

e-commerce. business. technology. society.

KENNETH C. LAUDON AND CAROL G. TRAVER

CHAPTER 1: THE REVOLUTION IS JUST BEGINNING

LEARNING TRACK 1.1 GLOBAL E-COMMERCE 2017: EUROPE

WESTERN EUROPE

Advanced telecommunications infrastructure, established payment and logistics systems, a large population of established online consumers, and a growing population of mobile shoppers mark the retail e-commerce market in Western Europe. Sales in the region represent about 16% of total retail e-commerce sales worldwide and grew at about 11% in 2016. Leading the way is the United Kingdom, which logged over 33% of the region's \$306 billion in 2016 sales. Germany and France follow, combining with the U.K. to account for nearly two-thirds of Western Europe's e-commerce sales.

Retail e-commerce sales in 2017 are expected to expand by over 11% in Spain, by 10.9% in Germany, by about 10% in United Kingdom, and by about 8% in Italy. Total e-commerce retail sales in Western Europe are still expected to comprise only about 9% of total retail sales in the region in 2017, leaving much room for future growth. The U.K. leads the way on this measure, with retail e-commerce sales expected to represent about 18.4% of total U.K. retail sales in 2017. E-commerce retail sales in the Scandinavian countries of Denmark, Finland, and Norway are all expected to account for over 11% of total retail sales in those countries as well. Conversely, Italy, the Netherlands, Spain, and France lag, with e-commerce retail sales only expected to account for 3.2% of all retail sales in Italy, 5.7% in the Netherlands, 6% in Spain, and 7% in France.

Throughout Western Europe, 214 million people are expected to make at least one digital purchase in 2017. This represents about 75% of the online population age 14 and older compared to 78% in North America. Of course, the proportion of the population that is online varies widely from country to country. In Italy, where Internet penetration is lowest, only 53% of the total population has become a digital buyer, while in the U.K., 89% of the total population has made an online purchase.

Likewise, the amount each buyer spends on e-commerce purchases per year varies widely. In the U.K., the average is \$1,285 per year, in Germany, \$840, while in Italy, average annual per-person online spending is just \$595. To pay for these purchases, credit and debit cards are the predominant choice. PayPal and other similar online payment systems are also widely used.

continued

The biggest drivers of e-commerce growth going forward are mobile computing, cross-border purchasing, and new delivery options. Support from the E.U. Directive on Consumer Rights, which took full effect in mid-2014 should further encourage growth. Designed to ensure that all e-commerce sites comply with the laws of all E.U. nations with which they do business, it lays out specific consumer protections. All fees and charges associated with a sale must be clearly outlined before an order is placed, orders can be canceled for any reason within 14 days of receipt (including online auctions from professional sellers) and returned for a full year if the buyer was not informed of his or her rights, and refunds must include delivery costs and be paid within 14 days of transaction cancellation. If a seller requires the buyer to pay for return delivery costs, this must be clearly outlined before a sale is completed along with the maximum transaction cost, else the seller will have to assume that cost. All digital content must clearly outline compatibility and product use limitations.

In the EU-5 (France, Germany, Italy, Spain, and the U.K.), for instance, retail m-commerce grew almost 33% in 2016, with sales reaching over \$73 billion, about a third of total retail e-commerce sales. According to Forrester Research, m-commerce will account for an estimated 38% of all B2C online sales in Western Europe by 2018.

Consumers worldwide want to receive goods as soon as possible, particularly if they have paid for the purchase up front. A French survey, for example, found that consumers specifically choose e-tailers offering speedier delivery, and in Spain, 20% of digital buyers have left a site upon discovering that the delivery time was longer than expected. In mature markets, this is increasingly translating to e-commerce victors that can provide same-day or next-day delivery. In Germany, relatively stable economic conditions enabled some retailers to invest in the necessary logistics and provided a pool of buyers willing to pay express shipping charges. However, two-thirds of customers would be perfectly happy to wait longer if offered free shipping. The takeaway is that a range of delivery options can confer a competitive advantage.

Cross-border buying is especially popular in the Nordic countries (Denmark, Norway, Sweden and Finland), Spain, and Italy, and less common in France, Germany, and the U.K. From a consumer perspective, cross-border purchasing is most attractive in markets where domestic product lines are limited and foreign sites offer better value. The unified legal framework and e-commerce infrastructure created by the E.U. decision-making bodies has stimulated cross-border transactions. Naturally, cross-border sales are simplified within the Eurozone—the 28 E.U. member nations that have adopted the euro (€) as their common currency.

continued

CENTRAL AND EASTERN EUROPE

The Central and Eastern European B2C e-commerce sector is much less developed, garnering 2016 sales of about \$40 billion, just 3.4% of total retail sales. Projected to reach just \$70 billion by 2020 (compared to Western Europe's \$418 billion), the biggest contributor to these totals is Russia, logging 36% of the region's total. Poland, the Czech Republic, Ukraine, Hungary, and Slovakia contribute most of the rest, with Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Greece, Latvia, Lithuania, Macedonia, Romania, and Slovenia bringing up the rear. The bulk of Central and Eastern European Internet users are Russian, but market penetration is highest in Slovakia, which surprisingly boasts a higher rate than the overall European average.

Over 91 million Russians have Internet access, making Russia the largest market in all of Europe. However, current penetration represents just over 64% of Russia's total population. Broadband reach is estimated at 27 million users, about 19% of the population.

Russia accounts for 36% of the region's retail e-commerce sales (about \$14 billion). Still, only a scant 35 million Russians—around 43% of Internet users—had made an online purchase through 2016. Russia's retail e-commerce sales are estimated to grow to \$25 billion by 2020. Still, this will still represent only 4.3% of Russia's total retail sales. Throughout the Central and Eastern European region around 109 million users age 14 and over have made at least one Internet purchase, but this is just about 30% of the region's population.

With its still growing Internet audience, around 57% of current Internet users as yet untapped, slim competition, rapid growth, and adequate, but still expanding broadband infrastructure, Russian e-commerce had been forecast as a prime opportunity for both domestic and foreign investors between 2017 and 2020. However, Russia's declining economy in the 2012–2016 period put these projections in flux. Improvements to existing barriers to expansion are likely to be stalled due to the economic downturn.

The postal system is both unreliable—lost or stolen packages, excessive delivery time, and non-distributed parcel rates of up to 100% in remote areas—and expensive. Cash is the predominant payment method due to an under-developed financial services sector, exorbitant bank charges, and lack of consumer trust in electronic payments. Pre-authorization is often required for card use, merchants lack the infrastructure to store card data, and fraud poses a significant threat to merchants. Combined with the prohibitively expensive investment required to deploy fiber connections across the vast expanses of Russian terrain, these impediments to e-commerce would have taken years to overcome under the best of circumstances.

However, through the end of 2016, card and online payment systems were gaining increased acceptance, particularly for digital goods. Three online payment systems, Yandex Money, VISA Qiwi Wallet, and WebMoney, had signed up 20 million users and at least 22,000 merchants. Linked to domestic bank

continued

accounts or debit cards or loaded with funds at kiosks or offline stores, these instruments are often subject to daily transaction limits. With a large percentage of B2C e-commerce in Russia still conducted in cash, numerous COD “pick-up stores” have arisen for consumers to collect their purchases. A system of payment kiosks on street corners, and in grocery stores, small shops, and convenience stores serve as bill payment centers and often include multiple terminals from different companies, fashioning comprehensive payment islands.

Successful retailers, such as online shopping mall Ozon and German-based trading company Otto Group, have developed their own logistics and delivery infrastructure, complete with warehouses, fulfillment centers, pickup and return centers, and fleets of trucks for home deliveries. E-commerce leader Ulmart, a hybrid online-offline retailer based in Russia, complements its online selling with 30 Kibermarkets. These cybermarkets are essentially warehouses attached to selling floors that use state-of-the-art touch screens as virtual display cases.

Still, these success stories are concentrated in the population and income centers of European Russia. The nearly 88% of Russia’s landmass that lies beyond the reach of these logistics networks must still depend on the government-owned Russian Post, Pochta Rossii, which struggles to transport goods between St. Petersburg and Moscow (400 miles) in less than two weeks.

With the double whammy of Western sanctions over Ukraine and plunging oil prices in a country that depends on energy exports for half its government revenue, the Russian Communications Ministry’s vow to revamp the postal service for the 21st century in jeopardy. Skyrocketing prices, a precarious banking system, and impending deep recession have dimmed prospects for both investments in improved logistics and payment systems and for new e-commerce entrants, both domestic and international. In fact, as the Russian currency lost about half of its value over the course of 2014 and inflation began to take hold, foreign suppliers, including many car companies, halted deliveries as they struggled to adjust prices upwards quickly enough to keep pace with the plunging currency. Apple froze e-commerce sales, and Ikea halted kitchen and home appliances sales while cautioning that prices on the Web site might not match store prices.

Poland, with a total population of around 38.5 million, 67% of whom are Internet users and around 56% (14 million) of which are digital buyers, is one of the fastest developing e-commerce markets in Europe. E-commerce sales in Poland are believed to have reached around €8.3 billion in 2016, and are expected to grow to over €25 billion by 2020.

Shoppers in the 25-to-34-year age group, most with a secondary education, comprise the bulk of Polish e-commerce consumers. Around a third of digital buyers hail from rural regions, and they shop online to save money, time, and avoid crowded stores. Price comparison Web sites, group shopping sites, and online stores are their three top online destinations. The top two Polish e-commerce sites are Allegro.pl (the Polish eBay) and Groupon.pl.

continued

Online payments are dominated by real-time bank transfers, with C.O.D. still the most popular means of paying for digital purchases. Credit/debit card purchases still comprise a small percentage of sales.

In 2016, Poland had 11 million cross-border buyers, about 36% of the population, and 56% of digital buyers in Poland. Like Western Europe, cross-border purchasing will be one of the biggest drivers of e-commerce growth in Central and Eastern Europe going forward. Poland's 2016 growth rate placed it ahead of Romania, Greece, and Hungary, with 83% of Polish consumers reporting that free shipping on returns would further instigate foreign purchases.

The Czech Republic, also one of the most rapidly expanding e-commerce markets in the E.U., expanded its cross-border sales by 20% in 2016. Around 8 million of the Czech Republic's 10.7 million citizens are online, giving it an Internet penetration of around 74%. This represents an impressive leap from just a few years ago when Internet penetration was just over 60%, however, broadband penetration is still only around 33%.

Like Poland, a younger demographic (25-34 years-old) leads the digital buying population, and most Czechs use C.O.D. to pay for their purchases, with online banking transfers as the second most popular payment method. Credit card use is minimal, and lack of online payment systems could continue to hamper e-commerce development. In both Poland and the Czech Republic, and for that matter, in Russia, a major challenge is finding ways to convert browsers to buyers.

Overall, B2C e-commerce in Central and Eastern Europe is primed for advancement. Internet access is still on the upswing, as is the number of Internet users who are becoming online consumers. Mobile commerce and cross-border e-commerce will be potent drivers of growth in the next five years. In many countries, government support aimed at increasing productivity and improving standards of living through the development of an Internet society is building a solid foundation for private investment to capitalize on.

While distrust of entering personal financial data online must still be overcome, secure online payment systems developed, and logistics systems improved, there is substantial potential for growth.

SOURCES: "Cross-Border Ecommerce 2016: A Country-by-Country Look at Consumer Behavior and Trends," by Krista Garcia, eMarketer, Inc., February 3, 2016; "Worldwide Retail E-commerce Sales: eMarketer Forecast for 2016," by Cindy Liu, eMarketer, Inc., August 2016; "Russian Payment Landscape," Thegrinlabs.com, accessed January 2017; "Ecommerce in Poland 2016," Ecommercenews.eu, accessed January 2017.