

E-commerce 2018: business. technology. society.

KENNETH C. LAUDON AND CAROL G. TRAVER

CHAPTER 1: THE REVOLUTION IS JUST BEGINNING

LEARNING TRACK 1.1 GLOBAL E-COMMERCE 2018: 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 15% of total retail e-commerce sales worldwide and grew at about 15% in 2017. Leading the way is the United Kingdom, which logged almost one-third of the region's \$355 billion in 2017 sales. Germany and France follow, combining with the United Kingdom to account for nearly two-thirds of Western Europe's e-commerce sales.

Retail e-commerce sales in 2018 are expected to expand by almost 15% in Spain, about 12% in United Kingdom, about 10% in Italy and 9% in Germany. Total e-commerce retail sales in Western Europe are still expected to comprise only about 10% of total retail sales in the region in 2018, leaving much room for future growth. The United Kingdom leads the way on this measure, with retail e-commerce sales expected to represent over 21% of total U.K. retail sales in 2018. E-commerce retail sales in the Scandinavian countries of Denmark, Finland, Norway, and Sweden are all expected to account for over 10% of total retail sales in those countries as well. Conversely, Italy, the Netherlands, Spain, Germany, and France lag, with e-commerce retail sales only expected to account for 3% of all retail sales in Italy, 7% in Spain, 8% in the Netherlands, and 9% in Germany and France.

Throughout Western Europe, 222 million people are expected to make at least one digital purchase in 2018. This represents about 61% of the total population age 14 and older. Of course, the proportion of the population that is online varies widely from country to country. In Italy, where Internet penetration is lowest, only 36% of the total population is expected to become a digital buyer in 2018, while in the United Kingdom, 79% of the total population is expected to make an online purchase.

Likewise, the amount each digital buyer spends on e-commerce purchases per year varies widely. In the United Kingdom, the average amount in 2017 was €1,646; in Germany, €1,498, while in Italy,

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average annual per-person online spending was just €644. To pay for these purchases, credit and debit cards are the predominant choice. PayPal and other similar online payment systems are also widely used.

The biggest drivers of e-commerce growth going forward are mobile computing, cross-border purchasing, and new delivery options. In the EU-5 (France, Germany, Italy, Spain, and the United Kingdom), for instance, retail m-commerce grew over 27% in 2017, with sales reaching over \$93 billion, over 37% of total retail e-commerce sales in the EU-5.

Support from the EU Directive on Consumer Rights, which took full effect in mid-2014 has encouraged growth. Designed to ensure that all e-commerce sites comply with the laws of all EU 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.

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 United Kingdom. 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 EU decision-making bodies has stimulated cross-border transactions. Naturally, cross-border sales are simplified within the Eurozone—the 28 EU member nations that have adopted the euro (€) as their common currency.

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.

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CENTRAL AND EASTERN EUROPE

The Central and Eastern European B2C e-commerce sector is much less developed, garnering 2017 sales of about \$45 billion, just over 4% of total retail sales in that region. Projected to reach just \$86 billion by 2021 (compared to Western Europe's \$457 billion), the biggest contributor to these totals is Russia, logging about 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.

About 93 million Russians are expected to have Internet access in 2018, making Russia the largest market in all of Europe. However, current penetration represents just over 65% of Russia's total population. Broadband reach is estimated at 27 million users, about 19% of the population.

Russia accounts for about 36% of the region's retail e-commerce sales (about \$16 billion in 2017). Still, only 37 million Russians—around 40% of its Internet users—are expected to make an online purchase in 2018. Russia's retail e-commerce sales are expected to grow to almost \$30 billion by 2021. Still, this would still represent only 5.6% of Russia's total retail sales. Throughout the Central and Eastern European region around 113 million Internet users age 14 and over have made at least one digital purchase, about 45% of all Internet users.

With its still growing Internet audience, around 60% of its current Internet users as yet untapped, slim competition, rapid growth, and adequate, but still expanding broadband infrastructure, Russian e-commerce has been forecast as a prime opportunity for both domestic and foreign investors between 2017 and 2021. However, 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. However, through the end of 2017, card and online payment systems were gaining increased acceptance, particularly for digital goods. Three online payment systems, Yandex Money, VISA Qiwi Wallet, and WebMoney, have signed up over 20 million users and at least 22,000 merchants. Linked to domestic bank 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.

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Successful retailers, such as Alibaba's AliExpress (by far and away the leading e-commerce platform in Russia with over 22 million monthly unique visitors), 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. 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.

Poland, with a total population of around 38 million, 73% of whom are Internet users and around 56% 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 €9.4 billion in 2017, 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 websites, 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 Ceneo.pl.

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.

The Czech Republic is also one of the most rapidly expanding e-commerce markets in the EU. Around 8 million of the Czech Republic's 10.7 million citizens are online, giving it an Internet penetration of around 76%. 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 30%.

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

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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: "Ecommerce in Poland," Ecommercenews.eu, accessed January 2018; "Western Europe Retail and Ecommerce: eMarketer's Estimates for 2016–2021," by Jasmine Enberg, eMarketer, Inc., July 2017; "Worldwide Retail E-commerce Sales: eMarketer's Estimates for 2016–2021," by Corey McNair, eMarketer, Inc., July 2017; "Cross-Border Ecommerce 2017: A Country-by-Country Look at Consumer Behavior and Trends," by Krista Garcia, eMarketer, Inc., March 2017; "The Russian Payment Landscape in 2016," by Melissa McDonald, Thegrinlabs.com, June 7, 2016.