

E-COMMERCE IN THE COVID-19 WORLD A CHALLENGE FOR WORKERS AND UNIONS

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EXECUTIVE SUMMARY

The COVID-19 pandemic has profoundly impacted the global retail landscape and represented a stress test for the commercial sector as a whole. The lockdowns imposed across the world have exposed the strengths and the weaknesses of the different ways of doing commerce in extraordinary circumstances. While some pure e-commerce companies thrived during the lockdown, benefitting from increased online demand, others found their businesses impacted by the disappearance of whole branches, such as plane or entertainment tickets sales. Traditional retailers were also unevenly impacted: while some grocery chains continued to operate their physical stores and additionally enhanced their delivery and click-and-collect capabilities, retailers in sectors where physical stores have been shut – such as fast fashion, home appliances, bookstores or hobby stores – found little compensation in selling online.

Overall, the pandemic has been a boon for e-commerce companies. Global lockdowns and reluctance to engage in physical interaction have pushed customers to electronic shopping, leading to a substantial increase in the number of orders, as well as in sales volumes and revenues. Profitability has also been boosted, although some companies remain in the red due to continued large-scale investments. The pandemic has stimulated some breakthrough developments among pure e-commerce players: Amazon's international retail division became profitable for the first time ever, Alibaba increased investment in grocery retail, but Rakuten decided to close its German operations since it did not reach a sufficient size to become profitable.

Although some reports ventured to announce that the pandemic has vaulted forward 10 years in consumer and business digital adoption, we show in this report that the temporary increase in e-commerce due to the pandemic was in fact lower among bigger companies and was slowed down by numerous bottlenecks among traditional retailers with e-commerce branches. Even if the pandemic provided beyond doubt an impetus to online sales, its effects cannot exceed a couple of years if we are to express it in "penetration rates" judging on previous years' growth rate.

A more significant evolution is that the pandemic has enhanced the structural divide between pure e-commerce companies and traditional retailers in terms of asset utilization. While traditional retailers invest in inventory, plant and

property in order to run their operations, e-commerce players have a very important share of their assets held in cash, short term or long-term investments. The trend has been reinforced, as pure players maintained an exceptionally good free cash flow level during the pandemic, not only benefitting from increased sales and margins, but also containing their capital expenditures. Pure players are now richer and more investors are pouring their money into these companies.

In the competition with pure players, traditional retailers were already losing ground before the pandemic struck. Bookstores and toy stores were bleeding for years, and more recently hypermarkets started to feel the pressure from e-commerce retail. Although large hypermarket chains have made efforts to adapt to market trends, competitive pressure from hard discounters, convenience stores and e-commerce has led to a decrease in their revenues, especially in the non-food segment. Their investments in e-commerce branches have not proved to be lucrative, as delivering goods require huge commitments in resources. Recent reports showed that most common online models for grocery retail are running on negative margins and are not sustainable as standalone operations. However, grocery companies continue to invest in their e-commerce branches as this is required by financial market investors and is stimulated by the fear of missing out against competition if one day grocery e-commerce becomes profitable. The case of Ocado in U.K. is illustrative in this respect: the supermarket chain without supermarkets has yet to make a profit since its foundation in 2000, but has become the second most valued grocery retailer in Europe only behind Ahold Delhaize.

Fast-fashion retail was hit particularly hard by the pandemic. Sales dropped dramatically in March-April as physical stores closed. The double- or triple-figure increases in online sales could do little to compensate for the losses, and profitability plunged to unsustainable levels during the lockdown quarter. The fast-fashion business model is based on a stretched supply chain in which goods are travelling fast from factories to stores with very few distribution warehousing capabilities. In this situation, structural bottlenecks limited the possibility to promote and even to service online orders during the lockdown. Indeed, in the fast-fashion retail industry e-commerce is rather seen as a new function of the integrated business model rather than a separate selling channel. Even before the pandemic major retailers from the sector were

announcing impressive expenditures for developing omnichannel solutions, and the lockdown has only stimulated their investment appetite.

After COVID-19 passes, retail companies will want to be prepared for future crises and will likely increase their investments in robotics and automation. Higher e-commerce demand during the pandemic led to an increased usage of robots in warehouses and automated checkouts in stores. In these circumstances, pure players seem better placed to succeed in an automated and robotized world, at least because they hold large amounts of cash that can be invested in research and development.

Trends towards working from home stimulated by the pandemic will increase the use of cloud services, and pure e-commerce players such as Amazon and Alibaba will only benefit through their web services divisions. The increased demand for cloud services will bring more cash to e-commerce giants, money that could be channelled into business practices that have little to do with modernization, such as capturing market shares through predatory pricing, destroying competitors and building monopolies that will sooner or later rise prices and capture all the profits.

It has been reported for a long time already that pure players' labour standards are below acceptable levels. Amazon, which relies on hundreds of thousands of workers in warehouses and delivery services, has notoriously put in place extremely low labour standards to get a comparative advantage against

competition. Generally speaking, the explosion of fulfilment capabilities for e-commerce across the world has increased the number of warehouse jobs, but the quality of these jobs is far from satisfactory.

It is believed that e-commerce, automation, digitalization, and artificial intelligence have the potential to increase wealth to unprecedented levels, but the fundamental question is how this wealth is going to be distributed. Unionizing and collectively representing workers in e-commerce has proven to be a difficult task – also due to openly anti-union policies put in place by the tech giants. Digital dividends are almost exclusively collected by executives, shareholders and venture funds, while workers are struggling to deliver under tighter and faster requirements with the added constraints imposed by sanitary regulations.

Besides the question of labour standards, the rise of e-commerce poses another significant societal challenge: online commerce is notorious for its fiscal underperformance, and big tech multinationals are known for their tax avoidance. In the context of the COVID-19 crisis, this issue becomes even more prevalent, as the pandemic has exposed the structural underfinancing of health systems across the globe. In this respect, trade unions are calling not only for respect for the rights of workers in the e-commerce sector, but also for a fairer distribution of digital dividends in society as a whole, promoting a decent level of social protection for all in all circumstances.

INTRODUCTORY REMARKS

E-commerce was surging before the pandemic...

The rapid surge of e-commerce is not a novelty. Many sources show e-commerce is growing rapidly, and while the methodology behind available statistics is not always clear, most of the analysts agree that these are a correct representation of the reality. Data from eMarketer published in 2019 showed retail e-commerce amounted to \$2.9 trillion in 2018 and was forecast to reach \$4.2 trillion in 2020 and almost \$5 trillion in 2021. The annual growth rate was estimated at around 19-22% in 2018-2020 and was forecast to slow down to 15-17% in 2021-2023. These statistics did not consider the disruptive effects of the coronavirus pandemic globally, which is providing a significant boost to e-commerce activity.

...while traditional retailers suffered

Even before the coronavirus crisis, while e-commerce retail was thriving, many physical stores were in trouble. Although direct competition from e-commerce was not always the cause of store closures, it was adding additional pressure as brick-and-mortar business struggled to adapt to changing times. As Holman and Buzek (2018)¹ showed, the main causes of store closures in recent years were:

1. Massive overexpansion of their store footprint beyond sustainable levels;
2. Management of Private Equity that saddled the companies with an unsustainable level of debt;
3. Refusal to modernize systems or improve customer experience;
4. Failure to update the business model to reflect changing times, and in some cases, for decades.

Two main groups of players in e-commerce

As underlined in our previous reports, e-commerce is a very heterogeneous world and multiple classifications of market actors may be made. However, while addressing challenges posed by e-commerce, unions need to distinguish two main types of actors involved in this industry:

- **pure players**, which are relatively new companies active primarily online, with some possible secondary physical stores,
- **hybrid players**, which are traditional retailers with primarily brick-and-mortar stores that have developed integrated or separate online selling channels.

Although the borderline separating the two categories might be blurred in some cases, the strategies to be applied by the unions in dealing with the two types of actors are quite different.

¹ Holman, Lee and Buzek, Greg. *Retail's Radical Transformation/Real Opportunities. Beyond the "Retail Apocalypse" to a Bright Future*. August, 2018

1

CORONABOOST FOR PURE PLAYERS

The pandemic has been a boon for e-commerce companies

According to Adobe, which computes the Adobe Digital Economy Index based on trillions of online transactions across 100 million products, during the COVID-19 pandemic *“online shopping has become the primary means of commerce for huge social distancing populations around the world as purchases previously made in person are shifted online”*. Comparing March 13-25 to the baseline period of March 1-11, Adobe found that overall e-commerce in the US rose by 25%, largely propelled by grocery, which effectively doubled during the period. In the same period, orders rose by 55% for fitness equipment and by 40% for computers and monitors.⁵

In the U.K., according to ACI Worldwide, online sales for March 2020 were 74% higher than in March 2019.⁶ In France, home delivery sales rose more than 90% in the week of March 16-22 compared to the same week last year, while drive sales increased by 74%.⁷ As nearly 1 billion people were confined in their homes globally,⁸ online retail rose in all the countries in which the infrastructure allows for these types of operations.

However, not all e-commerce players benefited from the increase. According to a survey conducted among 304 retailers in the US, only a minority (38%) expected their e-commerce sales to jump somewhat or significantly during the lockdown.⁹ As e-commerce sales increase during the

pandemic, customers do not always switch from physical stores to the corresponding on-line stores, but rather to the usual suspects such as Amazon, eBay, Alibaba, jd.com, Rakuten, MercadoLibre, bol.com, Zalando, Otto or the online divisions of major retailers, such as Walmart, Target, Auchan or Carrefour. Although sales through e-commerce platforms of smaller players increased, these sales were not able to replace volumes lost in physical stores.

Overall, the pandemic has been a boon for e-commerce companies. Global lockdowns and reluctance to engage in physical interaction have pushed customers to electronic shopping, leading to a substantial increase in the number of orders, as well as in sales volumes and revenues. Profitability has also been boosted, although some companies remain in the red due to continued large-scale investments. There are nonetheless several caveats. Demand has grown only for some types of products, while it has declined severely for others — in some cases, this has had an important impact on overall financial results. Moreover, all companies show concern for the future implications of the pandemic. If a major economic crisis is indeed to follow, the fall in consumer demand and supply chain disruptions will cut the current euphoria short.

As far as the workforce is concerned, all companies highlighted the implementation of remote work for office staff and additional health and safety measures taken for other employees. Some companies have stressed the need for additional automation in warehousing and logistics in response to these new health concerns, while others have reached agreements to temporarily take over workers from companies badly hit by the lockdowns.

The lockdown improved pure players' profitability indicators

Before the pandemic struck, pure players' revenues were already growing at around 20% per year. In order to assess the relative impact of the lockdown on pure players' businesses, we have to consider this long term trend. Therefore, while analyzing the growth of e-commerce during the pandemic we have to consider not the growth rate per se, but rather the acceleration induced by the specific conditions in the market. To do so, we have compared the year-on-year growth of the second quarter vs. the y-o-y

5 See full report Adobe Digital Economy Index, Adobe Analytics 2020 at https://www.adobe.com/content/dam/www/us/en/experience-cloud/digital-insights/pdfs/adobe_analytics-digital-economy-index-2020.pdf

6 Compared to March 2019, transaction volumes increased by 97% for home products and furnishings, 136% for DIY products, 163% for garden essentials, 26.6% for electronics, 29.7% for jewellery, and 18.6% for Telco. See <https://www.essentialretail.com/news/growth-e-commerce-sales-march/>

7 Statista, <https://www.statista.com/statistics/1102648/online-shopping-sales-increase-corona-virus-outbreak-france/>

8 Nearly 1 Billion People Confined to Homes Globally Due to Coronavirus, Agence France-Presse, 21 March 2020. <https://www.voanews.com/science-health/coronavirus-outbreak/nearly-1-billion-people-confined-homes-globally-due-coronavirus>

9 See Coronavirus and e-commerce: It's complicated, Marking Land, March 12, <https://marketingland.com/coronavirus-and-e-commerce-its-complicated-277480>

growth of the first quarter of 2020, where the difference in percentage points may be attributed to the impact of the lockdown. This calculation showed that for most of the large pure players, the boost induced by the pandemic in the second quarter of 2020 was between 10-20 percentage points, with only one major exception: for Rakuten, the impact was negative (-3.7 percentage points) due to its strong reliance on travel and entertainment tickets sales, segments that were severely affected by the crisis. On the other hand, smaller U.S. players such as Overstock.com or Etsy saw a much more significant boost in sales, due to their smaller size (see Table 1).

In terms of profitability, all analyzed e-commerce players improved their margins and profits during the lockdown (Tables 2-3). Overall, the nine companies covered by our analysis reached a record high operating income of \$13 billion in Q2 2020 (+\$5.1 billion vs. Q2 2019) and a combined net income of \$15.6 billion (+\$9.2 billion vs. Q2 2019).

When it comes to comparing the economic performance of e-commerce pure players against traditional retail giants in terms of operating margins, we face a first major difficulty: the business models employed by the pure players vary

significantly and have a decisive impact on the reported figures. For instance, players such as Alibaba, eBay or Etsy function as pure marketplaces and therefore count only the commissions on sales in their revenues, and not the full price of the sold items, which naturally results in higher reported operating margins. Another significant impact is the integration of non-retail activities in the corporate reporting of pure players, specifically the cloud services of Amazon (but also Alibaba), which have much higher operating margins than pure e-commerce branches. At a closer look, it appears that even after the beneficial impact of the COVID-19 pandemic, e-commerce players hardly manage to reach operating margins comparable to 'hypermarket' giants in a like-for-like comparison (full cycle of retail): Amazon's retail branches and companies more similar to traditional retailers, such as JD.com or Rakuten, still have lower operating margins than traditional retailers, while Zalando has highly volatile figures (Figure 1).

The structural differences between pure players and traditional retailers widened

The comparison between e-commerce pure players and traditional retailers cannot be limited to their profitability

Table 1
Pure players' revenues in Q1 and Q2 2020 compared to the same quarters in 2019

| Revenue, in \$million | Q1 2019 | Q1 2020 | Growth Q1 YoY | Q2 2019 | Q2 2020 | Growth Q2 YoY | Percentage boost |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|------------------|
| Amazon | 59700 | 75452 | 26% | 63404 | 88912 | 40% | 13.8 |
| JD.Com | 17947 | 20950 | 17% | 22031 | 28381 | 29% | 12.1 |
| Alibaba | 13858 | 16380 | 18% | 16848 | 21704 | 29% | 10.6 |
| eBay | 2413 | 2374 | -2% | 2423 | 2865 | 18% | 19.9 |
| Qurate | 3085 | 2920 | -5% | 3111 | 3422 | 10% | 15.3 |
| Rakuten | 2545 | 3042 | 20% | 2787 | 3229 | 16% | -3.7 |
| Zalando | 1565 | 1680 | 7% | 1795 | 2239 | 25% | 17.4 |
| Overstock.com | 368 | 352 | -4% | 374 | 783 | 109% | 113.8 |
| ETSY | 169 | 228 | 35% | 181 | 429 | 137% | 102.0 |
| Total | 101650 | 123378 | 21% | 112953 | 151964 | 35% | 13.2 |

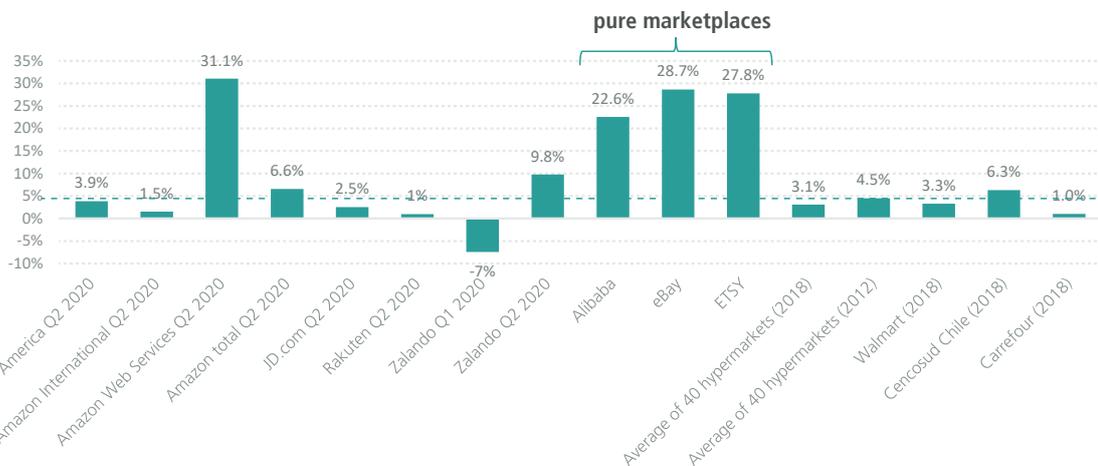
Source: Company reports

Tables 2-3
Pure players' operating income and net income in Q1 and Q2 2020 compared to the same quarters in 2019

| Operating income | Q1 2019 | Q1 2020 | Q2 2019 | Q2 2020 | Net Income | Q1 2019 | Q1 2020 | Q2 2019 | Q2 2020 |
|--------------------|-------------|-------------|-------------|--------------|--------------------|-------------|-------------|-------------|--------------|
| Amazon | 4420 | 3989 | 3084 | 5843 | Amazon | 3561 | 2535 | 2625 | 5243 |
| JD.Com | 182 | 332 | 332 | 712 | JD.Com | 1085 | 154 | 91 | 2322 |
| Alibaba | 1299 | 1022 | 3573 | 4899 | Alibaba | 3828 | 453 | 3116 | 6718 |
| eBay | 593 | 629 | 558 | 821 | eBay | 518 | 3412* | 402 | 746 |
| Qurate | 288 | 231 | 336 | 405 | Qurate | 55 | -20 | 118 | 220 |
| Rakuten | 1032 | -221 | -16 | 31 | Rakuten | 953 | -324 | -43 | 73 |
| Zalando | -21 | -125 | 104 | 219 | Zalando | -20 | -95 | 51 | 135 |
| Overstock.com | -39 | -26 | -27 | 39 | Overstock.com | -39 | -16 | -25 | 36 |
| ETSY | 32 | 25 | 18 | 119 | ETSY | 32 | 13 | 18 | 96 |
| Total | 7786 | 5857 | 7961 | 13088 | Total | 9973 | 6111 | 6354 | 15590 |
| Q20 vs. Q19 | | -25% | | 64% | Q20 vs. Q19 | | -39% | | 145% |

Source: Company reports

Figure 1
Operating margins of major e-commerce pure players compared to traditional retailers



Source: Company reports

indicators. There are a number of significant structural differences that have been enhanced by the pandemic in 2020. First, e-commerce pure players have increased their cash reserves to unseen levels: combined, the nine pure players we analyzed have reached \$174 billion in cash and short term investments in Q2 2020, which is \$40 billion more than in the previous quarter (Figure 2). Only four pure players – Amazon, JD.com, Alibaba and Rakuten – have together 2.7 times more cash than 10 biggest publicly traded hypermarket chains. (Figure 3)

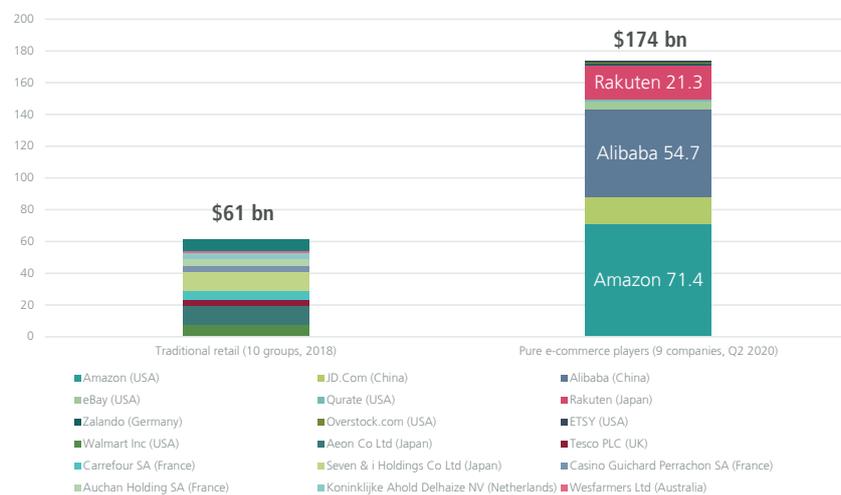
Figure 2
Cash and Short Term Investments of major e-commerce pure players, in \$billion



Source: Company reports

Second, e-commerce players have kept their inventories at very low levels (Figure 4) and have not invested much in fixed assets. With the exception of Amazon and Alibaba, which both own physical infrastructure for their cloud businesses, e-commerce retailers have very little property, plant and equipment (Figure 5).

Figure 3
Cash and Short Term Investments of pure players vs. traditional retailers, in \$billion



Source: Company reports

Having gathered a considerable volume of assets – largely from investors willing to bet on the share price of these companies – pure players keep a big part of these assets in cash and another significant portion is reinvested in third companies. The nine pure players covered by this research had \$99 billion in long-term

investments, which is more than 15% of their total assets. By comparison, the biggest 10 publicly traded traditional retailers placed only \$22 billion in long term investments, or around 3.2% of their total assets (Figure 6).

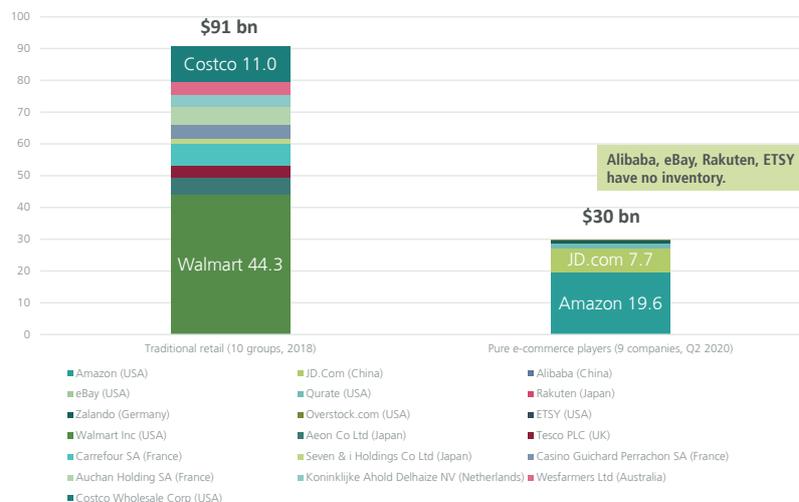
All of this is a reflection of the significant difference in how pure players and traditional retailers employ their assets: while traditional retailers invest in inventory, plant and property in order to run their operations, e-commerce players have a very important share of their assets held in cash, short term or long term investments (Figure 7). The trend is only reinforcing, as pure players maintained a very good free cash flow level during the pandemic, not only benefitting from increased sales and margins, but also containing their capital expenditures (Figure 8).

Amazon saw good business but showed poor social performance

As the emblematic exponent of the pure players category, Amazon benefitted from the pandemic context on multiple fronts: retail sales increased, demand for cloud computing that is feeding the AWS segment was also up as people sheltered, and the Amazon share price rose as investors saw even more potential for further expansion. A significant breakthrough came in Q2 2020 as Amazon's International Retail Division became profitable for the first time in the history of the company (Figure 9).

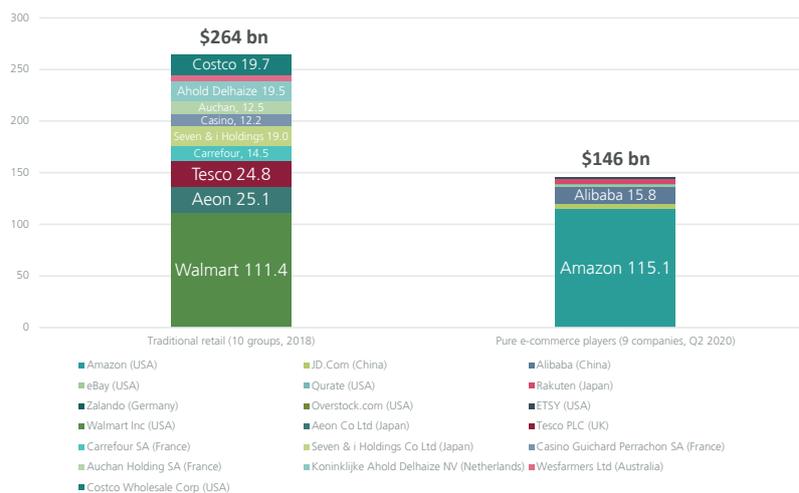
Amazon's earnings releases provided some useful insights on how the company was responding and adapting to the new environment. First, it was made very clear that Amazon has benefitted from increased demand across almost all its business lines: on-line sales, physical stores, entertainment, cloud computing. Second, the integration of offline with online was enhanced, as grocery delivery capacity was increased by more than 60% during the pandemic and in-store pickup was expanded from 80 Whole Food stores to more than 150 stores. And third, company executives have made it very clear that since the demand

Figure 4
Total inventory of pure players vs. traditional retailers, in \$billion



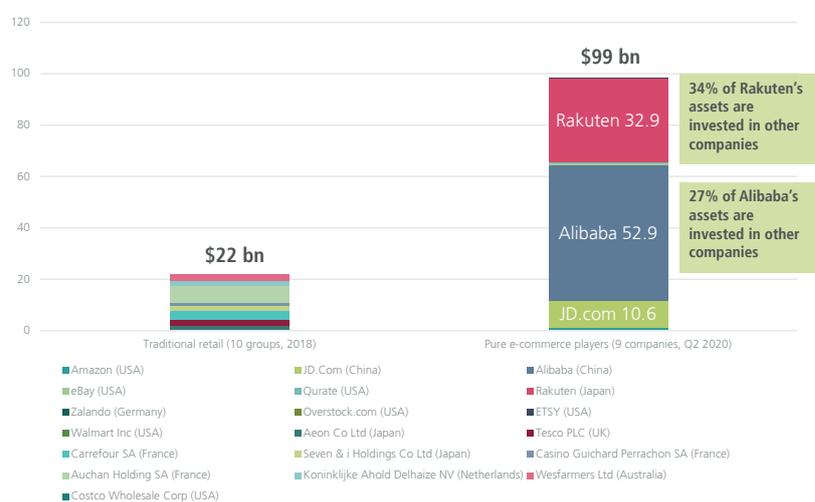
Source: Company reports

Figure 5
Total Property/Plant/Equipment of pure players vs. traditional retailers, in \$billion



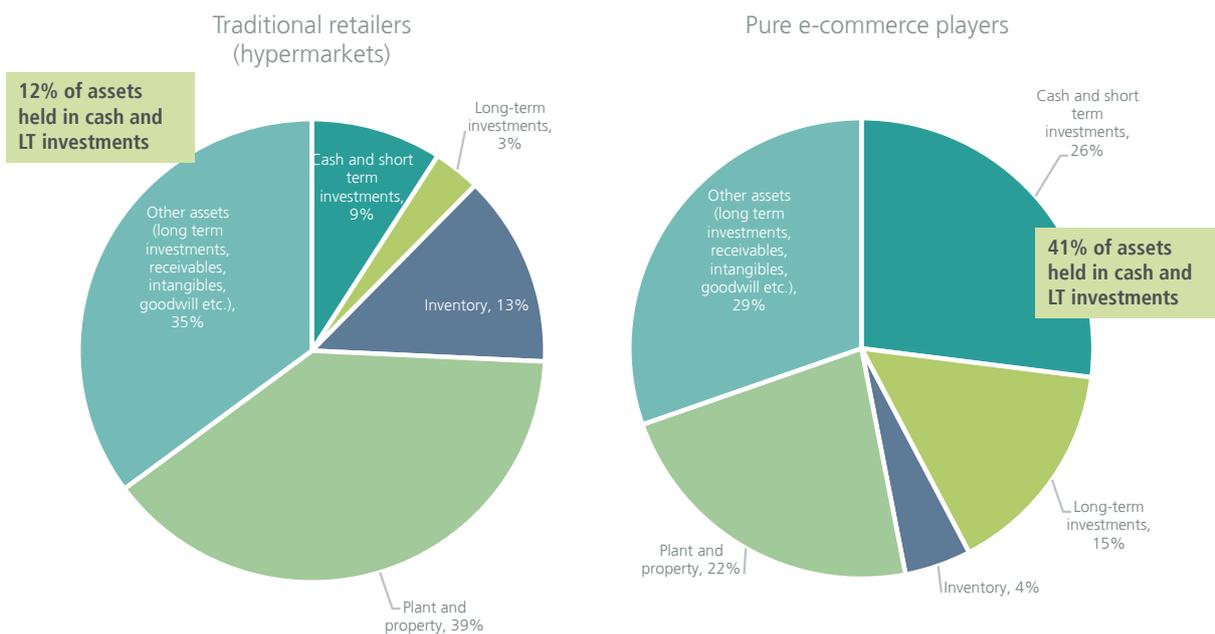
Source: Company reports

Figure 6
Long Term Investments of pure players vs. traditional retailers, in \$billion



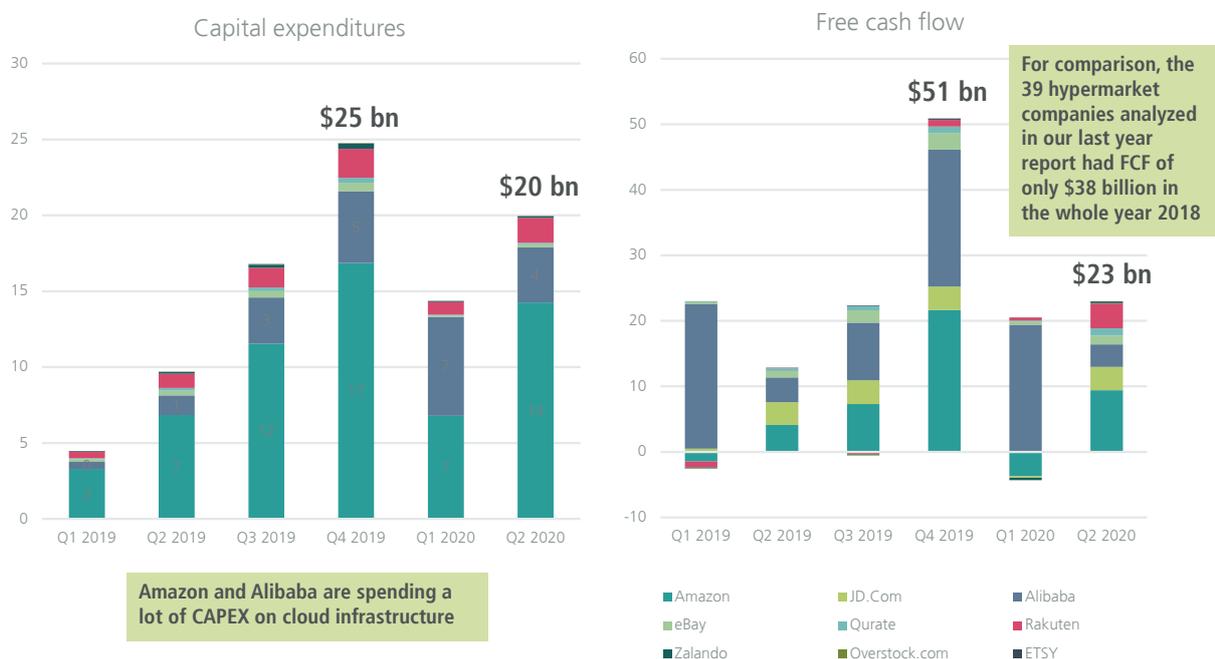
Source: Company reports

Figure 7
Fundamental differences in the use of assets between pure players and traditional retailers



Source: Company reports

Figure 8
Capital expenditures and free cash flow of major pure players, in \$ billion



Source: Company reports

from customers is not an issue, cost-control was the new focus of the business.

Although the context was positive from an economic perspective for Amazon, its social performance during the COVID crisis was **essentially irresponsible**, as a specific report by UNI Global Union showed.¹⁰ The report describes in

detail how Amazon abused its dominant market position and put third-party sellers at risk, exposed workers to high risks and provided little incentives to compensate labour under dangerous conditions.¹¹

https://www.uniglobalunion.org/sites/default/files/attachments/pdf/amazon-covid_en_pages.pdf

11 Reportedly, more than half of Amazon sellers were affected by Amazon's decision to freeze Fulfilled by Amazon (FBA) shipments during the COVID-19 crisis. While freezing FBA, Amazon has not allowed third party

10 See Amazon & COVID-19 crisis: Essentially Irresponsible, available at

eBay's reporting remains cautious in spite of increased sales

After five quarters of stagnation, eBay's gross merchandise volume in the second quarter of 2020 grew by 27.6% based on a 4.6% increase in the number of active buyers (Figure 10). In other words, e-bay benefitted not just from more customers, but more importantly from increased activity of existing customers. More concretely, eBay's business benefitted from "improved traffic, buyer acquisition, and conversion due to ongoing confinement at home dynamics in many countries," compounded by "improved acquisition of small business sellers". Only classifieds activity and advertising revenue were negatively affected. Despite the unexpected windfall, the company's financial reporting remains cautious, highlighting potential disruption to logistics chains, reduced consumer demand as well as lower productivity and hampered collaboration due to employees working remotely. These risks could or could not materialize in the foreseeable future. Until then, ebay can benefit from significantly increased business both in the US and internationally.

Chinese pure players see growth overall and particularly in the grocery segment

China was the first to be hit by the pandemic and also the first major economy to exit mass lockdown in the second quarter of 2020. Theoretically, we could gain more insight on the impact of the pandemic on e-commerce by looking at how things evolved in China from the end of last year to the second half of 2020. Alibaba closed its fiscal year 2020 in March with a total revenue growth of 35.3%, and an income from operations increase of 60% year-on-year (Table 4). Similar to ebay, Alibaba benefitted from "a growing range of offline merchants going online as well as increased adoption by existing merchants of new ways to engage with and sell to customers"; on the customer side the novelty was strong demand for food and grocery business, with "customers adopting the habit of buying groceries online".

JD.com has posted similar figures for the second half of 2020. During the initial outbreak, the demand for "big-ticket items, durable goods and discretionary items" declined, while that for "consumer staples, such as groceries, fresh produce, healthcare and household products" increased. Demand for the former category of goods picked up again with subsequent stabilization. In response to the COVID-19 outbreak and given the new emphasis on food and groceries, JD.com "carried out virus screening on fresh produce" and put in place the necessary infrastructure for contactless deliveries. Moreover, the company says its warehouse and transportation employees were screened regularly, while office workers were allowed to work remotely.

sellers to remove their goods from Amazon warehouses. Only sellers who had the infrastructure and capacity to sell and deliver products outside the Amazon marketplace were able mitigate losses, but this category is a minority: many sellers reportedly make at least 90% of their revenues via Amazon, which renders them particularly vulnerable.

Figure 9
Amazon's International Retail segment results

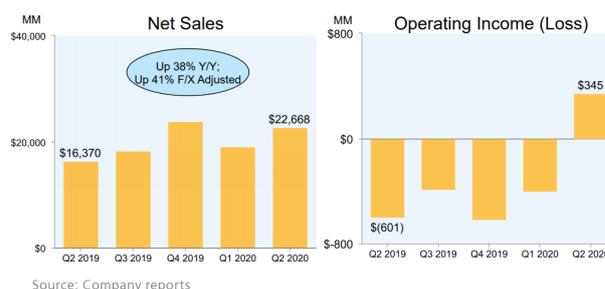


Figure 10
Active buyers (million) and gross merchandise volume (M\$) on ebay.com

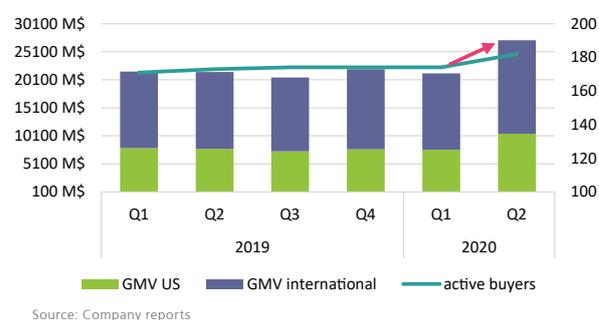


Table 4
Alibaba revenue breakdown (million RMB)

| | FY18 | FY19 | FY20 (closed in March) | |
|-----------------------------------|---------------|---------------|------------------------|--------------|
| | | | | YoY (%) |
| China commerce retail | 176559 | 247615 | 332750 | 34.4% |
| China commerce wholesale | 7164 | 9988 | 12427 | 24.4% |
| International commerce retail | 14216 | 19558 | 24323 | 24.4% |
| International commerce wholesale | 6625 | 8167 | 9594 | 17.5% |
| Cainiao logistics services | 6759 | 14885 | 22233 | 49.4% |
| Local consumer services | | 18058 | 25440 | 40.9% |
| Others | 2697 | 5129 | 9337 | 82.0% |
| Total core commerce | 214020 | 323400 | 436104 | 34.8% |
| Cloud computing | 13390 | 24702 | 40016 | 62.0% |
| Digital media and entertainment | 19564 | 24077 | 26948 | 11.9% |
| Innovation initiatives and others | 3292 | 4665 | 6643 | 42.4% |
| Total | 250266 | 376844 | 509711 | 35.3% |

Source: Company reports

Additional activity for Chinese e-commerce giants means even more pressure on their workers in China. Alibaba and other companies in the Chinese tech industry have already been criticized for their infamous '996' work culture: a schedule under which employees work from 9:00 am to 9:00 pm, 6 days per week, which makes up for 72 hours per week. Alibaba's CEO Jack Ma defended the practice, but Chinese state media said 996 violated the country's labour laws, which mandate an average working week of 44 hours.

Rakuten's case proves that higher sales do not automatically mean higher profitability

The overall positive but ambivalent impact of the pandemic on e-commerce companies is even more visible in the case of Rakuten. Rakuten's e-commerce revenue (internet services segment) was up year-on-year by 12.8% in Q1 2020, with growth slowing down to 6.4% in Q2 2020 (Table 5). However, while the pandemic boosted demand and sales, it did not directly translate in higher profitability. While growing demand for goods boosted Rakuten's retail activity, its travel and entertainment booking services were severely impacted by the pandemic. Overall, the positive impact of the pandemic on demand for some goods and services was cancelled out by the negative impact on other goods and services, resulting in a negative operating income in Q1 2020. In this troubled context, Rakuten took the strategic decision of exiting the German market, where it has been present with the online platform Rakuten.de for over ten years and managed to become the fifth biggest online marketplace in the country.

The case of Rakuten also proves the importance of investments in the new environment: the company has highlighted the need to further automate logistics activities due to the pandemic.

Mercado Libre in Latin America experiences a significant boost in sales

In Latin America, Mercado Libre saw a doubling of its number of items sold and of its gross merchandise volume in the second quarter of 2020, significantly higher than in previous quarters. Growth in items sold occurred in all major markets, but while gross merchandise volumes lagged behind in Mexico and Brazil, indicating an increase in sales of low-priced essential goods, in Argentina gross merchandise volume increased significantly more than the number of items sold, suggesting a preference for more expensive goods (Figure 11). As explained by trade unions from the region, this is most probably due to the existence of a wider middle class in Argentina in comparison to other Latin American countries.

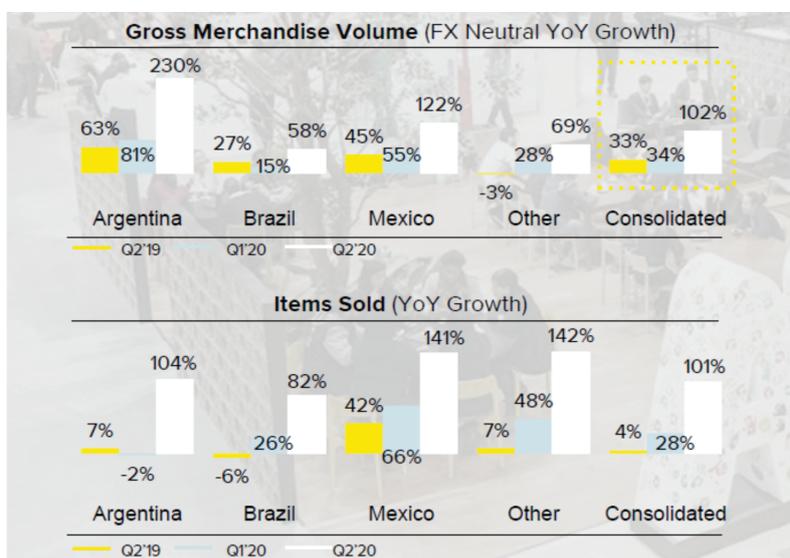
Overall, the number of Mercado Libre unique active users went up by 38% in the second half of 2020, indicating that

Table 5
Rakuten revenue and operating income (bn JPY)

| | Q1/19 | Q1/20 | YoY | Q2/19 | Q2/20 | YoY |
|----------------------------------|-------|-------|--------|-------|-------|--------|
| Internet Services Segment | | | | | | |
| Revenue | 169.1 | 190.7 | +12.8% | 190.1 | 202.1 | +6.4% |
| Operating income | 110.7 | -4.4 | -115.1 | -1.8 | -4.5 | -2.7 |
| FinTech Segment | | | | | | |
| Revenue | 113.9 | 140.0 | +22.9% | 118.6 | 141.7 | +19.5% |
| Operating income | 17.3 | 19.8 | +14.7% | 17.1 | 21.3 | +24.2% |
| Mobile Segment | | | | | | |
| Revenue | 25.4 | 39.2 | +54.7% | 27.1 | 43.6 | +61.0% |
| Operating income | -6.7 | -31.8 | -25.1 | -12.2 | -50.6 | -38.4 |
| Consolidated | | 331.4 | | | 347.3 | |
| Revenue | 280.3 | -18.1 | +18.2% | 306.3 | -32.6 | +13.4% |
| Operating Income | 118.0 | -24.1 | -136.1 | 3.2 | 3.3 | -35.7 |

Source: Company reports

Figure 11
Mercado Libre Grosse Merchandise Volume and Items Sold by country



Source: Company reports

the pandemic led to more people becoming e-commerce customers. Mercado Libre has aimed to grow its merchant base by attracting new SMEs and entrepreneurs to using its platform during restrictions, while facing no significant logistical bottlenecks. Remote work was implemented for all except logistics workers and the company has reached agreements with restaurant chains to temporarily take over hundreds of employees needed for its growing business during the pandemic.

Growth has been less spectacular in Europe, yet still remarkably high

The Ahold Delhaize Group, which runs the bol.com online platform (which was established and operates as a pure player although it belongs to a traditional retailer), reported a 68.7% increase in its online sales in the first half of 2020 compared to the same period of 2019 (Table 5). The group's online sales rose 48.8% in Europe and more than doubled in the US, although its American division remains smaller than its European online business. The group has reportedly made \$590M worth of investments related to COVID-19, covering safety measures as well as business

expansion (increase in online grocery capacity, a new fulfillment center, click & collect services and same day delivery).

Another European pure player, Otto Group was rather pessimistic in regard to the impact of the pandemic on the business. Its latest reports forecast a significant slowdown in the growth of e-commerce sales in Germany. Expectations for a worsening overall economic situation and a reduction of consumer demand toward the end of the year are set to harm the company's financial results for this year, although this has not curtailed its expansion plans.

However, barring a major change in the second half of the year, pessimistic forecasts are unlikely to materialize. Like across the globe, German e-commerce has so far benefitted from the pandemic, and even shoes and apparel e-retailers like Zalando ended up revising their 2020 outlook upwards. Only the March lockdown period saw negative growth rates and overall Zalando saw continued impressive growth: 23.1% growth in site visits in Q1 2020 and 20.5% in Q2, with slightly lower growth in active customers and number of orders indicating once again that e-commerce companies benefit from both new customers and increased sales to existing customers. Financially, this has led to an almost 20% increase in revenues and 12.2% EBITDA growth. All this notwithstanding, Zalando management has remained cautious when it comes to the longer-term impact of the pandemic: lower purchasing power, partner or brand insolvencies, and supply shortages are all listed as potential risks if the economic impact of the pandemic proves strongly negative.

Shifts in consumer behaviour play a significant role in the rise of e-commerce

According to interviewed trade union representatives, the COVID-19 pandemic forced consumers to adjust to online shopping no matter their age. In Argentina, seniors relied on younger family members to place online orders. Even in small communities, online shopping for groceries became possible. Big traditional retailers subcontracted call-centres and delivery services to respond to the new situation.

COVID-19 made it easier for e-commerce players to acquire new customers that were otherwise reluctant to use their services. According to one trade union representative, "in the US customer behaviour shifted towards e-commerce and e-commerce will gain market share with ease after COVID-19".

During the peak of the pandemic, there was a strong shift in consumer demand towards goods deemed "essential", such as baby products, health and household (including personal care appliances), beauty and personal care, grocery, industrial and scientific, and pet supplies. Demand for these products allegedly surged so high that it stretched Amazon's logistical capabilities to the limit. Keeping up with the demand for essential goods required channelling

Table 6
Financial results of Ahold Delhaize Group

| In € million | Ahold Delhaize Group | | The United States | | Europe | |
|------------------|----------------------|----------|-------------------|----------|---------|----------|
| | H1 2020 | % change | H1 2020 | % change | H1 2020 | % change |
| Net sales | 37310 | 14.3% | 23170 | 16.2% | 14140 | 11.2% |
| Online sales | 2345 | 49.7% | 836 | 84.3% | 1509 | 35.6% |
| Operating income | 1967 | 57.1% | 1458 | 79.8% | 623 | 17.5% |
| Operating margin | 5.3% | 1.4 pts | 6.3% | 2.2 pts | 4.4% | 0.2 pts |

Source: Company reports

Table 7
Zalando commercial and financial indicators

| | H1/19 | H1/20 | H1 20 vs. 19 |
|----------------------|-------|-------|--------------|
| Site Visits (m) | 1910 | 2434 | 27.4% |
| Active Customers (m) | 28.3 | 34.1 | 20.5% |
| Number of Orders (m) | 67.6 | 83.5 | 23.5% |
| Revenue | 2976 | 3559 | 19.6% |
| % growth | 17.8% | 19.6% | |
| EBITDA | 168 | 188 | 12.2% |
| % margin | 5.6% | 5.3% | |

Source: Company reports

existing capacities away from non-essentials, which sparked mass confusion among third-party sellers and caused delivery delays.¹²

The food industry has been particularly strongly hit by the pandemic. As restaurants and fast food establishments were forced to close temporarily, people started buying more groceries to cook at home. Reports show that consumer expenditure on groceries rose in every type of grocery store during the lockdown. In the US, the market share of online retailers in the groceries segment was about 3-4% before the pandemic but has increased to 10-15% during the outbreak of the coronavirus.¹³

12 For more details, see Amazon & COVID-19 crisis: Essentially Irresponsible, available at https://www.uniglobalunion.org/sites/default/files/attachments/pdf/amazoncovid_en_pages.pdf

13 Repko, M. As Coronavirus Pandemic Pushes More Grocery Shoppers Online, Stores Struggle to Keep up with Demand. CNBC. 2020. Available at <https://www.cnbc.com/2020/05/01/as-coronavirus-pushesmore-grocery-shoppers-online-stores-struggle-with-demand>

2 TRADITIONAL RETAILERS STRUGGLE TO COMPETE

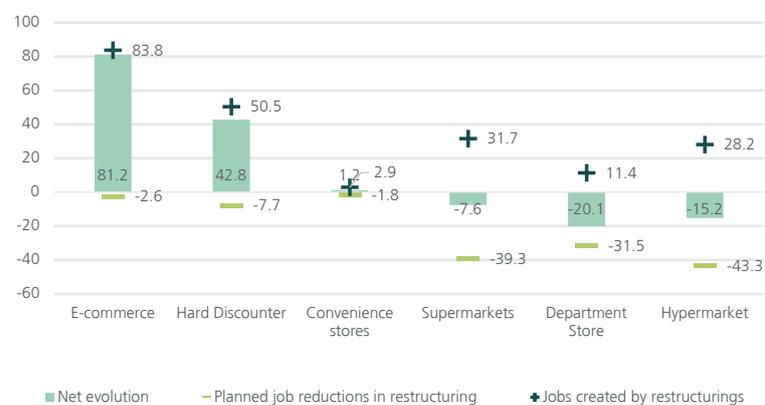
Prior to COVID-19, competition from e-commerce harmed traditional retailers

Some business sectors were particularly hard hit by the pandemic and the rise of e-commerce. Traditional bookstores and toy stores were bleeding for years, and more recently hypermarkets started to feel the pressure from e-commerce retail. Hypermarket retailers have conceived their large stores as places where customers could buy grocery, clothes, toys, home appliances and other goods in one place. In most developed countries, this model is currently challenged by e-commerce operators, which offer much lower (predatory) prices for non-food items. Hence the difficulties faced by some of the biggest European companies, especially the French multinationals that run stores with very large surface areas.

Although large retailers have made efforts to adapt to market trends, competitive pressure from hard discounters, convenience stores and e-commerce has led to a decrease of 3.3% of the combined revenues of hypermarkets in France between 2010 and 2018¹⁴ – accounting for inflation, this drop appears even more significant. According to a study by Nielsen, the origin of this drop lies in a fall by 30% of non-food sales in eight years – sales of food and hygiene products have risen by 7% over the same period, but this was insufficient to compensate for the drop on non-food items. As a result, non-food accounted for only 20% of hypermarkets' revenues in 2018, compared to 28% in 2010. The impact of this evolution became visible in the corporate results of Carrefour and Auchan in 2017 and 2018, the two companies cumulating a combined loss of \$2.3 bn in the last two years.¹⁵ Casino has resisted better but has only managed to break even in 2017 and 2018.

The increased competition and worsened financial results are directly affecting employees of the French hypermarkets. Carrefour, Auchan and Casino have put in place restructuring plans and asset optimization strategies. In May 2019, Carrefour announced a voluntary redundancy plan targeting a workforce reduction by 1,230 employees – the company announced that it offered voluntary departure scheme to 3,000 persons, but 1,770 employees should be replaced to rejuvenate the workforce of the group.¹⁶ Also in 2019, Auchan has put on sale 21 loss-making stores in France,¹⁷ while Casino was implementing an asset disposal plan to collect up to 2.5 billion euros.¹⁸

Figure 12
Jobs created and reduced due to restructurings by sector in Europe, in thousands, 2015-2019



Source: data compiled by Syndex from Eurofound

All these restructurings mean that hypermarket and department stores lose jobs, while e-commerce attracts more and more employees. According to Eurofound, more than 81 thousand new jobs in e-commerce were created through restructurings in Europe since 2015, while more than 15,000 net jobs were reduced in the hypermarkets,

16 See <http://www.lefigaro.fr/societes/jusqu-a-3000-departs-chez-carrefour-20190503>

17 See <http://www.lefigaro.fr/societes/auchan-entre-a-son-tour-dans-le-grand-monopoly-de-la-distribution-20190501>

18 See <https://www.lsa-conso.fr/casino-vend-les-murs-de-32-magasins-pour-470-millions-d-euros,317571>

14 See <http://www.lefigaro.fr/societes/la-crise-des-hypermarches-perdure-20190505>

15 Carrefour accounts for \$1.3bn and Auchan for \$1bn.

more than 20,000 in department stores and more than 7,000 in supermarkets (Figure 12).

More competition: physical commerce enters on-line, while pure players descend on the streets

Certainly, many traditional retail operators have entered the e-commerce realm, but their success was modest in comparison to pure players such as Amazon. After buying Jet.com for \$3.3 billion in 2016, Walmart Inc made another big move as it acquired a controlling stake in the Indian e-commerce company Flipkart for \$16bn in 2018 – its biggest foreign investment ever.¹⁹ Other traditional hypermarket retailers are also present in e-commerce: Groupe Casino owns Cdiscount in France and a range of e-commerce operations in Brazil, Ahold Delhaize owns bol.com, the leading webshop in the Netherlands, Carrefour made a series of targeted acquisitions in the last years,²⁰ and almost all major retailers have developed their own web platforms, offering home delivery or Drive service.

At the same time, the reverse is also true: pure e-commerce and Amazon have expanded into the physical market. The acquisition of Whole Foods by Amazon in 2017 for \$13.7 billion allowed the tech giant to come down onto the streets.

Recently, Amazon has also opened a chain of highly automated convenience stores called Amazon Go. In these stores, shoppers use an app to enter, and then instead of dealing with a cashier, cameras and sensors note what they buy, and their accounts are automatically charged. In September 2018, Bloomberg News reported Amazon was considering plans to open as many as 3,000 Amazon Go locations across the United States by 2021.²¹ However, as of November 2020, only 26 such stores existed, including 3 that were temporarily closed.²² In the post-COVID world, as shoppers are likely to want to limit interpersonal contacts while shopping on the streets, these highly automated stores might see a surge in customer influx.

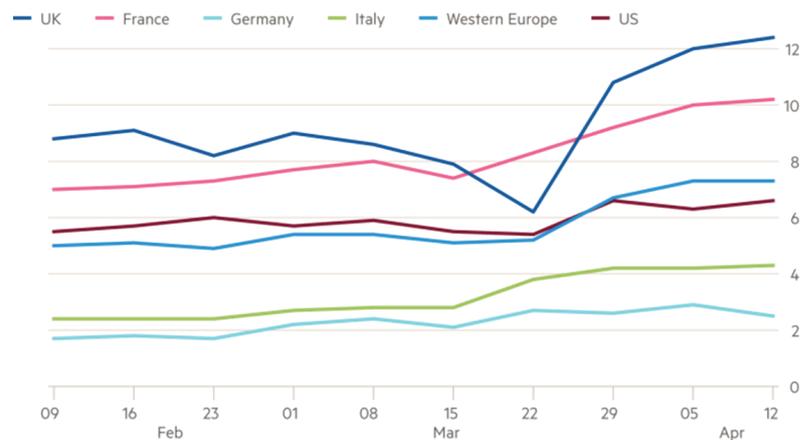
19 See <https://www.reuters.com/article/us-flipkart-m-a-walmart-official/walmart-buys-controlling-stake-in-indias-flipkart-for-16-billion-idUSKBN11A1HJ>

20 During the last several years Carrefour acquired Rue du Commerce, Greenweez, Top Achat, Croquetteland, Grands Vins Privés, My Design, SRP in France, as well as E-Midia Informacoes in Brazil and Planeta Huerto in Spain.

21 Spencer Soper, "Amazon Will Consider Opening Up to 3,000 Cashierless Stores by 2021", 19 September 2018, <https://www.bloomberg.com/news/articles/2018-09-19/amazon-is-said-to-plan-up-to-3-000-cashierless-stores-by-2021>

22 Data from amazon.com

Figure 13
Weekly e-commerce penetration (%)



Source: FT, citing Bain & Co, <https://www.ft.com/content/b985249c-1ca1-41a8-96b5-0adcc889d57d>

Over the past years, speculation has emerged concerning a possible acquisition of Costco by Amazon,²³ in a deal that could also be supported by the fact that Costco's business model, based largely on membership, is compatible with the Amazon model. It was also reported that Costco might be considering launching its own streaming platform in an effort to retain its members.²⁴ If it ever happens, an acquisition of Costco by Amazon would be the biggest ever deal in the retail industry.

E-commerce is not the ultimate solution for grocery retailers

Grocery retailers have seen their revenues boosted by a surge in compulsive buying from frightened customers in the first days of the lockdown. Some grocery retailers that had developed their own online platforms, such as Walmart in the US or Carrefour and Auchan in France, saw an increased demand for home deliveries. Walmart for instance reported that its e-commerce net sales almost doubled in Q2 2020 compared to the same quarter last year.

Reports showed that during the pandemic, e-commerce accounted for around 13% of grocery sales in the U.K., compared to the pre-COVID level of around 7%, while in Germany and Italy e-commerce share of grocery retail more than doubled to reach 2.9% and 4.3% respectively (Figure 13). Although the growth was massive, e-commerce is still a non-core activity for grocery retailers. Moreover, the pandemic has proved that the available infrastructure (warehousing and transport) can only service up to a certain level of the demand for home deliveries and cannot achieve considerable volumes.

23 Marcia Layton Turner, "What's Amazon's Next Acquisition Target? Retail Experts Share Their Picks," Forbes, 8 January 2018, <https://www.forbes.com/sites/marciaturner/2018/01/08/who-is-amazons-next-likely-acquisition-target-retail-experts-share-their-picks/#2538a5b46186>

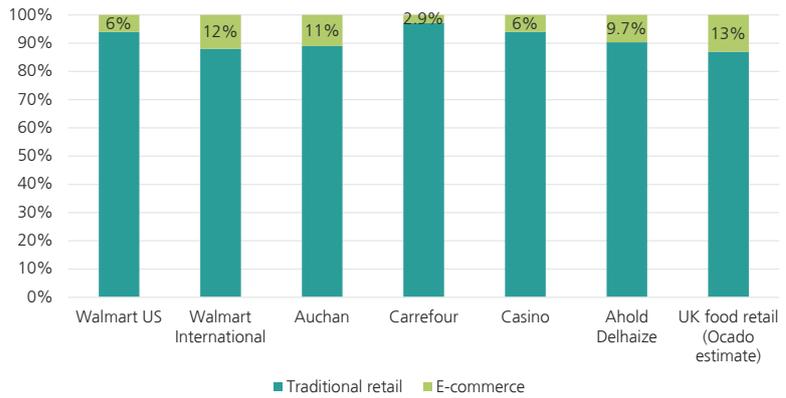
24 Kate Taylor, "Costco might launch its own streaming service for 'average Americans' to compete with Netflix and Amazon", Business Insider, 17 January 2019, <https://www.businessinsider.com/costco-talks-streaming-service-for-average-americans-report-2019-1>

In spite of considerable growth during the lockdown, e-commerce's contribution to grocery retailer's global revenues remained minor. In Q2 2020, e-commerce accounted for 6% of Walmart's U.S. revenues (up from 3% last year) and for 12% globally, the latter being largely due to the acquisition of Flipkart in India, an e-commerce operation that represents around 6% of the total Walmart international sales (Figure 14). The situation is not much different for other retailers:

- For Auchan, digital revenues accounted for 11% in the first half of 2020, up from 7.3% in the first half of 2019;²⁵
- For Carrefour, e-commerce accounted for only 2.9% of total revenues in the first half of this year, up from 2% in the same period last year, in spite of a 70% growth of e-commerce sales year-on-year;
- For Ahold Delhaize, e-commerce reached 9.7% of total revenues, including 7 percentage points accounted for by bol.com, which is rather a pure e-commerce activity owned by the retailer rather than an online branch of its grocery operations;²⁶
- For Groupe Casino, which owns Cdiscount in France (#2 player in the segment) and exito.com in Colombia (#1 player) e-commerce rose to 6% of total revenues in 2020 compared to 3% last year.²⁷

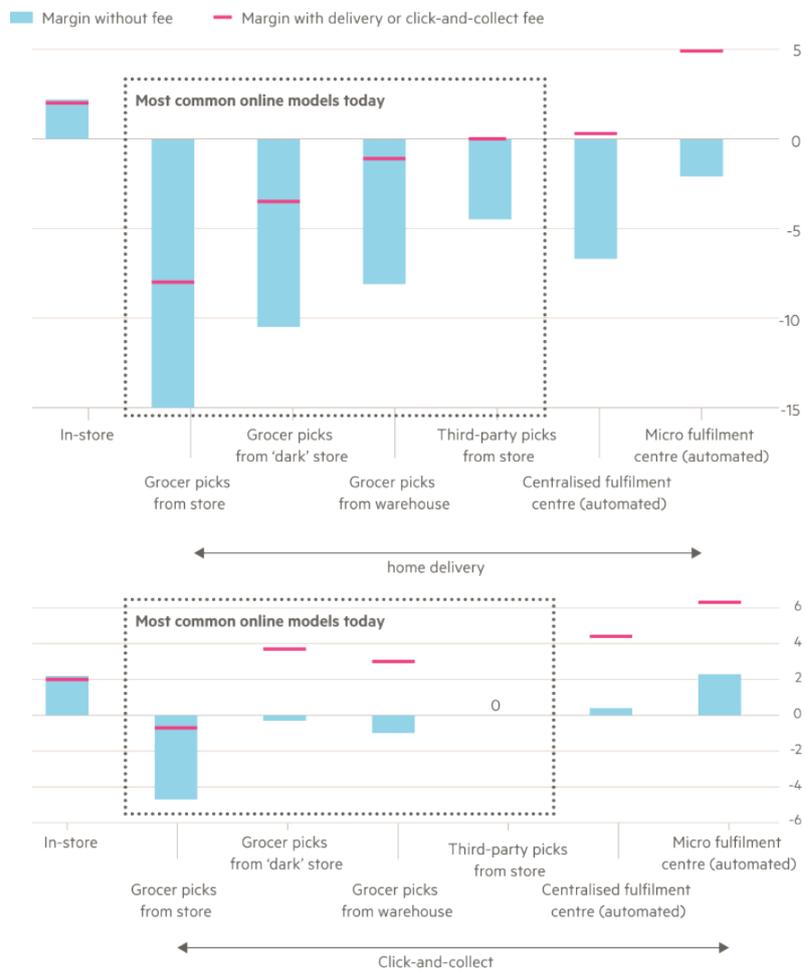
According to a trade union representative from Germany, retailers who deliver solely food products online do not play an important role in the retail industry: *"The share of Amazon-Fresh and Rewe Digital in the grocery trade is very small and currently plays*

Figure 14
E-commerce penetration in grocery retailers during COVID-19 crisis



Source: Company reports

Figure 15
Margins in online grocery retail, by channel and model (%)



Source: FT, citing Bain & Co, <https://www.ft.com/content/b985249c-1ca1-41a8-96b5-0adcc889d57d>

25 In April 2020, Auchan's food e-commerce sales rose 72% in France, doubled in Poland and Hungary, multiplied by 3.5 in Ukraine and Portugal and by 5.5 in Spain. The group entered into a strategic partnership with Glovo in 4 countries: Portugal, Spain, Poland and Ukraine.

26 Ahold Delhaize's online operations were also increasing during the lockdown: 77.6% increase year-on-year in its online sales in Q2 2020, and 127% increase in online sales in U.S.

27 Groupe Casino reported triple-digit growth in food e-commerce in H1 2020 and strategic partnerships with Ocado and Amazon in France.

an insignificant role for the union. For example, the turnover of Amazon Fresh is roughly the same as the turnover of a hypermarket with 5,000 square meters of retail space. Rewe Digital is technically and logistically well prepared, but Rewe does not earn any money with the online delivery of groceries. The food trade in Germany is fiercely contested and the large food groups (Schwarz Group with Kaufland and Lidl, Rewe

Table 8
Financial results of Ocado

| | £m | 1H 2020 | 1H 2019 | Var (%) |
|--|----|----------------|----------------|----------------|
| Group Revenue | | 1,086.8 | 882.3 | 23.2% |
| Group EBITDA | | 19.8 | 30.7 | (35.5)% |
| Depreciation, amortisation, impairment | | (76.6) | (65.0) | 17.8% |
| Net Interest | | (22.9) | (14.2) | 61.3% |
| Loss before tax | | (79.7) | (48.5) | 64.3% |
| Exceptionals | | 39.1 | (99.0) | |
| Loss before tax post exceptionals | | (40.6) | (147.4) | |

Source: Company reports

Group with Penny and Rewe-Markt, Edeka Group with Netto and Edeka-Markt as well as Aldi) each have several thousand shops and supply a lot of people.”

As reports showed, supermarket and hypermarket chains are not able to benefit from the surge in online demand as delivering goods require huge commitments in resources. In the U.K., Tesco and J Sainsbury said that the high cost of expanding online delivery operations will erode their profits this year, although demand largely exceeded last years. A recent FT analysis showed that traditional retailers struggle to achieve positive margins on their online grocery sales, home deliveries being loss-making in all models, while click-and-collect breaking even only if serviced by centralized or micro fulfilment centres (Figure 15).²⁸

The case of **Ocado** in the U.K. is very illustrative for the challenge posed by building a sustainable grocery retail operation based solely on online deliveries. The British retailer that describes itself as ‘the world’s largest dedicated online grocery retailer’ was founded in 2000 and its shares have been traded on the London Stock Exchange since 2010. For many years, the company has been reporting net losses, but investors kept supporting its shares on bullish expectations for the online retail industry. In the first half of 2020, the *supermarket chain without supermarkets* has increased its retail revenues by 27%, but has nonetheless remained in the red in terms of financial results. The company is continuing to develop automated solutions for grocery warehouses, which it is selling to traditional retailers (such as Casino in France, for instance), but it has not yet managed to build a financially sound own online grocery retail operation.

Certainly, COVID-19 has provided an impetus for the online grocery shopping, but retailers are yet to find profitable ways of doing this type of business. A Financial Times report showed that home deliveries provided by grocers that pick goods from the store erode up to 15% of the margin. The alternative solutions for grocery e-commerce – such as picking up in warehouses, third-party picks from store, centralized fulfilment centers, click-and-collect – are less costly, but also reduce margins than in many cases can only be partially compensated by the collected fees.

²⁸ Eley, Jonathan, McMorro, Ryan, “Why supermarkets are struggling to profit from the online grocery boom”, 23 July 2020, <https://www.ft.com/content/b985249c-1ca1-41a8-96b5-0adcc889d57d>

In the new environment, some tech players that try to find opportunities in the retail sector without doing retail per se have benefitted from the change in consumer behaviour. This is best illustrated by Instacart, an American company providing a platform for people to order grocery from stores, that is later collected and delivered by the users of a mobile application in a way similar to how Uber works. Instacart has entered partnerships with a wide range of US retailers such as Albertsons, Aldi, Costco, Kroger, Staples U.S., Target and many others. The company has reported an increase of about 450% of goods purchased through its app in April 2020 compared to December 2019 and allegedly made its first-ever net profit of around \$10 million in April.²⁹ The company announced that it hired 300,000 additional workers in April and sought to hire another 250,000 over the next two months. Many controversies surround the Instacart business model, and the company has been criticized for misclassifying the shoppers it hires as independent contractors instead of workers, withholding tips given by customers to shoppers, not providing hazard pay or adequate protective gear during the COVID-19 pandemic and blocking worker unionization.³⁰ Also, operational issues are resulting from the fact that Instacart does not have a stock management system integrated with the stores it serves (for instance, products ordered by the customers may be out of stock). After the latest financing round, the company was reportedly valued at almost \$14 billion, but some analysts are skeptical saying that the company can not justify such a high valuation with its business model and market penetration.

The pandemic was a stress-test for traditional retailer’s e-commerce branches, especially in the fast-fashion industry

Often presented as the future of retail, integrated solutions which provide traditional retailers with omnichannel capabilities were put to the test during the COVID-19 pandemic. Specifically, fast fashion groups have been strongly impacted by the closure of physical stores and although demand on their websites increased, it was far from sufficient to compensate for losses in physical retail.

Fast fashion retailers had a terrible time during the pandemic. As physical outlets closed, the groups saw their revenues more than halved. The four biggest fast fashion retailers – Inditex, H&M, Fast Retailing (Uniqlo) and Gap – lost \$15.8 billion in sales during the second quarter of 2020, which is more than half of their combined revenues in the same quarter of last year (Figure 16). As a result of lost sales, their profitability plunged to unsustainable levels: although only Gap had a negative EBITDA during

²⁹ Holt, K. Report: Coronavirus Grocery Delivery Demand Has Made Instacart Profitable For The First Time, available at <https://www.forbes.com/sites/krisholt/2020/04/27/coronavirus-grocery-delivery-instacart-profitable/#855709071e25>

³⁰ See Brandom, R. Sick Days: Instacart promises a safer way to shop, but workers tell a different story, May 26, 2020, available at <https://www.theverge.com/21267669/instacart-shoppers-sick-extended-pay-quarantine-leave-coronavirus>

the COVID-19 quarter, all four groups saw their results severely affected as their combined EBITDA dropped 83% in the second quarter of 2020 compared to the same period last year (Figure 17). Combined, the four groups lost \$2 billion during the COVID quarter (Figure 18).

The fast-fashion business model, especially the one put in place by Inditex, is based on a stretched supply chain in which goods are travelling fast from factories to stores with very few distribution warehousing capabilities. In this situation, goods ordered online often have to be collected in stores, which means a high functional integration between physical and online channels. When brick-and-mortar stores were closed during the pandemic, workers were asked to volunteer for picking up and preparing online orders in the stores where usually they served customers. This has obvious limits and the supply chain showed multiple bottlenecks although demand was there: fast-fashion retailers were unprepared to logistically service considerable volumes of online orders.

Inditex reported that online sales almost doubled in April (Figure 19), but this has proved to be largely insufficient to safeguard activity, profitability and employment. Other companies in the garment sector have also struggled to compensate at least in part the loss of sales. For instance in Switzerland, almost all brands and boutiques opened online activities during the lockdown. However, according to the interviewed union representative, "Numbers show that in order to compensate the loss of traditional commerce activity, the e-commerce activity had to make 70% of turnover online, which could not be attained mostly because of the short time the retailers had to reorganize their activity".

Indeed, e-commerce still has a minor share in the structure of fast fashion retailers' business. Only recently, in 2017, have both Inditex and H&M started to report the share of online sales in their total revenues. In 2019, online accounted for 14% of Inditex total sales, up from 12% in 2018 and 10% in 2017. For H&M, online reached 16.2% of total sales in 2019, up from 14.5% and 12.5% in the two previous

Figure 16
Fast fashion retailers sales, in \$ billion

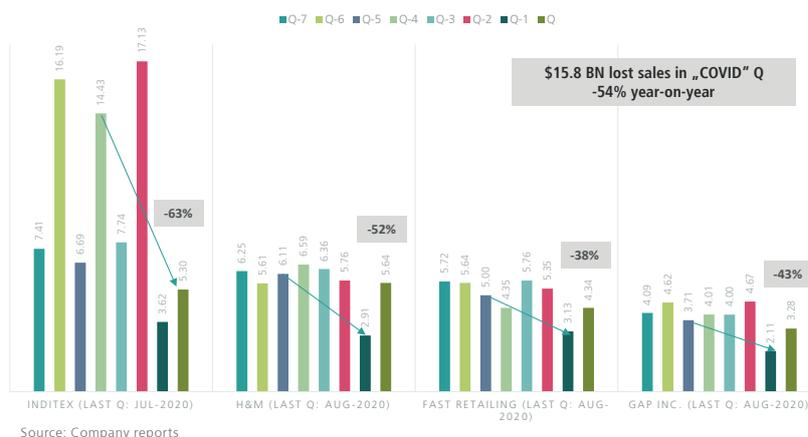


Figure 17
Fast fashion retailers EBITDA, in \$ billion

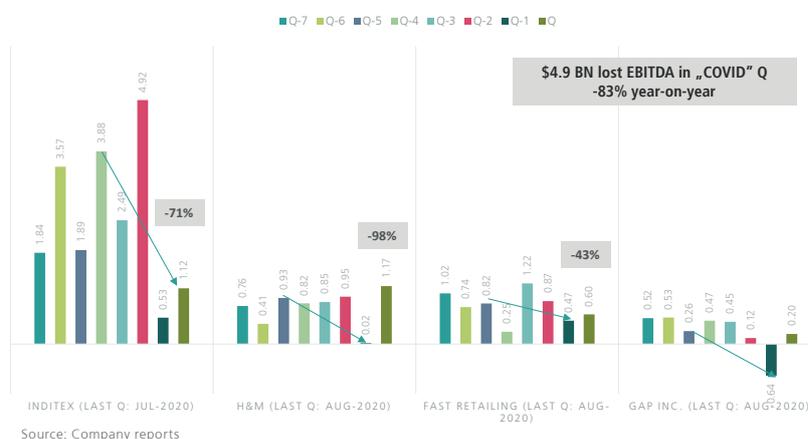


Figure 18
Fast fashion retailers net income, in \$ billion



years. Compared to its European peers, Gap seems to have developed faster online, e-commerce reaching 25% of its total sales in 2019.³¹ For Uniqlo, online accounted for only 10% of total sales in the year ended August 2019.

31 Online sales at Gap Inc. rose 40% in April 2020 and more than 100% in May

In spite of not yet being central to their business, e-commerce has attracted a large portion of investments in the garment retail industry. For example, Fast Retailing has already been investing more in its computer systems than in its physical Uniqlo stores in Japan since 2016 (Figure 20).

In June 2020, Inditex announced a 2.7 billion euro plan to invest in technology that will provide better integration of its physical and online operations, under a new strategy called 'Global fully integrated Store & Online'. At the center of the investment is the fashion retailer's mobile application, which should allow shoppers to quickly find a specific item in stores via a map, to reserve a changing room and to self check-out using QR codes. The new solution will be based on a technology that Inditex is already using: a radio frequency ID device attached as a chip to the alarms on clothing, which currently is used to keep track of stock. According to the company, the future system should be rolled out across Inditex's stores over the next three years.

While the announced investment is impressive in terms of financial commitment and if successful it will improve user experience in-store, this investment alone will not solve the logistical problems posed by a fully functional online selling channel that could be able to maintain the same level of sales during another lockdown. This is confirmed by the company's own forecast: Inditex expects online sales to account for 25% of total sales by 2022, compared with 14% in FY19. If another lockdown occurs after the 2.7 billion euro investment, losses could be somewhat smaller. Of course, the pandemic was an exceptional event and Inditex is preparing for a future in which it will primarily sell in-store, with in-store personnel, to clients that use online applications to improve their customer experience.

For workers in the fast fashion industry, the surge of e-commerce activity means that in-store personnel has to manage a broader range of products, which makes storage and handling more difficult. Online returns brought in physical stores only increase the complexity of the task. In many cases, as reported by the interviewed trade unions, online sales are not being factored into work planning, which leads to understaffing and increased pressure on existing personnel. Moreover, orders placed online and collected in stores are often not included in the calculation of productivity indicators and sales commissions. All these issues must be addressed in collective bargaining at company and sectoral level, especially in the post-COVID environment, when the share of online activity is most likely only going to increase.

Figure 19
Inditex increase in ecommerce sales during the lockdown

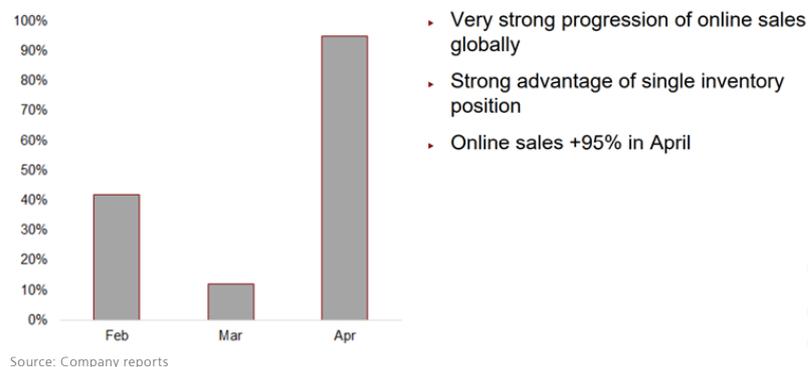
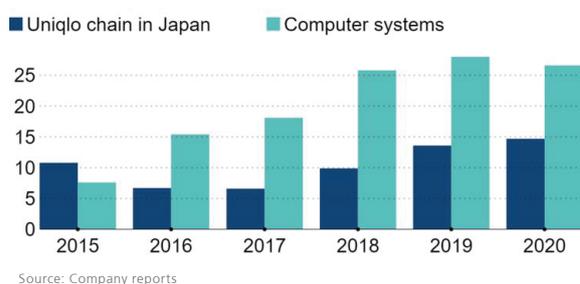


Figure 20
Fast Retailing spending on e-commerce compared to physical chain in Japan



3 E-COMMERCE, WORKERS AND UNIONS IN THE POST-COVID WORLD

Pure players seem better placed to succeed in an automated and robotized world

After COVID-19 passes, retail companies will want to be prepared for future crises and will likely increase their investments in robotics and automation. Higher e-commerce demand during the pandemic led to an increased use of robots in warehouses and automated cashouts in stores.

The increased usage of robots during the COVID-19 crisis has been noticed in two key activities: delivery and warehousing. As e-commerce grew and workers demanded to be protected, robotic hands and algorithms that distinguish objects proved to be very useful in the context of overcrowded warehouses. Retailers like Amazon, Walmart and Kroger were partially prepared, as mobile robots in their warehouses already performed functions such as materials handling, inventory tracking, cleaning, picking customer orders and automating grocery delivery.³²

Amazon was already among the pioneers in warehouse automation, starting with its 2012 acquisition of material handling technology company Kiva Systems for \$678 million. The tech giant has since deployed thousands of orange Kiva robots into its warehouses, where they search for and move around small bins and large pallets of products. In 2019, Amazon also bought warehouse robotics startup Canvas Technology Inc.³³

Before the COVID-19 crisis, U.S. consumers showed a negative attitude towards using robots in retail, but the opinions are likely to change. A Pew Research project showed that consumers were concerned about robots taking jobs from workers, but 85% of the surveyed persons agreed with the idea that robots and computers should do jobs that are dangerous or unhealthy for humans.³⁴

32 Robots Take Center Stage In COVID-19 Crisis, 14 April 2020 see <https://www.pymnts.com/news/retail/2020/robots-take-center-stage-in-covid-19-crisis/>

33 Coronavirus crisis could prompt Amazon, other retailers to invest in automation, 13 April 2020 see <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/coronavirus-crisis-could-prompt-amazon-other-retailers-to-invest-in-automation-57902598>

34 Robots Take Center Stage In COVID-19 Crisis, 14 April 2020 see <https://www.pymnts.com/news/retail/2020/robots-take-center-stage-in-covid-19-crisis/>

In most of the e-commerce warehouses complete robotization seems to be a thing of the distant future. As stated by an interviewed union representative, *"In Argentina, the labour force is still far away from being replaced by robots."* In the Netherlands and Australia, automation has developed more quickly, and some highly automated warehouses are already operating and more will open. During the COVID-19 pandemic, pick up points that also have some degree of automation have been highly used especially in Australia.

Although Amazon has previously said that *"fully automated shipping warehouses are at least a decade away"*³⁵ and the high hiring numbers during the lockdown proved that currently its operations strongly rely on human workforce, the situation might change in the coming years, and the company could see a greater incentive in investing in warehouse automation. The fact that human labour gets more expensive due to pressure for higher labour standards, increased demand for protective equipment and hazard pay, may increase the financial viability of investments into robotics and thus accelerate the deployment of automated solutions.

Offline consumer behaviour will likely undergo long-term changes. The social distancing rule is already making customers utilize more frequently self-checkout, self-service and alternative methods such as Drives over dealing with a shop assistant. If this trend is here to stay, Amazon is well-positioned to benefit from the technology it developed for its Amazon Go chain, which almost completely removes human interaction in physical grocery stores.

Trends towards working from home will stimulate pure players' non-retail businesses

The coronavirus pandemic has led to a surge in working from home, as companies have tried to maintain activity despite the lockdown. The incidence of working from home went as high as 200 million workers in China, while in the

35 See <https://www.theverge.com/2019/5/1/18526092/amazon-warehouse-robotics-automation-ai-10-years-away>

US the figure doubled almost overnight in comparison to the previous year.³⁶

While for many workers it is physically impossible to work from home (either because of the specificities of their jobs, or because of their lack of required infrastructure), there is no doubt that the soaring numbers of people working away from their usual places of work during the coronavirus crisis can be said to be a huge experiment for both workers and companies, with important long-term consequences for the organization of work.³⁷ The obvious implication is that working from home will never return to pre-pandemic levels and will in fact remain highly prevalent as far as white-collar jobs are concerned. Although it is too early to even vaguely assess the extent of this, experts and managers from large companies believe the current pandemic will prove a “tipping point” for the uptake of telecommuting.³⁸ The arguments in favor of this belief are clear: both workers and companies are forcefully getting used to a situation that bears many advantages for both — work-life balance for workers and important savings for companies.³⁹ Despite the drawbacks and criticism, working from home will likely remain a mass phenomenon even after the coronavirus pandemic has passed.⁴⁰

As business reports show, demand for cloud computing is most likely to increase significantly in 2020 due to the COVID-19 pandemic, boosted by the use of collaborative tools such as videoconferencing⁴¹ and virtual schooling, but also due to an increase in demand for entertainment and on-line gaming. The increased demand is fuelling new investments into the business. Alibaba has announced it is doubling its three-year investment plan on cloud computing to reach \$28 billion.⁴²

Certainly, cloud computing is a useful tool for businesses and individuals during social distancing, and also provides computing power for health care systems and academic

36 See <https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/a-blueprint-for-remote-working-lessons-from-china#>; <https://www.brookings.edu/blog/up-front/2020/04/06/telecommuting-will-likely-continue-long-after-the-pandemic/>; https://john-joseph-horton.com/papers/remote_work.pdf; <https://www.weforum.org/agenda/2020/03/working-from-home-coronavirus-workers-future-of-work/>

37 On who can and who can't work from home, see for example : <https://www.resolutionfoundation.org/app/uploads/2020/03/Doing-what-it-takes.pdf>.

38 See <https://www.cnbc.com/2020/03/23/what-coronavirus-means-for-the-future-of-work-from-home.html>

39 Getting used to includes making significant investments in the physical and organizational infrastructure required for the new working arrangements.

40 Some employers are not that enthusiastic, complaining for example of difficulties in ensuring worker discipline. See <https://www.bbc.com/worklife/article/20200309-coronavirus-covid-19-advice-chinas-work-at-home-experiment>.

41 Microsoft reported a 775% increase in Teams' calling and meeting monthly users in a one month period in Italy during the lockdown. See <https://azure.microsoft.com/en-us/blog/update-2-on-microsoft-cloud-services-continuity/>

42 Alibaba pledges to spend \$28bn on cloud computing, <https://www.ft.com/content/85536f2e-fc64-4d58-97e7-6d30fc9ea932>

institutions. The question is not whether Amazon and other tech giants should or not invest in cloud infrastructure, but rather how to ensure that the profits generated by these highly profitable operations are not channelled into business practices that have little to do with modernization, such as capturing market shares through predatory pricing, cheap service and cheap labour, destroying competitors and building monopolies that will sooner or later rise prices and capture all the profits.

Pure players' growth destroys labour standards

Pure players' growth in the post-COVID world will expand their business model into the labour market. Although it positions itself as a tech giant, Amazon still relies on hundreds of thousands of workers in warehouses and delivery services and has notoriously had put in place very low labour standards to get a comparative advantage against competition.

The explosion of fulfilment capabilities has increased the number of warehouse jobs, but the quality of these jobs is far from satisfactory. Although most of the warehouses built by pure players are new, their low-cost business model has translated into strenuous work under pressure and sometimes inhuman working conditions, with very low salaries. John Logan, Professor of Labour and Employment Studies at San Francisco State University, says that “*beyond any doubt [Amazon] is more of a low-wage retailer than a high-wage tech disruptor. These disclosures on poverty pay, including shocking details about huge numbers of Amazon workers who depend on food stamps to survive, add to existing revelations about the company's brutal and often dangerous working environment and culture.*”⁴³

E-commerce, automation, digitalization and artificial intelligence indeed have the potential to increase wealth to unprecedented levels – but the real question is how is this wealth distributed? While Jeff Bezos is amassing trillions in stock value, Amazon employees are struggling to survive with minimum wages and dreadful working conditions. As the World Bank's World Development Report 2016 states, “*digital technologies have spread rapidly in much of the world. Digital dividends—that is, the broader development benefits from using these technologies—have lagged behind.*”⁴⁴ Certainly, digital dividends do not only mean access to Internet and mobile technologies, but also to skills, jobs and wealth created by technological advances.

Many pure players are also known for their anti-union policies, including the use of specific training videos for middle management to counteract attempts at unionization.⁴⁵

43 John Logan, “Is Amazon the US's Most Anti-Worker Company?”, Truthout, <https://truthout.org/articles/is-amazon-the-uss-most-anti-worker-company/>

44 See <http://www.worldbank.org/en/publication/wdr2016>

45 USA: Amazon accused of ,aggressive anti-union tactics' after

Moreover, labour standards are not respected by pure players and platform players such as Instacart, which consider a large part of their employees as independent contractors. Amazon's Mechanical Turk is an extreme example in this respect. The 'crowdworking' platform has been widely criticized for substandard use of labour and lack of labour relations. Essentially, the work is de-humanized – as noted by computer scientist Jaron Lanier, the Mechanical Turk *"allows you to think of the people as software components."*⁴⁶ The content of these jobs is simple and repetitive, and the compensation is extremely low. A study of 3.8 million tasks completed by 2,767 workers on the platform showed that workers earned a median hourly wage of about \$2 an hour with only 4% earning more than \$7.25 per hour.⁴⁷ Since these workers are considered independent contractors, they are not protected by the labour legislation that guarantees minimum wage. Also, the lack of labour contracts makes collective representation and collective bargaining impossible.

Unionizing e-commerce workers is a difficult task

As showed in our previous reports, unionizing pure players in the e-commerce segment of the retail industry is a difficult task due to various reasons: a fragmented supply chain, multiple legal persons involved, atypical forms of employment, open anti-union policies put in place by the management. Even among traditional retailers that develop omnichannel operations, workers assigned to tasks related to e-commerce are often deprived of the possibility to join a union (for instance, warehouse or delivery workers are sometimes employed by subcontractors).

In Switzerland and the Netherlands, traditional retailers have subcontracted delivery services during the COVID-19 pandemic, and the spike of e-commerce demand was serviced mostly by non-union members. The new context did not change liberal labour relations in the Netherlands, and although health and safety regulations were imposed in supermarkets and warehouses, temporary workers were confronted with poor working conditions.

In Australia, the trade union negotiated a variety of health and safety regulations applicable to e-commerce companies as well. At Amazon, strict regulations were imposed for individual protective gear and social distancing. Working hours were extended, a night shift was implemented and the hourly pay was increased by 3.5 AUD. Another online

retailer, DJ Online, replaced team meetings with messages on the noticeboards to keep social distancing.

In the US, e-commerce retailers opened their distribution centres in small areas where employees have no access to other jobs. This makes unionizing e-commerce workers a difficult task, as employees are not interested in joining the union if it means they risk losing their jobs. However, there is a clear need to unionize pure players' employees, as the rise of e-commerce means more part-time jobs and fewer health and pension benefits as many workers are hired by employment agencies and not directly by the companies. During the COVID-19 pandemic, US unions were also struggling with the fact that anti-COVID measures were different in each state and there were no centrally imposed regulations coming from the government.

In Argentina, employees from delivery services and warehouses are not included in the commerce sector and can only join the transport trade union. According to the interviewed union leader, the agreements in force at Facebook or IBM can be used as good examples for workers in e-commerce. For the moment, there is no collective agreement covering Mercado Libre workers because the union and the management could not agree on the clauses related to employment flexibility. The union is currently working on a new bill to consider new types of work and working conditions implemented by the South American pure player giant.

The rise of e-commerce means more tax avoidance and therefore less social security

In the context of the COVID-19 crisis, the structural underfinancing of health systems became obvious. Big multinational corporations that capture market share from companies that otherwise would have paid fair taxes contribute to lowering governments' tax income and thus their ability to adequately finance health systems.

Multiple reports show that public health systems in many countries were underfinanced in the wake of the coronavirus pandemic. In the U.S. state funding for the medical care system was reportedly lower in 2016-2017 compared to 2008-2009.⁴⁸ In Europe, situations vary among countries: while some have a relatively strong public health care system (France, Germany), many countries strongly affected by the coronavirus have underfunded public health systems (Italy) or provide a smaller proportion of GDP to the medical system compared

training video is leaked; Incl. Amazon's response & Whole Worker rejoinder, Business & Human Rights Resource Centre, <https://www.business-humanrights.org/en/usa-amazon-accused-of-aggressive-anti-union-tactics-after-training-video-is-leaked-incl-amazons-response-whole-worker-rejoinder>

46 Jaron Lanier, *Who Owns the Future?*, Simon and Schuster, 2013, ISBN 978-1-4516-5497-4.

47 Alana Semuels, "The Internet Is Enabling a New King of Poorly Paid Hell", 23 January 2018, <https://www.theatlantic.com/business/archive/2018/01/amazon-mechanical-turk/551192/>

48 Trust for America's Health, *A Funding Crisis for Public Health and Safety*, https://www.tfah.org/report-details/a-funding-crisis-for-public-health-and-safety-state-by-state-and-federal-public-health-funding-facts-and-recommendations/?mod=article_inline.

Opinion: Even before coronavirus, U.S. was underfunding public health, Market Watch, *The Conversation*, <https://www.marketwatch.com/story/even-before-coronavirus-us-was-underfunding-public-health-2020-03-17>; according to the article, "overall, of the more than \$3.5 trillion the U.S. spends annually on health care, a meager 2.5% goes to public health".

to the EU average (Spain, U.K.), as a study of the European Commission shows.⁴⁹

Of course, there is no direct and immediate link between underfinanced health care systems and fiscal behaviour of e-commerce pure players. The point we are making here is that big tech corporations promote a neo-liberalist behavior that undermines the ability of the governments to provide high-quality public services, including healthcare. Specifically, when capturing market share and killing a competitor that was making profits, a pure player replaces a tax-generating business with its no-tax operations.

In this respect, the European Trade Union Confederation has criticized WTO for engaging into worldwide negotiations on e-commerce with big tech giants without adequately involving the trade unions. According to the ETUC position on the plurilateral negotiations on e-commerce: *“Any talks on e-commerce at governmental level must take into account human and trade union rights, solidarity, and social justice, and not be driven by the interests of a few big multinational corporations. [...] ETUC believes that data governance, the regulation of digital sectors and the well-management of the impact of digital economy on all workers must first take place through domestic and EU legislation, and in dialogue with social partners through collective bargaining. Workers’ protection and rights in a more digitalised world also need to be further safeguarded by the ILO”*. ETUC has estimated that tax avoidance in e-commerce diverts 40% of profits to tax havens. *“Before any agreement on e-commerce can be concluded, a multilateral agreement on fair taxation of digital companies must be concluded. Taxes should be paid in the country where the real activity of a digital company takes place,”* ETUC said.⁵⁰

Workers and communities should split the ‘digital dividends’

Although it is still early to see how economies will recover from the crisis, it is clear that those who need support and protection in first place are workers and communities. Regulators in different countries should step in to ensure that the wealthier owners of high tech companies do not excessively collect not only the “digital dividends”, as they did until now, but also the “coronavirus dividends”. For pure players, COVID-19 is certainly a challenge for managing increased demand from customers and rising pressure from the labour force, but also an opportunity for higher revenues, cash flows, budgets for research and development and profits. It is thus important to ensure that those who see their revenues increase do not reap all the benefits and deepen inequalities.

It is very important that governments provide adequate financing to public healthcare and education systems and for this purpose (and not only) they should impose stricter rules on taxation of e-commerce in order to collect the fair share from the tech giants’ revenues and incomes.

Also, governments should enhance regulations on labour standards, working conditions and minimum wages and enforce their implementation. As pure players will likely become stronger after the crisis, it is of essence that pressure is exerted upon them in order to:

- provide a fair playing field among all competitors in terms of labour rights, protection of workers and taxation;
- protect workers in arduous occupations and channel investments into improving working conditions;
- contribute to a better management of workload and scheduling;
- improve social and psychological factors influencing workers’ comfort at work;
- fight against harassment, discrimination and abuse;
- counter the incidence of non-standard forms of employments, part-time, zero-hour, agency employment, crowdworking;
- counter the polarization of work and the rise in income inequality, through the promotion of adequate wages to all employees including hazard, overtime and night-time compensation;
- ensure access to social protection to all employees, including through promotion of living wages;
- ensure that new forms of digitalized work organization improve rather than deteriorate job quality;
- require that automation and robotization are accompanied by adequate measures for reskilling and redeploying the affected employees;
- promote new vocational training adapted to requirements, and integration with new technologies through private and public investments;
- implement strict standards of information security, data protection and privacy at work, protecting employees’ private lives in a time of omnipresent digital and mobile communication, setting limits to universal availability and reachability;
- forbid anti-union measures, ensure the right of collective representation of workers and build a transparent dialogue between management and trade unions through regular information and consultation on economic, financial and strategic matters.

49 Inequalities in access to healthcare, A study of national 2018, European Commission, 2018, <https://ec.europa.eu/social/main.jsp?langId=en&catId=754&furtherNews=yes&newsId=9238>

50 ETUC position on the plurilateral negotiations on e-commerce, Brussels 11 March 2020, available at <https://www.etuc.org/en/document/etuc-position-plurilateral-negotiations-e-commerce>