



E-COMMERCE



LOGISTICS

RETAIL




MOBILE





The Globalization of E-commerce

It's thrilling, and perhaps intimidating, to think how fast our daily lives are changing in regards to how we work, shop and live. Because of online shopping, mobile commerce, urbanization, and SEO/social media marketing - these activities are more dynamic and fluid than ever before. These trends are not only a part of our everyday lives, but they're influencing logistics and industrial real estate in a very big way.



The proliferation of mobile technology will help drive the globalization of e-commerce. Smartphones have become the fastest-selling technology device in history, and the World Bank estimates that close to three-quarters of the world's population - including much of the developing world - now has access to a mobile phone. Smartphones and other mobile technologies have penetrated every aspect of daily life, including how global consumers shop.

Given the growth in the amount of time consumers spend on mobile devices, companies who provide customers with a seamless and engaging mobile platform are likely to have more sales than companies who don't. In the United States, activity on smartphones and tablets account for more than one in four e-commerce transactions (28% in 2015), and analysts agree that with improvements in mobile payments and a growing propensity to purchase on mobile devices by younger consumers, this tally will rise. In China, 73% of internet giant Alibaba's first-quarter 2016 sales came from mobile devices. Widening 4G coverage in China and the growing purchasing power of younger generations will undoubtedly result in more mobile-driven e-commerce sales in China in the future. Similarly, roughly 65% to 70% of European online sales come from mobile devices.

The globalization of e-commerce and the proliferation of multi-market, multi-channel shopping, has been and will continue to be transformational for the retail and logistics industries. E-commerce sales are expected to reach \$1.6 trillion globally in 2016, and forecasters, such as Goldman Sachs, expect global online sales to continue to grow 20% annually, driven by strength in China and India, low-teens growth in North America, and double-digit growth in Western Europe and the rest of Asia. In China - where internet sales are growing at 2.5 times total retail sales - forecasts are robust but vary from 21% to 37% growth. Indian e-commerce has grown at a rapid pace over the past several years, driven by rising internet connectivity and the expansion of electronic payment systems. Analysts expect e-commerce, in that market, to continue to grow 30% to 40% annually.

Percentage of sales from mobile devices

UNITED STATES

28%

of e-commerce transactions in 2015

CHINA

73%

of Alibaba's 2016 Q1 sales

EUROPE

65%

of online sales

In Japan, where e-commerce's maturation has been slower and online sales represent less than 5% of total retail sales, forecasts call for gradual growth of 11% annually. In the U.S., analysts predict online sales will grow 14% annually from 9.2% of overall retail sales to 12.2% by 2018. In Latin America, growth has been hindered by limited connectivity and infrastructure-related barriers to logistics. However, increasing access to broadband and mobile 3G and continued investment in transportation networks should result in 20% annual growth in that market. In Eastern Europe, e-commerce is expected to grow by 13% annually, with online sales rising from the current 4.5% of total retail sales to 6.3% by 2018. Similarly, in Western Europe, forecasts call for annual growth rates of 11%, with online sale rising to 10.4% of total retail sales by 2018.

New Driver of Logistics Demand

E-commerce growth is an important driver of demand for logistics real estate, because fulfillment centers that deliver product directly to consumers are surpassing the number of traditional retail distribution to stores. This phenomenon has contributed to shrinking footprints for certain retail formats and increased the demand for logistics-related real estate. The vast majority of all retail sales still occur in stores, and more than 90% of worldwide retail sales are captured by retailers with a brick-and-mortar presence. Savvy retailers understand how each customer touch point supports sales and are developing omni-channel strategies that maximize customer satisfaction by seamlessly improving the experience from "bricks-to-clicks." Clearly, inherent in this strategy is the need for additional logistics real estate.

E-commerce-related occupiers have consolidated into logistics facilities many activities related to fulfillment that were once carried out within storerooms resulting in the need for more space for electronic fulfillment than for traditional distribution activities. One reason for this is that as e-commerce shifts the point of sale from the retail store to the logistics facility, greater stock keeping units (SKUs) must be carried within the facility, which, in turn, requires larger buildings. Both the number of SKUs and how they are stored matter: individual order picking, packing, and shipping direct to consumers require more space than palletizing for store distribution. Another reason is that some e-commerce logistics facilities accept product returns, which necessitates floor space for both processing and restocking.



JOHN MORRIS
Executive Managing Director
Logistics & Industrial Lead, Americas
john.morris@cushwake.com



JASON TOLLIVER
Head of Industrial Research, Americas
jason.tolliver@cushwake.com



One Size Does Not Fit All

In the world of e-commerce, one size does not fit all. E-commerce business models vary in many ways, including the size of the operation, product focus and retailer model. These dimensions affect the size, location and building strategies of logistics facilities. In the near term, e-commerce real estate requirements in the U.S. and portions of Europe should continue to move toward four distinct categories:

- > Large fulfillment centers located outside major metropolitan areas
- > Mid-sized distribution/fulfillment centers seeking to locate proximate to the population
- > Medium to large sortation centers located within major urban centers to accelerate delivery and mitigate risks
- > Small depots dispersed throughout the urban core serving as "last-mile terminals" to satisfy customer service expectations for instant delivery.

The final leg of delivering packages to consumers also encompasses options for in-store pickup of items ordered online. Globally, we see the growing popularity of package delivery kiosks. Regardless of the strategy, the key to successful last-mile delivery will be the presence of an extensive facilities network that provides timely and cost-effective service. Traditional retailers with existing physical assets are well positioned to compete if they can optimize the inventory management system. Ultimately, whoever utilizes the most efficient and cost-effective last-mile methodology will win.

Growth Lies Ahead

E-commerce fulfillment is still in its infancy, but it has already had a transformative impact on global supply chains. Changing customer expectations that require the presence of products where they want them, when they want them, require more capacity and flexibility from supply chains. The continued evolution of service expectations, the rapid growth in mobile technology and connectivity, and further development of infrastructure in emerging markets will continue to drive demand for logistics facilities and affect occupier requirements for their industrial real estate.

It's early; growth lies ahead, in a connected fashion, for both e-commerce and logistics.

[CLICK HERE TO LEARN MORE](#)



BEN CONWELL
Senior Managing Director
E-commerce Practice Lead, Americas
ben.conwell@cushwake.com



ELISABETH TRONI
Head of Research, EMEA
elisabeth.troni@eur.cushwake.com