

New normal, new opportunities



E-Commerce

Stuck at home? Some online retail therapy always helps!

The “New normal, new opportunities” series

This report is part of the “New normal, new opportunities” series, in which we examine secular trends in a post-COVID-19 world. The series will cover a range of themes that are emerging as a result of social distancing, the work-from-home imperative, health care developments, corporate implications, and broader societal change. We believe identifying these trends and understanding their investment implications will be critical to navigating the road ahead. Additional reports will be released over the next few months.

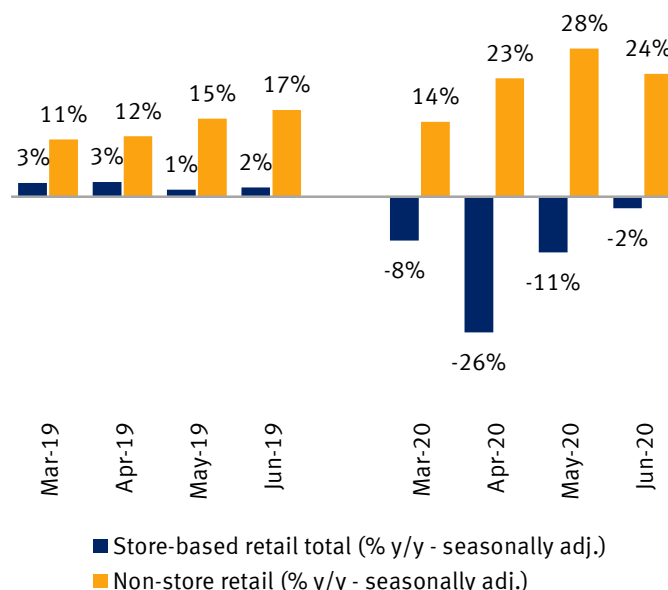
The COVID-19 pandemic has fast-tracked the transition of market share in retail from traditional bricks-and-mortar to e-Commerce. We believe, by and large, market share gains for those online players with the most sophisticated and wide-reaching networks will be structural in nature. Yet even with the surge in online retail in the span of a few short months, penetration rates for e-Commerce in the U.S. remain in the high-teens, suggesting to us there is considerable runway for future growth. Over the long term, we foresee the real possibility of online retail becoming the new norm thanks to the pandemic. Although many people thought online retail would eventually become the norm, COVID-19 has pulled the timeline forward as the value-proposition for e-Commerce with respect to efficiency, convenience, and reliability has been underscored.

COVID-19 has accelerated the transition to the digital retail market

E-Commerce and online shopping have experienced remarkable growth over the last several years, far outpacing that of the traditional bricks-and-mortar channel. And while COVID-19 has dealt a devastating blow to retail overall, this has not been uniformly felt across the sector. In fact, we believe COVID-19 has accelerated the transition to digital retail given region-wide lockdowns, a larger portion of the labor force is working from home, and a general fear of public spaces.

Store-based retail and non-store retail growth

March–June 2019, March–June 2020; year over year



Source - U.S. Census Bureau

According to the U.S. Census Bureau, non-store sales accelerated year over year each month from March through June of this year. At the high, non-store sales growth surged 28% y/y in May, while store-based retail fell 11%.

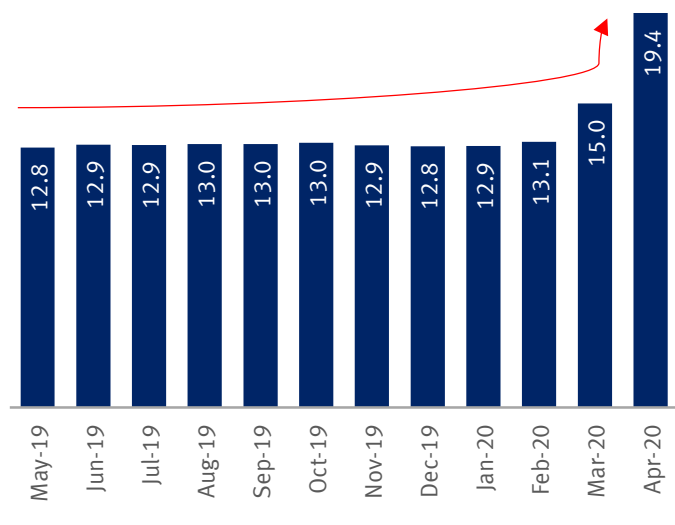
Following from this, after holding steady for nearly a year, e-Commerce penetration rates in the U.S. jumped from 13% in February to 15% in March, and 19% in April of this year (top exhibit on the next page). We believe these changes represent material increases in penetration over a short duration. In a recent report, RBC Capital Markets opined that an increase of such magnitude would normally take several years, and that COVID-19-induced changes in consumer purchasing have essentially fast-tracked this transition within just a few months.

Click [here](#) for author’s contact information. Priced (in USD) as of 7/20/20 market close, ET (unless otherwise stated).

For important disclosures see [page 3](#). Produced: July 27, 2020 16:54ET; Disseminated: July 28, 2020 07:00ET

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E-Commerce penetration in the U.S. (%)

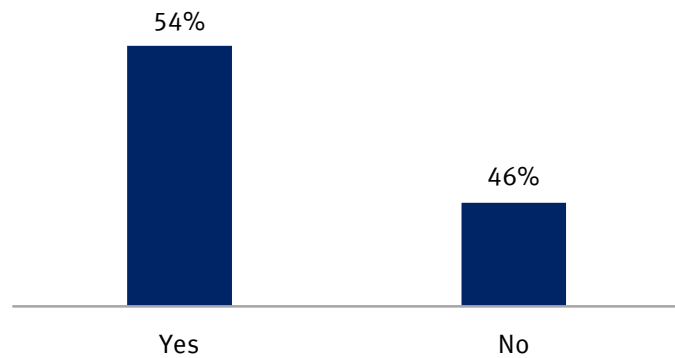


Source - U.S. Census Bureau (seasonally adjusted data), RBC Capital Markets

Pandemic likely to drive structural market share gain in e-Commerce

The “conversion rate” of households from physical to digital shopping channels should not be underplayed. We

Do you believe the COVID-19 crisis will lead you to permanently increase your willingness to purchase online versus in-store?



Source - RBC Capital Markets; Proprietary survey of 2,730 respondents

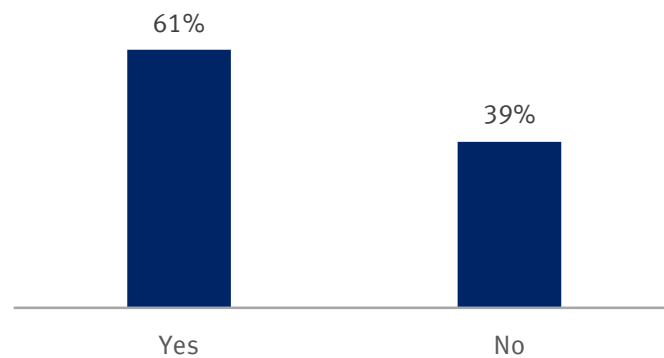
believe that the majority of online shopping novices that have migrated to digital channels amid the pandemic will continue to do a higher proportion of their shopping online in the years to come.

In RBC Capital Markets’ 8th annual U.S. Online Shopping Survey, when respondents were asked if the pandemic would lead to a permanent increase in willingness to purchase online versus in-store, more than 50% responded “Yes”. In addition, more than 60% of respondents indicated their online retail spend increased due to COVID-19.

Considerable long-term runway for online retail to become the “new norm”

Ultimately, in the “new normal” we believe this shift will manifest in permanent market share gains for online players with the most sophisticated and wide-reaching logistics networks. E-Commerce penetration rates in the U.S. retail market, while higher today than they were at the beginning of this year, sit in the high-teens, suggesting to us there is a considerable runway for growth and market share gains going forward. As has been the case in the past, we expect market share to be structurally ceded by the traditional bricks-and-mortar channel and sub-scale online players that possess inferior e-Commerce networks.

Has COVID-19 increased your online retail spend?



Source - RBC Capital Markets; Proprietary survey of 2,730 respondents

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