

COVID-19 will permanently change e-commerce in Denmark



The pandemic is rapidly changing our behavior toward online channels, and the shifts are likely to stick post-pandemic. While many companies are challenged to survive in the short-term, the crisis also presents opportunity; bold companies that invest ambitiously and timely in their online business are likely to emerge as market leaders. We propose seven initiatives that are critical for business leaders to act on now to successfully transition your business to the new e-commerce reality.

Take the long view in a crisis

The COVID-19 crisis is unlike anything the world has ever seen. Country, institution, and business leaders are facing tough choices with unprecedented levels of uncertainty. While short-term orientation is key, it is becoming increasingly clear that the crisis will permanently shape the societal and economic order of the future, as has been the case with other historical crises.

Societal trends related to how we work, how we learn, how we shop, and how we use technology are changing rapidly. While these trends were already unfolding before the crisis, we are seeing an acceleration that will lead to a new normal coming out of the crisis. While a short-term reaction is needed to survive, a long-term view will make winners.

Companies that invest courageously and timely in pivoting their businesses toward the behavioral changes can capture market shares and emerge as market leaders post-pandemic. Time is

now to launch that digital market place, click-and-collect universe or acquire the critical digital talent you have been considering to ensure that your business is fit for fight post-pandemic.

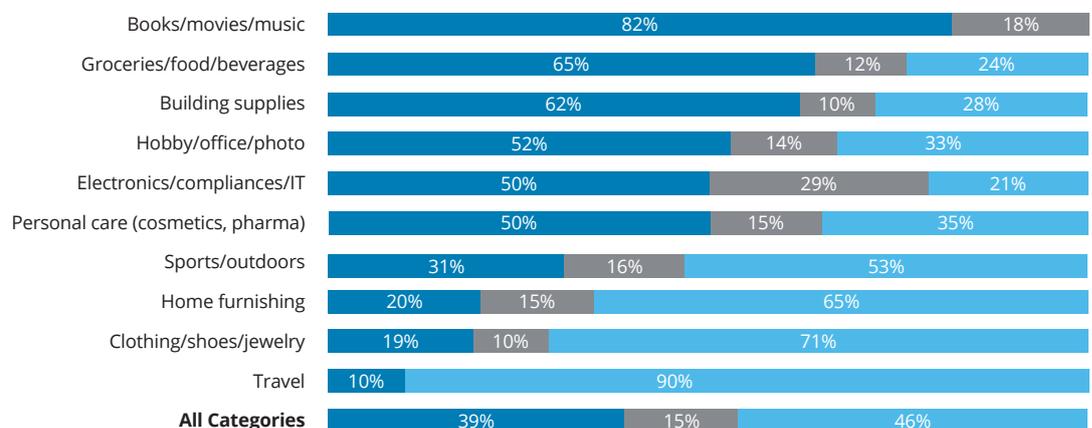
Extraordinary online demand for essentials and entertainment

Across the globe, the COVID-19 outbreak has led to a major change in business conditions for B2B and B2C companies alike. The development in China can serve as an indicator of what is to come as we are preparing for the reopening of society in Denmark.

The nationwide efforts to contain the epidemic outbreak in China has changed the consumers' daily habits, consumption patterns, and ways of thinking, resulting in a boost to the "home economy" and a further improvement in online services that were already world-leading. Online demand has increased for multiple categories, including entertainment and food and beverages delivered using innovative non-contact formats.

Figure: Reported revenue development in March 2020 versus expectations/budget before the outbreak - by product category (percent, share of all companies)²

More than 10% growth
As expected (+/- 10%)
More than 10% decline



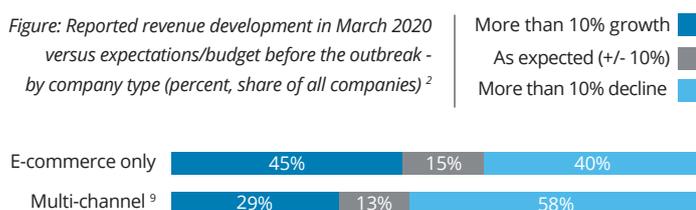
¹ Deloitte China: How consumer products & retail enterprises can win the battle against COVID-19

² FDIH: COVID-19 surveys with members during March 2020



Denmark is no exception. Data from the Danish E-commerce Association (FDIH) collected from its 600 members in the three weeks following the Danish lockdown confirm the international trends. Of the companies selling groceries, food and beverages, 65 percent have seen more than a 10 percent increase in revenues compared to what was expected. On the contrary, luxury goods and home furnishing are experiencing sweeping declines.

The extraordinary demand within certain categories has to a large extent been captured by the pure online companies. The survey shows that 45 percent are experiencing a growth of more than 10 percent versus expectations before the outbreak. Recent news of the online retailer nemlig.com hiring 400 new employees to cater for the increasing demand during the crisis underline this point.³ In the other end of the spectrum, multi-channel companies with physical footprint are challenged to protect their revenues despite temporary effects of consumer hoarding within certain categories. Examples include the large Danish retailers that may have seen an uplift in their online sales but not nearly enough to compensate for disappearing store traffic and struggling luxury and apparel categories.



While crisis-induced shifts in demand are temporary, the question is whether the underlying shifts in consumer behavior will stick? Will categories such as food and beverages partly stay online? And will the pure online e-commerce players be able to protect their acquired market shares?

A permanent gear change in Danish e-commerce

The SARS crisis in 2003 is widely known for kickstarting Alibaba's and other Chinese companies' e-commerce successes in Asia.⁴ Alibaba launched its online marketplace for consumers during the SARS crisis when many Chinese were at home in quarantine. Likewise, Chinese JD Multimedia (now JD.com) migrated the business from offline to online channels in response to SARS and is now one of China's largest retailers. The SARS pandemic accelerated the behavioral change of the internet becoming the mass medium in China.

The COVID-19 crisis will result in permanent change to our shopping behavior and ways of conducting business in Denmark. While some businesses have experienced a temporary short-term peak in demand, other categories will be moving online for good. Why?

1. Convenience beats price as the #1 reason for online shopping:

We are getting used to online convenience, and new habits quickly become persistent. Last year, convenience topped the list of reasons for online shopping. Essential product categories, such as beverages and fresh food, may be particularly susceptible to the convenience wave.

2. The risk of a pandemic blowback leads to continued social distancing:

There is an underlying concern in society about a pandemic blowback in the midterm, and the increased focus on personal hygiene and social distancing will encourage continued online shopping, reinforcing behavioral change in the longer term.

3. Intensified online competition:

E-commerce players seeing a surge in volume will do everything in their power to retain their newly acquired customers through loyalty programs, subscription models, promotions, and expansion of the product range. The competition intensifies with consumers using price engines and referral sites to find the best deals online.

4. New distribution and logistics capacity:

Distribution companies are experiencing an overwhelming demand for last-mile and contactless package delivery, which has enabled them to build up new capacity. In addition, new crowd peer-to-peer platforms are accelerating, for example, the Dutch company Burd that offers same-day delivery of packages in Denmark.

5. Elderly consumers go online:

As the elderly population is in self-imposed quarantine (and for longer time), their online shopping is expected to further increase as the existing behavioral trend is accelerated. The population aged 65 years and above consists of roughly one million inhabitants in Denmark, thus making up a sizable customer segment for companies to serve digitally in the future.

³ <https://finans.dk/erhverv>

⁴ Duncan Clark, Alibaba: The House that Jack Ma Built

⁵ FDIH: E-handelsanalysen 2019

⁶ <https://www.sst.dk>

⁷ <https://via.ritzau.dk>

⁸ Search Engine Optimization

⁹ physical & e-commerce



Practical recommendations to transition your business

Now is the time to act. The bold and ambitious companies that embrace the new reality and take timely action can capture market share and emerge after the crisis as market leaders. Action requires courage to reinvent your business model and invest in times of high uncertainty.

The following seven recommendations are critical to consider for CXOs and heads of e-commerce when responding to the new e-commerce reality:

1. Explore digital business model: Revisit the foundation of your business model to make sure that it is still valid in the context of digital sales channels, profit models, and the services that you can provide your customers with. The time is now to create the digital market place, introduce the subscription model, or create the click-and-collect universe that you have been considering.

2. Overinvest in digital marketing channels: Funnel your marketing spend toward the digital channels and media versus out-of-the-home platforms. Revisit both your paid and organic marketing (SEO) maturity. If you do not have the scale to invest competitively, find a suitable digital market place. Above all, strike appropriate marketing messages during and after the pandemic situation.

3. Strengthen the customer experience: Understand the path to purchase of your (new) online customers and provide them with simple and human-centered UX design to create delightful shopping experiences across devices leveraging the latest technological innovation. If you have physical stores, ensure that they are experienced and digitally connected with your e-commerce channel.

4. Upgrade your supply chain and fulfillment: Making your supply chain customer-centric will for many businesses mean catering for a stronger product availability, fast last-mile delivery and easy returns, raising the question of flexible warehousing (perhaps utilizing your physical stores), logistics partnerships, and auto-replenishment models to manage profitability.

5. Strengthen your technological platforms: Pressure test your e-commerce platform, expand necessary capacity limits to prepare for an increasing consumer flow, and take the opportunity to invest in advanced analytics capability to ensure personal, timely and automated customer interactions and recommendations across devices.

6. Reinvigorate your organization: New digital talent (UX, visual design, scrum, etc.) will be needed, and many of your existing employees will not be able to adapt. Seize the opportunity to replenish your talent base, and invest ambitiously in your culture and digital ways of working leveraging latest corporate team and interaction platforms.

7. CXO management attention: Elevate e-commerce to the executive agenda in your business to ensure adequate attention and priority. CEOs and managing directors should seize the opportunity to communicate clearly and strongly on the gravity of change needed for your company to emerge strongly post-pandemic.

COVID-19 will permanently reshape e-commerce as we know it, separating winners from the rest. If you would like sparring or more information on the proposed recommendations on how to position your business successfully for the future, please reach out to Deloitte as listed below.

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