

Global Economic Insights

March 2021

Will the abrupt, pandemic-induced e-commerce shift reshape retail's future?

Last year as millions sheltered at home, e-commerce proved crucial to keeping retail sales flowing. Now, as outbreaks begin to subside and mobility returns, e-commerce's share of total sales has fallen from its 2020 peak, raising questions about the lasting impact of the abrupt shift to e-commerce.

Transaction data offer two reasons for optimism that the accelerated uptake in online selling will persist even after the pandemic. First, the digital revolution now extends beyond large digital goods merchants to include more small and medium-sized businesses (SMBs). Second, SMBs that enhanced their digital offerings in 2020 now have a distinct advantage. Expanded sales channels have led to enlarged customer bases and provided a firm basis for the continued development of digital capabilities.

In This Issue

A few years' worth of e-commerce gains were compressed in a single year

Retail's digital transformation extends to small and medium-sized businesses

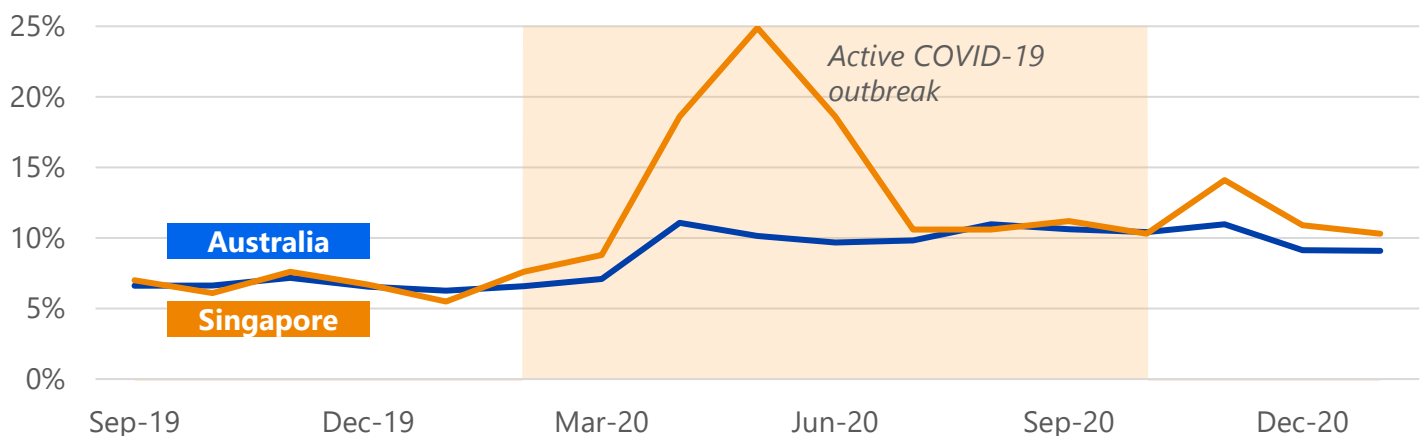
Adding an online channel helped businesses reach a larger set of customers

COVID-19's economic Impact Index

Online sales should settle on a new (higher) normal

Evidence from Australia and Singapore indicates that e-commerce gains are sustained even after outbreaks are brought under control. In both countries, local transmission of the novel coronavirus largely ended late last year and consumers' visits to retail outlets soon recovered. Greater mobility helped brick-and-mortar retail sales to rebound, yet online sales as a share of the total remain 3 to 5 percentage points higher than prior to the pandemic. Achieving a similar expansion in online sales prior to the pandemic would have taken between four to five years based on previous adoption rates in these countries. Years of development were compressed into a single year, leaving consumers more familiar with buying online and merchants with new sales channels.

Gains in e-commerce sustained even after outbreaks subside (e-commerce/total retail sales)



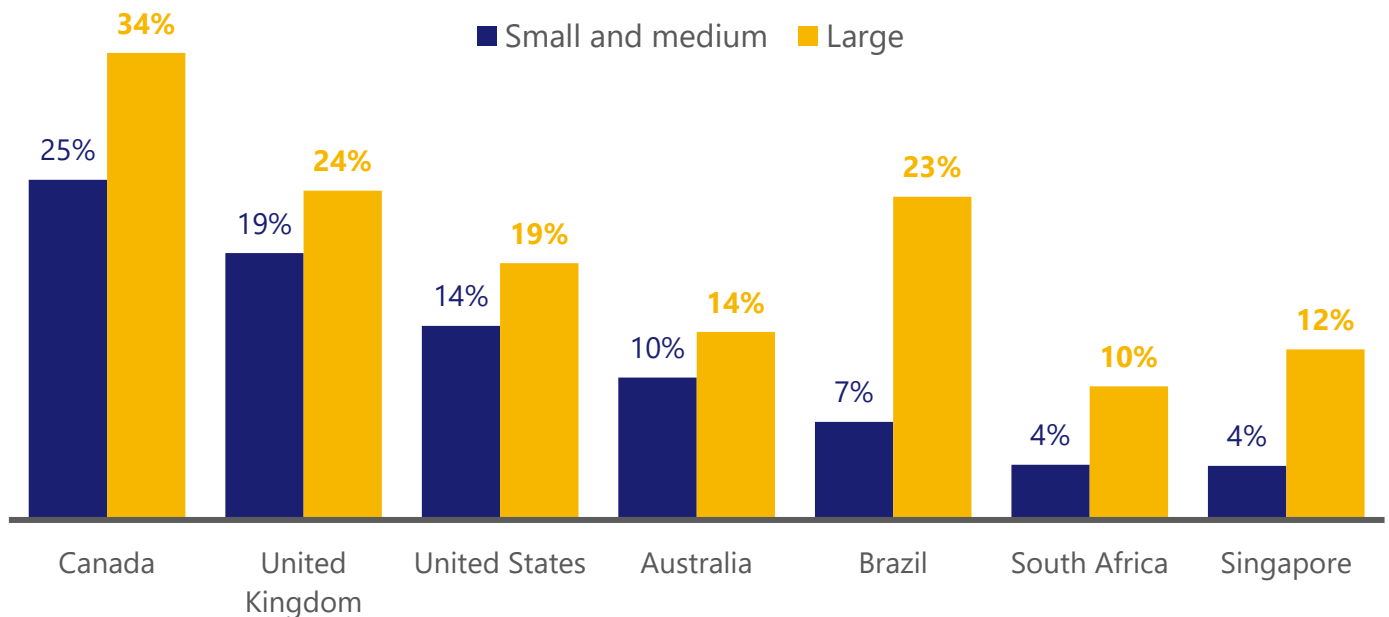
Sources: Singapore Department of Statistics, Australian Bureau of Statistics, Haver Analytics



2020: The year retail merchants of all sizes went digital

According to our analysis of VisaNet data, retail merchants of all sizes across all regions of the world adapted to the lock-downs and pandemic by moving more of their sales online.¹ While the shift was more pronounced for large businesses, SMBs were not far behind. In Canada, for example, while one in three large businesses pivoted to expand their online sales, one in four small businesses did the same. Adaptations to survive the pandemic and investments made last year have opened up new channels for merchants of all sizes to reach consumers in more ways.

Retailers increased their online business in 2020 (share of firms that increased online sales and use of online sales channels relative to 2019, by business size and country)



Source: Visa Business and Economic Insights analysis of VisaNet data

Interestingly, transaction data further shows that half of the increase in SMB online sales last year came from businesses that had no or minimal online business before COVID-19. Prior to the pandemic, three out of every five small Visa SMB retailers had no online sales in 2019. Responding to the challenges from the pandemic, 7 percent of these firms made their first online sales in 2020. Though traditional brick-and-mortar retail remains the main channel for sales among small businesses, the pandemic has accelerated the pace of adoption of digital channels.

These first-time participants showed strong returns on the investment, with their sales as much as 20-30 percentage points higher than their peers who did not shift to digital selling. Moreover, digitally-enabled SMBs emerged from the pandemic more resilient to lockdowns. Of these newly-online merchants, 86 percent were able to stay open in 2020 with limited closures, compared to just 70 percent of their peers with offline-only sales who managed to avoid extended periods of inactivity during the year.

The secret to their success was in the wider markets these newly digitally-enabled firms enjoyed—markets that were opened to them through e-commerce and electronic payments.



Through digital channels, SMBs reached a larger pool of customers

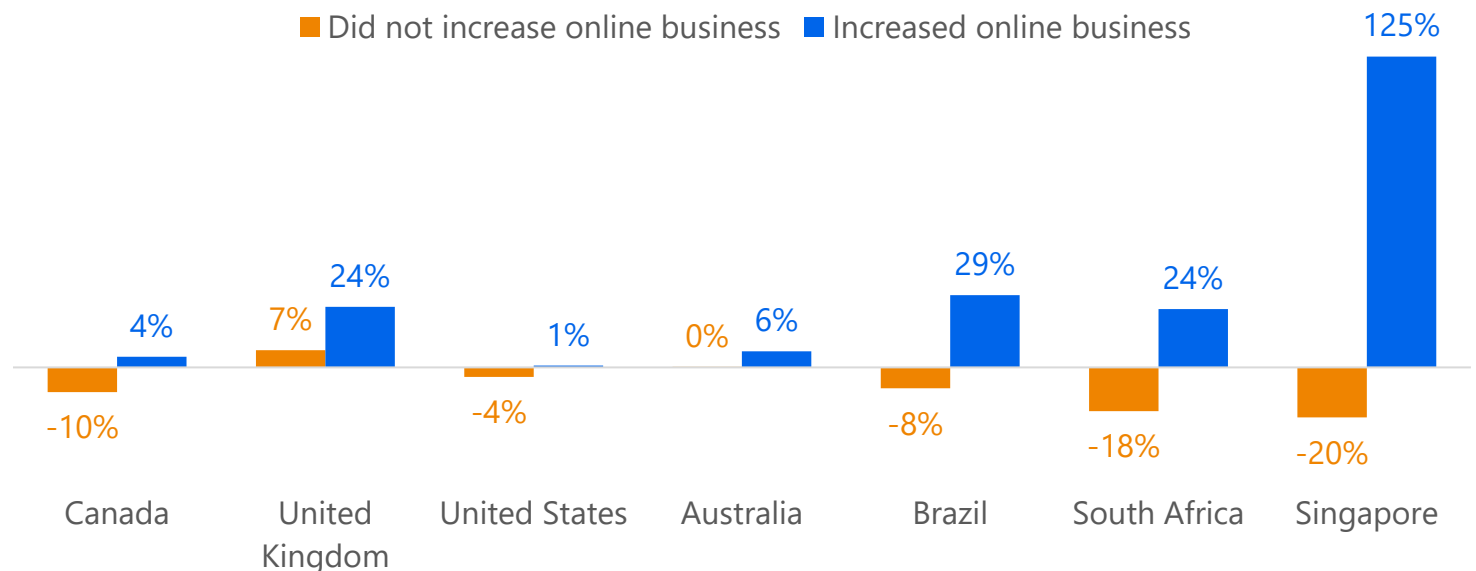
Digitally-enabled merchants were able to drive stronger sales as the shift online expanded their customer base.² Prior to the pandemic, online sales accounted for less than 20 percent of all sales for the majority of retail SMBs in countries around the world. This limited their reach to customers within a set geographic radius around their physical stores. Moving online opened up markets that previously may have been unreachable before the pandemic.

Within the subset of SMBs that had at most 20 percent of their sales online in 2019, those that increased their online throughput in 2020 experienced a 14 percent increase in customers compared to a 3 percent decline for those that stayed offline, according to the VisaNet analysis. In fact, the growth advantage that small businesses with expanded digital channels have over their peers can be almost entirely attributed to their relative success in attracting new customers. In the United States in particular, SMBs that did not increase their online presence lost about 4 percent of their customers, whereas those that did enjoyed a 1 percent expansion.

This shift to online also coincides with a shift in consumer preferences in favor of online shopping. A recent Cybersource study reported³ that mixed-channel retailers received the highest customer satisfaction scores, compared to merchants that had either exclusively-online or brick-and-mortar sales channels.

The COVID year has already left a lasting imprint on small businesses. Vaccine rollout delays or broader spread of new COVID-19 variants would likely only reinforce and accentuate the digital transformation and deep technological shift in retail that was precipitated by the pandemic.

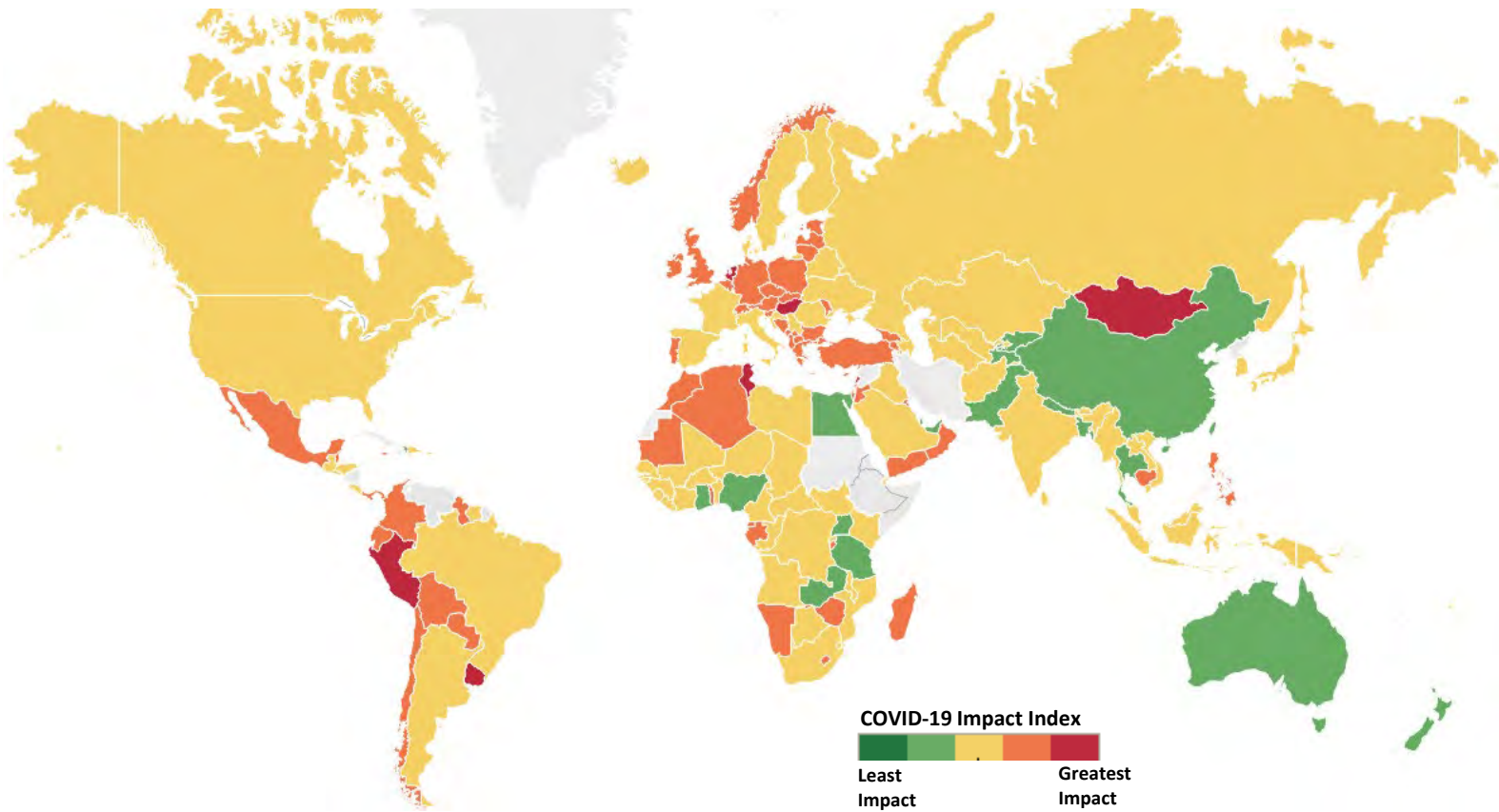
Retail SMBs that increased their online business in 2020 saw stronger growth in their customer base (Year-over-year percent change in customers)²



Source: Visa Business and Economic Insights analysis of VisaNet data



Economic impact of COVID-19 (As of 20 March 2021)



- Since our last report, the world hit a key milestone in mid-February when the total number of people who have received at least one dose of vaccine surpassed those who have contracted COVID-19. This news and continued efforts to bolster economies around the world has helped to loosen the pandemic's grip on the global economy. As of last month, the pandemic's economic impact on 108 countries fell, as opposed to 89 where it increased.
- The week ending 20 March marked the fourth consecutive weekly rise in newly-confirmed cases of COVID-19, increasing by 11.6 million since 20 February 2021. Over that same time frame, 140 million people have received at least their first vaccine dose. Unfortunately, where vaccines are being deployed is not where outbreaks are spreading the fastest. Several countries, especially in Europe, risk falling further behind as the fast spread of variants of the novel coronavirus outpace the slow vaccine roll-out.

The **Visa COVID-19 Economic Impact Index** tracks how the pandemic has affected economic activity across the globe through 12 key indicators: COVID-19 confirmed cases, COVID-19 death rates, airline transactions, cross-border lodging transactions, discretionary spend, discretionary transactions, restaurant spend, restaurant transactions, Google COVID-19 community mobility, consumer confidence, Purchasing Managers' Index (PMI) and leading economic indicators.

Notes

1. Analysis is based on a sample of about 3 million Visa merchants located in 25 markets around the world. The sample includes the subset of Visa merchants in the retail trade category (excluding gas stations and food service establishments) that were minimally active in both 2019 and 2020. A merchant's segment is defined based on the merchant category code where it registered the largest purchase volume in 2019. Small- and medium-sized businesses are defined as having total purchase volume in 2019 that was not within the top quartile of all Visa merchants within the same market and merchant category. Online transactions in this document are card-not-present transactions.
2. A merchant's client base is measured by the unique count of Visa cards that made domestic purchases at that merchant during the calendar year.
3. Cybersource 2020 Global Shopping Index Report.

Disclaimer

Studies, survey results, research, recommendations, opportunity assessments, claims, etc. (the 'Statements') should be considered directional only. The Statements should not be relied upon for marketing, legal, regulatory or other advice. The Statements should be independently evaluated in light of your specific business needs and any applicable laws and regulations. Visa is not responsible for your use of the Statements, including errors of any kind, or any assumptions or conclusions you might draw from their use.

All brand names and logos are the property of their respective owners, are used for identification purposes only.

Visa Business and Economic Insights

Wayne Best, Chief Economist

Bruce Cundiff, Vice President, Insights
Michael Brown, Principal U.S. Economist
Adolfo Laurenti, Principal European Economist
Richard Lung, Principal Global Economist
Glenn Maguire, Principal Asia Pacific Economist
Mohamed Bardastani, CEMEA Economist
Jennifer Doettling, Director, Content and Editorial

Michael Nevski, Director, Consumer Insights
Jeffrey Roach, Senior U.S. Economist
Dulguun Batbold, Global Economist
Angelina Pascual, European Economist
Travis Clark, U.S. Economist
Mariamawit Tadesse, Associate Global Economist
Juliana Tang, Executive Assistant

For more information

Please visit us at
www.visa.com/EconomicInsights

or

Contact us at
VisaEconomicInsights@visa.com