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Claire Calmejane,
Chief Innovation Officer,
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SPECIAL EDITION: E-COMMERCE

In this special e-commerce edition of the Observatory, we wanted to highlight the impact of the acceleration of e-commerce on consumer and payment uses through new payment models (Hanseatic bank & otto), platforms (Mirakl) and also integration of financial services by Chinese e-commerce players (SG China Team).
All this of course, for the well-being of customers.

#1 "BUY NOW, PAY LATER" MODELS SCALING AT HUGE PACE IN E-COMMERCE

BY MICHEL BILLON, MANAGING DIRECTOR HANSEATIC BANK

"The competition in e-commerce is getting fiercer by the day"
The COVID 19 pandemic has significantly increased the traffic and turnover of online shops, thus driving traditional stores currently suffering from lockdown constraints to develop so-called click and collect processes. Especially in a digital shop, where switching to another one is easy, a perfect purchase experience is key in order to ensure customer satisfaction and loyalty. Looking for and buying something online is fun for most, but the customer journey often ends abruptly when it reaches the payment process. This is where several Fintech have decided to cure customers' pain points, focusing on a so-called "buy now, pay later" (BNPL) value proposition.

Customers can first receive the goods and then think about how to repay later, for instance by credit card, transfer or in monthly installments. Studies have shown that the young generation, and especially millennials, prefer to defer their payments.

> **"Without asking customers for any additional information, BNPL offers a smooth and painless payment experience."**

Michel Billon,
Managing Director
Hanseatic Bank

An e-merchant can either set up a BNPL model on his own or have help from a provider, who either operates in the background, simply providing the software, but without building their own brand and customer base (like **Ratepay**) or **Afterpay**), or one who operates in their own brand and covers the whole value chain (like **Klarna** or **PayPal**).

In this last case, surely being the most powerful one, providers can ensure a very easy and comfortable customer experience when it comes to payment, as it is fully integrated into the purchase process and supported by a strong digital relationship management and mobile applications. Offering a full range of payment means, BNPL providers are able to catch qualified transaction and risk data from customers, which can afterwards be used to expand to retail banking offers like deposit, current account or loan. **With a deep understanding of customer payment flows, it is easy to imagine the potential to extend up the value chain for such players when the financing side of the merchants is also considered.** Contrary to many neo banks, BNPL providers have already demonstrated that their models are extremely profitable, earning fees from merchants and at the same time interest and fees from customers.

As the partner of **Otto.de** – the main subsidiary of our minority shareholder **Otto Group and the second biggest marketplace in Germany with almost 4 billion € turnover in 2020** - we at Hanseatic Bank have been a part of the value chain for several decades. Long ago, we decided not to build up our own payment process solution due to the huge investment that would have been necessary and because Otto.de did not want to give up its strong customer relationship. Instead, we developed other consumer credit activities and remained focused on our key area of expertise as a specialized bank, refinancing the outstanding loans generated by the BNPL activities of some of Otto Group's subsidiaries (1,7 billion € end of 2020).

With the development of Otto.de into a platform model, they intend to provide merchants not only with the platform itself to sell goods but also with payment services through a newly founded payment service company. This payment company will provide Otto's usual BNPL product – invoice or instalment purchases – with a very convenient and immediate process. In order to address the increasing need for refinancing, Hanseatic Bank is currently extending its capabilities and by doing so will very soon be able to enter into new partnerships outside of the Otto Group, for instance with payment service providers like Unzer or other e-merchants.

In a nutshell, BNPL providers, and more generally payment providers, have taken strong positions within e-commerce business, often on the back of traditional banks. They moved quickly and invested immensely in digital solutions with the ambition of solving pain points of customers and merchants alike. They are gradually come into our traditional playing fields like deposit business or consumer loans. Re-entering this market today would be at high cost, but there are also some other options to be considered, such as focusing on profitable white spots or bringing a differentiating value proposition to the merchants (like purchase accounts branded by the merchant or financing on credit card).

#2 THE PLATFORM REVOLUTION IS NOW

BY PHILIPPE CORROT,
CEO & FOUNDER OF MIRAKL

Incumbents across B2B sectors aren't waiting for digital natives to disrupt them. Powered by our best-in-class marketplace platform and ecosystem, many B2B businesses are already leveraging the platform model to become digital leaders.

Philippe Corrot,
CEO & Founder of Mirakl

"The EMI is the industry's largest compendium of third-party marketplace insights, representing 60 global retailer marketplaces offering over 60 million products across more than 50,000 sellers."

2020 saw a major eCommerce boom in retail, in part due to COVID restrictions and changing consumer habits. Companies across all industries have accelerated their digital transformations and moved to adopt the platform business model. In France only ecommerce penetration in 2020 went up to almost 14% up from 9.8% in 2019. During that same time Europe's ecommerce turnover continues to grow at a rate of more than 12% and is likely to be even higher than projected.

Amidst an unprecedented acceleration of digital transformation, enterprise marketplace growth far outpaced the growth rate of traditional eCommerce models. The

Enterprise Marketplace Index (EMI), launched by Mirakl in March 2021, reveals that enterprise marketplaces grew by 81% year-over-year, more than double the rate of overall eCommerce (40%).

2020 is also the year Mirakl became a unicorn. We are proud to support over 300 retailers, manufacturers, and wholesalers across the globe to transform their business model through digital marketplaces, built on our sold expertise, best-in-class technology and a unique ecosystem of marketplace operators, sellers, and partners.

THE PLATFORM REVOLUTION BEYOND RETAIL

The marketplace model is accelerating and new B2B marketplaces are springing up across industries with complexity in width (scope of product offering, integration of services) and depth (increase in price range offering, granularity of SKUs available). The objective, for now, is not only to increase sales and provide a new user experience to purchasers, but also to decrease the cost to sell and operate an eCommerce platform.

A marketplace operator's costs for inventory and warehousing are significantly reduced if products are stocked and sold by third-party sellers. This revolution started in retail and now extends to manufacturing, grocery, healthcare, agriculture. In B2B alone, Mirakl has launched new marketplaces with ABB, Airbus Helicopters, Maykers part of Kramp Group, Thales, and Z-Tech (part of ABInBev). Maturity levels, however, differ significantly across regions and industries.

WHY ARE MARKETPLACES SO IMPORTANT TO B2B ECOMMERCE SUCCESS?

When B2B businesses launch online marketplaces, they can scale eCommerce faster and more efficiently, without taking on the cost and risk associated with the conventional eCommerce model. And unlike first-party eCommerce, the marketplace model supports all the players in the B2B value chain. Manufacturers are helping their distributors digitize by onboarding them as sellers on their marketplace. Other use cases include marketplaces as a way of digitizing procurement. Procurement platforms offer a number of critical advantages over classic procurement channels, such as lower transaction costs, widespread acceptance by buyers, competitive pricing and an automatically expanding portfolio of products.

For example, Mirakl has enabled Accor group to launch such a procurement platform known as Astore, a marketplace designed to give their hotel ecosystems more choices to procure food, decoration and bedding to name a few categories. This particular use case extends to all industries with Amazon Business consistently extending into new features and services.

THE PLATFORM OPPORTUNITY FOR BANKING

There is an obvious role in the platform economy for the banking industry through payments on online marketplaces but in a market where broader offers are required to build loyalty with rising customer expectations, the platform model solves the restrictions faced by banks looking to develop non-financial services. With the new European Digital Markets Act attempting to level the playing field with new digital natives the platform model is a unique opportunity for banks to venture into activities not requiring deposit taking or financial intermediation.

#3

INTEGRATION OF FINANCIAL SERVICES BY CHINESE E-COMMERCE PLAYERS

BY ADN CHINA CHAPTER – SG CHINA

For China traditional banks, the risk for a banking disintermediation because of the predominant role and importance of big ecommerce platforms in day to day life is real. For sure, 2020 has been a tremendous year for China e-commerce actors. The Covid-19 pandemic has obviously accelerated the digitalization of the Chinese society, driving a sustainable increase of big tech revenues and allowing them to play a key role in the recovery of the national economy. But sky is the limit, and the giants are now looking toward the banking industry in order to support their customers from end to end of their shopping experience.

CHINESE E-COMMERCE PLATFORMS STRATEGIES IN APPLYING FOR FINANCE/ BANKING LICENSES

Getting a Chinese banking license is a particularly complex process for non-banking companies: heavily regulated, the banking industry is also under a high scrutiny from Chinese regulators trying to find the perfect balance between supporting this fast-growing activity and preventing the risk of financial frauds and shadow-finance.

However, this do not damper on the enthusiasm of China e-commerce actors, with several of them having received this precious authorization in recent months. Traditional BATJ (Baidu, Alibaba, Tencent, JD.com equivalent to US GAFA) have already cumulated more than 40 financial licenses through their different companies and participations, and other giant e-commerce platforms are also moving forward.

CTRIP AND TIKTOK ACQUISITIONS OF CHINESE PAYMENT LICENSES

Online travel booker Trip.com (400 million users, 43% of China online travel market) disclosed in end 2020 owning its first payment license via the acquisition of a fintech vehicle (Shanghai Oriental Huirong) previously owned by Shanghai government. By doing so, Trip.com hopes to expend its business ecosystem, offering to its huge base of customers an integrated business chain all along the customer journey of online travel booking. It will also give trip.com more independence from WeChat Pay or Alipay online payment systems. Last but not least, Trip.com will be fully compliant and avoid potential regulatory risks (especially when doing online payment clearing and settlement).

A similar move was also done by TikTok's parent company ByteDance, by obtaining a domestic online payment license via the acquisition of the parent company of third-party payment service UIPay. This aims at helping its Toutiao news-sharing platform (272 million monthly users) to offer micro-loan, insurance and payment services to its customers in a near future.

MEITUAN-DIANPING APPLYING TO CHINESE BANKING LICENSE

Meituan-Dianping (shopping, delivery and ride-hailing platform, 448 million annual users, 6 million merchants, 40 million deliveries per day) is China's latest internet giant to receive a private banking license in a move by Chinese regulator to open-up the financial sector dominated by big state-owned banks. By doing so, Chinese regulators aim both at shaking traditional banks with more competition and fighting the shadow banking, leveraging on innovation, digital expertise and deep customer understanding from the BATJ ecosystem. For the e-commerce giants, this is also a way to extend their offers with more integrated financial services, targeting their huge base of customers (several hundred million each) and exploring new growth levers.

Meituan-Dianping, for instance, has integrated in its application a line of credit feature called "Yuefu (月付)," enabling its users to order now and pay later. Yuefu allows up to 38 days of interest-free loans of up to 1,000 RMB in credit line for purchases made within Meituan's ecosystem, improving the number and the amount of food orders done on the platform. Moreover, Meituan has integrated its own online payment system to potentially supersede WeChat and Alipay in the future.

But **Meituan** could push even further, by providing credit facilities for more expensive products sold on the platform, such as hotel and flight bookings, to its best customers. It could also target the other side of its business ecosystem, by offering new financial services to merchants selling through the application. Again, SME loans or insurances could help Meituan in finding new growth levers, securing vendors and customers loyalty in the long term.

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Hugues de la Marnierre,
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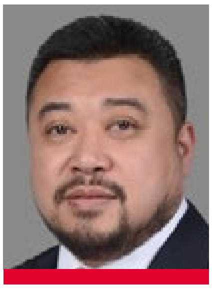

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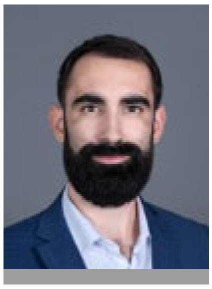

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