



May 2019

## ComCap discussion materials for Retail Asia Conference & Expo



**COMCAP**  
Where commerce meets capital



# Good morning and thank you!

## Aron Bohlig, CEO and Managing Partner of ComCap

- Global investment banker, former CEO of European comparison shopping and affiliate network company, extensive ecommerce operating and advisory experience in the US, China, Japan, Western and Eastern Europe, ASEAN, Latin America and Australia
- ComCap works with MNC including retailers, retail software providers, professional services companies that focus on retail and payments companies
- We help develop and execute strategic plans involving acquisitions and capital raising
- DISCLAIMER: ComCap works with many of the companies shown in the presentation and may have a financial relationship with them
- Presentation available with bonus extra content on ComCapllc.com (sign up with your email) with other research at <http://www.comcapllc.com/research/>

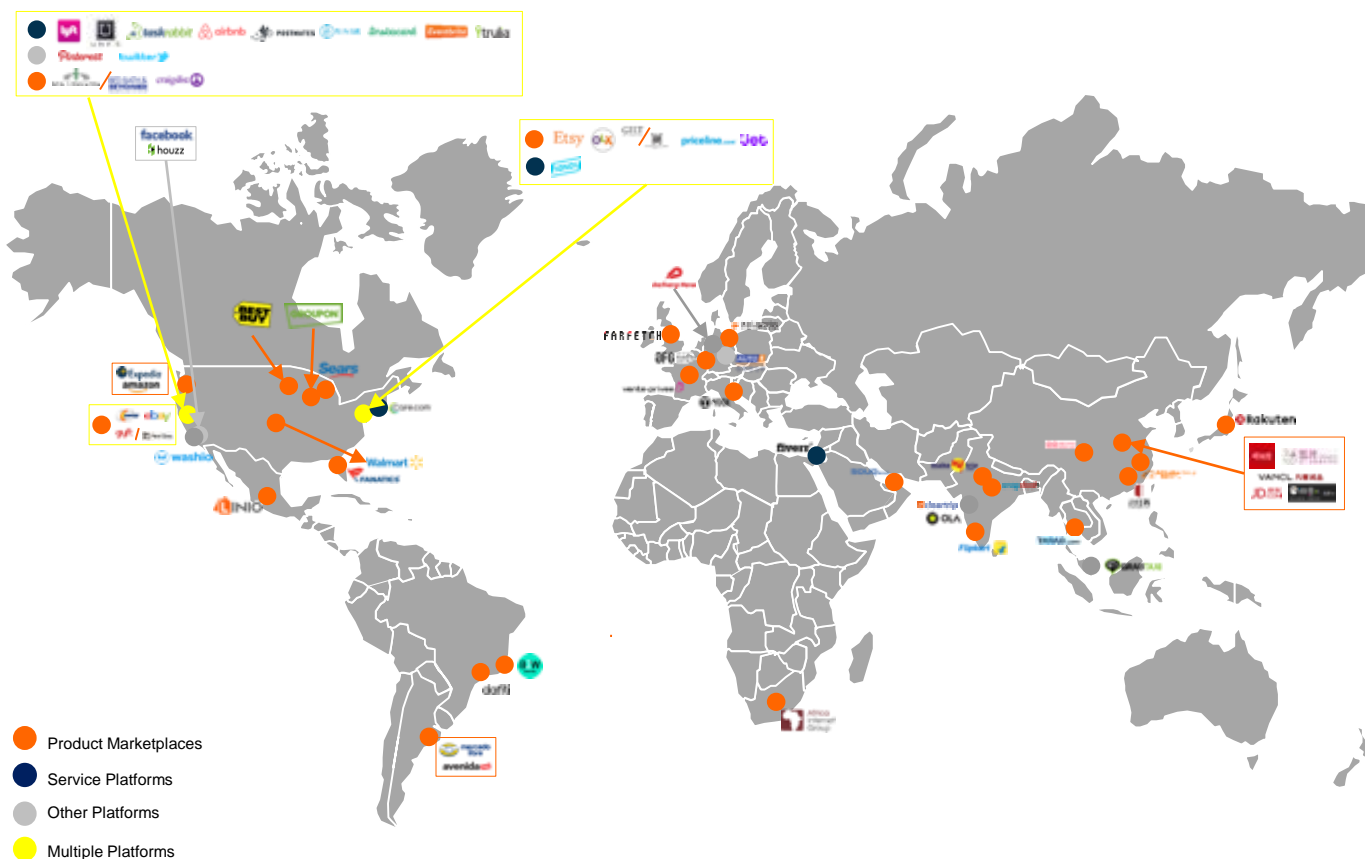
The map illustrates the global reach of 15 e-commerce companies. Dashed orange lines connect each company to a central star in North America. The companies are distributed across various regions, with a concentration in North America and Europe. A bar chart at the bottom left shows the number of companies in each region: North America (740) and Europe (561).

Region	Number of Companies
North America	740
Europe	561

**Retail Ecommerce Sales Worldwide – 2019 (\$US bn)<sup>1</sup>**

Country	Sales (\$US bn)
China	\$740.0
US	\$561.0
UK	\$93.0
Japan	\$87.0
Germany	\$77.0
South Korea	\$69.0
France	\$55.0
Canada	\$44.0
Australia	\$22.0
Brazil	\$16.0

**ComCap covers the leading product and service marketplaces globally in Asia, Europe and the Americas**



## The impact of product marketplaces on global retailers

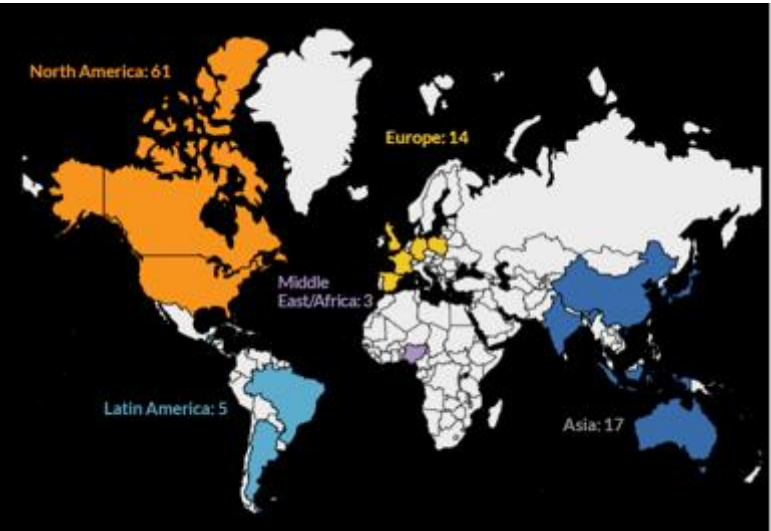
- **Retailers are steadily losing market share to marketplaces on a global scale**
  - The **relative convenience of marketplaces**, coupled with **low pricing and ease of delivery**, is continuing to **attract users away from brick and mortar stores**
  - **Marketplaces** also are more effectively **utilizing their robust customer dataset** to **better market to their consumers** across multiple channels, with retailers lagging behind
- **Traditional retailers are reacting to the rise of marketplaces by heavily focusing on digital strategy**
  - **“Smart stores” are rising in popularity**: stores are becoming more digitized in order to provide more interactive and less time-consuming experiences
    - Retailers are leveraging **artificial intelligence and analytics** to power their stores through in-store mobile applications, robotics, and **automated checkout**
  - **Retailers are also patching existing technology holes through acquisitions** across a variety of subverticals
    - Areas of focus include **in-store technology, logistics, personalization, payments, and D2C brands**

***Overall, the future of retail will rely heavily on technology – Retailers will require robust omnichannel capabilities in order to thrive***

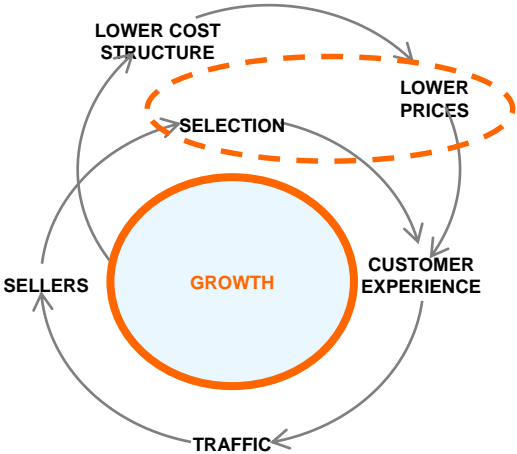
# The Rise of marketplaces: Key trends and challenges

# Globally marketplaces take a tremendous amount of share, and have very strong network effects (as explained by Amazon)

\$1.86 Trillion (~52% of ecommerce sales) spent on top 100 marketplaces in 2018



Jeff Bezos' growth through marketplace explanation



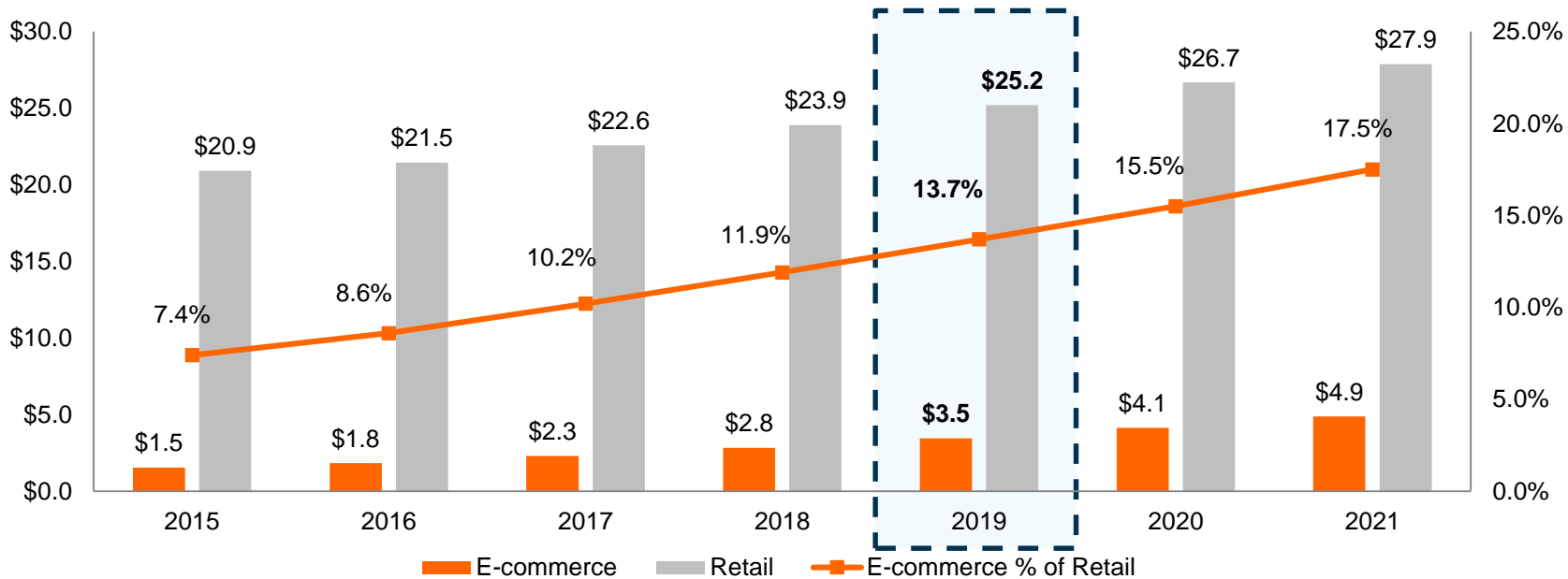
Top 100 marketplace headquarter locations in 2018: a heavy focus towards North America

# Global retail grew by 5.8%, ecommerce by 21.7%, and marketplaces by 23% in 2018 – with marketplaces gaining share

## Retail and ecommerce sales market trends







- Ecommerce growth (21.7%) and marketplaces growth (23%) in 2018 outpaced global retail growth (5.8%) by a significant margin
- Marketplaces are taking share from both retailers and ecommerce sites

## Retail vs ecommerce market size (\$tn)

















With network effects at scale, and strong growth, one or two breakout product leaders have come in each major market

Company name	Location	Year founded	2018 GMV (billions \$USD)	% share of online retail in home market	% share of total retail in home market
Amazon		1994	US\$277	49.4%	5.0%
Rakuten		1997	31.2	36.0%	2.6%
JD.com		2014	247.6	16.3%	3.0%
Alibaba		1999	768	58.2%	10.7%
MercadoLibre		1999	12.5	16.0%	0.9%
Qoo10		2010	Acquired by eBay in 2018	NA	NA

*While these statistics are eye-popping, the structures of their respective market shares are expected to further skew to online retail*

## ComCap analyzed the strategies of these five marketplaces...

Company name	Location	2018 GMV (billions \$USD)	Areas of differentiation
		\$712	<ul style="list-style-type: none"> <li>3 Global expansion</li> <li>4 AI / analytics</li> <li>5 Personalization</li> <li>2 App development</li> <li>▪ Expanding merchant interaction with customers</li> </ul>
		277	<ul style="list-style-type: none"> <li>1 Expansion of product categories and service offerings</li> <li>3 Logistics: one-day shipping</li> <li>2 Optimizing price, selection, and convenience</li> </ul>
		95	<ul style="list-style-type: none"> <li>5 Personalized online user experiences</li> <li>4 Visual search</li> <li>1 Using inventory to establish a competitive moat</li> <li>▪ Integrating additional payment schemes</li> </ul>
		12.5	<ul style="list-style-type: none"> <li>▪ Intersecting ecommerce and fintech</li> <li>3 Improved penetration of its logistics unit</li> </ul>
		31	<ul style="list-style-type: none"> <li>▪ IoT</li> <li>▪ Robotics</li> <li>4 AI / analytics</li> <li>3 Expanding logistics activities</li> </ul>
		248	<ul style="list-style-type: none"> <li>5 Personalized product recommendations and advertising</li> <li>4 Better efficiency through digitalization</li> <li>3 Logistics</li> <li>▪ Increasing partnerships with D2C brands</li> </ul>

Source: Capital IQ, Various news articles, Company websites, and Annual reports

Note: 2018 Revenue reflects the annual revenue for the most recent ending FY to December 31, 2018

... and identified five dimensions of marketplace differentiation



3

## Marketplaces are investing into logistics to expedite shipping times and expand geographic scope...

Alibaba and JD.com regularly acquire and partner with Chinese logistics leaders...

### Alibaba Takes Controlling Stake In Cainiao And Will Invest \$15 Billion In Global Logistics

Alibaba leads consortium in \$1.4 billion deal for stake in Chinese courier ZTO

**Alibaba extends New Retail push with US\$693 million investment in STO Express**

- Many of China's courier firms have risen together with the rapid growth of e-commerce in the country
- Alibaba wants a strong logistics network so that it can deliver goods as fast as possible

**Alibaba Invests in Chinese Logistics Company YTO Express**

**Walmart, JD.com invest US\$500 million in Chinese logistics service**

Investment in logistics provider Dada-JD Daojia intensifies 'smart retail' movement in China, where tech giants such as Alibaba and Tencent cut deals to combine shoppers' online and offline experience

...as Western marketplace leader prefer to develop internally with supplemental acquisitions

Amazon buys warehouse robotics startup Canvas Technology

**Amazon's Souq acquires Wing.ae to expand Prime-style same and next-day delivery**

MercadoLibre acquires startup Axado by R \$ 26 million

**Amazon Acquires Kiva Systems for \$775 Million**

Kiva Systems, which invented a revolutionary robotic warehouse system, is being swallowed by Amazon.com

# ...and Chinese leaders seek to capture additional market share by expanding into brick and mortar retail



Strategy	New Retail – a mobile-first approach	‘Boundaryless’ Retail
Focus area	<ul style="list-style-type: none"><li>2,000 physical retail (Hema) smart stores in development, incorporating online shopping experience elements into B&amp;M stores</li><li>Implementing cloud-based in-store technology</li><li>Convenience store partnerships</li></ul>	<ul style="list-style-type: none"><li>Mission: to provide retail at any time and location</li><li>Planning unmanned stores with facial recognition payment, and smart vending machines.</li><li>Drone-enabled deliveries in remote areas</li></ul>
Shopping Experience	<ul style="list-style-type: none"><li>Each store serves as its own 24/7 fulfillment center</li><li>Usage of Alipay for online and offline checkout</li><li>Partnered with Guess to pilot a "FashionAI" concept store in Hong Kong, merging ecommerce with B&amp;M</li></ul>	<ul style="list-style-type: none"><li>Uniform pricing between both online and offline platforms with automated in-store checkout</li><li>Provides BOPIS (buy online, pick up in store) and home delivery options</li></ul>
Technology	<ul style="list-style-type: none"><li>Proprietary camera, sensor, and IOT hardware</li><li>All Alibaba stores are connected to the cloud for real-time dynamic inventory and pricing updates</li></ul>	<ul style="list-style-type: none"><li>Proprietary smart shelf and tag ID technology</li><li>Behavior and traffic analytics platform</li><li>Partnership with Intel to create next-generation vending machines, media and advertising solutions, and technology for future stores</li></ul>





## While marketplace growth spells trouble for many retailers

CNN BUSINESS

Markets Tech Media Success Perspectives Video

U.S. Edition

**American retailers already announced 6,000 store closures this year. That's more than all of last year**

**Payless ShoeSource files Chapter 11 bankruptcy with plans to close all U.S. stores**

**Nordstrom Is Closing More Stores in 2019**

Changing industry conditions have made some of the retailer's full-line stores unnecessary.

**CVS Health Corp. (CVS) announces it will close 46 stores**

**Fred's to close 159 stores and start clearance sales at 360 locations**

**Retail Downsizing Will Accelerate, With UBS Predicting 75,000 Stores Will Be Forced To Close By 2026**

**Amazon kiosks helped bring foot traffic to struggling malls. Now they're all closing.**














All the stores will be closed by the end of April.

**Why Macy's Is Closing More Stores in 2019**

The largest U.S. department store chain still has too much overlap among its locations.

**Traditional retailers are responding to the rise of marketplaces by evolving digitally**

# Seven traditional retailers are refocusing their efforts on technology to compete against ecommerce leaders

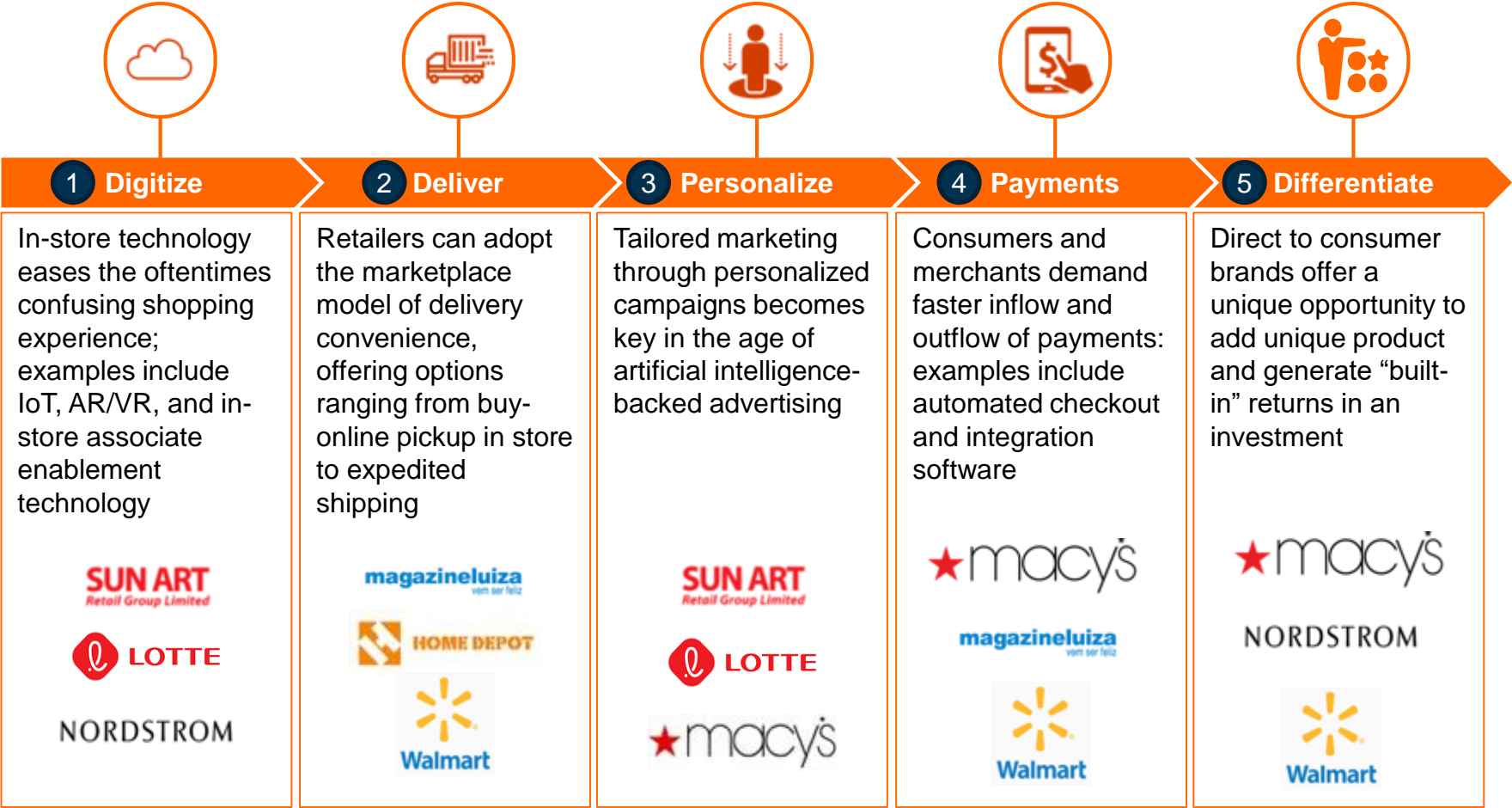
Company	Location	Year started	2018 Revenue (\$ Billions)	Areas of differentiation
		1830	\$25.7	<ul style="list-style-type: none"> <li>4 Mobile app development and payment integration</li> <li>1 In-store technology               <ul style="list-style-type: none"> <li>Virtual and augmented reality</li> </ul> </li> <li>3 Personalization</li> </ul>
		1945	\$514.4	<ul style="list-style-type: none"> <li>5 First party ecommerce               <ul style="list-style-type: none"> <li>Social/loyalty partnerships</li> </ul> </li> <li>2 Logistics               <ul style="list-style-type: none"> <li>Digital entertainment</li> </ul> </li> <li>4 Providing financial services</li> </ul>
		1978	\$108.2	<ul style="list-style-type: none"> <li>Website and mobile app development</li> <li>Improving search capabilities</li> <li>1 In-store associate enablement</li> <li>2 Last mile logistics (Roadie investment)               <ul style="list-style-type: none"> <li>B2B commerce (contractors)</li> </ul> </li> </ul>
NORDSTROM		1901	\$15.9	<ul style="list-style-type: none"> <li>3 Omnichannel focus               <ul style="list-style-type: none"> <li>Merchandising</li> <li>Supply chain consolidation</li> </ul> </li> <li>1 Improvement of physical stores</li> </ul>
		1967	\$6.5	<ul style="list-style-type: none"> <li>AI / analytics</li> <li>1 Augmented / virtual reality</li> <li>3 Personalized offerings</li> <li>1 Omnichannel technologies, including IoT               <ul style="list-style-type: none"> <li>Specialized "smart" stores with robotics</li> </ul> </li> </ul>
		1957	\$4.0	<ul style="list-style-type: none"> <li>2 Logistics and 2-day delivery</li> <li>4 Mobile payments: digital wallets and accounts</li> <li>1 Acquired Netshoes</li> </ul>
		1998	\$14.4	<ul style="list-style-type: none"> <li>Fresh produce in stores</li> <li>3 Emphasize consumer data               <ul style="list-style-type: none"> <li>Hypermarket hubs</li> </ul> </li> <li>Omnichannel</li> <li>1 Alibaba technology partnership</li> </ul>

Source: Capital IQ, Various news articles and Annual Reports

Note: 2018 Revenue reflects the annual revenue for the most recent ending FY to December 31, 2018



# Our retailer playbook for digitizing in an Amazon world

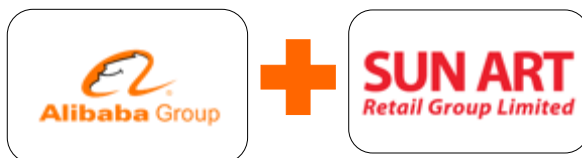


1

# Case study – Sun Art Retail Group stores undergo digital transformation through partnership with Alibaba

Alibaba invests \$2.86 billion into Sun Art Retail Group, integrating its digital services into Sun Art supermarkets

## Partnership Overview



Investment date: January 29, 2018

“Over the past year, ...we completed the digital transformation of all the RT-Mart physical stores and connected them with Alibaba’s Taoxianda business to launch online services. These accomplishments have demonstrated the power of integrating the internet and digital technology with our retail business.”  
– Yong Zhang, Sun Art Chairman, regarding the Alibaba partnership

### Sun Art Retail Group overview

- **Description:** Sun Art Retail is a leading retailer with hypermarket and fast-growing ecommerce businesses in China. Sun Art Retail operates its hypermarket business under two recognized brands – “Auchan” (歐尚) and “RT-Mart” (大潤發)
- **Founded:** 1998
- **Headquarters:** Hong Kong
- **Headcount:** >140,000
- **Locations:** Sun Art operates more than 460 outlets across China, covering 226 cities across 29 provinces
- **CY18 revenue:** USD \$14.45 billion








### Deal terms

- **Investment details:** Alibaba invested \$2.86B for a 31.47% stake in Sun Art Retail Group
- **Alliance details:** Alibaba, Auchan Retail, and Ruentex form a strategic alliance that offers online and offline retail expertise to China’s \$500B food retail sector
- **Ownership structure:**
  - Auchan: 36.18% stake
  - Alibaba: 31.47% stake
  - Ruentex: 4.67% stake
- Alibaba replaces Ruentex as the second-largest shareholder

### Partnership details

- **Launch of Taoxianda:** In March 2018, Sun Art launched two pilot stores of the Taoxianda, an integrated online and offline solution focused on digitizing and optimizing retailers’ fresh food operations
- **Rollout of digitalization:** After pilot success, Sun Art rolled out Taoxianda to all of its RT-Mart and Auchan stores (grocer subsidiaries of Sun Art) in the following nine months
- **Features:** Alibaba equips Sun Art stores with point-of-sale machines and automation facilities, as well as big data systems that track and analyze customer behavior
- **Cost:** Technology adoption costs an estimated \$790K per store

1 Retailers are acquiring technology companies to quickly progress their digital strategies

Buyer					
Target name					
Financing (Headcount)	\$750k (11-50)	\$6.5m (11-50)	\$6.1m (11-50)	\$2.5m (51-200)	\$7.4m (11-50)
Price paid	NA	NA	NA	\$2.5m	NA
Capability	Helps sales associates with customer centric tools, enabling actionable data insights	Platform for mobile messaging across different brands, focusing on customer engagement	Platform connecting retailers and suppliers for more optimal collaboration, planning, and retail execution	Helps retailers to drive their sales in competitive marketplaces through innovative and competitive intelligence tools	Allows consumers who need a service performed to find and interact with local businesses and professionals

# 1 US retailers are combining elements of traditional brick and mortar and ecommerce to create “smart stores”



Strategy	“Just walk out” technology	Efficient stores through artificial intelligence and robotics
Focus area	<ul style="list-style-type: none"> <li>Currently 10 live Amazon Go stores open across Seattle, WA, Chicago, IL, and San Francisco, CA</li> <li>Plans to take the store count to 50 in 2019 and open up to 3,000 more stores by 2021</li> </ul>	<ul style="list-style-type: none"> <li>Mission: to make the shopping and checkout processes faster and smoother</li> <li>Aims to delegate routine tasks to robots, freeing up associates' time for better customer service</li> </ul>
Shopping Experience	<ul style="list-style-type: none"> <li>Concept of “picking items and walking out”</li> <li>Ceiling mounted “smart” cameras can accurately track in-store inventory location</li> <li>No checkout process – done via Amazon Go app</li> </ul>	<ul style="list-style-type: none"> <li>Smart scanning and in-store logistics by robots enables smart loading, unloading, and sorting of items on shelves</li> </ul>
Technology	<ul style="list-style-type: none"> <li>AI-based technology, including hundreds of regular and infrared ceiling cameras and computer vision algorithms</li> </ul>	<ul style="list-style-type: none"> <li>Developing robotic and AI-enabled technology</li> <li>Mobile-enabled faster checkout processes</li> <li>BOPIS-enabled stores</li> </ul>
Challenges	<ul style="list-style-type: none"> <li>Current technology is compatible only with packaged items, making it difficult to track items sold loosely or by weight such as fresh foods</li> </ul>	<ul style="list-style-type: none"> <li>Standardizing automation across a huge network of worldwide stores which are all different in size and design</li> </ul>



# 1 Retail in-store technology disruptors can help retailers compete in an Amazon world...

*Creating a unique experience differentiates retailers and drives repeat foot traffic*

- ✓ Emergence of robots
- ✓ Rise of sensor technology streamlines the experience
- ✓ New in-store technologies including analytics, intelligent merchandising, associate augmentation, way-finding, personalised virtual experiences, and augmented reality experiences are being offered by innovative disruptors
- ✓ Services to drive online customers to the store such as buy online & pick up in store, interactive kiosks, create digital GIF booth, virtual rails, interactive dressing room, digital fitting room and others create a differentiated experienced







A robotic selling machine installed in a Best Buy store in Manhattan



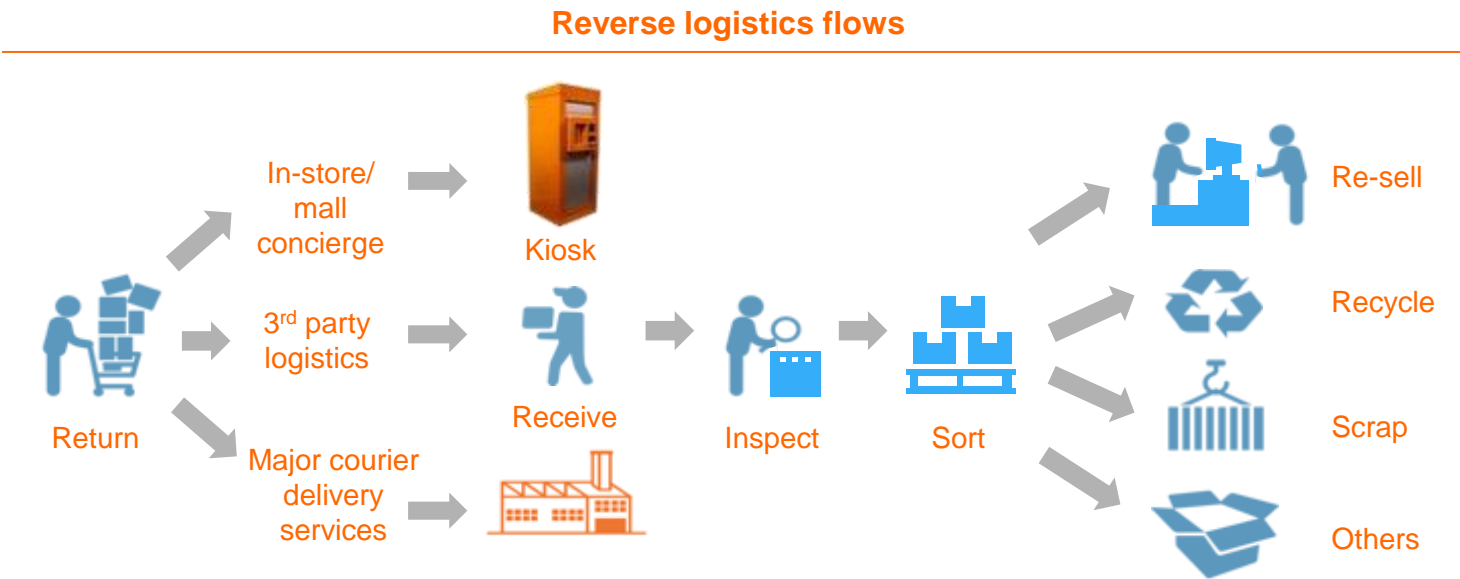
Rebecca Minkoff established a digitally connected store collaboration with eBay, optimizing the use of space



Virtual rail mounted by M&S in its store allows customers to browse life-sized imagery of merchandise, simulate a real life clothing rail

Technology provider	Technology overview
	<ul style="list-style-type: none"><li>▪ Offers a centralised SaaS platform, that automatically collects shopper behaviour data</li><li>▪ Improves attribution of online to offline campaigns with comprehensive in-store analytics</li><li>▪ The analytics software and retail expertise assist in increasing same-store sales, reducing theft and eliminating unnecessary costs</li></ul>
	<ul style="list-style-type: none"><li>▪ One Door provides Merchandising Cloud, a SaaS-based application that enables localized merchandise campaign planning, communication, in-store execution, and compliance tracking;</li><li>▪ Enables merchandising plans tailored to each store which provide a guided associate experience, improving sales conversion while reducing inventory and operational costs</li></ul>
	<ul style="list-style-type: none"><li>▪ SES-imagotag offers retailers with an all-in-one solution to connect their stores: electronic shelf labels, jeggy software and MultiCom infrastructure</li></ul>
	<ul style="list-style-type: none"><li>▪ Shelfbucks is an in-store smart shelf and smart display platform</li><li>▪ The company allows CPG's and retailers to measure, manage and improve the effectiveness of in-store product merchandising programs</li></ul>

## 2 A look at how startups are already addressing demands of today's consumers



**Example providers**

Newgistics	Happy Returns	UPS / Fed Ex
<b>Differentiators</b> <ul style="list-style-type: none"><li>▪ Smart labels allow for customer convenience and faster return of product to stock</li><li>▪ Reduces retailers' costs</li><li>▪ Single source tracking</li><li>▪ National network</li></ul>	<b>Differentiators</b> <ul style="list-style-type: none"><li>▪ Concierges across nationwide malls</li><li>▪ Offers "return bars" for immediate refunds</li><li>▪ Active and high touchpoint customer service</li><li>▪ Partners with retailers for integrated services</li></ul>	<b>Differentiators</b> <ul style="list-style-type: none"><li>▪ Offers direct return to retailers and manufacturers</li><li>▪ Legacy players offer greater familiarity and reliability</li><li>▪ Abundance of return and pickup locations</li></ul>



### 3 The consumer and the data they generate is driving mass personalization

#### Need for Customer Input

- **Direct input** from the **customer** is key to creating compelling and relevant personalized retail experiences
- **Retailers** can use information from online buying behavior to serve customers at the point of sale based on the **relevant user input** he or she requires
  - This **closes the gap between online and physical shopping** experiences that previously created headaches for a lot of retail brands
- **Email and website personalization** allows retailers to deliver a hyper-relevant online experience to every customer
- **Hyper personalization** relies on additional dimensions about the customer; these dimensions relate to their **activity, interest, opinion** (AIOs), attitudes, values and behavior

#### Case Study: Sephora's Beauty insider loyalty program




- The **loyalty program** allows customers to set up a **profile** in which they **input specific attributes** relevant to a provider of beauty products, such as skin tone
- This information is then used to **serve special offers** to the customer relevant to their requirements
- In addition, shoppers can save 'loves' and purchases in a 'beauty bag' both online and in store. This information is available across devices, including in store via the provision of iPads at store counters

## 4 Benefits of scale – Big Data and Artificial Intelligence


Using Artificial Intelligence for offline merchandising to maximize yield in store

Moving from planograms to AI-driven in store merchandising




### ACCURATE DIGITAL MODEL OF ALL STORE LOCATIONS AND FIXTURES

Provides for the capture of the physical and logical attributes of stores, and everything in them




### BUILD LOCALIZED VISUAL MERCHANDISING FOR EACH STORE

Localized merchandise drives higher sales create planograms and additional instructions specific for each store



### SEE HOW MERCHANDISING INITIATIVES ARE PERFORMING

Digital merchandising enables visibility into all merchandising execution data in real-time



The image displays three overlapping screenshots of a retail merchandising software interface. The top screenshot shows a 'Brand Shop' location detail with a map and a table for 'Manage Campaign Content Replacement'. The middle screenshot shows a 'Campaigns' table with columns for Campaign, Plan Name, Fixture Type, Stock Type, and Priority. The bottom screenshot shows a 'Compliance' dashboard with a bar chart and a table of metrics.

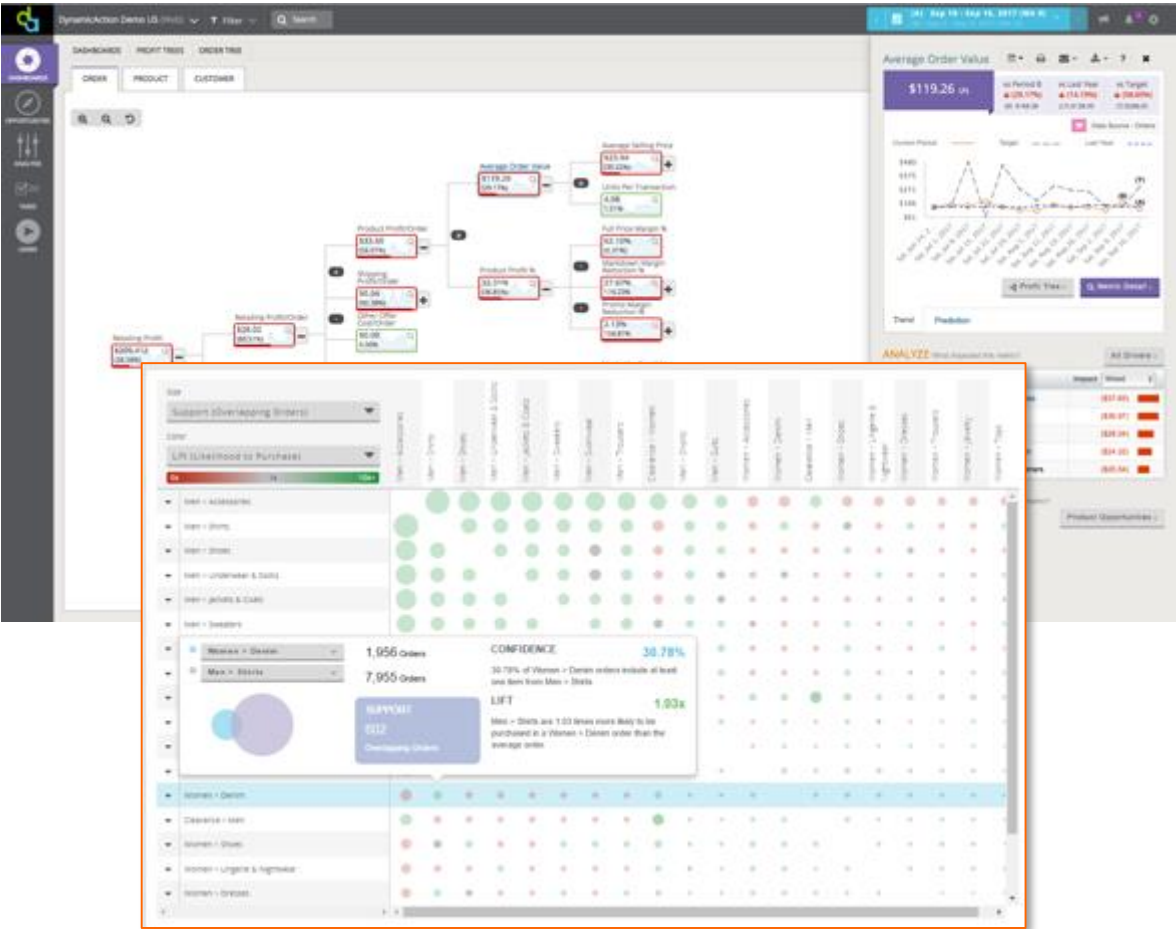
Campaign	Plan Name	Fixture Type	Stock Type	Priority
Merchandising - New Goods	Full Retail 1	US New Goods	Full Retail	High
Merchandising - New Goods	Full Retail 2	US New Goods	Full Retail	High
Merchandising - New Goods	Full Retail 3	US New Goods	Full Retail	High
Merchandising - New Goods	Full Retail 4	US New Goods	Full Retail	High
Merchandising - New Goods	Full Retail 5	US New Goods	Full Retail	High
Merchandising - New Goods	Full Retail 6	US New Goods	Full Retail	High
Merchandising - New Goods	Full Retail 7	US New Goods	Full Retail	High
Merchandising - New Goods	Full Retail 8	US New Goods	Full Retail	High
Merchandising - New Goods	Full Retail 9	US New Goods	Full Retail	High
Merchandising - New Goods	Full Retail 10	US New Goods	Full Retail	High

Metric	Value
Overall Compliance	95%
New Goods	95%
Full Retail	95%
US New Goods	95%
US New Goods	95%
US New Goods	95%
US New Goods	95%
US New Goods	95%
US New Goods	95%
US New Goods	95%
US New Goods	95%



# 4 Benefits of scale – Big Data and Artificial Intelligence

Analyzing the course of every consumer interaction to drive profit at Victoria's Secret



COLE HAAN	Mulberry	SHOE CARNIVAL	SportScheck
heine	LAKELAND	Buckley's	Et Voila Ingles
NINE WEST	Edith Butler	TUMI	M
CLARINS	RALPH LAUREN	AMERICAN EAGLE OUTFITTERS	

## 5 Differentiate your product assortment







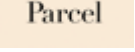


- Direct to consumer brands are taking share but have limited physical distribution
- Retailers are partnering with / acquire these brands to increase product differentiation, and increased distribution will provide additional ROI
- Sizing and customization are additional key opportunities to differentiate

### Brands you don't have access to...but should



5

# Walmart aggressively using acquisitions to expand product selection and address new demographics

Buyer	Walmart 							
Target name								
Financing before acquisition (Headcount)	\$570m (5,000-10,000)	\$7.5b (10,000+)	NA (2-10)	NA (200-500)	\$127.6m (100-250)	\$2.0m (100-200)	\$22.0m (1,000-5,000)	\$78.7m (200-500)
Price paid	\$3.0bn	\$16bn	\$70m	\$51m	\$310m	NA	\$90m	NA
Capability	Leading US-based online shopping platform for high volume goods with dynamic pricing	Leading ecommerce market-place in India	Online platform specializing in footwear	Ecommerce platform specializing in outdoor recreation apparel	Apparel brand focused on delivering great fit, excellent customer experience, and a fun approach to menswear	Logistics mobile application for light weight package delivery	Ecommerce platform for lifestyle and home products	Ecommerce platform for clothing, accessories and décor

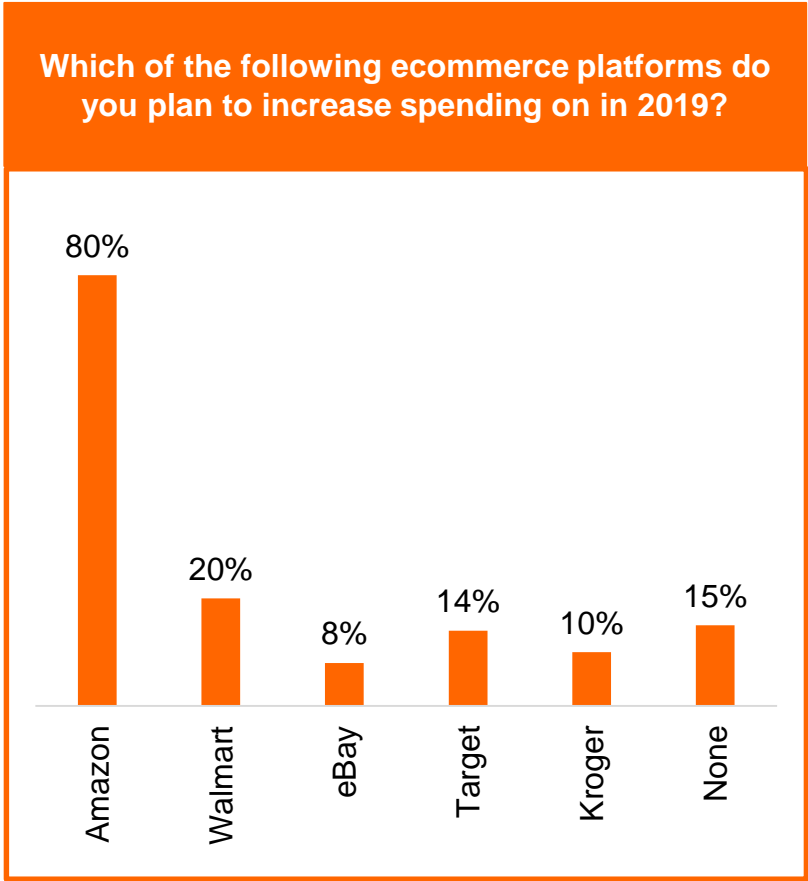
5

# Case study – Mirakl allows traditional retailers to expand their catalogue and increase sales



5 In addition to running their own marketplace, selected retailers launching significant advertising businesses to support their core

Company name	Ad offering	Ad revenue
		\$7.4B in 2018 \$11.3B in 2019
		\$1B in 2018
		\$500M in 2018 \$1B by 2020
		\$400M by 2020
		~ \$125M
		~ \$100M





## Conclusions

**A**

**Rapid growth of marketplaces**

- **Marketplaces are rapidly growing** as consumer preferences are shifting to buying online, capturing additional market share from traditional retailers
  - This growth is **fueled by convenience in price and selection, fast and efficient proprietary logistics, search optimization, and personalization**

**B**

**Marketplaces are expanding into brick-and-mortar and differentiated logistics**

- **Marketplaces are developing their brick and mortar presence** to capture additional audiences, as the vast majority of shopping occurs through physical retail and also investing in differentiated logistics capabilities
  - **“Smart stores” are rising in popularity:** stores are becoming more digitized in order to provide more interactive and less time-consuming experiences








**C**

**Retailer reaction: heavy focus on digital strategy**

- **Traditional retailers are reacting** to the rise of marketplaces **by heavily focusing on digital strategy**
  - Retailers are **patching existing technology holes** through acquisitions across a variety of subverticals
  - Areas of focus include **in-store technology, logistics, AI/big data, personalization, payments, and direct to consumer brands**

***Overall, the future of retail will rely heavily on technology: retailers will require robust omnichannel capabilities in order to thrive***

Please visit our site [ComCapllc.com](http://ComCapllc.com) to see our research reports, keeping up to date with the most recent trends in digital retail

Title	Screenshot	Link
Q1 2019 Key Themes in Retail + FinTech		<a href="https://bit.ly/2KQ1RIA">https://bit.ly/2KQ1RIA</a>
ComCap's Digital Retail Perspectives		<a href="https://bit.ly/2VSmSTH">https://bit.ly/2VSmSTH</a>
Key Themes in AR/VR and Image Management in Retail		<a href="https://bit.ly/2ZmThnL">https://bit.ly/2ZmThnL</a>
Robots in Retail Key Themes 2018		<a href="https://bit.ly/2VYP7Ak">https://bit.ly/2VYP7Ak</a>
Personalization in Retail		<a href="https://bit.ly/2GyxJNm">https://bit.ly/2GyxJNm</a>
ComCap's Conference Guide to Shoptalk 2019		<a href="https://bit.ly/2vgaD88">https://bit.ly/2vgaD88</a>
ComCap's Guide to Commerce & Payments at Money 20/20		<a href="https://bit.ly/2S27u5W">https://bit.ly/2S27u5W</a>

# Appendix









# Major marketplaces differentiate through price, selection, and convenience – Logistics being the driver of convenience









1	Price	Continuous algorithm-based dynamic pricing	Lower prices for customers using other Rakuten services	Owned inventory allows better quality control and higher prices	Focus on maintaining lowest prices in the market	Focus on maintaining lowest prices in the market	Fixed and auction-based
1	Selection	Multiple product strategies per product; Continuous use of AI & A/B testing	Offers a wide range of products via collaborations with retailers (i.e. Walmart)	Builds portfolio through collaborations with global brands	Integrated online and offline product mix strategy	Based on search optimization deployed by its vendors	Multiple categories and strategies per product
2	Convenience	Focus on easy CX at every stage – from search and ordering to returns	AI-based approach to its CX strategy	Focus on better CX by providing quality assurance for several global brands on a single platform	Focus on providing a universal view of inventory and pricing across channels	Improving CX through customer loyalty, rewarding customers with points for transactions	Focus on better CX through easy and fast deliveries, including superior customer support
3	Logistics (Forward)	Owned and outsourced: Uses Amazon FBA as one of its major USPs	Owned: Partnership with JD.com for drone deliveries in Japan	Owned: JD built its own logistics network instead of using local networks	Owned and outsourced: Targeting to deliver a billion packages per day using AI	Owned and outsourced + BOPIS	Outsourced
3	Logistics (Reverse)	Owned and outsourced	Owned and outsourced	Owned and outsourced	Owned and outsourced	Owned and outsourced	Outsourced







# How major marketplace leaders seek to differentiate – insights from management

Company / HQ location	Areas of differentiation	Management's view on strategy
 	<ul style="list-style-type: none"> <li>Global expansion</li> <li>AI / analytics</li> <li>Personalization</li> <li>App development</li> <li>Expanding merchant interaction with customers</li> </ul>	<p>"Our long-term strategic goal is to serve two billion consumers around the world and support ten million businesses to operate profitably on our platforms. We have embarked on three key initiatives to achieve this strategic goal: <b>globalization, rural expansion and big data and cloud computing.</b>" – Latest (2018) 20-F</p>
 	<ul style="list-style-type: none"> <li>Expansion of product categories and service offerings</li> <li>Logistics: one-day shipping</li> <li>Optimizing price, selection, and convenience</li> </ul>	<p>"We seek to invest efficiently in several areas of <b>technology and content</b>, including AWS, and <b>expansion of new and existing product categories and service offerings</b>, as well as in technology infrastructure to enhance the customer experience and improve our process efficiencies." – Latest (2018) 10-K</p>
 	<ul style="list-style-type: none"> <li>Personalized online user experiences</li> <li>Visual search</li> <li>Using inventory to establish a competitive moat</li> <li>Integrating additional payment schemes</li> </ul>	<p>"Leveraging a foundation of structured data — our initiative to better understand, organize and leverage inventory on eBay — <b>we are progressing toward a more personalized, discovery-based user experience and making it easier for customers to find inventory both on and off eBay.</b>" – Latest (2018) 10-K</p>

# How major marketplace leaders seek to differentiate – insights from management






Company / HQ location	Areas of differentiation	Management's view on strategy
 	<ul style="list-style-type: none"> <li>▪ Intersecting ecommerce and fintech</li> <li>▪ Improved penetration of its logistics unit</li> </ul>	<p>"We continue to execute against the focused and the strategic road map intended to capitalize on the secular trends of <b>e-commerce and FinTech in the region that will allow us to extend our market leadership</b>. We are transforming from a pure third-party marketplace building to building the leading e-commerce ecosystem and digital financial services platform in Latin America." – Q1 2019 Earnings Call</p>
 	<ul style="list-style-type: none"> <li>▪ IoT</li> <li>▪ Robotics</li> <li>▪ AI / analytics</li> <li>▪ Expanding logistics activities</li> </ul>	<p>"The 'Investments for the Future Strategy 2018,' adopted by cabinet decision in June 2018, calls on Japan to <b>incorporate cutting-edge technologies such as IoT, robotics, AI and Big Data throughout industry and society</b> to realize a new Society 5.0 that achieves both economic development and solutions to social problems." – 2018 Annual Report</p>
 	<ul style="list-style-type: none"> <li>▪ Personalized product recommendations and advertising</li> <li>▪ Better efficiency through digitalization</li> <li>▪ Logistics</li> <li>▪ Increasing partnerships with D2C brands</li> </ul>	<p>"We are a <b>technology-driven</b> company and have invested heavily in <b>developing our own highly scalable proprietary technology platform</b> that supports our rapid growth and enables us to provide value-added technology services... <b>leverag[ing] our large customer database to create customized product recommendations and cost-effective and targeted advertising</b>." - Q4 2018 Earnings Call</p>


# How major retailers seek to differentiate in the age of Amazon – perspectives from management

Company / HQ location	Areas of differentiation	Management's view on strategy
 	<ul style="list-style-type: none"> <li>Mobile app development and payment integration</li> <li>In-store technology</li> <li>Virtual and augmented reality</li> <li>Personalization</li> </ul>	<p>"Enhancing the Macy's app with new features to <b>improve payment, in-store shopping and style advice</b>, as mobile is our fastest growing channel, and our app customer is by far our most loyal and highest value customer." – BAML Conference Presentation</p>
 	<ul style="list-style-type: none"> <li>First party ecommerce</li> <li>Social/loyalty partnerships</li> <li>Logistics</li> <li>Digital entertainment</li> <li>Providing financial services</li> </ul>	<p>"So it's <b>really important that if you buy something online, we allow you to return that in the store</b>. It is increasingly important for us to make sure that we're <b>solving the convenience and the friction components</b> of what is involved to shopping." – Future of the Consumer Conference Presentation</p>
 	<ul style="list-style-type: none"> <li>Website and mobile app development</li> <li>Improving search capabilities</li> <li>In-store associate enablement</li> <li>Last mile logistics (Roadie investment)</li> <li>B2B commerce (contractors)</li> </ul>	<p>"Beyond <b>B2B personalization</b>, we continue to make great strides in <b>driving our digital experience</b>. This year, <b>we invested in our website and mobile applications, improving search capabilities</b>, site functionality and product content." – Q4 2019 Earnings Call</p>



# How major retailers seek to differentiate in the age of Amazon – perspectives from management

Company / HQ location	Areas of differentiation	Management's view on strategy
<div>NORDSTROM</div> 	<ul style="list-style-type: none"> <li>▪ Omnichannel focus</li> <li>▪ Merchandising</li> <li>▪ Supply chain consolidation</li> <li>▪ Improvement of physical stores</li> </ul>	<p>"One thing <b>new for us is our local omni-channel hub</b>. It covers almost 80-90% of our businesses and the SKUs that drive that. We are <b>looking at that as one supply chain</b>, both for our customers and for our stores." – Future of the Consumer Conference Presentation</p>
<div>  <div>LOTTE</div> </div> 	<ul style="list-style-type: none"> <li>▪ AI / analytics</li> <li>▪ Augmented / virtual reality</li> <li>▪ Robotics</li> <li>▪ IoT</li> <li>▪ Personalized offerings</li> <li>▪ Specialized "smart" stores</li> </ul>	<p>"We will continue offering our customers great shopping experiences. This includes <b>upgrading our omni-channel</b> services even further by combining our Smart Pick, O2O service, omni-sale, and other online and offline operations, and introducing <b>AI, AR, robot, big data, IoT, and other new ICT technologies</b>." – 2017 Annual Report</p>
<div>magazineluiza</div> 	<ul style="list-style-type: none"> <li>▪ Logistics and 2-day delivery</li> <li>▪ Mobile payments: digital wallets and accounts</li> <li>▪ Acquired Netshoes</li> </ul>	<p>"30% of the deliveries of the sales that we make on site, are promised and delivered in 48 hours. <b>Also, under "click-and-collect", over half of our sales are this way in 48 hours</b>. So this is a very big competitive advantage vis-à-vis any other player, any digital player." – Q4 2018 Earnings Call</p>
<div> <div>SUN ART</div> <div>Retail Group Limited</div> </div> 	<ul style="list-style-type: none"> <li>▪ Fresh produce in stores</li> <li>▪ Emphasize consumer data</li> <li>▪ Hypermarket hubs</li> <li>▪ Omnichannel</li> <li>▪ Alibaba technology partnership</li> </ul>	<p>"Through the digitalization of the physical stores...[we integrate] <b>the membership system, payment, inventory, marketing, logistic and supply chain</b>. Driven by <b>technology and data</b>, we enhance the <b>efficiency of our physical stores</b> while acquiring a clearer customer portrait, and build <b>a solid foundation for personalized and accurate marketing in the future</b>." – 2018 Annual Report</p>



Source: Capital IQ, Company 10-Ks and latest transcripts

Source: Capital IQ, Company 10-Ks and latest transcripts

# 1 Technology is transforming brick-and-mortar retail

## Selected in-store innovators

- Recent advancements include robotics, personal recognition, digital wallets, artificial intelligence, consumer analytics and other tech driven initiatives in order to make shopping easier instore and online
- Instore operations have been transformed by new developments such as interactive kiosks, mobile payments, BLE technology, RFID tagged products and smart shopping carts
- Innovations such as virtual mirrors and interactive kiosks can also refuel customers' desire to shop instore
- A range of ancillary services are popping up for instore, such as POS financing, guest wifi, and POS interviews



# Recent technology investments and acquisitions by top retailers

## Private placements

Date announced	Deal size (\$ms)	Buyer	Target name		Descriptor
4/17/2019	N/A	Neiman Marcus Group	Fashionphile, LLC	5	Luxury goods
6/12/2018	N/A	Macy's, Inc.	b8ta, Inc.		Product testing
10/14/2016	N/A	Home Depot	Hover Inc.		3-D design
9/15/2014	N/A	Neiman Marcus Group	mytheresa.com GmbH	5	Luxury goods

## Acquisitions

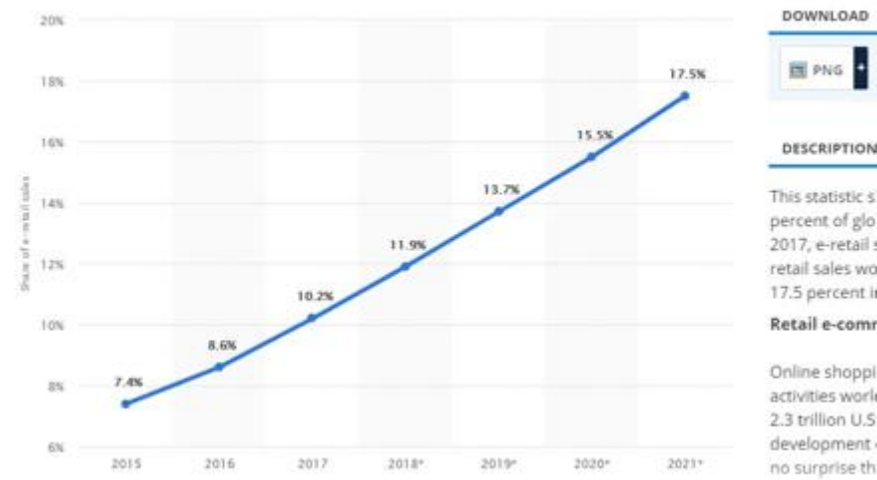
Date announced	Deal size (\$ms)	Buyer	Target name		Descriptor
5/2/2018	N/A	Macy's, Inc.	STORY	1	In-store design
3/16/2018	N/A	L'Oréal S.A.	Modiface Inc.		AR, Beauty
3/8/2018	N/A	Nordstrom, Inc.	MessageYes	3	Mobile messaging
3/8/2018	N/A	Nordstrom, Inc.	BevyUp	1	Associate enablement
12/13/2017	550	Target Corporation	Shipt, LLC	2	Grocery delivery
11/16/2017	112	Williams-Sonoma, Inc.	Outward Inc.		AR, 3-D imaging
8/14/2017	N/A	Target Corporation	Grand Junction, Inc.	2	Delivery, Logistics



# Global retail and ecommerce growth statistics



E-commerce share of total global retail sales from 2015 to 2021



Retail e-commerce sales worldwide from 2014 to 2021 (in billion U.S. dollars)

