Radar for the e-commerce market

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With the E-Commerce Observatory, companies can stay abreast of competitive developments in the fast-changing online retail arena.

The spectacular rise of German shoes-and-apparel retailer Zalando—from a start-up to a €1.2 billion business in five years—took many companies by surprise. Zalando, which now has a presence in more than a dozen European countries, seemed to materialize out of nowhere, leaving established retailers wondering, "How did we not see it coming?"

Indeed, in an increasingly crowded market-place, it's easy to miss—and dismiss—newcomers. As more product categories migrate from physical stores to online, e-commerce is attracting many new players: in Germany alone, for example, more than 400 new e-commerce businesses were established in 2012, according to Deutsche-Startups.de. Market-research firm Forrester estimates that online retail in Europe will grow at double-digit rates for the next few years, reaching €191 billion by 2017. The emergence of Zalando and other innovative, aggressive online players puts pressure on incumbents to quickly identify and assess these new competitors and to strategize accordingly.

But how can retailers and consumer com-panies keep track of their online competition? With hordes of new entrants, how can they tell which ones could pose a serious threat? One approach that has been eye-opening for companies relies on sophisticated analysis of search-engine data.

Search traffic as a proxy for sales

We have found that a website's search traffic (which we define as the number of visitors who arrive at the site via search engines) is a reliable proxy for online sales; in other words, the growth of a website's search traffic is indicative of its sales growth. In partnership with data-analytics firm Xamine, McKinsey has developed the E-Commerce Observatory, a tool that uses search-engine data to help companies keep a close watch on competitive developments in e-commerce. The Observatory currently covers 40 retail categories in five countries: France, Germany, Spain, the United Kingdom, and the United States.

The Observatory runs a daily analysis on a set of 250 to 1,000 keywords or search terms for each retail category (keywords for the furniture category, for instance, would include "sofa" and "bed"). Using a complex algorithm, the tool identifies and ranks the top 100 e-commerce players in each retail category measured by share of search traffic, taking into account both organic and paid search.

The Observatory can generate a number of useful reports. One is a detailed market scorecard that shows the growth, attractiveness, and maturity of the market and identifies the types of players that are gaining or losing ground (Exhibit 1). Another valuable report is a competitive overview that ranks the top 100 players in the relevant product category and country. Insights from this overview can help retailers answer a number of questions: Who are our current and emerging online competitors? Which players are gaining search-traffic share, and are their gains due mostly to paid ads or search-engine optimization? Which companies are potential partners for us, and which are potential acquisition targets?
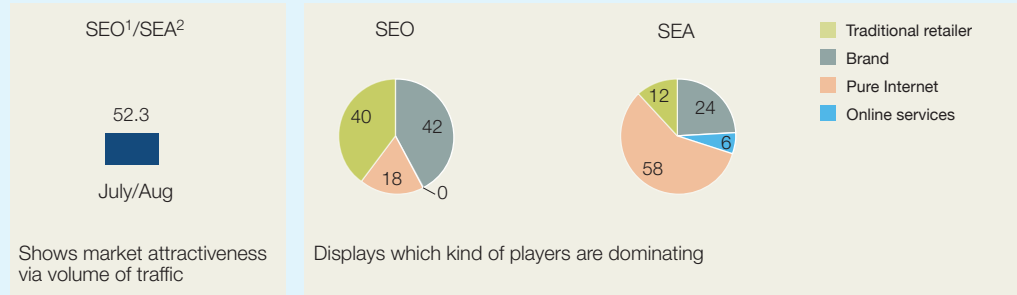
Exhibit 1

The E-Commerce Observatory can generate a market scorecard.

Furniture segment in Germany, 2013

Market growth

Generated traffic,
millions

Share of sales by player,
top 50 players, July/Aug 2013, %

SEO[1]/SEA[2]

52.3

July/Aug

Shows market attractiveness
via volume of traffic

SEO

40
42
18
0

SEA

12
24
6
58

Legend:
- Traditional retailer
- Brand
- Pure Internet
- Online services

Displays which kind of players are dominating

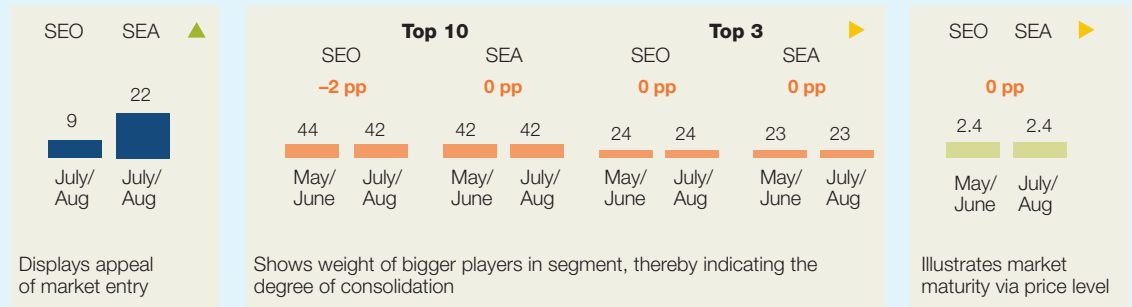**Are we operating in a growing market?**
Currently flat market, already occupied by relevant competition—but large share of pure players investing

Market maturity

Number of new players
in top 100

Search traffic share,
%

Cost per click
€

SEO SEA ▲

9
22

July/
Aug   July/
Aug

Displays appeal
of market entry

	Top 10			Top 3		▶
SEO	SEA		SEO	SEA		
−2 pp	0 pp		0 pp	0 pp		
44	42	42	42	24	24	23	23
May/June	July/Aug	May/June	July/Aug	May/June	July/Aug	May/June	July/Aug

Shows weight of bigger players in segment, thereby indicating the
degree of consolidation

SEO SEA ▶

0 pp

2.4   2.4

May/
June   July/
Aug

Illustrates market
maturity via price level

How mature is our market?
Market is developing with new entrants, while top players are making slight gains or even losing share

[1]Search-engine optimization.
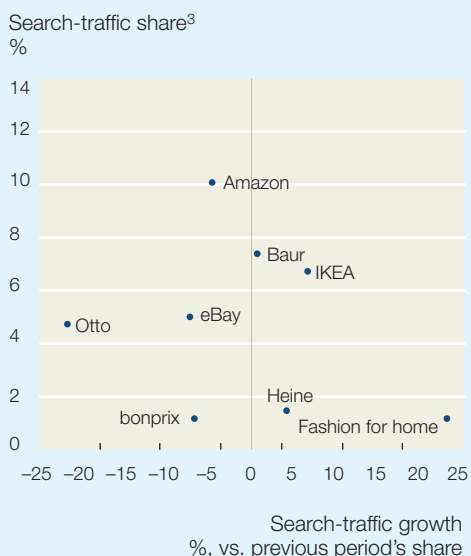[2]Search-engine advertising.
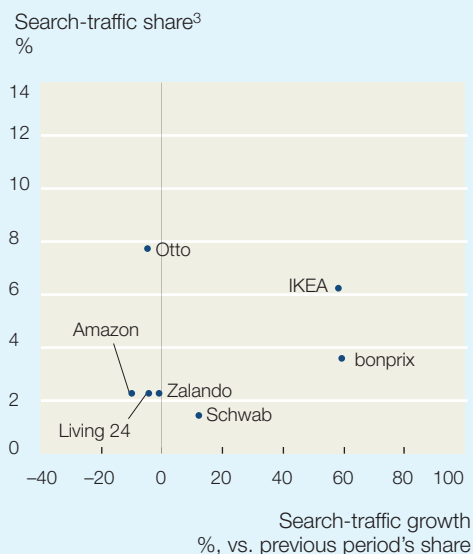
Source: Xamine; McKinsey analysis

Exhibit 2

A competitive overview shows which players are gaining or losing search-traffic share.

Furniture market in Germany, July/Aug 2013 vs. May/June 2013

Organic traffic (SEO[1])

Search-traffic share[3]
%

Paid traffic (SEA[2])

Search-traffic share[3]
%

[Left chart — Organic traffic (SEO). X-axis: Search-traffic growth %, vs. previous period's share, from −25 to 25. Y-axis: Search-traffic share % from 0 to 14. Data points: Amazon (~10), Baur (~7), IKEA (~6.5), Otto (~4.5), eBay (~4.5), Heine (~1.7), bonprix (~1), Fashion for home (~1).]

[Right chart — Paid traffic (SEA). X-axis: Search-traffic growth %, vs. previous period's share, from −40 to 100. Y-axis: Search-traffic share % from 0 to 14. Data points: Otto (~7.5), IKEA (~6), bonprix (~3.5), Amazon, Zalando (~2), Schwab (~1.7), Living 24.]

Search-traffic growth
%, vs. previous period's share

Search-traffic growth
%, vs. previous period's share

[1]Search-engine optimization.
[2]Search-engine advertising.
[3]Share of search traffic among top 100 players; partial list of the top 10.

Source: Xamine; McKinsey analysis

In Germany's furniture market, for instance, IKEA is the offline market leader, but its position is being challenged by online-only players such as Amazon (Exhibit 2). The Observatory analysis also shows that while traditional furniture chains like IKEA and mail-order companies like bonprix and Schwab are investing the most in search-engine advertising, Zalando is looking to become a contender in the category. Similarly, in the pet-food industry, Observatory analysis showed that the largest pet-food retailer in one European country was under threat from pure-play online companies with unique strategies (such as an online retailer specializing in customized pet food).

Quick insights, quick action
Based on Observatory insights, companies can then decide what to do. They could, for instance, invest to gain scale quickly,

perhaps by acquiring or partnering with faster-growing e-commerce businesses. They could study the assortment, pricing, services, and other features of successful new entrants and adjust their own offerings in response.

The Observatory also identifies the companies investing in search-engine optimization and search-engine advertising. A European chocolate manufacturer, for example, found that the companies with the highest share and growth in organic-search traffic were mostly traditional chocolatiers, while the leaders in paid-search traffic were newer pure-play entities such as World of Sweets and Amazon. These insights helped inform the manufacturer's e-commerce strategy.

The E-Commerce Observatory can produce reports on demand and send out automatic alerts in the event of significant market shifts—

for example, when a new entrant appears. This timely knowledge about the dynamic e-commerce landscape can give companies a crucial competitive edge in the battle for online customers. ∎