



Privacy and Policy Implications of Connected Commerce

October 28, 2021

Increased technology adoption continues to drive innovation in the relationship between traditional retailers and e-commerce—a dynamic that we refer to as [connected commerce](#). Historically, customer journeys have been either offline or online, but more recently, they have begun to merge into an omnichannel form that allows for an “anytime, anywhere” shopping experience.

This evolution has created new opportunities for consumers, businesses, and investors alike—but also risks and challenges.

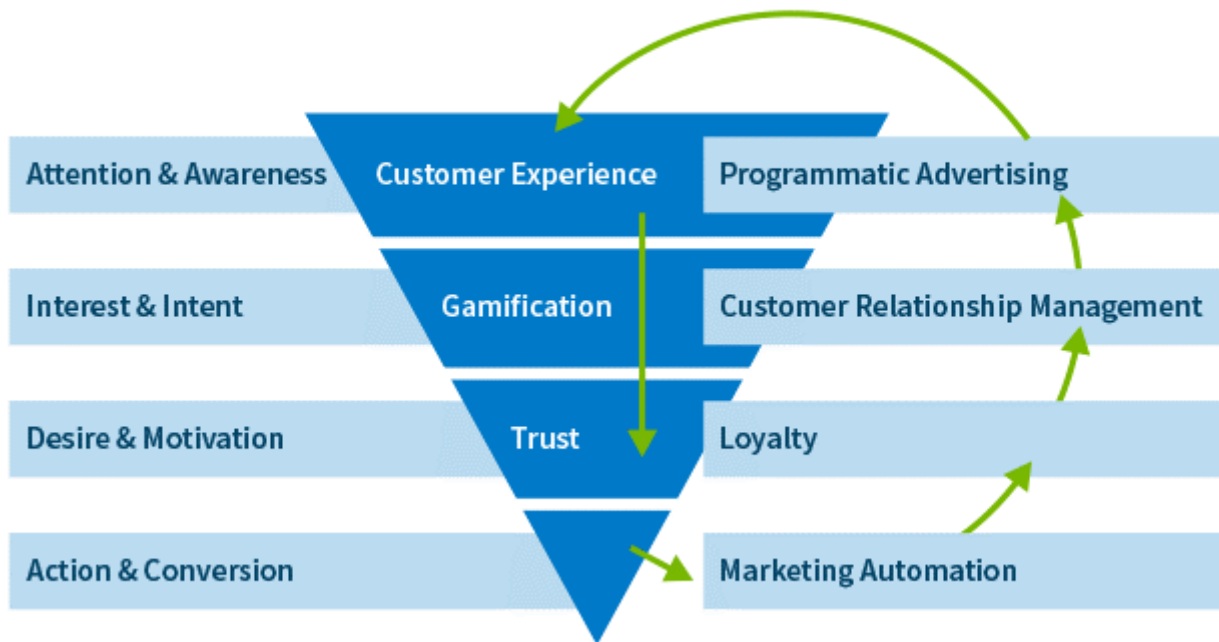
From an investment standpoint, we believe that connected commerce represents a highly underappreciated area for potential growth. Furthermore, we are excited about companies that provide unique, culturally specific and localized technology solutions in each region of the world.

To discuss these issues, we recently convened a panel of three experts and industry practitioners: Sophie Meralli, a venture capital investor at the Tokyo office of Eight Roads; Fernando Cirne, CEO of Locaweb, a Brazilian digital services company that offers B2B solutions and supports the digital transformation of small and midsize businesses (SMBs); and Peter Mühlmann, founder and CEO of Trustpilot, an online global consumer review platform based in Denmark. This discussion was part of [CONNECTIVITY 2021](#), a virtual conference hosted by William Blair that focused on cybersecurity, privacy, and politics.

Connected Commerce Reduces Friction in the Customer Commerce Journey

Historically, the core elements of the customer commerce journey—such as product discovery, transactions, and supply chain management—operated independently, without communication or feedback. This lack of interconnection inevitably created friction points in discovering, accessing, and assessing products. More recently, technology has reduced many of these friction points, creating a much smoother, more integrated customer experience.

Customer Commerce Journey



In addition, advanced data analytics enable businesses to assess customers' intentions and purchasing power much more accurately, allowing for new business models like personalized and programmatic advertising to evolve. In this sense, technology has inverted the product discovery process; in the past, the customer found the product, but today, the product may find its ideal customer.

Core Technologies Underpin Digital Evolution

Several core technologies underpin the world's digital evolution—internet and mobile connectivity, access to cheap processing power at scale, robotics, and more emerging technologies like artificial intelligence (AI) and blockchain. These technologies support the digital infrastructure that enables connected commerce, such as instant transaction validation, identity verification, and real-time bidding. At the same time, an integrated brick-and-mortar/e-commerce system allows the various stakeholders to learn from each other throughout the customer journey and further reduce friction for all parties.

Local Problems Require Local Solutions

While evolving technology has enabled connected commerce around the globe, it's important to understand that each region of the world has local problems that are usually best solved by localized solutions. Though we may tend to believe that technology has advanced somewhat evenly on a global basis, progress has actually been fairly uneven, leaving each region with specific technical challenges and potential timelines for adoption.

In our view, these challenges are best met by local market participants who understand a region's specific needs and its particular culture. Each region must evolve at its own pace and solve its specific technology challenges within its own cultural context.

From an investment standpoint, we believe that these dynamics highlight the value of local companies and their

unique ability to provide local technology solutions.

While it may be tempting to think that global technology companies like Google, Apple, and Amazon will solve the world's technology problems, they simply will not; each local context is too complex and too culturally specific for such broad solutions. In our view, the much more likely scenario is that vibrant companies—and thus excellent investment opportunities—will grow organically in each local environment.

A Case Study: Japan

Japan is an excellent case study in this regard. While we have all seen images of Tokyo's sleek, ultramodern districts, on a deeper level, Japan is a country that values tradition and long-term thinking.

For example, among all the companies in the world that are 200 years old or more, 56% are Japanese.[1] And surprisingly, venture capital investments (a broad indicator of the pace of innovation in a particular country) total only about \$5 billion per year in Japan, compared to approximately \$100 billion per year in the United States.[2] Meanwhile, Japan has the oldest population in the world on average: By 2035, 30% of the Japanese population will be over 65.[3]

These dynamics help create [a cultural environment in Japan that has been relatively slow to adopt digital services and innovation](#). For example, Japan's elderly population and its high population density support the presence of many local retail shops where most customers conduct nearly all of their business in cash.

Additionally, most Japanese retailers have very strict return policies, leading customers to want to see their purchases in person before they buy them. "People like to see the goods and pay at delivery, rather than buying online, especially for furniture or things with high average order value," Meralli said.

Technology is Removing Friction From the Consumer Shopping Experience



Product Discovery

Products Discover You



Transaction

100% Cashless,
10% Cryptocurrency



Integrated Supply Chains

Personalized Products
Delivered Instantly and
Same-Day Delivery

While these spending patterns make sense in a cultural context, they hinder the growth of e-commerce. Adding to the problem, e-commerce commissions tend to be high at between 10% and 15% in Japan, and many Japanese companies' technology systems are outdated and overly customized. So paradoxically, while the country's logistical systems are excellent and its smartphone adoption rate is 90%, Japanese consumers are still not committed to digital commerce.

"There is really a disconnect between infrastructure and the desire to transact online," Meralli said. Fortunately, the Japanese government recently opened its first digital agency, aimed at upgrading online services and infrastructure in the public sector. The government has also announced October 10—10/10, as in the 1s and 0s of binary code—as the first "digital day" in Japan.

A Second Case Study: Brazil

Like Japan, Brazil has its own technological challenges and unique cultural norms that influence the way the country is adopting digital solutions. But in contrast to Japan, e-commerce market penetration in Latin America will likely jump from less than 10% today to 25% to 30% over the next two years.^[4]

Much of this growth has been facilitated by SMBs, which have begun to adopt e-commerce at an increasing rate. In many cases, this adoption has allowed SMBs to compete effectively against larger, more established global brands and national marketplaces by giving them access to a complete ecosystem of technology driven tools and services rather than individual point solutions. Locaweb, for example, provides SMBs with a full suite of payment services, social media management, logistics, and other services.

That said, the e-commerce environment in Brazil (as in most countries) is becoming increasingly complex. "Ten years ago, when I was running an e-commerce operation, it was much easier. Now for lead generation [alone], you have to do search engine optimization (SEO), email marketing, and life commerce. You have influencers," Cirne said. "The question is how an SMB can manage so many skills in a small operation."

Brazil's unique culture strongly influences the way customers conduct business—or choose not to. For example, installment payments are very common in Brazil, but most foreign financial services firms are not set up to accept this type of payment. Within this environment, “a lot of foreign companies don't play well here in Brazil,” Cirne said. “We have a lot of room to develop financial solutions.”

The Essential Element of Trust

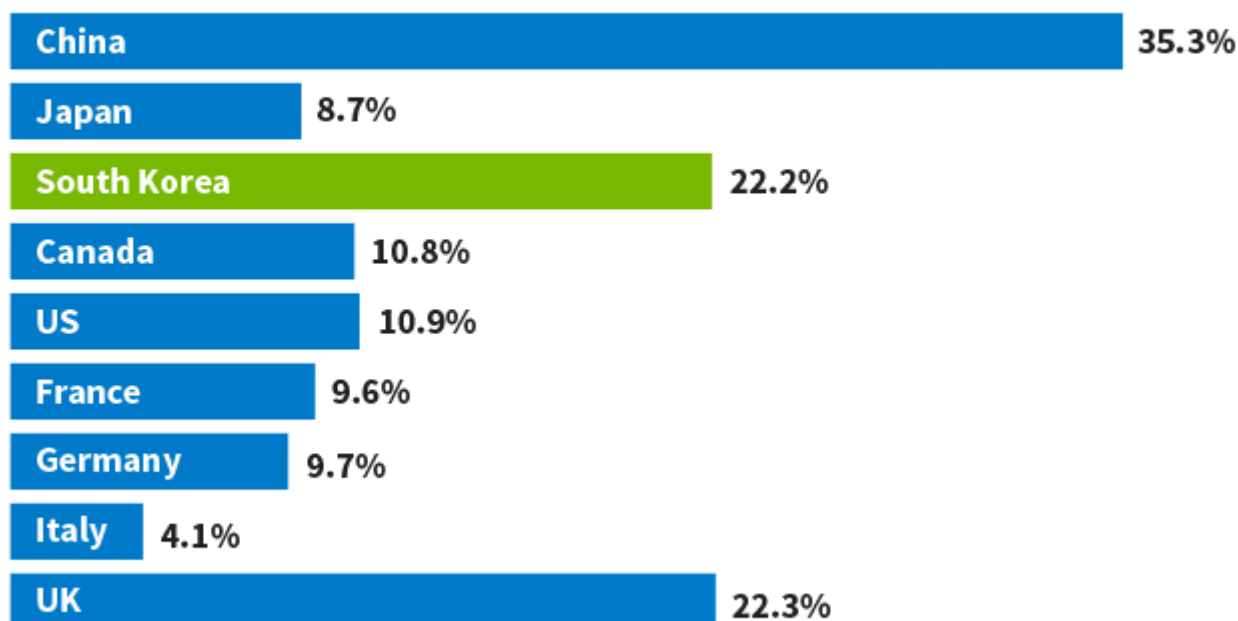
While increasing technological complexity creates new business opportunities, it also creates new challenges, such as how to establish, build, and maintain trust in the connected commerce market. Having said that, the emergence of the so-called “trust layer” in connected commerce is becoming better understood and reducing friction between buyers and sellers. “For businesses in e-commerce, there is an increasing recognition that if there is trust in the marketplace, everybody wins,” Mühlmann said.

In his view, companies can facilitate trust by being transparent—not perfect. In other words, it's more important for businesses to show customers that they genuinely care and to solicit feedback than to have a pristine (if suspect) social media presence. And while building trust is no easy task, the benefits are real. “The more we all trust the ultimate customer experience, the better it is for businesses, consumers, and society,” Mühlmann said.

Investing in Connected Commerce

The connected commerce ecosystem creates investment opportunities at every step of the customer commerce journey, including programmatic advertising, customer relationship management, and marketing automation.

Retail E-commerce Sales Penetration by Country (2019, % of Total Retail Sales)



Source: eMarketer, as of 2019.

In particular, we are excited about investment opportunities at the edge of traditional revenue pools, such as e-commerce and enterprise or [consumer digitalization](#).

[Programmatic advertising](#), digital customer experience, marketing automation, social media management, and alternative demand-generation tools are all examples of business models that have been created over the past decade.

Yet another example of this opportunity is the emergence of [digital reality](#) and gamification of the commerce journey.

Lastly, the ability to collect, manage, and analyze large amounts of data at scale and on a real-time basis—along with integrations to other parts of the value chain (such as payments technology)—has created areas of growth in customer loyalty management, “buy-now, pay-later” models, and logistics subscription services.

We are excited about these investment opportunities, many of which we view as unique, emerging, and underappreciated areas of growth.

To access more insights about how cybersecurity, privacy, and politics are affecting the investing landscape, we invite you to explore other posts about the sessions at our [2021 CONNECTIVITY](#) conference: [China: The New Cold War and Barbarians at the Digital Gate](#).

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[1] Source: Locaweb, 2021.

[2] Source: Eight Roads, 2021.

[3] Source: Japanese Ministry of Finance, 2021

[4] Source: Eight Roads, 2021

Disclosure:

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