



THE YIN & YANG MOMENT FOR ECOMMERCE

Opportunities & Challenges for
Ecommerce Brands in the Covid-19 Era

Contactless, Convenient, Safe & Hygiene - These four words probably defined almost all consumer activities in the year 2020.

E-commerce has always been promising with an expected growth of \$6.5 trillion by 2023 and Covid-19 has put this channel right at the forefront of Retail.

The pandemic has resulted in a rapid shift in consumer shopping habits that were mostly driven by convenience, minimal contact & safety and E-commerce was perfectly poised to leverage this new purchase mind shift.

Retailers are investing in technologies while E-commerce, supply chain, order management and order fulfilment solutions are all being upgraded and tested today to improve the customer experiences online.

DigitalCommerce360 analysis shows E-commerce sales in June 2020 were up by 76% to \$73.0 billion year over year and according to Businesswire the global e-commerce market is expected to reach \$6.07 trillion in 2024. Rising internet penetration, rapid urbanization, increase in smartphone users, mobile wallets are predicted to contribute to the growth of the e-commerce market.

In many ways, the Covid-19 crisis accelerated the inevitable dominance of ecommerce by shortening the inflection point by at least 5-6 years.

Tailwinds Countering the Headwind

Ecommerce brands have also been facing a fair number of challenges. The majority of online sales is driven by grocery and essential goods, which are a low margin and high variable cost segment. Manpower shortages, which led to a rise in warehouse pilferages, logistic and supply chain disruptions, have resulted in disengaging customer experiences and increased instances of cyber fraud.

Retailers with categories like Fashion & Apparel, Electronics, Home Improvement and Luxury, have been shutting down stores, facing losses and forcing to deal with liquidity issues due to decrease in consumer spending during the crisis.

This Whitepaper aims to highlight the specific opportunities for ecommerce retailers during the Covid-19 crisis and to overcome the associated challenges like low conversion rates and supply chain disruptions.

THE YIN: Challenges for Ecommerce

The challenges faced by retailers in pre-Covid-19 world, for their ecommerce typically revolved around turning profitable, high fulfillment costs, and constantly increasing customer acquisition costs. Covid-19 has replaced them completely to:

- **Spike in Out of Stocks :** Stockouts have been a major challenge for ecommerce retailers, primarily due to factory closures in China (on a global level, 51,000 companies have “one or more direct or Tier 1 supplier from China and another 5 million companies have Tier 2 suppliers from the country). Another reason for stock depletion is ‘panic buying’ - when consumers stock up in anticipation of quarantine or extended stays at home.
- **Logistics & Warehouse Disruptions:** According to logistics vendor, Narvar Inc Ecommerce orders saw a spike of 50% during Covid-19 pandemic, and the sudden surge inevitably resulted in shipping delays. Retailers are taking an average of 1.5 days longer than normal to fulfill orders. This is likely due to staffing challenges such as employees calling in sick and retailers implementing social distancing regulations in warehouses, resulting in low efficiency. Delays are even more pronounced for large-format products that weigh than 150 lbs. The fulfillment time for large appliances and furniture more than doubled to an average of 68 hours during the pandemic.
- **Lower Average Basket Value:** Pay cuts, job losses and an expected recession has resulted in decreased overall consumer spending. This will force consumers to ‘trade down’ and be frugal in their purchases. Coupled with price transparency and ease of comparison in the online channel will drive down Average Order Values.
- **Intense Competition:** The shift in consumer behavior and the low entry barrier will result in a higher number of traditional retailers making the shift to online retailing. As more players enter the space, gross margins will drop, customer acquisition costs will increase, and the number of orders per customer per platform will drop. To top it all off, newer entrants will have a hard time prying customers away from ecommerce juggernauts like Amazon & Walmart.
- **Lack of Platform Scalability:** Sudden influxes in ecommerce site traffic overwhelmed backend processes, resulting in prolonged wait times for delivery slots or site/app crashes in times, which in turn led to negative customer experiences. To adapt and stay ahead, ecommerce retailers need to deploy a combination of enterprise-grade ecommerce platforms, along with non-invasive and disruptive tactics to mitigate short-term, medium-term and long-term impact.

THE YANG: Opportunities for Ecommerce Brands

The pandemic resulted in the emergence of several new online shopping trends that seem to sustain even in the absence of lockdown measures and relaxation of social distancing norms.

Key Opportunities for Ecommerce brands

- **Behavioral Continuity:** The consumer preference to shop online is expected to continue long after the lockdown relaxations. A Kantar report states that share of consumers that do 50% or more of their total purchases online has increased dramatically in all three of Europe's biggest ecommerce markets and 6 out of 10 consumers say that they will continue to buy as much online as they do today after the pandemic has passed.
- **Shot in the Arm for Grocery Etail:** Shot in the Arm for Grocery Etail: Grocery as a category has been traditionally under-represented in the ecommerce channel and trailed electronics, apparel, books and personal care segments. Globally, the online share of global grocery sales was 5.8% in 2019 and expected to hit 8.0% in 2020.
- **Access to a Broader Demographic:** The 65+ age group was deemed to be the most at risk of mortality due to the Covid-19 virus. This spurred a large segment of seniors to adopt ecommerce for their shopping needs to minimize the risk of infection. A study by Mintel found that 43% of those in this age group have shopped more online since the start of the crisis. In comparison, back in May 2019, just 16% of those aged 65+ shopped online at least once a week. The inclusion of this high-spending potential demographic presents a great opportunity for ecommerce marketers.

Weathering the Storm & Adapting to the New Normal

While the continuing impact of COVID-19 and potential future recovery remains uncertain, several brands have laid solid groundwork in terms of digital engagement, supply chain restructuring and enhanced fulfilment to help them tide over the crisis. Retail isn't dead; the fact is that retailers have been in transition and continuously evolving for quite some time.

Retailers are trying to keep up with rapid change in consumer behavior and shopping patterns; Artificial intelligence and Machine learning plus the continued improvement of data collection and analytics that are changing the retail landscape.

Some retailers shuttered right away facing imminent financial crisis and existential threat, while other retailers have not just survived but have been able to increase sales and margin by even attracting new customers.

Learnings From Top Retail Brands and their Survival Strategies

Grocery and Food retailers have been seeing a growth in sales and margin and in reaction to the uncertainty, customers have been filling their online carts with food and other essentials, ushering a new normal for food and grocery retailers. Retailers like Walmart and Target have been exceedingly doing well amid the pandemic and both had long ago foreseen and have invested in online grocery, knowing that this was going to be key in future. Providing the whole experience of contactless shopping, Walmart's ecommerce sales went up by 90% in second quarter and they have been continuing to bring in new initiatives such as subscription-based grocery delivery and in few regions offering 2-hour delivery service. Walmart also has been using machine learning technology extensively to map better delivery routes, improved product search, better product recommendations and targeted advertisements based on customers web browsing and purchase history.

Target as well showed strong growth in online sales for pickup & delivery and rising sales volume made its online operations more efficient during the pandemic. Same day fulfillment rose by 275% during the quarter and this is the retailer's most profitable digital offering. Target has rolled out various such grocery delivery initiatives by either picking up digital orders at their nearby stores, curbside pickup or having goods delivered by Targets partners such as Shipt. This has helped the retailer to bring in new customers and inspire loyalty amongst existing ones.

Apparel and Fashion retailers have been one of the hardest hit segments in retail during the pandemic as consumers product preferences are changing. Retailers have been forced to respond rapidly and effectively and survive in the industry.

Department & Apparel retailers are at particular risk with the pandemic and have been filing for bankruptcy, since more than 80% of the transactions for such kind of apparel retailers happen in physical stores. Malls have also seen decline in footprint as shoppers have shifted to online shopping and spending only on essentials goods. Very few retailers have managed to survive and are going to walk away from 2020 unscathed as they have bringing innovative ways to retain their customers.

Levi Strauss & Co. has been investing in the last few years in its e-commerce technology, which has reaped benefits during this crisis. These investments and strategic shifts in the past years have helped Levi's to survive much better than their competitors. The retailer has also been able to enhance their consumer journey by navigating the customers to loyalty platforms, more personalized experience and integrated journeys through physical and online world.

Inditex (Zara) will be investing 1 billion euros in a span of 2 years to bolster its online sales, and further integrating its stores with their digital platform for their e-commerce orders. Initiatives such as Integrated stock management, same day delivery, Radio frequency identification technology (RFID- allowing to track every product) has enabled the retailer to fulfil all online orders from wherever the stock is, be that in warehouses or stores.

Home Improvement retailers have been seeing significant increase in consumers spend as many have started to improvement projects, repurposing their rooms to office spaces, etc. The Home Depot had made considerable investment on their e-commerce channel which enhanced their online order fulfillment, which grew in triple digits by the end of April. Lowes online sales as well shot up by 80%. One of their innovations was launching augmented video chat service allowing Pros to interact with customers through video and evaluate repair and maintenance projects. IKEA doubled down on its digital strategy to establish itself to be a virtual one-stop shop for consumers' design needs. Customers shopping on Ikea's app will be able to digitally place new items into a photorealistic 3D representation of their home. The retailer is also working to infuse AI and Big Data into the project to give personalized suggestions to customers, in line with their preferences.

Transforming Ecommerce With An Integrated Commerce Framework

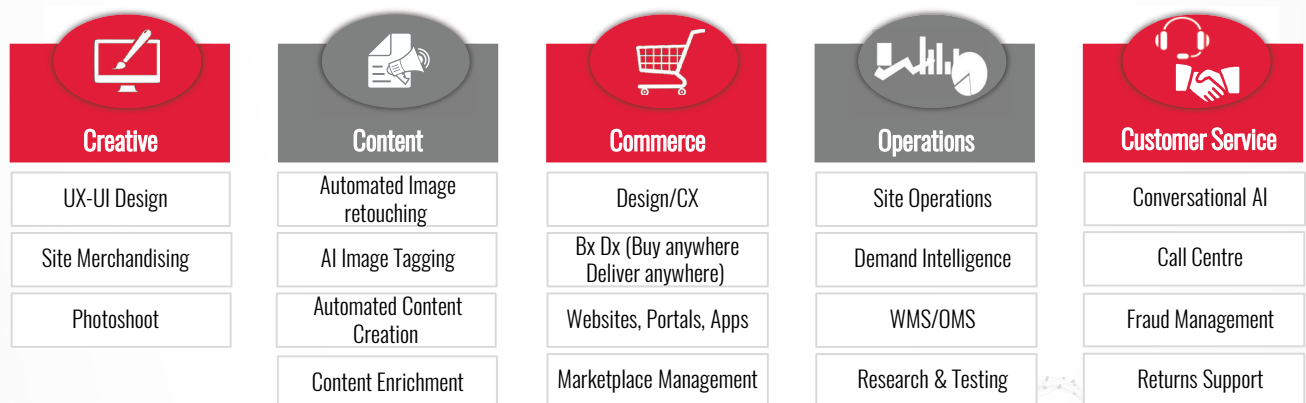
Shopper expectations for a seamless experience is becoming rapidly insatiable and retailers are looking for solutions that will help them anticipate what customers want, identify their preferences and deliver digital insights that can be used to offer personalized and compelling content. The need of the hour is a systematic and continuous approach to innovation - that is centered on the customer.

Today many retailers heavily rely on manual effort to run their online operations that in-turn becomes a very expensive and time-consuming activity for both their ecommerce platform and mobile apps. The challenges that retailers face due to fragmented operations across multiple players in the market operating in silos, processes handled manually, and content management need to be catered to more than ever.

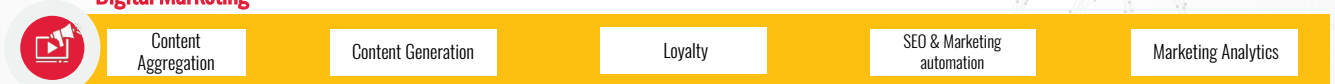
Adapting to the “new normal” requires retailers to have a deeper understanding of customer behavior, category performance, how competitive the market is and provide personalized experience to your end customers.

Tech Mahindra & Capillary Technologies have partnered to create a complete Ecommerce value chain, leveraging applied artificial intelligence as one of our strong capabilities to make a transformational change to online retail.

Elevate Online with Integrated Commerce Platform



Digital Marketing



The full stack digital platform integrates Creative, Commerce, Content, Digital Marketing, Operations and Customer Service to significantly increase margin for retailers. While many players in the market focus on business services, we bring a complete value chain that develops deep engagements with customers, understand competition, predict future trends, analyze categories and create a differentiated branding experience across all channels. We offer a suite of services that can be easily plugged in with the existing enterprise enabling you to fill in the missing pieces.

Intelligent automation of tasks has helped retailers in:

- Reduction of cost of operations by 50-60%.
- Providing differentiated branding experience and consistent customer experience across all touchpoints.
- Reduction in Total turnaround time by 40-50%.
- Deriving real-time updates on competition, category performance, trend analysis, site operations.
- Integrated comprehensive solution with plug and play modules.

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About Tech Mahindra

Tech Mahindra continuously focuses on enriching its Digital Platform with new AI powered capabilities. The company has been named in the Forbes Digital 100 list - and recognized as one of the top 100 public companies that are shaping the digital economy worldwide.

Tech Mahindra provides One Stop Solution – INTEGRATED DIGITAL EXPERIENCE PLATFORM to elevate Retailer's online commerce. Our innovation comes from collaborations with Capillary Technologies & Tech Mahindra's acquired portfolio companies such as Born Group and Mad*Pow, thus together providing the world's best digital platform.

About Capillary

Capillary is Asia's leading enterprise SaaS product company that helps businesses get ahead of the digital evolution and stay 'Always Consumer Ready' with its suite of omnichannel commerce, customer engagement, Loyalty and in-store analytics solutions. Over 400 marquee brands across 30+ countries, including Apple, Lee, Pizza Hut, Bata, Walmart, Al-Futtaim, CP All, Asics, Toys“R”Us, Dyson and Samsung, trust Capillary to enable easy and seamless consumer experiences.

Way Forward

The need for ecommerce brands to optimize and streamline their operations isn't limited to the current situation when brick and mortar shops are closed. Even after the lockdown eases, the new buying habits will persist, and people are likely to continue shopping online. Ecommerce brands should therefore approach this with a short, mid as well as a long-term strategy.

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