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Digital Consumers, Emerging Markets, and the $4 Trillion Future

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AT A GLANCE

By 2022, some 3 billion emerging-market consumers will be online. Most them will use the internet to collect information before buying products, pushing the level of digitally influenced purchases to a staggering $3.9 trillion.

Distinct Markets

The shift in how emerging-market consumers buy products will play out in different ways in different countries. Companies should take a disaggregated approach, adjusting their strategies at the product, country, and even city level.

Evolving Consumer Behavior

Consumers in the most digitally advanced markets use digital payment methods for online transactions and have high expectations for the experience that a website or app provides. In less advanced markets, the quality of the experience is much less important than price, and the payment method is often cash on delivery.

A survey by BCG's Center for Customer Insight has captured these differences. The survey tapped into the behaviors of more than 15,000 people in cities such as Shanghai, Rio de Janeiro, and Nairobi, where internet connectivity is rising sharply.

THE FIRST THING THAT Aditya, 23, does when he wakes up at 7 in the morning is check the messaging app on his smartphone. That is also the last thing that Aditya, a postgraduate student living with his parents and younger brother in one of India's big cities, does before he goes to bed 18 hours later.

In between, Aditya (we've changed his name) is never far from his smartphone. He uses it to listen to music on his way to his university classes, to look for deals on e-commerce sites, and to Skype with a friend who is studying abroad. Dinner table discussions of where to go on a holiday or what television to buy are usually informed by something that Aditya is looking at in real time on his phone.

India, China, Brazil, and other emerging markets are home to a lot of people who, like Aditya, rely on the internet either to make or guide their purchases. As of 2017, upward of 2.1 billion internet users lived in emerging markets. By 2022, that number will likely swell to around 3 billion, and three times as many internet users will live in emerging markets as in developed markets.

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In terms of growth, emerging-market digital consumers represent an enormous opportunity. Even when such consumers don't buy directly on the internet, information that they find online—typically on a smartphone—often influences their purchasing decisions. Four years from now, the total value of digitally influenced spending in emerging markets will approach $4 trillion, according to our estimate.

The Boston Consulting Group's Center for Customer Insight surveyed more than 15,000 internet users in emerging-market countries to develop a picture of where those markets are in their digital development. We did in-person interviews with 1,000 or more people in each of nine countries: Brazil, China, India, Indonesia, Kenya, Morocco, Nigeria, the Philippines, and South Africa. All of our interviews were conducted in urban areas, where internet use is most deeply engrained. We also performed a wide-ranging regression analysis to strengthen our understanding of digital activity in emerging markets and to predict how and when that activity might change.

Digital's Surging Influence

Emerging-market economies have advanced dramatically in the past two decades. From 2000 to 2016, these countries' share of the world's gross domestic product rose from 11% to 28%, according to the World Bank, and their share of global household consumption expenditures rose from 11% to 24%.

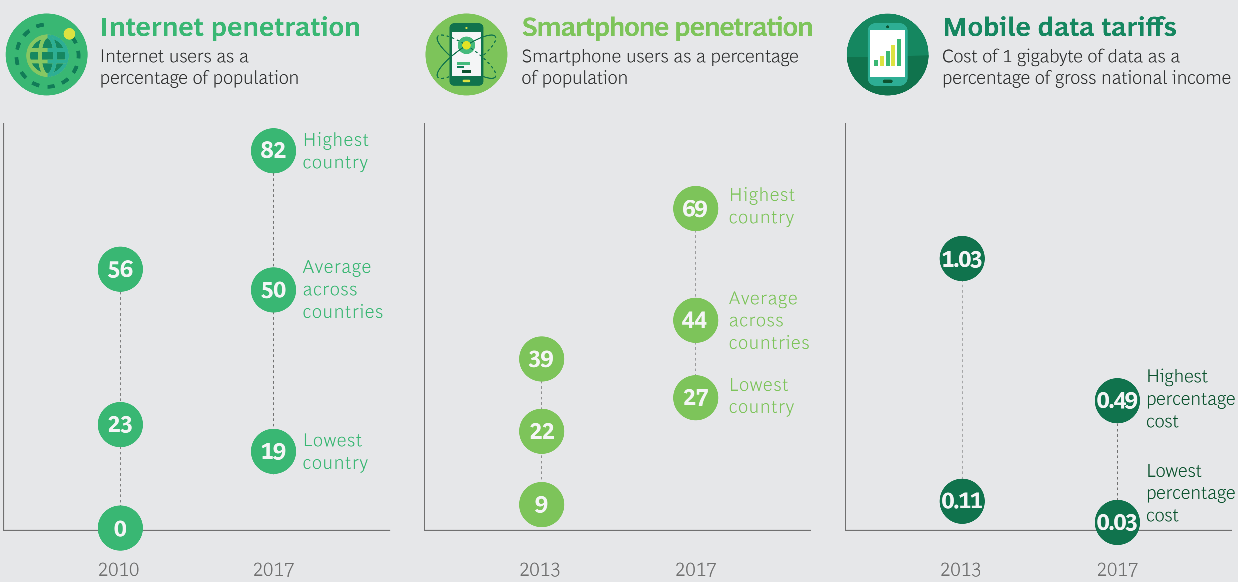
Falling smartphone prices—down by an average of 40% in emerging markets from 2011 to 2016—have put these devices in the hands of hundreds of millions of emerging-market consumers who previously could not afford them. Another change has been the arrival of high-speed data networks, which are now almost as ubiquitous in emerging markets as in developed markets such as the UK and the US.

Together, these factors have enabled emerging markets to achieve spectacular advances in their levels of internet connectivity. Half the population in emerging markets worldwide is now connected to the internet, compared with less than a quarter in 2010. (See Exhibit 1.) The connected population is even higher (above two-thirds) in parts of Southeast Asia and in Russia, Turkey, and Brazil.

In addition, because of their late start, emerging markets have in many cases bypassed older ways of accessing the internet—such as PCs and laptops—and jumped straight to mobile. Roughly nine in ten emerging-market consumers who own a smartphone identify it as their primary device for conducting online activities. And while people in the UK and the US spend only about a third of their internet time connected through a mobile device, the corresponding percentage in emerging markets is almost 50%.

Internet users in emerging markets now outnumber internet users in developed markets by more than two to one, and the difference is widening. Emerging markets will contribute approximately 900 million new internet users between now and

EXHIBIT 1 | Consumers' Use of Digital in Emerging Markets Is Booming



Sources: Forrester Research; Economist Intelligence Unit; Internet World Stats; International Telecommunications Union; World Bank and Oxford Economics; BCG analysis.
Note: The emerging markets used for these analyses include Algeria, Angola, Brazil, China, Egypt, India, Indonesia, Kenya, Malaysia, Morocco, Myanmar, Nigeria, the Philippines, Russia, South Africa, Thailand, Turkey, and Vietnam. The internet penetration figures encompass all 18 of these countries, the smartphone penetration figures 13 of them, and the mobile data tariff figures 9 of them.

2022, versus about 80 million new internet users from the world's already heavily connected developed markets. So in the next few years, more than 90% of all new internet users will come from emerging markets.

Emerging-market internet users aren't just chatting with friends, posting pictures on social media, and downloading videos. They are also using the internet directly to buy products. E-retail revenues in the biggest emerging markets rose to $800 billion in 2017, a figure that represents 15% of all retail revenues in those markets. And that number is dwarfed by the volume of digitally influenced purchases, which amounted to about $1.8 trillion last year and should continue to grow, reaching as much as $3.9 trillion in 2022. At that point, almost half of all emerging-market retail spending will reflect some type of digital influence. (See Exhibit 2.)

Mobile commerce (through smartphones) will be especially significant in these markets. It already accounts for more than 70% of online retail purchases in China.

How Digital Influence Differs, by Country and Category

Although digital is significant in all emerging markets, not all of them have reached the same stage of digital development. Emerging markets differ in the prevailing level of digital influence and in the extent to which online shopping has taken root. And even these two indicators don't move in lockstep. Digital influence typically materializes sooner, along with consumers' increasing digital maturity; online shop-

EXHIBIT 2 | Digital's Influence on Emerging-Market Retail Is Expanding

Sources: Forrester Research; Euromonitor; eMarketer; Economist Intelligence Unit; BCG Emerging Market digital survey 2018; BCG Center for Customer Insight surveys (2017–2018); BCG analysis.
Note: "Digitally influenced" refers to retail purchases that consumers make with the help of information that they collect on the internet, whether they buy online or not. The figures here represent data from nine emerging markets: Brazil, China, India, Indonesia, Kenya, Morocco, Nigeria, the Philippines, and South Africa.

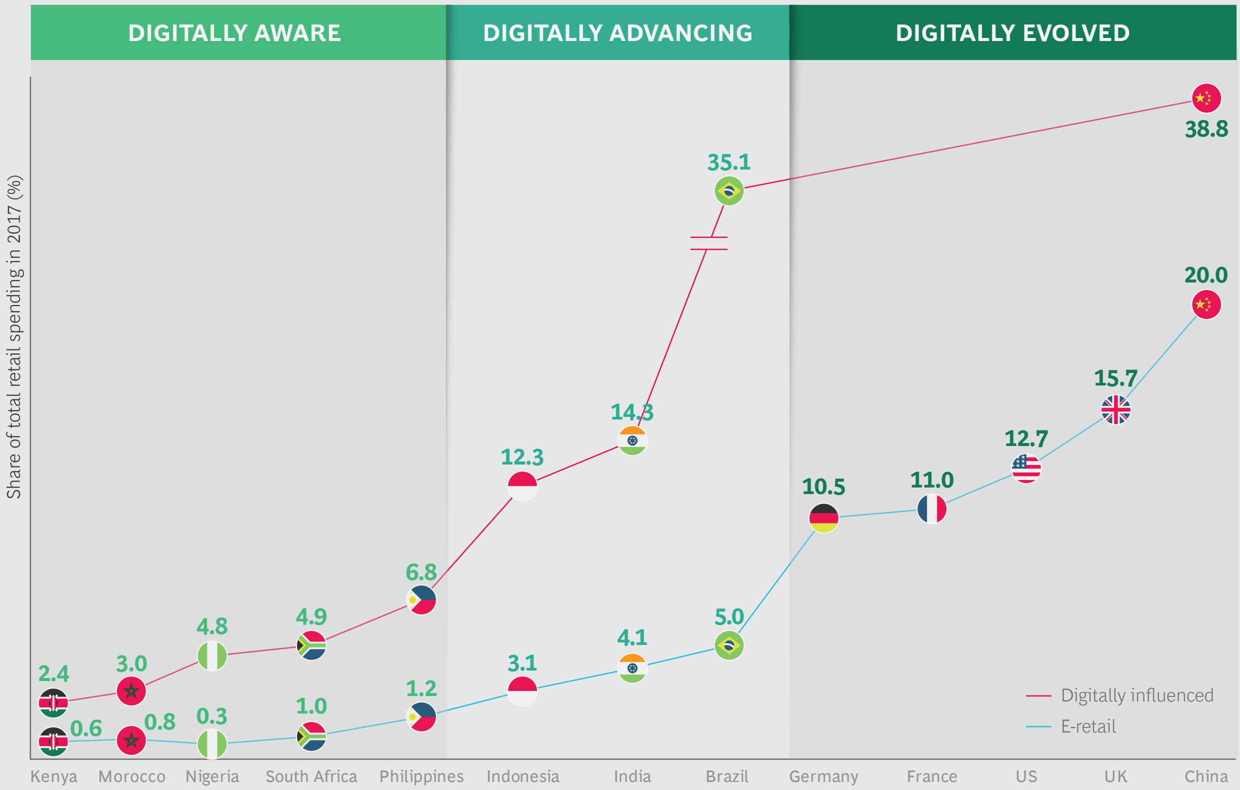
ping takes off only after the market has addressed other obstacles, such as a lack of convenient payment mechanisms or shortcomings in the postal system.

In addition to differing by country, digital influence and online shopping differ by product category.

Emerging Markets De-averaged by Country. The nine countries that CCI studied fall into three broad stages of digital development. (See Exhibit 3.) The earliest stage, which describes the situation in the Philippines and in the four African countries in our survey, is digitally aware. At this stage, e-retail accounts for only a tiny share (usually less than 2%) of the country's total retail sales, but digital influence is growing rapidly; approximately $1 of every $20 spent in retail settings is digitally influenced.

The next stage is digitally advancing. At this stage, e-retail accounts for a higher but still small percentage (3% to 5%) of the country's retail revenues, and the proportion of digitally influenced retail expenditures is 12% to 35%. Of the nine countries we examined, Indonesia, India, and Brazil are in the digitally advancing category; of these, Brazil is the farthest along.

EXHIBIT 3 | Countries Pass Through Three Distinct Stages of Digital Development



Sources: Forrester Research; eMarketer; Euromonitor; BCG analysis.
Note: "Digitally influenced" refers to retail purchases that consumers make with the help of information that they collect on the internet, whether they buy online or not. We did not gather data on digitally influenced buying in Germany, France, the US, or the UK.

Finally there are the digitally evolved countries, where e-retail accounts for more than 10% of all retail revenues, and where consumers commonly do online research before buying things. Most of the countries at this stage are Western, but China is an exception and in fact is one of the most advanced countries in the cohort from the vantage point of how its consumers use digital technology.

At each stage of development—digitally aware, digitally advancing, and digitally evolved—there is an increasing likelihood of digital influence in the steps leading up to a transaction.

Among urban internet users in digitally aware emerging markets, 43% use information that they collect online to guide their buying in at least one product category, as do 66% of urban internet users in digitally advancing emerging markets. In digitally evolved emerging markets—only China in our study—digital influence is essentially ubiquitous: 98% of urban internet users in China rely on information they obtain online to guide their buying decisions in at least one product category. (The percentages of internet users who seek online information before buying products in at least one product category are necessarily much higher than the percentages for digital influence shown in Exhibit 3, which indicate the proportion of total retail expenditures that are preceded by some kind of online research.)

E-commerce is likely to grow significantly faster in emerging markets than it has in developed ones.

One big difference between developmental stages in emerging markets involves online shopper penetration. Only 13% of urban internet users in digitally aware markets and 49% of urban internet users in digitally advancing markets qualify as online shoppers by our definition (using the internet to buy at least one category of product). But in China, 90% of urban internet users qualify as online shoppers, and 19% shop online regularly.

Countries can advance through the maturity stages quickly. Five years ago, India, Indonesia, and China were all at earlier stages—digitally aware in the cases of India and Indonesia, and digitally advancing in the case of China. But five-year average growth rates for e-retail in these countries (59% in India, 32% in Indonesia, and 46% in China) have pushed each of them into a more advanced stage of digital maturity.

Once e-commerce is underway, its trajectory is generally steeper in emerging markets than it has been in developed markets. But there are exceptions. A regression analysis that we performed sheds light on the underlying causes of e-commerce variances in emerging countries and identifies eight economic factors that are particularly important. (See the sidebar "Eight Variables That Determine a Country's E-Commerce Growth.")

These factors help explain the remarkable growth of e-commerce in China. Low-cost internet access is almost ubiquitous in the country, and intercity package deliveries cost about one-sixth of what they cost in the US. In addition, rental prices in China are high, and many brands depend on multilayered distribution systems, both of which reduce the competitiveness of physical retail stores.

China also has a fragmented physical retail sector, opening the door to online sellers, and a population that finds it easier to vet online retailers than offline retailers.

EIGHT VARIABLES THAT DETERMINE A COUNTRY'S E-COMMERCE GROWTH

To understand the forces that drive e-commerce growth across markets, BCG's Center for Customer Insight performed a regression analysis of approximately one-third of the world's countries (both developed and emerging). We tested more than 50 variables and found eight that seem to play a very strong role in determining the level of e-commerce in any market. The eight variables are as follows:

- **Smartphone Costs.** Lower costs are associated with higher levels of e-commerce.
- **Women in the Workforce.** Having more working women leads to a greater societal need for convenience and strengthens the proposition for online shopping.
- **Percentage of Middle-Income Households.** Online shopping takes off as the bulk of a country's population moves from low to middle levels of income.
- **Cost of Physical Retail Space.** The relative economics for online improve with increases in the cost of physical retail space.
- **Level of Development of Parcel and Postal Delivery Systems.** Higher levels of development in these areas drive online growth.
- **Percentage of a Country's "Banked" Population.** Bank customers are already well versed in digital transactions.
- **Startup Index Ranking.** Startups often introduce fundamentally new products and services; in countries with many startups, consumers have more reasons to go online.
- **Average Funding Received by Startups in the Previous Three Years.** With funding come advertising, promotion, and discounts—any of which might motivate a consumer to conduct a first online transaction.

The top variables in our regression analysis explain some differences in e-commerce penetration in different parts of the same country, whether in China or elsewhere.

For instance, an analysis we did in India showed relatively high levels of online shopper penetration in Noida and Gurgaon, two satellite cities of Delhi. Both cities have good support systems for startups, large numbers of working women, and above-average affluence in comparison with the rest of the country. The same analysis showed that factors such as low square-foot rental costs in Ahmedabad and Surat—so-called metro cities in India, with populations above 4 million—favor physical retail, and that those cities' inhabitants make less use of e-commerce.

For manufacturers and retailers, differences in e-commerce between different emerging markets, and between different cities in the same country, may raise questions about where to focus. Business-to-consumer companies should bear in mind the reality of rapid digital development and should invest with a high level of confidence that every city and every town (as well as every country) will continue its digital march forward.

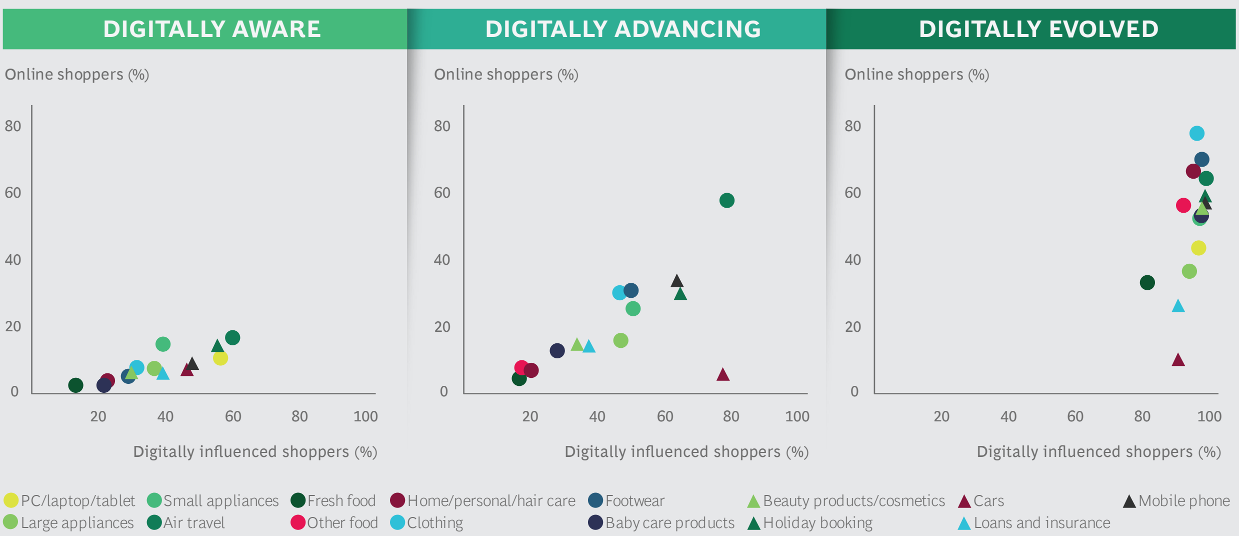
Emerging Markets De-averaged by Product Category. In all emerging markets, air travel is the category most subject to digital influence and most likely to be bought online. (See Exhibit 4.) Strong digital influence is also evident in the mobile phone category. Apparel and footwear see a lot of e-commerce, though interest in those categories doesn't really blossom until the digitally advancing stage.

Automobiles and large appliances show high levels of digital influence but low levels of e-commerce. Consumers generally prefer to see and touch these big-ticket items before purchasing them. Consumers also have concerns about the level of support that retailers will provide for products bought online in these categories.

In most emerging markets (China is the exception), food purchases show few signs of digital influence; most consumers neither research nor buy online. The low influence of digital in food buying is related to the nature of the category, where freshness is paramount.

As for categories of fast-moving consumer goods, we found significant variation by product type. The beauty and baby care categories, for example, have relatively high levels of digital influence, reflecting the fact that consumers want variety as well as access to more brands in these product categories. Other products related to

EXHIBIT 4 | Digital's Changing Role in Different Product Categories



Sources: BCG Emerging Market digital survey 2018; BCG Center for Customer Insight surveys (2017–2018); BCG analysis.
Note: Vertical axis shows the percentage of emerging market users who have made an online purchase in the category at least once. Horizontal axis shows the percentage of emerging-market users who gather information from the internet when they're making a purchase in the category.

home and personal care, however, have somewhat lower levels of digital influence and e-commerce.

Despite differences in how frequently people go online to research and buy products in these categories, the overall trend (with air travel likely to be part of e-commerce, and food lagging behind) holds for all three stages of digital maturity.

Nevertheless, with category sales, it pays to go beyond broad categorizations of digital maturity and look at the data on an individual country level. For instance, in the digitally advancing category, Brazilian consumers are much likelier than Indian or Indonesian consumers to buy a small appliance online. And Indian consumers book their holidays online far less frequently than Brazilian consumers do.

How Consumer Behavior Shifts as Digital Takes Hold

When a country's markets advance from one digital stage to the next, changes in consumer behavior are involved. Here are six changes that occur as emerging markets become more sophisticated in their use of digital. (See Exhibit 5.)

Other sources of influence increase, although social media maintains its lead. In the countries in our survey that are at an earlier stage of digital development—the digitally aware cohort—social media is the dominant source of online information for consumers.

With category sales, it pays to go beyond broad categorizations of digital maturity and look at the data for each country.

Social media remains an extremely important influence in the next two stages of digital development, but other elements of everyday digital interaction become important as well. The difference is most evident in the digitally evolved stage, where visits to online shopping websites and search engines are routine (done by 80% and 65%, respectively, of consumers in digitally evolved markets).

With both shopping websites and search engines—two pull-oriented elements—consumers go out and look for specific information or for products that they are actively thinking of buying. Social-media-influenced commerce is different, with consumers often discovering brands or products that they didn't previously know.

Convenience emerges as a factor. Discounts are an important trigger for online buying. Indeed, many emerging-market buyers say they made their first online purchase because of a deal they saw online and couldn't resist. In general, deals offered by online marketplaces prompt a lot of impulse buying in emerging markets. One consumer in a small city in India told us that she visits her favorite marketplace daily. If a deal is appealing enough, she will buy even if she doesn't need the product immediately.

As important as price is, discounts aren't the only thing that matters. Convenience and variety are two other very important drivers of online shopping in emerging markets. Time-constrained consumers are looking to get what they want, at a time that works for them, in a way that saves them effort. In smaller cities, many consumers turn to online shopping to find brands or designs that are not available through offline outlets in their localities.

EXHIBIT 5 | Significant Changes in Consumers' Attitudes Drive a Country's Digital Maturity

Country's maturity stage →			DIGITALLY AWARE (%)	DIGITALLY ADVANCING (%)	DIGITALLY EVOLVED (%)
Before purchase	What influences them online?[1]	Online shopping websites	35	60	80
		Search engines	42	48	65
		Social media/chats	79	63	79
Purchase	Why do they buy online?[2]	Price	42	46	30
		Convenience	62	67	73
		Variety	38	29	30
	What distinguishes a website?[3]	Price	64	72	88
		Variety	52	50	88
		Shopping experience	23	10	81
	Which platforms do they prefer?[4]	Online marketplace or retail platform	56	62	79
		Social media	22	14	20
		Brand websites	13	13	4
	How do they pay?[5]	Cash on delivery	61	35	3
		Digital methods	32	52	97
After purchase	What do they do after buying?[6]	Post a review on a public platform	7	15	63
		Share an experience digitally with friends and family	13	44	62

Very low | Low | Medium | High | Very high

Sources: BCG Emerging Market digital survey 2018; BCG Center for Customer Insight surveys (2017–2018); BCG analysis.
Note: Respondents had the option of selecting multiple answers.
[1]Percentage of digitally influenced shoppers who use each type of online platform to get information.
[2]Percentage of online shoppers who select each benefit as the reason for shopping online versus in-store.
[3]Percentage of online shoppers who select each reason as the basis for choosing an e-commerce website or app.
[4]Percentage of online shoppers who prefer each type of e-commerce format.
[5]Percentage of online shoppers who prefer each mode of payment.
[6]Percentage of total shoppers who engage in each online postpurchase activity.

The experience grows in importance. In digitally aware and digitally advancing markets, price and variety tend to be consumers' sole focus in deciding which online website to buy from. That changes in digitally evolved markets, where consumers become more discerning. In digitally evolved markets, online shoppers are looking for a better experience, whether that means something practical like a good recommendation engine or something fun like the ability to see oneself in a shirt or hat that one is considering buying.

Thus, the purchase process is itself part of the value proposition in the most advanced markets. Altogether, 81% of people in digitally evolved markets say that they look for a fun or enjoyable experience in deciding where to buy. By contrast, the shopping experience matters to only about one in four people in digitally aware markets, and to only one in ten people in digitally advancing markets.

Most people in digitally evolved markets also prefer sites that provide detailed or comprehensive information about products and brands—another aspect of the shopping experience. In less-advanced stages of digital maturity, this expectation is much less common. Fewer than one in five people in the digitally aware cohort look for e-commerce sites that make a point of providing detailed product information.

Online marketplaces improve, and more and more shoppers gravitate to them. Brand websites do a significant volume of e-commerce in the developed world, but they do very little business in emerging markets, where online marketplaces are the preferred shopping format. The percentage of consumers who do most of their shopping through online marketplaces is very high at every stage of development, reaching 79% in China, the most digitally evolved market in our study.

Consumers in Indonesia, the Philippines, and Thailand do a lot of peer-to-peer shopping through social media.

Getting the next-most votes for preferred shopping format is social media, whether in the form of a brand's social media account or of peer-to-peer transactions. Peer-to-peer buying is particularly popular in Indonesia, the Philippines, and Thailand. Consumers in those countries see peer-to-peer commerce as a way to find bargains and unique products that would otherwise not come to their attention or that aren't available in the online marketplaces that are accessible to them. Peer-to-peer purchasing can also increase consumers' degree of trust in online. That was the case with one Thai consumer we talked to, who bought a camera lens from someone in his photography enthusiast group on Facebook. The consumer viewed the seller as an expert in camera technology.

The high regard for online marketplaces in China may say something about the quality of the online marketplaces there. Alibaba and JD.com's marketplaces, in particular, offer extraordinary selections of products and rich service experiences. Right behind Chinese consumers in their high regard for online marketplaces come consumers in India and Nigeria, which have strong online marketplaces of their own (Flipkart in India and Jumia in Nigeria). In fact, the only country of the nine we surveyed where online marketplaces don't come out on top is South Africa, where consumers rank brand websites first among their preferred e-commerce formats. This preference may reflect the absence of a major homegrown online marketplace in that country.

Payments go digital. Another area where clear differences emerge is payment methods. Three-fifths of all online purchases in digitally aware markets are cash on delivery—a parcel carrier showing up and being paid in Nigerian naira or Kenyan shillings, for example. Cash on delivery is especially common in the Philippines and Morocco (where it is used for 88% and 86%, respectively, of online purchases). Consumers in these markets aren't always comfortable with the idea of paying upfront, believing that it may leave them vulnerable if a product isn't delivered or isn't what they expected. Low credit card penetration in these markets is another barrier, making prepayments impractical in many cases.

In more digitally mature countries, digital payments, not cash, are the usual mode for e-commerce transactions. The exact form that a digital payment takes in a particular country depends on the financial infrastructure that is in place there. Among online shoppers in China, 66% say that they prefer to use an online mobile wallet or payment service for their online purchases; another 28% prefer to use a debit or credit card. In Brazil too, there's almost no such thing as cash on delivery in e-commerce; most Brazilians (75%) default to a debit or credit card, both of which are widely used in the country.

The exact form that a digital payment takes in a country depends on the financial infrastructure in place there.

Online postpurchase activity increases. Postpurchase activity is another variable that rises with digital maturity. More than three in five people in digitally evolved markets have posted a review on a public platform—the seller's website or a review website. About the same proportion have shared thoughts on a shopping experience with friends and family, usually through social media or a text message.

A college student in China with whom we spoke said that she had recently shared a picture of herself in a new outfit with a friend through WeChat. The friend liked the dress and asked her what brand it was. With that information in hand, the friend contacted the brand through its official WeChat account and bought a dress of her own.

Postpurchase reviews and social media interactions are rarer in countries at lower stages of digital maturity. Only 13% of consumers in digitally aware markets say they sometimes follow a purchase with a social media post, and only 7% write a review of something they have purchased. Postpurchase social media interactions are more common in digitally advancing countries; 44% of all shoppers in digitally advancing countries say it's something they do.

A Chance to Rethink the Business Model

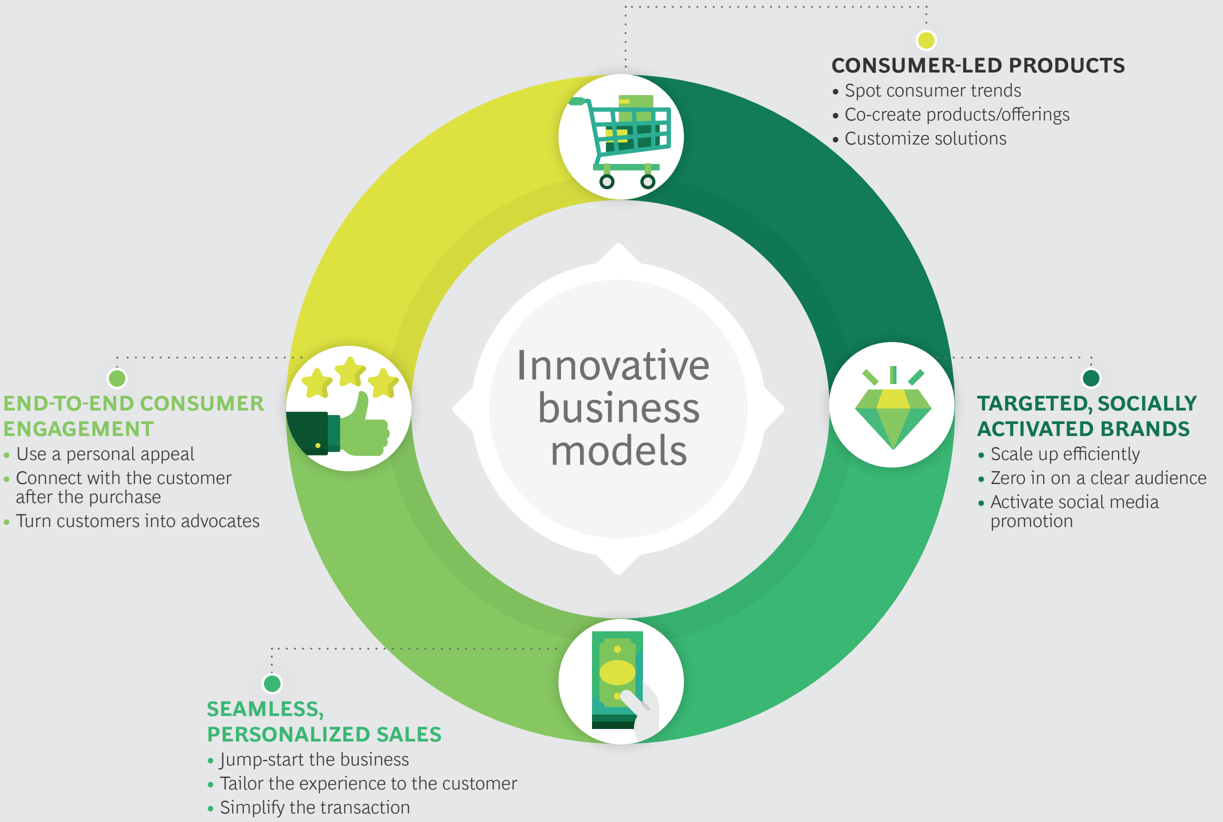
The explosive growth in the number of digital consumers in Asia, Latin America, and Africa is bringing discontinuous change to these markets and giving companies the chance to fundamentally reimagine their business models. Here are the main opportunities for business model improvement and how they're already being pursued in emerging markets.

Consumer-Led Products. The digital age, through social media and online commentary, creates a massive amount of real-time information about consumers; more than 25 billion social interactions take place each day on Twitter alone. If they cultivate the ability to monitor this ongoing exchange of information, companies in emerging markets may find that it provides a great way to spot trends and make midstream course corrections.

Two other possibilities that digital creates are the opportunity to engage consumers in the design process and the ability to develop customized solutions. (See Exhibit 6.) It is almost like having a group of customers down the hall with whom marketers and product engineers can test their ideas. People involved in product design from an array of industries, including media and automobiles, are availing themselves of this ready source of feedback in some markets, and using it to improve their offerings.

In China, one company doing this is the electronics manufacturer Xiaomi. Xiaomi is using big data from thousands of customers to understand the pain points of existing products and to reality-check its plans for future products. Xiaomi is also tapping into its fan club to test prototypes of new products before releasing them. Top managers lead some of these interactions by interacting with customers through Weibo, one of China's biggest social media platforms. Other interactions occur on Xiaomi's own forums, intended for fans of the company's smartphone products. These practices are helping the company introduce much more frequent iterations: Xiaomi's minor product improvements can take place in as little as a week or two, and bigger upgrades within two or three months.

EXHIBIT 6 | Digital Disrupts Every Aspect of the Value Chain



Source: BCG analysis.

Targeted, Socially Activated Brands. With digital technologies and social media, the norm of slow and steady brand development—often by opening physical stores—is going away. Companies can scale up quickly and make a name for themselves faster than they could before. They can also aim their messages at more clearly defined audiences and activate the power of social media. A lot of companies are also tapping into the digital influencer community—finding bloggers and vloggers who have a following with their target customers and encouraging them to talk about their products.

The Chinese snack maker Three Squirrels has done many of these things. First, targeted messaging: Three Squirrels determined early on that its audience consisted of people born after 1990 who had an interest in healthful products; so it used big data analytics and the WeChat messaging service to reach this audience. Second, rapid scale-up: Three Squirrels was already a $500 million (revenue) enterprise by the time it started distributing its products offline. Third, activating the power of social media: Three Squirrels promotes brand visibility and popularity through competitive games, active message boards and a Youku video channel with fun cartoons that reinforce the company's core values.

With digital technologies and social media, the norm of slow and steady brand development is going away.

Similarly, another Asian company, NYX Thailand, has activated the power of social media to gain a following for its beauty products. NYX Thailand markets its products through Facebook, Instagram, and LINE, a messaging platform that is immensely popular in parts of Asia.

Seamless, Personalized Sales. Physical retail has some inherent barriers, including the requirement that consumers must find a way to get to the stores in the first place. E-retail removes this barrier, as China's experience shows. In recent years, about half of all premium skin care sales through Tmall, one of Alibaba's marketplaces, has come from Chinese cities where the brands have no physical stores.

In addition to making products available everywhere, digital, especially when combined with brick-and-mortar assets, can improve end-to-end transaction experiences. Consider the steps being taken by Magazine Luiza, a 60-year-old Brazilian retailer that sells a variety of household products and electrical goods. Recognizing that many of its online customers have gotten on the internet only recently, Magazine Luiza created a virtual salesperson, Lu, to help customers navigate its website. The company is taking pains to ensure that its online customers (whose purchases are tilted toward connected products such as smartphones and TVs) know that they can bring products into the company's physical stores for after-sales support.

Likewise, the Indian eyeglass company Lenskart is combining its online and offline assets to succeed in an area of e-retail where people have a strong desire to try before buying. Online, Lenskart operates a virtual 3D modeler that lets customers see how different eyeglass styles look on them, using the webcams on their own home PCs. In addition, through Lenskart's mobile app, customers can request an in-home eye exam with a certified optician. The company has a 14-day no-questions-asked return policy for its frames. These tools and practices have made consumers less hesitant to buy a particularly tricky type of product and have turned Lenskart into an omnichannel trendsetter in India.

Another possible selling improvement in the digital era involves personalized recommendations and contextual offers. In Alibaba's brick-and-mortar HeMa supermarkets, consumers use a mobile app to get information from bar codes as they walk around the stores; the app makes shopping list recommendations based on what the consumer has purchased previously, and it can also handle remote ordering. We talked earlier about the lack of success of food as an e-commerce category in emerging markets. HeMa wants to blaze a new trail in this area.

End-to-End Consumer Engagement. Every company wants to engage with consumers in a personal and meaningful way. The idea is to connect not just during the part of the consumer's journey leading up to the purchase, but also to remain connected after that.

Digital gives companies a way of turning customers into advocates and of creating favorable word of mouth.

Digital gives companies a way of turning customers into advocates and of creating favorable word of mouth. If a company can provide a memorable experience or series of experiences, customers can quickly amplify the positive effects of that experience. For instance, many companies build social media channels where customers can interact with one another. Another basic example is the "refer-a-friend and get a credit" offer. Still other companies ask customers in postpurchase surveys if they are willing to make their ratings and comments public. Or they maintain video channels where they post user-created content—in many instances a how-to related to the product—that they think other customers will find valuable.

Implications for Companies

A deeper understanding of the behaviors and opportunities surrounding emerging-market e-commerce should prompt stakeholders to take five near-term actions:

- **Invest in digital.** The sheer scale of digital adoption in emerging markets, with 900 million new internet users expected within the next four years, means that waiting isn't an option. Even in markets where e-commerce doesn't yet account for even 1% of all retail sales—such as in parts of Africa—digital influence is skyrocketing. Manufacturers and retailers need to get out in front of this trend and devise mobile-first strategies, since most new emerging-market users will access the internet through their smartphones.

- **Take a disaggregated approach to both markets and product categories.** Many companies may find it tempting to think of emerging markets as a single opportunity, or to use the same sales approach for different categories of products. But doing either of these things would be a mistake. Different markets have distinct requirements—as any online seller would learn if it entered Africa without a social media plan, or China without appreciating the need to create a fun experience. Likewise, sellers' objectives should vary by product category. In categories (such as travel and apparel) that already have strong online sales in emerging markets, companies should focus on encouraging current users to buy more and persuading nonusers to change their behavior. In categories (such as large appliances and automobiles) that see relatively little online buying but a great deal of digital influence, they should focus instead on lowering the existing barriers to e-commerce.

- **Think about the digital proposition in a nuanced way.** In addition to appreciating differences between markets, it's important to understand differences within markets. Online shoppers in India may have more in common with other online shoppers in India than they do with online shoppers in Brazil, but that doesn't mean that all Indian consumers are alike in their online behavior. For instance, in India, the reasons for online shopping differ by frequency of shopping: among occasional online shoppers, discounts count for more than convenience; but among frequent online shoppers, the reverse is true. Another difference within India is that online shoppers in big metropolitan areas focus on price discounts, whereas online shoppers in smaller Indian cities focus on product variety. Companies should look for ways to accommodate these subtle differences within markets.

- **Leverage the full power of digital.** Most manufacturers and retailers focus on digital's potential to help them market or sell more of what they have. But that is only part of digital's promise. Digital can also be a powerful tool in helping companies design their offerings and engage with consumers, and it can support the creation of innovative business models. Failing to take this broader view of digital's potential can result in missed opportunities, including opportunities to solve problems that directly affect consumers' well-being. (See the sidebar "Digital Initiative Aims to Improve Kenyans' Health.")

DIGITAL INITIATIVE AIMS TO IMPROVE KENYANS' HEALTH

People in Kenya struggle to get basic health care. Many individuals in this country of 49 million rely on public services or have to pay out of their own pockets. Kenya's per-capita GDP ranks in the bottom fifth in the world, so there is a limit to what the average person can do.

Since 2015, some Kenyans have discovered a partial answer in the form of M-TIBA, a mobile money initiative that allows them to save, borrow, and share money for health care at very low costs. Consumers, private donors, and the Kenyan government place funds in specialized health wallets through M-PESA, a popular mobile money application that the government has supported over the years. Under this system, health care providers receive payment more quickly—within days, instead of months, of providing services—which has made them much more willing to treat participating patients.

M-TIBA's early results have been promising. People are beginning to save for health care in their online wallets, and others contributing to the wallets like the fact that they can see in real time how the funds are being used. More than 2 million Kenyans have registered on M-TIBA and more than 600 health facilities have signed on to the program. This initiative could lead to better health in Kenya, a country with very high maternal and infant mortality rates.

- **Build digital and analytics capabilities.** To win in the digital world, organizations must build a unique set of capabilities. The first and most obvious part of this effort involves bringing high-caliber digital expertise into the company—including people dedicated to big data and analytics. Organizations must also fundamentally change the way they work. Specifically, the organizational culture must support the nonhierarchical sharing of ideas. Finally, organizations must rewire their internal processes to support agile decision making so they can meet the reality of a fast-changing environment and new consumer expectations.

A New Era Has Dawned

In Jakarta nowadays, more people than not seem to have mobile phones in their hands as they walk down the street. The same is true in Manila, in Rio de Janeiro, in Johannesburg, and in dozens of other cities in emerging markets. Not everyone who has a smartphone in these countries uses them to buy things from e-commerce sites. But they may be using their phones to collect information for an offline buying excursion. And if they aren't doing so today, they will be tomorrow.

If these countries' digital development is to stay on track, their public sectors also have a role to play. Our regression analysis shows that e-commerce revenues are higher in countries that have instituted advanced postal delivery systems, created supportive environments for startups, adopted modern financial infrastructures, and promoted internet-connected populations. Only government policymakers can ensure these foundational conditions.

The move in the next four years toward $4 trillion in digitally influenced retail purchases is a wake-up call for everyone operating in these markets. This is a shift no manufacturer or retailer can afford to ignore.

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