

E-Commerce Sector and M&A Report

2018



M&A becomes an answer for new e-commerce challenges

After a period of relatively 'easy' growth and attractive margins, independent e-commerce players are under pressure to respond to greater competition from leading brands and e-commerce giants (marketplaces and large multi-brand online retailers). The industry needs to respond to the changing and disruptive market environment.

We are seeing acquisitions being used by traditional retailers to improve digital capabilities, while smaller e-commerce businesses without scale are on the lookout for new partners. The good news is that M&A can deliver highly complementary solutions.

Key takeaways:

- The Western **European e-commerce market is forecast to expand** at a CAGR₂₀₁₇₋₂₀₂₂ of 10%.
- However, there are some **major threats**:
 - **Scaled marketplaces** (eg. Amazon) are becoming a primary source for supply & product search.
 - Increased **competition from leading brands** and online players with greater financial resources and operational excellence in logistics, payments, innovation, etc.
 - **Rising customer acquisition costs** (vs. decreasing customer lifetime value) are eating into margins of independent online shops.
- **Valuations are high** in the listed space (the Top 30 players had an average sales multiple of ~1.9x at the end of 2017), which is supporting high transaction multiples in the European mid-market.
- **Digitalization of brick & mortar retail has become an important M&A driver**: traditional retailers are increasingly acquiring e-commerce businesses to develop digital competencies that can be rapidly bolted on to existing operations.
 - We saw this when SIGNA Retail acquired outfitter.com in 2016/17 to improve Karstadt Sports' online presence. [Note: Capitalmind's e-commerce lead in Germany Jurgen Schwarz advised on this landmark transaction.]



Jürgen Schwarz
Partner, Capitalmind

"The e-commerce market is being disrupted after a period of relatively easy growth between 2010 and 2015, as increasingly dominant market players and rising customer acquisition costs reduce margins and win market share from independent e-commerce shops. It's imperative that these businesses reach customers more directly, and M&A is often an effective way forward."

Threats & solutions

After a period of relatively 'easy growth' and attractive margins (especially between 2010 and 2015), most e-commerce businesses are now being forced to rethink their business, marketing and operating models.

The 3 big threats

1. Giant marketplaces

- Giant marketplaces such as Amazon are fiercely competitive on price, highly effective at 'locking-in' customers within their ecosystems, and becoming the primary source for product search.
- This is making digital marketing initiatives such as SEM/paid search less effective and in many cases they are 'running on empty'.

2. Leading brands

- Leading brands continue to directly "reach out" to the end-consumer with state-of-the-art online shops, multi-channel marketing strategies and massive financial resources, ie. competing with their retail customers.
- It can be foreseen that in each product segment only a few specialized multi-brand e-commerce retailers with an excellent presentation of their offering will be supported by suppliers (brands) with limited and/or exclusive product ranges and marketing resources.

3. Rising customer acquisition costs

- The shift away from traditional marketing strategies towards digital ones has led to increasing online marketing costs, which is squeezing margins (profitability) and growth outlooks for independent online shops. These rising customer acquisition costs are occurring across most channels (Google, Facebook, Instagram) and in many cases it is already a 'no-win' game. A challenging trend for players without scale.

Solutions


Direct customer approach

- **New media companies** such as Social Chain Group (GR/UK) provide content & distribution on social media (YouTube, Facebook, etc.) and also direct investments (growth capital).
- **TV channels** such as Germany's ProSieben-Sat.1 provide tv advertising using media-for-revenue and/or media-for-equity investments via their investment arm Seven Ventures.
- **Publishing groups** such as Burda Digital (GR) and Bauer Media (GR) are seeking partnerships that leverage their magazine formats, and now also provide growth capital via direct investments.


M&A

- **Digitalisation of brick & mortar retail** has become a major opportunity, as traditional retailers shift their strategies away from developing digital capabilities in-house (which often fail) to acquiring e-commerce companies that can be bolted on to existing operations.
- **Acquisitions** tend to be run effectively as separate businesses/websites with few integration issues post-merger. We saw this when Germany's Karstadt Sports' owner SIGNA Retail acquired outfitter.de (GR); when Whole Foods (US) invested in Instacart (US); and when Ocado (UK) contracted with Morrisons (UK) and Casino (FR).


Selection of our deals in e-commerce



sold



to



E-Commerce



sold to



Online sporting goods retailer




sold




to




Online retailer of fishing goods




completed a fundraising underwritten by




Online auction




completed a fundraising underwritten by




E-commerce / online marketplace



Acquired growth funding from



&



Online printing products



sold



to



Online sporting goods retailer



sold to



Online luxury consumer goods retailer




completed a fundraising underwritten by




&




Online sporting goods retailer



acquired



from



Online "senior" products retailer

If you would like to discuss this report in more detail or opportunities for your business, please get in touch



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Jürgen Schwarz is head of Capitalmind's Retail & Consumer Business practice in Germany, and has 17+ years of experience in international M&A advisory.

Previously, he was a co-founder and managing director of Outfitter GmbH (outfitter.com, focusing on pure online soccer & team sports retail); and Alpha Industries Europe GmbH (alphaindustries.com, focusing on marketing and wholesale distribution of apparel fashion lines to leading players such as Otto Group, Karstadt, Metro Group, Peek & Cloppenburg and El Corte Inglés) and manufacturing in Asia.

Jürgen is also a member of the advisory board of Outfitter and Storck Bicycle.



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CONSUMER



FOOD & AGRO



HEALTHCARE



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