

CHAPTER 1: THE REVOLUTION IS JUST BEGINNING

LEARNING TRACK 1.1 GLOBAL E-COMMERCE: EUROPE

WESTERN EUROPE: UNITED KINGDOM, GERMANY, FRANCE, SPAIN, AND ITALY

In Western Europe, a maturing B2C e-commerce sector is marked by a large population of established online consumers, established payment and logistics systems, and a growing population of mobile shoppers. Leading the way in 2012 with approximately \$140 billion in sales was the United Kingdom, followed by Germany (\$47 billion), France (\$33 billion), Spain (\$18.5 billion), and Italy (\$16 billion). Retail giants Amazon UK, Argos, and Play.com are the leaders in the UK market, which also features numerous, diverse smaller retailers. Sainsbury's and Tesco head the most successful online grocery segment in the world. In Germany, Amazon.de leads (6.8 billion euros), with former mail-order company the Otto Group in second place with approximately one-half the sales (3.4 billion euros). eBay, Amazon, and FNAC, an entertainment retail chain, are the top sites in France.

Despite the recession and currency crisis that has plagued Europe since 2007, Western European e-commerce saw a 15% uptick in 2012. Driven by an increasingly savvy Internet population, bargain shoppers conducting online price comparisons, and the rise of mobile e-commerce, these gains are expected to continue through 2014. Western Europe has the highest percentage of mobile phone users of any region in the world, and one-third of those are smartphone users. Robust competition between carriers and device subsidies have kept costs down, and investments in the LTE (Long Term Evolution) mobile broadband communication infrastructure have improved access to mobile data, providing support for m-commerce.

As growth slows in the top three nations, development of the B2C sector in Spain and Italy is expected to keep Western European e-commerce totals growing. Consumers in the UK, Germany, and France currently account for 60% of online buyers and 72% of Western European sales. Around 85% of UK Internet users make an online purchase, and market penetration in Germany and France is nearly as high. UK buyers spent on average \$3,585 annually in 2012, a total that is expected to top \$5,000 by 2016. The Spanish and Italian markets, which currently comprise only 12% of sales in the region, are ripe for expansion. Only 15.3% of Western European e-commerce consumers hail from these countries, and less than half of Spanish and Italian Internet users made an online purchase in 2012. Challenges hindering the emergence of these markets are the relatively low use of credit

cards and lack of alternative online payment systems. In spite of this, average annual spending per consumer is increasing most rapidly in Italy and Spain

EASTERN EUROPE: RUSSIA, POLAND, CZECH REPUBLIC, AND SLOVAKIA

The Eastern European B2C e-commerce sector is much less developed. While total Western European sales topped \$286 billion in 2012, online retail sales in Eastern Europe were only \$43.19 billion. Russia is the biggest contributor to this total with \$15.14 billion in e-commerce sales. Poland, Czech Republic, Ukraine, Hungary, and Slovakia contribute most of the remaining two thirds. Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Greece, Latvia, Lithuania, Macedonia, Romania, and Slovenia bring up the rear. The bulk of Eastern European Internet users are Russian, but market penetration is highest in Slovakia, which surprisingly boasts a higher rate than the overall European average.

B2C e-commerce sales in Russia have so far been captured by domestic companies such as OZON, an online shopping mall; KupiVIP, an online shopping club and e-commerce platform, and Holodilnik, a major appliance retailer. Most medium and small retailers have yet to establish an Internet presence. This lack of online shopping opportunities coupled with underdeveloped logistics and payment systems has restrained growth. Presently, Russia's scant 23 million e-commerce consumers account for 30% of the Eastern European market. These shoppers comprise approximately 38% of total Russian Internet users, a percentage mirrored across the region. While revenue increases are expected due to the still growing Internet audience, 60% of the current Internet user population is as yet untapped. With expected gains in disposable income, and as brand-new Internet users gain online proficiency, domestic, as well as international, retail entry is likely, and revenues should continue to rise. However, sales growth is expected to stall at 5% by 2015.

The growth of online buyers has slowed, both in Russia and in Eastern Europe as a whole. The nearly 29% expansion in Russian e-commerce consumers in 2012 is expected to drop to only 8.6% in 2013. Current Internet users who have not yet been converted to consumers are a seemingly intractable group. Those likely to make an online purchase are expected to have done so by 2016 with further gains in the consumer base dropping to 4.2%. Moreover, average annual spending per consumer is not expected to rise from its 2012 total of \$656.

Somewhat surprisingly, given the resistance of many Internet users to online purchasing, one successful Russian enterprise is online supermarket Utkonos.ru, which is shuttering all bricks-and-mortar shops and pick-up stations to become a completely online operation. Ranked third in revenue among Russian Internet firms in 2011, Utkonos was the top retailer, outperformed only by search engine/search and contextual advertising firm, Yandex (the Google of Russia), and the online game and social services site, Mail.ru. Other product categories that have caught on include electronics, home appliances, computers, shoes, and clothing.

2012 saw significant developments with Russian firms to support the impending m-commerce surge. Mobile carriers MTS, VimpelCom, and MegaFon signed an agreement to support m-commerce, and MegaFon partnered with Net Element, a global technology and publishing company, to provide Net Element's m-commerce payment processing system to its 64 million subscribers. Shortly before this announcement, Net Element had received agreements for two rounds of financing from Alfa Bank, Russia's largest private bank, to support the growth and further development of TOT Money, its mobile payment-processing platform.

M-commerce sales in Poland rose at double the rate of the rest of Eastern Europe between 2010 and 2011, an attention-grabbing 700% from the previous year. Overall, B2C e-commerce grew by 25% in 2012, down from the two preceding years. The top two Polish e-commerce sites are Allegro.pl, the Polish eBay, and Groupon.pl. Internet access is still only 60%, and 40% of those users have made an online purchase, but a steady 30% annual climb in the online consumer base has been driven by shoppers searching for bargains during the recession. Online comparison shopping and the hunt for value are expected to continue to drive growth for the next several years, although 2012 saw a decrease in the 30% annual e-commerce growth that had prompted Ecommerce Europe, an industry lobby group, to identify Poland as one of the fastest growing e-commerce markets in the European Union. The still rapidly expanding m-commerce segment, consumers under the age of 35 (70% of whom are already making online purchases), and value shoppers searching for bargains on clothing, shoes, household appliances, and consumer electronics are expected to keep Poland's B2C e-commerce growth ahead of Europe as a whole.

The Czech Republic was also identified by Ecommerce Europe as one of the most rapidly expanding e-commerce market in the European Union. While e-commerce in Europe was growing at a rate of 21% annually (pre-2012), the Czech Republic and Poland were recording 30% annual growth. With an Internet penetration equal to Poland's (60%), but a lower online consumer base (only 30% of those users had made an online purchase), the Czech Republic recorded B2C e-commerce growth largely through the growth of m-commerce and per capita average annual spending. The revenue-leading sites in the Czech Republic are Alza.cz, a consumer electronics retailer, Mall.cz, a mass merchandiser that carries small household appliances, electronics, computers, mobile phones, toys and more, and Kasa.cz, a pure play Internet retailer with a wide product line including audio-video products, appliances, consumer electronics, sporting goods, furniture, toys, cosmetics, garden supplies, and motor vehicle technology. The majority of Czechs use C.O.D. (60%) with online banking transfers as the second most popular payment method for online goods (35%). Credit card use is minimal, and lack of online payment systems could continue to hamper e-commerce development. While e-commerce sales in the developed nations now comprise between 6% and 8% of total retail sales, the share of total retail sales derived from e-commerce in the Czech Republic is just 4%. However, Russian e-commerce still accounts for only 2% of total retail sales.

Like the Poles and the Czechs, Slovaks frequent price comparison sites to hunt for online bargains, and more than half report that they conduct online research before shopping offline. Comparison shopping is even more pressing in Slovakia because goods are higher priced than

the European Union average due to its underdeveloped offline retail segment. Although B2C e-commerce has not grown as quickly in Slovakia, a number of factors point to its continued rise. First, daily Internet users represent 84% of the population, and as many as 83% of these users have made at least one online purchase, significantly higher proportions than the rest of the region. Second, most Slovakian Internet users, particularly those in the younger age brackets, perceive online shopping as both economical and time-saving. While clothes, sporting goods, and household goods have so far been the most popular online purchases, British grocery giant Tesco entered Slovakia in October 2012, likely encouraged by the success of Utkonos in Russia. The most visited sites are consumer electronics dealer Alza.sk, mass merchandiser, Mall.sk, books and movies purveyor, Gorila.sk, Nayelectrodom.sk, Hej.sk, and Martinus.sk, the largest online bookseller in Slovakia. Like the Czechs, Slovaks predominantly use C.O.D. to pay for online purchases (52%). 23% use a bank transfer, with the remainder using credit cards or payment upon pick-up at a bricks-and-mortar outlet.

Overall, B2C e-commerce in 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. However, in many countries, lack of adequate online payment processing platforms and distrust of entering personal financial data online are challenges that have yet to be surmounted. Logistics systems that can satisfy customer demands for timely delivery must also be perfected. Straightforward return/exchange policies, adequate customer communication, particularly regarding order status and customer disputes, and building consumer trust in the quality of online goods will help e-retailers in this region to succeed.

SOURCES: "New Media Trend Watch Markets by Country: Germany," NewMediaTrendWatch.com, February 15, 2013; "New Media Trend Watch Markets by Country: Slovak Republic," NewMediaTrendWatch.com, February 15, 2013; "German E-commerce Sector Rapidly Expanding," DW.de, February 12, 2013; "Amazon Receives 1 Euro Out of Every 5 in German e-commerce," Ecommercefacts.com, February 11, 2013; "Poland's Austerity-driven E-commerce Boom," by Jan Cienski, Blogs.ft.com/Beyondbrics, February 4, 2013; "Eastern Europe B2C E-Commerce Report 2012," Yahoo Finance, December 17, 2012; "Global Mobile and M-Commerce Report 2012," yStats.com, November 2, 2012; "Net Element Receives 300 Million Rubles (\$9.5 Million) Credit Facility and Expects Another 300 Million Rubles Under Factoring Agreement from Alfa Bank," by Tyler Sminkey, Roar Media, September 5, 2012; "Worldwide B2C Ecommerce Forecast: Midyear 2012 Update," by Alison McCarthy, eMarketer, Inc., September 2012; "Worldwide Mobile User Forecast," by Alison McCarthy, eMarketer, Inc., August 2012; "E-sales in the Czech Republic Hit CZK 37bn in 2011," PMR IT and Telecommunications Sector in Central and Eastern Europe, Ceeitandtelecom.com, March 14, 2012; "Top List of Russia's Largest Internet Firms (And Up-And-Comers)," by Greg Anderson, ArcticStartup.com, February 29, 2012; "E-commerce in Slovakia: Situation in Recent Years and Future Trends," by Matej Mesko & Zuzana Papulova, FPO IT Research & Communities, Freepatentsonline.com, January 1, 2011.

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