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Deep Dive: Profiling Ten of the World's Biggest E-Commerce Marketplaces, from Alibaba to Zalando

Deborah Weinswig
CEO and Founder
Coresight Research
deborahweinswig@coresight.com
US: 917.655.6790
HK: 852.6119.1779
CN: 86.186.1420.3016

In this report, we profile ten of the world's biggest e-commerce marketplaces and look at the global prospects for e-commerce growth.

1) Marketplaces aggregating third-party sellers have been growing their share of e-commerce. According to Euromonitor, marketplace sales accounted for 41% of all online retail sales in 2017, up from 17% in 2008.
2) Amazon and Alibaba are the two biggest international players in e-commerce today, largely because their respective home countries, the US and China, have been early and fast adopters of online retail.
3) Smaller Chinese companies such as Kaola and Pinduoduo are finding niches to focus on to chip away at the near-duopoly of Alibaba and JD.com in Chinese e-commerce.
4) Retailers including Walmart and Zalando have been moving into marketplace formats in order to bolster their online offerings.
5) Young and less-urban populations along with high rates of GDP per capita growth appear to correlate with greater reliance on e-commerce. India and parts of sub-Saharan Africa could be the next regions to experience an e-commerce boom.

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Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

Introduction

Marketplaces Gaining Share of Global Internet Sales

Worldwide, e-commerce will generate an estimated $1.6 trillion in sales this year, up 17% year over year, according to Euromonitor International. That huge and fast-growing channel is being fought over by a mix that includes niche, specialized Internet pure plays, legacy multichannel retailers and marketplaces that aggregate third-party sellers. It is a battle that marketplace giants such as Alibaba and Amazon appear to be winning for now.

Online retail consists of two primary modes of transaction: direct retail, which involves a company selling inventory that it owns to consumers via its website (first-party sales), and marketplace sales, which are transactions between a company or brand and consumers via an online platform, such as Amazon, eBay or Tmall (third-party sales).

Marketplace sales are increasingly driving e-commerce today. According to Euromonitor, marketplace sales accounted for 41% of all online retail sales in 2017, up from 17% in 2008. Amazon and other major e-commerce retailers have begun relying more heavily on marketplace sales. In 2007, third-party sellers accounted for only 26% of all units sold on Amazon and that figure is 53% at present. China's JD.com has adjusted its own business in a similar manner: from 2012 to 2016, the company increased the percentage of third-party goods sold on its site from 22.6% to 43.4%.

In this report, we discuss the current global e-commerce landscape and look at the future of Internet retailing. We also examine the operations of the ten most prominent e-commerce marketplaces in the world and outline how each of these companies differentiates itself. Our coverage focuses on marketplaces selling directly to consumers, so excludes business-to-business (B2B) sites such as Alibaba.com. We begin with a rundown of the key metrics for each of the ten companies (Figure 1) that we have profiled in this report.

Deborah Weinswig, CEO and Founder, Coresight Research
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Figure 1. Ten Major E-Commerce Marketplaces: Key Metrics, 2017

Company		GMV (USD Bil.)	Company Revenue (USD Bil.)	Marketplace Revenue (USD Bil.)	Gross Profit Margin (%)	Change in Share of Global Internet Sales, 2012–17	Notes
Alibaba Group (Retail)	Alibaba Group	$730.9	$37.9	$26.8	57.2		Gross merchandise volume (GMV) is for China Retail Marketplaces segment. Marketplace Revenue is for China Commerce Retail segment.
Amazon	amazon	$320.8	$177.9	$31.9	37.1		GMV is estimated.
JD.com	JD.COM 京东	$191.7	$53.6	$4.5	14.0		
eBay	ebay	$83.9	$9.6	$6.5	77.5		
Pinduoduo	拼多多	$40.3	$0.4	$0.4	58.6		Fiscal year ended June 2018.
Rakuten	Rakuten	$30.3	$8.4	$6.1	N/A		GMV is domestic (Japan) only. Marketplace Revenue is for all Internet Services segment.
Flipkart	Flipkart	$7.5	$3.0	$3.0	10.0		Revenue and gross-margin figures are for the fiscal year ended March 2017.
Zalando	zalando	$5.8	$5.3	$5.3	43.6		GMV is estimated. Marketplace Revenue is revenue from direct sales and marketplace sales.
Walmart	Walmart Marketplace	N/A	$500.3	$11.5	37.1		Marketplace Revenue is Walmart's US revenue from direct and marketplace sales.
Kaola	网易考拉海购	N/A	$1.7	$0.4	N/A		Marketplace Revenue is for NetEase e-commerce revenues including Yanxuan.

Source: Company reports/Bloomberg/CNBC/Euromonitor International/TechCrunch/Coresight Research

Industry Background

Euromonitor expects the online channel to account for nearly 11% of global retail sales in 2018.

The Growth of Online Retail

As recently as 2008, e-commerce accounted for barely 2.5% of global retail sales and this year, Euromonitor expects this figure to rise to 11%. Much of this impressive rise can be credited to the online channel in China where e-commerce will account for 23% of all retail sales, according to Euromonitor. In the US, Coresight Research estimates that online retail will account for 13.5% of all retail sales this year. Globally, low e-commerce penetration for groceries depresses this total and if we focus on nonfood products, the

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percentages of sales heading online are, universally, much higher than the respective averages.

Euromonitor projects that annual worldwide e-commerce growth will remain above 10% through 2020. This projection is contextualized by a fundamental shift in the way consumers prefer to purchase goods. In a November 2017 survey of Chinese consumers conducted by Coresight Research, 85% of respondents reported making more than half of their apparel purchases online. This is in stark contrast to the 32% of American consumers who said in a separate 2017 Market Track survey that they prefer to buy apparel and footwear online—but that comparison does not give a complete picture of Americans' shopping preferences because the same survey showed that 78% of American shoppers ages 18–29 and 70% of those in their 30s prefer to shop either online or on their mobile devices.

A 2017 survey by Market Track found that 78% of US shoppers ages 18–29 and 70% of those in their 30s prefer to shop either online or on their mobile devices.

So, although American consumers still make the majority of their purchases offline, younger generations' increasing preference for online shopping indicates that e-commerce is well positioned for continued growth in the US. And in China—where only 56% of the population was connected to the Internet in 2017, according to the China Internet Network Information Center—e-commerce growth should continue to outpace the worldwide average in the coming years.

Profiling Ten Major E-Commerce Marketplaces

Alibaba (Retail): Tmall and Taobao

Key Details (2017)	
Year Founded	**1999**
Country of Origin	**China**
Company Revenue (USD Bil.)	**$37.9**
Retail Marketplace Revenue (USD Bil.)	**$26.8**
Five-Year Revenue CAGR	**48.6%**
Expected 2018 Revenue Growth Rate	**58.1%**
Gross Profit Margin	**57.2%**
Retail Marketplaces GMV (USD Bil.)	**$730.9**

Retail Marketplace Revenue is for China Commerce Retail segment, which includes some physical stores
Source: Company reports/Bloomberg

General Information

As measured by GMV, Alibaba Group operates two major marketplaces in China: the world's largest consumer-to-consumer (C2C) e-commerce marketplace. These marketplaces are:

In the year ended March 2018, Taobao recorded GMV of $408 billion and Tmall recorded GMV of $323 billion.

- Taobao, which focuses on C2C e-commerce as well as sales by small businesses to consumers (B2C). In the year ended March 2018, Taobao recorded GMV of $408 billion.
- Tmall is Alibaba's B2C marketplace. In the year ended March 2018, Tmall recorded GMV of $323 billion, making it bigger than the estimated GMV for Amazon (retail and marketplace combined).

In addition, the company also operates its namesake wholesale marketplace, Alibaba.com. Because it is a B2B operation, Alibaba.com is outside the scope

Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

of this report and our marketplace data for Alibaba Group refer to its retail operations only.

Alibaba also operates a growing chain of Hema supermarkets, which blend online and offline retail and deploy new technologies in stores.

Alibaba was founded by Jack Ma in China in 1999, and the company established Taobao in 2003 and Tmall in 2008. Alibaba has grown at an annual rate of nearly 50% over the past five years.

Differentiators

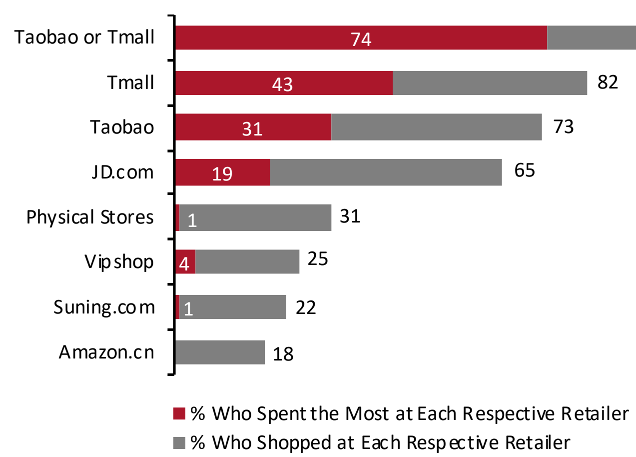
Alibaba's consumer marketplaces not only offer an almost unparalleled variety of products, but also an enjoyable and engaging shopping experience. The Taobao C2C and small-business marketplace functions as the eBay of China. However, Taobao has grown much faster than eBay in recent years, most likely because Chinese consumers' often-limited discretionary budgets make the low prices offered on Taobao make it comparatively more attractive than any other competitor.

While low prices are appealing, authenticity and shopping experience have also become increasingly important for Chinese consumers. Alibaba serves this demand through Tmall, which operates as an online mall where brands and retailers have their own flagship stores that offer only their products. These stores give Chinese consumers greater confidence that the products are authentic and it lets brands creatively design their own unique stores on the platform.

Started in 2009, Singles' Day is now the largest shopping holiday in the world, and Alibaba continues to dominate it, even as other e-commerce retailers offer similar deals to compete.

Alibaba also differentiates itself through its annual 11.11 Global Shopping Festival, also known as Singles' Day and Double 11. Launched in 2009, this event has now turned into a $25-billion shopping festival and includes gala concerts that is broadcast live online and featured celebrities such as Pharrell Williams and Kobe Bryant in 2017. Coresight Research's 2017 survey of Singles' Day shoppers confirmed Alibaba's continued dominance in the event.

Figure 2. Where Consumers Shopped During Singles' Day 2017 (%)



Base: 492 Singles' Day shoppers
Source: Coresight Research

Alibaba has launched a chain of Rural Taobao e-commerce centers that enable people in villages to purchase products online and sell their goods via

Rural Taobao's dedicated marketplace. In June 2018, Alibaba announced plans to extend Rural Tabao centers to 1,000 Chinese counties, up from the 700 that it was present in at that time.

Finally, Alibaba is racing JD.com to provide even-faster delivery times. Through Cainiao, its logistics arm, Alibaba is innovating ways to speed up delivery via a vast array of distribution centers and investments in self-driving delivery vehicles.

Positive Outlook

Although the e-commerce market in China is becoming increasingly crowded, Alibaba retains the largest share through Tmall and Taobao. The company has also launched Tmall Global, which enables international brands and retailers to sell easily to Chinese consumers. Additionally, because Alibaba's portfolio includes the Cainiao logistics network and the Alipay payment platform, the company is able to control the entire sale process on Tmall and Taobao without relying on third-party service providers.

Challenges

Several companies are emerging to compete against Alibaba in China, and many of them focus on specific niches to appeal to a narrow target segment. These competitors include Kaola, which specializes in cross-border e-commerce, and Pinduoduo, which specializes in supplying low-priced products to consumers in China's tier-3 and -4 cities. These companies and others like them are growing quickly and it is possible that Alibaba will suffer from its image as the "everything store" as it competes with these more highly specialized rivals.

- We take a deep dive into Alibaba Group's various operations in our 2017 report *Alibaba Group: From Strength to Strength—An Overview of the Business Units of the World's Largest E-Commerce Company*.

Amazon

Key Details (2017)	
Year Founded	**1994**
Country of Origin	**US**
Company Revenue (USD Bil.)	**$177.9**
Marketplace Revenue (USD Bil.)	**$31.9**
Five-Year Revenue CAGR	**23.8%**
Expected 2018 Revenue Growth Rate	**33.4%**
Gross Profit Margin	**37.1%**
GMV (Est.; USD Bil.)	**$320.8**

Source: Company reports/Bloomberg/CNBC/Euromonitor International

General Information

Amazon's overall revenue in 2017 was $177.9 billion and Amazon Marketplace revenues of $31.8 accounted for 17.9% of its total revenues.

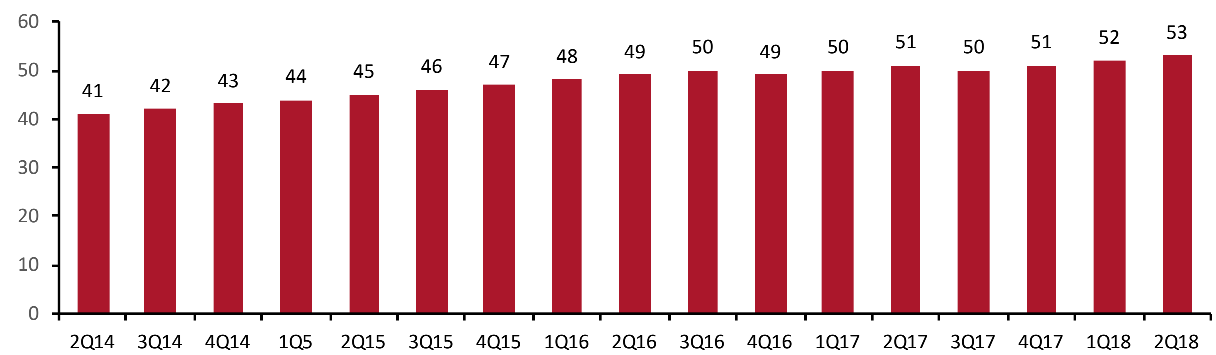
Founded by Jeff Bezos in 1994 in Seattle, Washington, Amazon is the second-largest e-commerce marketplace in the world, based on estimated GMV. Euromonitor estimates that Amazon saw GMV of $320.8 billion in 2017, marginally behind Tmall's $323 billion. Along with a growing range of private-label goods, Amazon offers nonretail consumers services such as video streaming as well as services for businesses such as a highly profitable cloud operation and nascent advertising.

Amazon's scale in e-commerce has been built on the twin planks of expanding into almost every category of consumer goods and creating a marketplace that facilitates third-party sales alongside its first-party retail offering.

The company's revenue in 2017 was $177.9 billion and Amazon Marketplace revenues of $31.8 billion accounted for 17.9% its total revenues; these marketplace revenues reflect only the commission that Amazon makes on third-party sales.

Third-party marketplace sales now account for more than half of all units sold on Amazon worldwide.

Figure 3. Amazon: Third-Party Seller Units as Proportion of Total Units Sold, Worldwide (%)



Source: Company reports

Differentiators

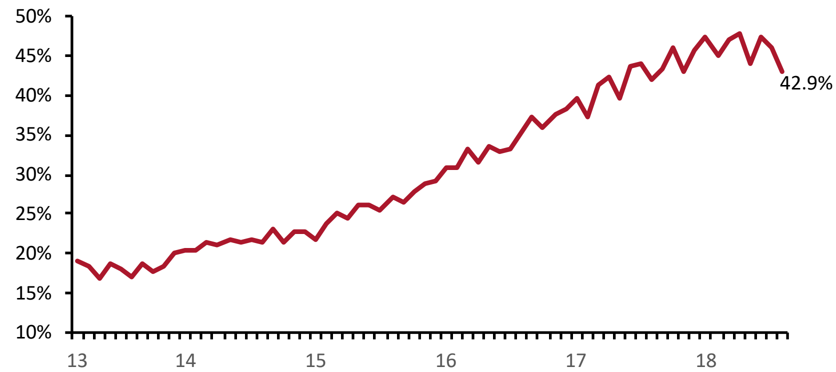
Amazon differentiates itself not through any specific product it sells, but through the promise of greater convenience, including its ability to offer almost every brand and product imaginable.

Amazon Prime is the foundation of the company's offering. It gives members access to free two-day shipping, exclusive deals on Amazon Prime Day, discounts at the company's Whole Foods Market grocery chain, and video and music streaming services for $119 a year (in the US). Amazon has been rolling Prime out to markets such as the Netherlands, India, Mexico and Australia in recent years.

Our research suggests that Amazon Prime supports high purchasing rates on Amazon's US site, including purchases in nontraditional categories. Our survey of apparel shoppers found much higher rates of purchasing apparel and footwear by Amazon Prime members as compared to those without this membership. We found similar trends in beauty products and toys. These findings imply that Amazon Prime locks in loyalty among members and encourages them to cross-shop in multiple categories.

Between August 2013 and August 2018, the proportion of US consumers with Amazon Prime memberships increased from 16.9% to 42.9%, according to Prosper Insights & Analytics. However, Prosper's more recent surveys show signs of membership plateauing (Figure 4).

Figure 4. US: Proportion of Consumers that Have an Amazon Prime Membership (%)



Base: 5,000+ US Internet users ages 18+ in each month; data cover March 2013–August 2018
Source: Prosper Insights & Analytics

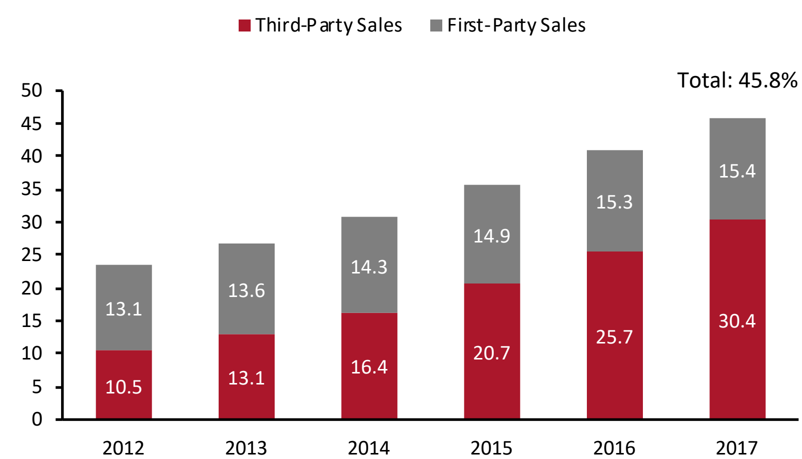
Amazon's website sees 50% more unique visitors every month than Walmart's site.

Positive Outlook

For an increasing number of Americans, Amazon is the first choice when shopping online and Amazon's share of US Internet retail sales has grown steadily in recent years, according to Euromonitor.

Euromonitor attributes the bulk of this growth to third-party sales, which it estimates now outvalue Amazon's first-party retail sales by the ratio of 2:1. This is despite Amazon's approximate 50/50 unit-sales split between first- and third-party sales, shown earlier; Euromonitor says the difference is explained by higher average unit sales prices for third-party sales (Figure 5).

Figure 5. US: Amazon's Estimated Share of Internet Retail Sales, Split by First-Party and Third-Party Sales (%)



Source: Euromonitor International

Amazon has posted consistently strong revenue growth figures in the last decade. With US retail sales expected to continue their shift online, Amazon is as close as it gets to a safe bet in terms of continued growth in the US in the foreseeable future.

Amazon is investing heavily beyond the US and the company looks at India as a big opportunity. The US giant has been expanding its offerings into new categories and is now trying to muscle its way into the country's grocery

Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

market. It brought its Prime Day event to India in 2017 and has been investing heavily in distribution centers across India.

India's FDI restrictions have forced Amazon to operate through complex joint ventures with local players. One such venture with Indian IT firm Infosys resulted in an electronics and fashion vendor called Cloudtail that is the biggest seller on Amazon's India platform and makes it both a marketplace and a seller in India. The company has made many such strategic moves, one of the most recent of which was applying for government approval to sell food products online in India.

In September 2017, Amazon bought a 5% stake in the department store chain Shoppers Stop. Amazon now has Amazon Experience Centers at Shoppers Stop stores and the retailer sells 400 brands on Amazon.in.

Given Amazon's global scale of operations, its expertise and its strong capital base, it did not have to strive for very long for becoming one of the leading players in Indian e-commerce. In May 2018, investment bank Citi estimated Amazon's share of Indian e-commerce sales at 30%–32% in 2017, putting it in second place behind Flipkart (including Myntra and Jabong) with an estimated e-commerce market share of 40%–42%. With Walmart's acquisition of Flipkart in 2018, the battle between these two giants of Indian e-commerce is likely to remain intense.

Challenges

As indicated above, some recent surveys have indicated a possible plateauing of Amazon Prime membership rates in the US. Given that Prime appears to drive loyalty and encourage cross-category purchasing, such a levelling off would probably soften Amazon's revenue growth in its domestic market.

Amazon's international operations, in aggregate, remain loss making, and the company's overall margins are supported by its higher-margin Amazon Web Services business. Given necessary investment to support growth in disparate geographies, it is likely to take some time for Amazon to report a positive operating margin for its international business.

Amazon has been largely unable to penetrate the Chinese market—and it has lost market share in China since 2012.

Amazon has been successful in almost every region of the world it has entered, with the significant exception of China. Although Chinese consumers rely on e-commerce more than consumers in any other country, Amazon is struggling to penetrate the market. The company has lost market share in the country where its share of all Internet sales was just 1% in 2017, according to Euromonitor. Coresight Research sees the failure to achieve a meaningful share of the Chinese market as one driver of Amazon's enthusiasm for India: it will not want to see a similarly disappointing outcome in another major growth market.

eBay

Key Details (2017)	
Year Founded	**1995**
Country of Origin	**US**
Company Revenue (USD Bil.)	**$9.6**
Marketplace Revenue (USD Bil.)	**$6.5**
Five-Year Revenue CAGR	**5.4%**
Expected 2018 Revenue Growth Rate	**13.1%**
Gross Profit Margin	**77.5%**
GMV (USD Bil.)	**$83.9**

Source: Company reports/Bloomberg

eBay's share of worldwide Internet retail sales has fallen steadily in recent years, declining from 7.5% in 2012 to 5.2% in 2017, according to Euromonitor.

General Information

eBay, originally known as AuctionWeb, was founded in San Jose, California, in 1995 by Pierre Omidyar. In 2017, the company took in $9.6 billion in revenue, including $6.5 billion in marketplace revenue. eBay's share of worldwide Internet retail sales has fallen steadily in recent years, declining from 7.5% in 2012 to 5.2% in 2017, according to Euromonitor. In recent years, the company's revenues have grown by mid double digits, on an average.

Differentiators

Unlike Amazon, eBay was founded to function purely as an online marketplace. It originally operated exclusively as an auction sales site where each product went to the highest bidder. eBay still features auctions, but also provides a C2C marketplace platform where individuals can sell small quantities of products at set prices. eBay aims to distinguish itself from Amazon and other competitors by making it easy for individuals to sell online and by offering a wide variety of goods that cannot be bought on traditional B2C marketplace sites.

Positive Outlook

In a number of Western markets, eBay remains ahead of the competition when it comes to C2C sales of niche products that are difficult to find elsewhere. It also appears to have been more successful than Amazon in attracting large numbers of individual sellers to its own marketplace platform. In the countries where it is established, eBay's lack of entry costs should ensure that individual sellers continue to choose it over other marketplaces that charge fees up front.

Challenges

eBay's revenues have been growing only slowly in recent years even as other e-commerce marketplaces have consistently grown their own revenues at double-digit rates. This has translated into loss of market share, as we noted above.

eBay's major challenge has been rising competition. Amazon's expansion of its marketplace offering, for instance, has undoubtedly stymied the company's growth. Moreover, Amazon has locked in more and more consumers with its Amazon Prime services that offers many benefits to members. Also, competition in the shape of specialized resale websites and apps have further chipped away potential revenues from eBay. These competitors include TheRealReal, ThreadUP, Depop, OfferUP and Letgo.

Flipkart

Key Details (2017)	
Year Founded	**2007**
Country of Origin	**India**
Company Revenue (USD Bil.)	**$3.0**
Marketplace Revenue (USD Bil.)	**$3.0**
Five-Year Revenue CAGR	**103.3%**
Estimated 2018 Revenue Growth Rate	**25.0%**
Gross Profit Margin	**10.0%**
GMV (USD Bil.)	**$7.5**

Revenue and gross-margin data are for the fiscal year ended March 2017
Source: Company reports

General Information

Flipkart was founded by Sachin and Binny Bansal in Bengaluru, India, in 2007 and focused solely on the sale of books to start with. Within a decade, the company established itself as the homegrown leader by selling an assortment of products ranging from consumer electronics to apparel through footwear. Flipkart successfully raised $4.1 billion from Softbank and Naspers in 2017, raising its valuation to $11.6 billion.

On May 9, 2018, Walmart announced its acquisition of Flipkart with a 77% stake in the company.

On May 9, 2018, Walmart paid $16 billion to acquire a 77% stake in Flipkart. The deal included fresh infusion of equity worth $2 billion to bolster Flipkart's position against Amazon, its biggest competitor. Flipkart is valued at $21 billion after the acquisition.

Differentiators

Flipkart has successfully hosted four Big Billion Days (BBDs)—its flagship annual sale when products are sold at steep discounts—as of June 2018. Flipkart's acquisition of specialist retailers such as Myntra.com and Jabong.com has further bolstered its position further to compete with Amazon in India. Flipkart also acquired the payments app PhonePe in April 2016.

Flipkart is widely regarded as the biggest e-commerce platform in India. As we noted earlier, investment bank Citi has estimated that Flipkart (including Myntra and Jabong) enjoyed an estimated 40%–42% share of e-commerce sales in India in 2017.

Positive Outlook

Flipkart has been using private labels as one lever for further growth. In February 2018, Adarsh Menon, private labels and electronics head at Flipkart, told the YourStory news website that, "By the end of 2018, the company expects to add around 165 categories," adding that, "private labels provide 40% margins on average." This effort has included expanding its MarQ private label for electronics and appliances.

In August 2018, Flipkart invested $66 million in PhonePe, taking the total investment in its payments arm to $184.1 million. In October 2017, Flipkart had proposed to invest nearly $500 million in PhonePe.

Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

Flipkart also announced the expansion of its recently-launched grocery e-commerce arm, Supermart, to five new cities by the end of 2018. Supermart is currently available only in Bengaluru.

Challenges

Perhaps Flipkart's greatest challenge will be the ferocity of competition, particularly from Amazon. As we noted earlier, Amazon is investing heavily to increase its share in the Indian market.

- For more on Flipkart and its competitors in the Indian market, see our recent Deep Dive *Indian E-Commerce Platforms Update*.

JD.com

Key Details (2017)	
Year Founded	**1998**
Country of Origin	**China**
Company Revenue (USD Bil.)	**$53.6**
Marketplace Revenue (USD Bil.)	**$4.5**
Five-Year Revenue CAGR	**54.3%**
Expected 2018 Revenue Growth Rate	**30.9%**
Gross Profit Margin	**14.0%**
GMV (USD Bil.)	**$191.7***

**For entire company, not just e-commerce sales.*
Source: Company reports/Bloomberg

General Information

Founded by Liu Qiangdong in 1998 in China as a physical retail store, JD did not go online as JD.com until 2003, at which point the company was exclusively an electronics retailer. Today, JD.com handles $199 billion in GMV across a wide variety of consumer products. Unlike Alibaba, its primary Chinese competitor, JD.com is a retailer as well as a marketplace—though the proportion of JD.com's GMV generated on its marketplace has been increasing.

Like rival Alibaba, JD.com is pushing into brick-and-mortar retail, announcing in April that it planned start opening 1,000 largely franchised convenience stores in China *per day*, by the end of fiscal year 2018.

Differentiators

Two features that set JD.com apart from the competition are its inhouse nationwide fulfillment capabilities and its guarantee of product authenticity. Also:

JD.com specializes in best-in-class fulfillment services, allowing it to effectively cater to customers in both top-tier and lower-tier Chinese cities.

- JD.com specializes in best-in-class fulfillment services, allowing it to effectively cater to customers in both top-tier and lower-tier Chinese cities through its growing network of convenience stores, drone delivery services, and delivery and pickup stations.
- JD.com has long sought to differentiate itself from its competitors through product authenticity. The company says that it has a "zero tolerance" approach to counterfeits and that the products it sells are sourced directly from global brands and reputable merchants. As JD.com continues to shift toward an online marketplace model, the risk of counterfeit products being sold through its marketplace

platform increases. However, the company says that any merchant found selling counterfeits will be permanently banned from its site.

Additionally, the company has formed a strategic partnership with tech giant Tencent, which enables JD.com to effectively capitalize on selling opportunities to Tencent's mobile user base. That includes customers who use WeChat, the largest social network and instant messaging platform in China.

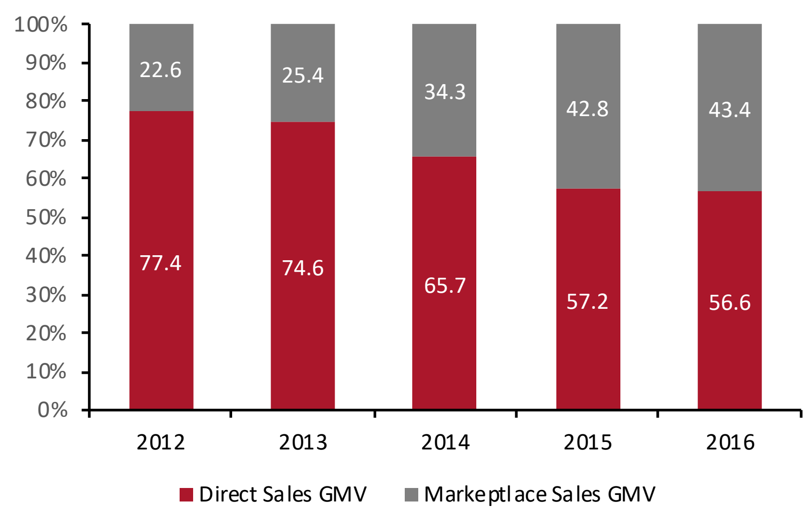
Like Alibaba, JD.com has its own $25-billion shopping festival called 618, held June 1–18 every year. This event is similar in scale to Alibaba's Singles' Day and JD.com generates its event's total sales over 18 days versus the one-day Singles' Day Global Shopping Festival.

While JD.com is a generalist retailer and marketplace, it has longstanding strengths in the mobile phones and consumer electronics category.

Positive Outlook

In recent years, JD.com has entered into strategic partnerships with Walmart and Baidu, the leading search engine company in China, in addition to Tencent. Each of these partnerships provides JD.com with additional tools that should help it thrive even in the face of intense competition from Alibaba and new players in the Chinese e-commerce market. Furthermore, the company has been expanding its higher-margin marketplace business, as shown in Figure 6 below.

Figure 6. JD.com: Proportion of GMV from Direct Sales and Marketplace Sales



Source: Company reports

This increased emphasis on marketplace sales should not only improve JD.com's profitability, but also help it compete more directly with Alibaba's Tmall.

Challenges

Despite its massive revenues, JD.com still operates in Alibaba's shadow within the Chinese e-commerce space. In the US, Amazon does not face a competitor that is equivalent to JD.com and it is possible that the general-merchandise e-commerce market is something of a natural monopoly, and that JD.com will struggle to coexist with Alibaba in the long term.

Moreover, Alibaba's investment in, and cooperation with, Suning, coupled with Alibaba's late-2017 launch of its Tmall Genie means that JD.com will face strong competition in its core category of consumer electronics.

- Readers may be interested in our 2017 Deep Dive *JD.com—A Differentiated E-Commerce Platform*.

Kaola

Key Details (2017)	
Year Founded	**2015**
Country of Origin	**China**
Company Revenue (USD Bil.)	**$1.7**
Marketplace Revenue (USD Bil., Est.)	**$0.4**
Revenue Growth (YoY)	**157%**
Expected 2018 Revenue Growth Rate	**N/A**
Gross Profit Margin	**N/A**
GMV	**N/A**

Source: Company reports

General Information
Kaola is China's largest cross-border online marketplace. It is owned by Chinese technology company NetEase, which was founded by Ding Lei in 1997 and offers Chinese consumers a variety of products and services, including online games, email services and website development. NetEase established Kaola in January 2015, which has grown into a $1.7 billion business in the three years since then.

Differentiators
Kaola has managed to carve out ways to differentiate itself from larger Chinese e-commerce companies. First, it focuses on mother-and-baby products, although the company says that it offers anything and everything a person could need. Second, Kaola is determined to keep its selection of any particular type of product relatively small.

Much of Kaola's success is likely due to its dedication to ensuring that only genuine, high-quality products are sold on its website.

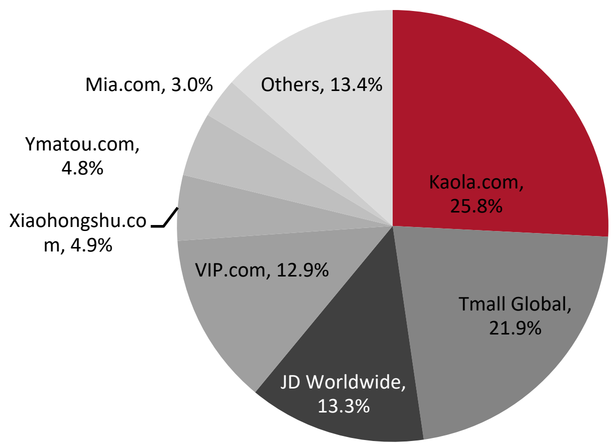
The company offers everything from pet food to strollers through high-end fashion, but it ensures that each category on its website features a curated collection of high-quality products with much of its success coming from this sharp focus on genuine, high-quality goods.

To maintain control over the quality of products sold on its site, the company prefers to sell directly to consumers rather than facilitate marketplace sales by third parties, and roughly 80% of Kaola's sales are of its own products. Third, the company specializes in cross-border e-commerce. Alibaba's and JD.com's revenues are more than 10 times than that of Kaola's, but Kaola is currently the largest cross-border e-commerce company in China.

Positive Outlook
Kaola enjoys a leading share among cross-border e-commerce platforms, according to iiMedia data that are charted in Figure 7. Kaola's edge in cross-border e-commerce bodes well for the company. According to China's

General Administration of Customs, cross-border e-commerce grew by more than 50% annually over the past three years and Kaola looks to continue to capitalize on Chinese consumers' love of foreign products.

Figure 7. Market Share of Cross-Border E-Commerce Platforms, 2017



Source: iiMedia

Challenges

When Kaola was founded in 2015, it entered a crowded e-commerce market in China. Although e-commerce accounts for a larger portion of the retail market in China than it does in any other country, Alibaba and JD.com have increased their control of Chinese online retail in recent years and together held a combined 62% of the e-commerce market in China, but that figure is 64.7% today, according to Euromonitor. Despite its success in certain niches, Kaola will still face challenges competing with these two e-commerce giants.

- Readers may be interested in our 2018 report *Kaola Forms Strategic Partnership with Beiersdorf*.

Pinduoduo

Key Details (2017)	
Year Founded	**2015**
Country of Origin	**China**
Company Revenue (USD Bil.)	**$0.4**
Marketplace Revenue (USD Bil.)	**$0.4**
Five-Year Revenue CAGR	**N/A**
Expected 2018 Revenue Growth Rate	**3,640%**
Gross Profit Margin	**58.6%**
GMV (USD Bil.)	**$40.3**

Source: Company reports/Bloomberg/TechCrunch

General Information

Pinduoduo is one of the youngest companies discussed in this report, having been founded by Colin Huang only in 2015. Since then, it has grown at a dizzying rate and Bloomberg estimates that the company's revenue will grow

Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

by 3,640% this year alone. If that revenue growth estimate is correct, Pinduoduo should post revenues of nearly $10 billion in 2018.

Pinduoduo, roughly translated as "buy more together," is the fastest-growing social e-commerce app in China and also a mini program within WeChat. Users can receive steep discounts of up to 90% on certain products if they invite enough friends to buy together. This social e-commerce feature has made it popular amongst budget shoppers in lower-tier cities in China and the app is scaling up rapidly.

Differentiators

Pinduoduo targets customers in China's third- and fourth-tier cities, most of whom have relatively low incomes and little disposable income.

Pinduoduo differentiates itself by offering products at low prices and selling to consumers accordingly. The company targets customers in China's third- and fourth-tier cities, most of whom have relatively low incomes and little disposable income.

Pinduoduo's other differentiators include:

- Group buying, which is the core function of the app. Each product has an official price and a group-buy discounted price. To get the discounted price, consumers need to find friends to join the group-buy deal.
- Free products for consumers who invite enough friends to "ask for a bargain" for a given product.
- Flash coupons and red envelopes (envelopes filled with money that is traditionally given at Chinese New Year, but now used extensively online to send money to friends and family online), which are offered as incentives for consumers to make purchases.
- A lottery with a social element. Users need to pay a small entry fee of RMB0.01 to enter the lottery. To activate the lottery, the user needs to invite enough friends to join within a specific time period.

Positive Outlook

Pinduoduo's results provide plenty of support for an optimistic outlook on the company. In just three years since its founding, the company already has 300 million active users. Furthermore, its revenue more than tripled year over year in 2017 and the company posted an operating margin of 58.6%, which was higher than that reported by Alibaba, Amazon and JD.com. Following strong growth in the first half of 2018, the company is expected to post revenues of nearly $10 billion this year, making Pinduoduo as large as Vipshop, another Chinese e-commerce company that was founded in 2008.

And while Alibaba and JD.com are still forces to be reckoned with, the e-commerce market is expanding faster in China than in any other country, there may be room for other e-commerce companies to find niches in which to thrive.

Challenges

Offering goods at cheap prices always involves trade-offs, and till the time this report was written, Pinduoduo was under investigation by Chinese regulators who are investigating to determine whether counterfeit goods are being sold on the marketplace. If the company continues to battle regulatory issues, it will likely have difficulty keeping up its impressive sales growth.

Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

- Readers can find further details in our 2018 report *The Rise of Pinduoduo: Rapid Growth Leveraging Social E-Commerce*.

Rakuten

Key Details (2017)	
Year Founded	**1997**
Country of Origin	**Japan**
Company Revenue (USD Bil.)	**$8.4**
Internet Services Revenue (USD Bil.)	**$6.1**
Five-Year Revenue CAGR	**18.7%**
Gross Profit Margin	**N/A**
GMV (Domestic Only, USD Bil.)	**$30.3**

Source: Company reports/Bloomberg

General Information

Rakuten is expected to post $9.7 billion in revenue this year.

Originally founded in Japan in 1997 by Hiroshi Mikitani, Rakuten is an online marketplace that helps companies without the requisite technical resources or skills sell their products online. A multibillion-dollar business now, the company is expected to post $9.7 billion in revenues in 2018. Other than e-commerce, Rakuten operates in several other business sectors, including banking, marketing and insurance. A simplified breakdown of the group's offerings is shown in Figure 8.

Figure 8. Rakuten's Business Segments

Source: Company reports

Even as it expands into other industries, Rakuten remains focused on e-commerce. In 2017, the company held a 20.1% share of the e-commerce market in Japan according to the Japan External Trade Organisation; this placed Rakuten fractionally behind Amazon with its 20.2% share in the Japanese e-commerce market.

Differentiators

Rakuten is the biggest domestic e-commerce player in Japan, which enables it to maintain a strong hold on the country's $104 billion e-commerce business despite the increased presence of international competitors.

Positive Outlook

E-commerce is second nature to just about every segment of the population in Rakuten's primary market of Japan. According to data from Statista, Japan's e-commerce shopper base is split relatively evenly between low-income, middle-income and high-income consumers, andRakuten has a huge and diverse pool of shoppers in Japan to which it can sell.

Challenges

Along with eBay, Rakuten is the only other marketplace discussed in this report that has lost its share of global Internet retail sales in recent years, according to Euromonitor.

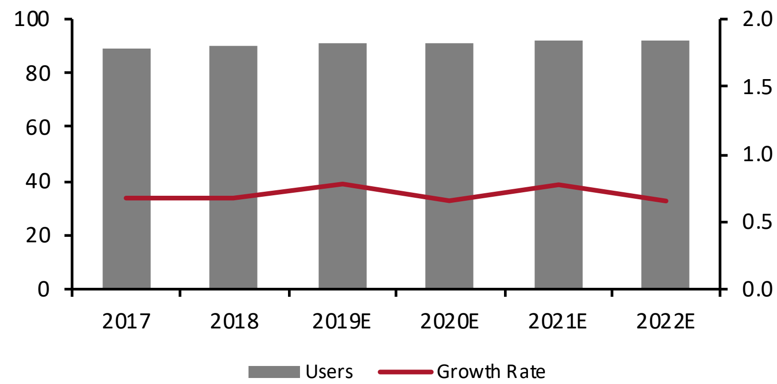
Along with eBay, Rakuten is the only other marketplace discussed in this report that has lost its share of global Internet retail sales in recent years, according to Euromonitor. Between 2012 and 2017, the company's share of worldwide Internet sales fell steadily year over year from 2.7% to 1.2%. One reason for this decline is Rakuten's apparent failure to gain traction in countries other than Japan. In 2016, it threw in the towel in the UK, Austria, Spain, Singapore, Malaysia and Indonesia, and sold its share in Thai e-commerce site Tarad.

The challenges of competing with giants such as Amazon contributed to Rakuten's failures in international markets, but we think some wounds have been self-inflicted. The company has prioritized brand uniformity under the often-unfamiliar Rakuten name over retaining familiar and popular acquired brand names, and we infer that consumers have walked away. In the UK, for example, the company acquired the well-known play.com site in 2011 and rebranded it—apparently unsuccessfully—as Rakuten.co.uk. Similarly, in 2018, the company rebranded the well-known French e-commerce site PriceMinister e-commerce as Rakuten.fr. France and Germany are two international markets where Rakuten retains a presence.

Within its domestic market, saturation is one possible challenge for Rakuten. Internet use in Japan is almost universal, and a large portion of the population frequently makes online purchases. This high penetration rate could limit the growth of Rakuten and other Japanese e-commerce retailers and marketplaces. As shown in Figure 9 below, the number of Japanese consumers making purchases online is expected to increase very slowly over the next four years.

Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

Figure 9. Japanese E-Commerce Users (Left Axis, Mil.) and User Growth Rate (Right Axis, %)



Source: Statista

Additionally, the Japanese population is one of the oldest in the world, with a median age of 46. As we will discuss later in this report, there is a correlation between younger populations and higher e-commerce penetration, so the fact that Japan's population is relatively elderly could limit the further growth of e-commerce in the country.

Walmart

Key Details	
Year Founded	**1962**
Country of Origin	**US**
Company Revenue (USD Bil.)	**$500.3**
US E-Commerce Revenue (USD Bil.)	**$11.5**
Five-Year Revenue CAGR	**1.3%**
Expected 2018 Revenue Growth Rate	**3.7%**
Gross Profit Margin	**37.1%**
GMV (USD Bil.)	**N/A**

US E-Commerce Revenue is for the Walmart banner only, excluding Sam's Club. Five-Year Revenue CAGR is for total company revenue, most of which is offline.
Source: Company reports/Bloomberg

General Information

Walmart, founded in 1962 in Arkansas by Sam Walton, is the largest retailer in the world, generating more than $500 billion in revenues in the fiscal year 2017. The bulk of the company's sales still come from its more than 4,000 brick-and-mortar stores worldwide and Walmart is also fostering a growing e-commerce business at present.

In 2017, the Walmart US business (which excludes Sam's Club) posted $11.5 billion in e-commerce revenues, a year-over-year increase of 44%. Walmart.com, the company's e-commerce platform, sells Walmart products and facilitates the selling of third-party products through Walmart Marketplace using the same interface.

Walmart launched its marketplace in 2009 but started expanding it substantially only from 2016. In January 2017, Walmart.com had 35 million

Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

stock keeping units (SKUs) on its site, more than quadruple the number that it had one year earlier and in January 2018, Walmart.com was offering 75 million SKUs to customers.

The company's 2016 acquisition of Jet.com brought the latter's then-14.8-million product listings, 210 million unique visitors and $1.2 billion GMV run-rate to Walmart.

Differentiators

Walmart is the only company featured in this report that operates both multibillion-dollar physical retail and e-commerce businesses. This means that Walmart can utilize its stores to promote sales on its online platform and vice versa. The company estimates that customers who discover the Walmart e-commerce site after shopping in-store spend almost twice as much as those who shop only in-store. Walmart.com is also home to certain Walmart-owned brands and products that cannot be found on competitors' e-commerce sites.

Additionally, Walmart added Jet.com to its e-commerce portfolio in 2016. Unlike Walmart.com, Jet.com is intended to appeal to more affluent, urban, millennial consumers—a much more targeted approach than Amazon, its main competitor, takes. Following the Jet.com acquisition, Walmart also acquired online-focused brands ShoeBuy.com, Moosejaw, Modcloth and Bonobos.

Positive Outlook

Following its acquisition of Jet.com, Walmart expanded its fast and free delivery options and acquired Indian e-commerce giant Flipkart.

In its core US market, Walmart has been registering impressive growth rates, both in total and online. As a mature brick-and-mortar player with a sizeable market share of US retail, Walmart could easily have seen an attrition in sales and a decline in relevancy. Instead, its investments in omnichannel services spanning grocery and general merchandise, the expansion of its marketplace, and its acquisition of millennial-friendly brands such as Jet.com and Bonobos have positioned it at the forefront of multichannel retail.

Walmart also acquired Indian e-commerce giant Flipkart for $16 billion in 2018. Apart from Walmart's already strong growth in e-commerce, this acquisition is the biggest reason to be optimistic about the future of the company's e-commerce business. Flipkart's revenue grew by 29% year over year in 2017 and India is one of the most underpenetrated e-commerce markets in the world. That indicates that Walmart is poised to be an early entrant into the next e-commerce boom in Asia.

Challenges

As with many of the major players discussed in this report, fierce competition is the biggest challenge facing Walmart. In its core US market, that competition evidently comes from Amazon, which continues to increase its share in e-commerce with its Amazon Prime membership plan. Moreover, the acquisition of Flipkart means Walmart will now be competing head-to-head with Amazon in India also.

Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

Zalando

Key Details (2017)	
Year Founded	**2008**
Country of Origin	**Germany**
Company Revenue (USD Bil.)	**$5.3**
E-Commerce Revenue (USD Bil.)	**$5.3**
Five-Year Revenue CAGR	**31.1%**
Expected 2018 Revenue Growth	**23.1%**
Gross Profit Margin	**43.6%**
GMV	**$5.8**

Source: Company reports/Bloomberg/Euromonitor International

General Information

Founded in 2008 by Rocket Internet, Robert Gentz and David Schneider in Germany, Zalando was initially positioned as an online footwear retailer. Ten years later, Zalando has transformed into a $5.3 billion company that offers not just footwear, but all categories of apparel and accessories. The company has been growing rapidly, with a CAGR of more than 30%, over the past five years.

Zalando is largely a retailer, with a minority marketplace under the Partner Program brand. That program enables brands to either hold and ship the stock themselves or to use the Zalando Fulfillment Solutions service, whereby Zalando holds and dispatches third-party stocks. However, the company's management has previously remarked that one distinction setting Zalando apart from other online marketplaces is that there is only one seller of each product on Zalando. Partner brands' own inventory is called upon only if or when Zalando's own inventory for a specific product is exhausted. Unlike with other sites that mix first-party retail and third-party marketplaces, shoppers using Zalando therefore cannot choose between different sellers of the same product.

Differentiators

Zalando aims to build its expansion on a broad positioning with an "all categories, all brands, all prices, all sizes" strategy.

- Categories: Zalando has added beauty products to its offering and it is already selling 142 beauty brands. In fashion, Zalando remains weighted toward the midmarket, meaning there are opportunities to grow both upscale and downscale.
- Brands: Zalando keeps its offering fresh and adds an average of 1,900 new products to its site every day. In June, it noted that it had added 350 new brands so far in 2018.
- Sizes: Around 10% of Zalando's womenswear revenues already come from special sizes, such as plus sizes.

Zalando has built innovative services designed to reduce friction in the shopping process. These include:

- Checkout and payment: Zalando offers payment options tailored to local demands. At June 2018, more than 60% of orders were enabled by deferred payments. In 2017, Zalando launched Try Now, Pay Later in

Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

France and the service is now the most-used payment method for Zalando France.

- Delivery: By automating processes such as bag sorting in its warehouses, the company decreases the time it takes to dispatch an order. Zalando is also keeping customers better informed about when their delivery is likely to arrive by using artificial intelligence that relies on knowledge of warehouse locations and carrier networks.
- Returns: Zalando offers an Uber-like collection service that picks up items from shoppers within 10–15 minutes of request. The company has created more returns centers in order to speed up the return of products to the company and it has begun offering direct reimbursement when a parcel is handed over for return (such as at a post office).

Finally, as we noted above, Zalando's Partner Program marketplace operates in a different way from most other retailer-marketplace combination sites, with third-party inventories used as backfill to first-party inventory.

Positive Outlook

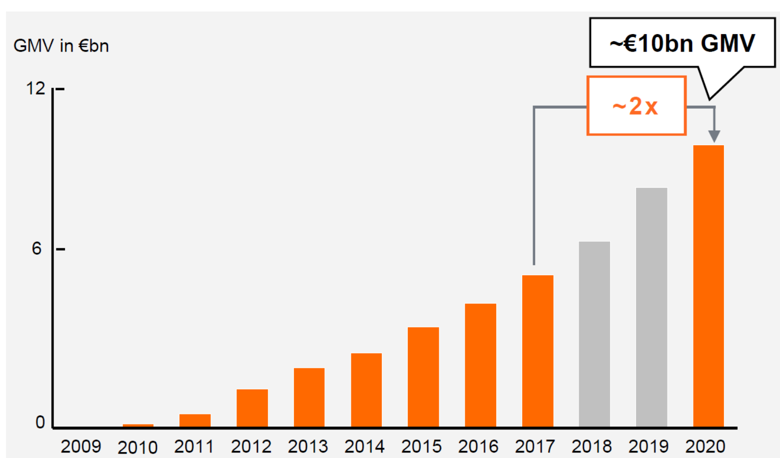
Zalando has a long-term goal of capturing a 5% share of the overall European fashion market. At the company's 2018 Capital Markets Day, management noted the following planks to its expansion:

- Zalando aims to double sales, as measured by gross merchandise volume, between 2017 and 2020. The company needs to add €1.5 billion ($1.75 billion) in sales each year to achieve this goal and will continue to invest for growth, meaning that margins will not expand in a meaningful way in the next few years.

- Localized merchandising, better digital experiences and greater convenience will support Zalando's growth. The company aims to be able to reach 25% of the European population with same-day delivery, 80% with next-day delivery and 95% with two-day delivery by 2020.

Zalando's revenue has grown by double digits year over year almost every year since its founding.

Figure 10. Zalando GMV



Source: Company reports

Challenges
We see two possible challenges for Zalando. The first is increased competition, particularly from Amazon as the US-based competitor builds stronger relationships with major fashion brands and establishes its own labels. Should Amazon establish a strong position in the European apparel market, Zalando could see a slowing of market-share gains and a weakening of its negotiating leverage with major fashion brands.

The second is that Zalando may face difficulties building margins in the coming years. Zalando's strategy is to grow sales now and to strengthen margins later, but that assumes that it will be able to keep a lid on rising costs. As we recently noted, pure-play retailers, including Zalando, have been seeing fulfillment costs rises as a proportion of sales in recent years. Future margin growth rests on reversing this trend—something that we cannot yet be certain is achievable given increased demand for services such as same-day and one-hour delivery.

- Readers may be interested in our report *Zalando's Capital Markets Day 2018: Doubling Sales—Margins Can Wait*.

Looking to the Future

Relating Macro Factors to Demand for E-Commerce
Online retail accounted for only 4.2% of all retail sales worldwide in 2012, but by 2017 that figure had risen to 9.7%, according to Euromonitor. However, e-commerce is growing at different speeds in different regions. The meteoric rise of e-commerce in China is well documented but lesser known is the fact that e-commerce's proportion of total retail sales in Mexico has grown by an average of 33.7% annually, which is more than twice the growth rate in the US.

The meteoric rise of e-commerce in China is well documented, but lesser known is the fact that e-commerce's proportion of total retail sales in Mexico has grown by an average of 33.7% annually, more than twice as fast as in the US.

To determine which factors have contributed to the rapid growth of e-commerce in some countries and muted this growth in others, Coresight Research examined demographics and market data from 10 countries and studied the correlation between certain indicators and e-commerce penetration. A simplified summary of our findings is tabulated in Figure 11 below.

Figure 11. Selected Economic and Demographic Factors' Effects on E-Commerce

Factor	Effect on E-Commerce as a Percentage of All Retail	Details
GDP per Capita	—	GDP per capita did not correlate with e-commerce as a percentage of all retail. However, our study included only nations with a GDP per capita of $8,500 or above.
Percentage of Population in Urban Areas	↓	Higher percentages of populations living in urban areas correlated with a lower percentage of e-commerce relative to all retail.
Percentage of Population that Uses the Internet	↑	Higher rates of internet access correlated with higher rates of e-commerce relative to all retail.
Median Age	↓	Older populations correlated with lower rates of e-commerce as a proportion of all retail.
GDP per Capita: Five-Year CAGR	↑	Faster rates of GDP per capita growth over the past five years correlated with higher rates of e-commerce relative to all retail.
Population Density	—	Population density did not have a significant relationship with e-commerce as a percentage of all retail.

Source: CIA, The World Factbook/*Euromonitor International/World Bank/Coresight Research*

The countries whose demographic and market data we looked at are China, the US, Mexico, Chile, France, Germany, Italy, Spain, the UK, India and Brazil. Our key findings included the following:

- Beyond a minimal level of wealth, a country's GDP per capita is no indication of how much it relies on e-commerce. A country with a GDP per capita over $40,000 is no more likely to have a higher rate of e-commerce penetration than a country with a GDP per capita of $30,000.
- The faster a country's GDP per capita is growing and the greater the percentage of the population that has access to the internet, the more likely is the country to see e-commerce account for a high percentage of retail.
- The younger and lesser urban a country's population, the higher the proportion of e-commerce relative to all retail in the country. This is likely because e-commerce is more valuable to people outside urban areas, as they do not have easy access to the wide variety of products typically available in city centers.

Regions to Watch in the Future

China and the US have dominated the global e-commerce dialog in the past decade and these countries will likely remain strongholds of e-commerce for years to come. But as more and more people around the world gain access to the internet and accrue more disposable income, certain regions, such as India and sub-Saharan Africa, could become e-commerce hotspots over the next five years.

Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

India

India looks like being the e-commerce market with the greatest potential. With the world’s second-largest population and one of the fastest-growing economies, India is primed for growth in just about every category of retail. E-commerce, however, appears especially well suited to the country. The combination of a young, less-urban population, a rapidly growing economy and increasing access to the internet makes India an ideal candidate for strong e-commerce growth in the future.

Sub-Saharan Africa

Sub-Saharan Africa is a region of the world often ignored in discussions on e-commerce and even retail in general. The region’s exclusion from the conversation is not completely unmerited: the average sub-Saharan African country’s GDP per capita is $1,553, less than 3% of the US’s GDP per capita, according to World Bank data. However, since 2002, the GDP per capita of the average sub-Saharan African country has grown at a CAGR of 7.5%, more than double the 3% rate in the US over the same period.

Even excluding countries where less than 25% of the population has access to the internet, many sub-Saharan African nations have displayed positive indicators across the metrics we studied.

Even excluding countries where less than 25% of the population has access to the internet, many sub-Saharan African nations have displayed positive indicators across the metrics we studied: for example, many of these nations have rapidly growing economies, young populations and a lack of population concentration in urban areas. The standard of living in many African nations has risen rapidly in recent years and is projected to continue to do so in the foreseeable future. Add to that the lack of large urban centers in many parts of sub-Saharan Africa and rising internet penetration rates, and many nations in the region appear to have the potential to make a late entrance into the world of e-commerce.

Key Takeaways

E-commerce marketplaces are quickly becoming many consumers’ go-to shopping destinations, though not all marketplace players have kept pace with the growth in e-commerce, with eBay and Rakuten losing their shares of the global market. Amazon and Alibaba are the superpowers in Western and Eastern e-commerce, respectively, but they are being challenged by smaller, niche pure plays such as Kaola and omnichannel retailers such as Walmart.

On a macro level, younger, less-urban populations in countries with fast-growing GDP per capita and high rates of internet usage appear to be more likely to rely on e-commerce as a primary mode of making everyday purchases. Countries that fit this mold, including India and many sub-Saharan African nations, are worth watching.

Deborah Weinswig, CEO and Founder, Coresight Research
deborahweinswig@coresight.com US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

Deborah Weinswig, CPA
CEO and Founder
Coresight Research
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@coresight.com

John Mercer
Senior Analyst

Owen Riley
Research Assistant

Hong Kong:
6/F, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong

London:
242-246 Marylebone Road
London, NW1 6JQ
United Kingdom

New York:
1359 Broadway, 18th Floor
New York, NY 10018

Coresight.com