: Disha Bagga et al., "Mergers and Acquisitions on e-commerce", International Journal of Management Research & Review, accessed on January 28, 2021; "Market Spotlight Consumer and e-commerce M&A", Mergermarket, accessed on January 28, 2021; "Worldwide e-commerce market set to quadruple, driving M&A", Enterprisetimes.co.uk, accessed on January 28, 2021.

With intense competition and a high probability that both technology and transformation may fail, M&A deals in the e-commerce sector are particularly challenging. The market players are in a perpetual tug of war between promising future technology, development-phase concepts and cut-throat competition in a busy seller's market.

At Deloitte, we believe that all of our advisory services in the investor process are seamlessly connected. Depending on the position and goal of the market player in question, we can provide all of the relevant transaction and technology due diligence from a single source. The diverse and international expertise across the Deloitte network ensures that clients have the experience and expertise they need – when and where they need it – to seize any opportunity that arises as part of an auction process or in dialogue with a seller.

Our mandate-driven, bilateral advisory services also help strategic and financial investors find the right acquisition strategy and approach each deal with their core goals at the forefront. The Corporate Finance Advisory team plays a proactive role advising clients at every step in the investor process. We identify relevant technologies and products with our target search approach and prioritize direct dialogue with potential sellers. Thanks to the global Deloitte network, we are always up-to-date on the latest market activities as well as the companies open to deals. Our Operational Transaction Services kick in when deals are in the pipeline, identifying potential risks and synergies in the respective e-commerce value chains. And when it comes to reviewing a target's financial position and business models, Transaction Services cover the various due diligence phases.

Deloitte is also the right partner to support e-commerce players as they expand their business models – whether the issue is funding gaps, potential strategic partners or selling individual technologies, products or even the entire company. Deloitte's Corporate Finance Advisory recognizes the value of global networking with financial investors and companies in the e-commerce sector. We know where to find strong potential investors and when to give them that extra bit of encouragement.

Fig. 18 – Deloitte's Corporate Finance advice is aimed at all market participants

Corporate Finance Advisory (Lead M&A)
- M&A strategy discussion Exclusive and comprehensive M&A advisory
- Target and investor identificati on strategy
- Buy & sell-side

Operational Transaction Services
- Strategic questions
- Technological evaluation
- Operational due diligence
- Evaluation of synergy potential

Transaction Services
- Financial and commercial due diligence
- Vendor separation support
- Special purpose financial statements

Strategic Investors
- Mostly buy-side
- Identification of synergies in the business models
- Evaluation of technolo-gies and compatibilities
- Proof of concepts
- Transparent purchase price valuations

Financial Investors
- Buy & sell side
- Ongoing communication with all market participants
- Evaluation of the business models
- Assessment of compatibility with existing portfolio

E-Commerce Players
- Buy & sell-side
- Identification of opportunities for strategic partnerships
- Evaluation of the business models
- Ongoing communication with potential buyers and sellers

Sources: Deloitte

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Issue 02/2021