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Q&A: 3i's Gold and Andersen on e-commerce

E-commerce has enjoyed phenomenal tailwinds in recent months, on top of favourable long-term trends. 3i directors Andreas Gold and Simon Andersen discuss the firm's approach to the sector, and the pitfalls that investors and management teams must avoid



Andreas Gold
3i director

What are the key challenges and opportunities faced by e-commerce companies?

Andreas Gold: E-commerce companies are those whose core value proposition is online rather than through physical stores. The pandemic has significantly accelerated the shift from offline to online; retail ecommerce sales in western Europe increased by >25% in 2020, according to research by eMarketer, and we believe this trend will continue. During the pandemic we have seen many people in the 50+ demographic adapt and gain trust in online channels, so it is not only younger people driving the growth.

The biggest risk for any e-commerce company is the threat posed by large players such as Amazon. At least 50% of growth in e-commerce currently goes to Amazon. When we invest in a company, we focus on its differentiators from the likes of Amazon and others in order to stay protected. This could be its logistics, customer service or product offering.

Simon Andersen: The online landscape is constantly and rapidly changing, so the other key challenge for e-commerce companies is how to stay on top of trends in technology and data.

Companies often need to invest in systems and tools that may not pay off immediately and that may also be outdated in five years' time.

How can private equity investment help?

SA: Online competition is international, meaning e-commerce companies need to secure local market leadership quickly if they are to succeed. M&A is one area where a private equity partner can add value through helping the management team to identify targets and execute acquisitions quickly and smoothly. A good example is GartenHaus, the online leader in the garden homes, sheds and saunas in which we invested in September 2020 and which made its first acquisition Polhus just 70 days later, taking it into Scandinavia to create the clear pure-play online market leader in northern Europe.

AG: We bring best practice from across our portfolio to help build differentiation. This could be in online marketing, sourcing, logistics or private-label production. It can be difficult for management teams to know what best-in-class looks like but given our experience, we can tap into other sectors and companies that may have faced similar challenges. We also have a broad international

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network of contacts so can help to build the right teams, skills and capabilities, for example finding a great CIO or a data scientist.

What particular skills do management teams of e-commerce businesses need to have in order to build and scale a successful business?

AG: The main skills are largely similar to the offline world, however, management teams need to be even more agile, since the online value proposition needs to be improved every day. They need to be able to use data to test and learn quickly, for example by using A/B testing or even something as simple as trying different ways of displaying products online.

SA: They also need an openness to embrace new tools and technology to make the most of their data. Great systems are essential for all businesses but pure e-commerce players have no physical stores to fall back on. In addition, international expansion requires the right team focus, knowledge of what part of the service needs to be adapted / translated and what partners work well in each geography. E-commerce businesses also need to understand their customer better than anyone else so data infrastructure is even more important than in the offline world.

What role does data have to play, and how do you help your portfolio companies develop a digital-first approach?

SA: The quality and use of data is absolutely essential to improving the value proposition and managing an ecommerce business. We help management to develop a data-driven mindset from the start. Although you may not see immediate results, it's important to do this in the first 12 months to set the right foundation for decision making. For example, when we invested in Luqom, an online retailer of lighting products, we focused on the company's data driven marketing

and attribution modelling from day one, working closely with the board and bringing in a partner, Project A, to improve Luqom's digital capabilities. This led to an upgrade of data warehousing and marketing automation, which today helps us make decisions on what channel to advertise in and for what customers and products.

AG: We also connect our management teams with companies outside the 3i portfolio. For example, when Luqom was looking to add a warehouse in Poland, we connected the logistics team with a large fast fashion brand that had recently done the same thing. This was incredibly beneficial in terms of de-risking the process and providing clarity around timelines and investment.

How have 3i's e-commerce businesses performed during the Covid-19 pandemic and what's your outlook?

AG: Our e-commerce businesses have performed strongly, proving themselves in terms of efficiency and agility thanks to the strong teams and systems in place. It is not straightforward to match a huge increase in demand and volume at short notice, while meeting strict hygiene measures.

SA: Looking ahead, the e-commerce growth journey is only moving in one direction. To succeed, companies will need to be more efficient, more agile and more forward looking than ever before. In addition, customers are increasingly focused on sustainability when it comes to making purchasing decisions; according to a 2019 survey by communication agency Hotwire, nearly half of internet users worldwide said they had switched to a different product or service because a company didn't meet their personal values on issues including protecting the environment, corporate social responsibility and equality. So our role as investors is to help our companies address this in their value proposition and ensure it's at the top of the management team and board's agendas. ■