

Management Summary

E-Commerce Report Switzerland 2016

Digitisation in consumer sales.
A qualitative survey from the merchant's point of view.

8th edition

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Management Summary of the E-Commerce Report Switzerland 2016

The *E-Commerce Report Switzerland* is a series of surveys on the development of business concepts for selling products and services to consumers using networked electronic media. This report is the result of the eighth comprehensive survey involving 36 potentially dominant vendors in Switzerland's e-commerce market. The results of this survey were predominantly derived from the information provided by experts..

Business trends in 2015: The market figures published by the Swiss Mail Order Association (VSV) and GfK Switzerland show a growth rate of just under 10% for e-commerce in Switzerland over the past year. While this is a result that the declining stationary retail trade can only dream of, it conceals the fact that 2015 was a very challenging year for many e-commerce vendors. The growth rates achieved by the participants on the survey panel were lower than in previous years and 40% were even forced to post a decline in sales. For many companies involved in e-commerce, growth is still considered to be extremely important as they have still not achieved the level of sales required in order to ensure their sustained existence. One of the reasons for this development is the strong growth in the market share held by foreign e-commerce vendors which rose from 18 to 20% in 2015. Another reason is the implementation of consolidations or strategy adjustments which admittedly led to a drop in sales in the short term but will ultimately bring the companies renewed vitality. The vast majority of the participants in the survey are continuing to develop and invest in an agile manner – some primarily in growth, others primarily in stabilisation and profitability. More than 80% are anticipating growth in e-commerce for 2016, both within their sectors and also within their company.

The drivers and the driven: Even 20 years after the world wide web was first set up, e-commerce and the associated sales structures within many sectors are still being constantly enriched and challenged as a whole by *innovative business concepts via the internet and mobile devices*. Developments in international markets have also brought further challenges. The potential of the underlying drivers has not been exhausted by any means yet, as shown by such factors as the ever-increasing diversity and evolution of e-commerce business concepts. These continue to put not only the stationary retail trade but also the e-commerce sector itself under pressure to adapt.

It is becoming more and more difficult to organise a strict division of labour between manufacturers, wholesalers and retailers. Both vendors and customers are becoming increasingly independent. The wide range of customer requirements is faced with a juxtaposition of different forms of distribution and procurement channels. At the same time, the value-added share held by traditional trade has fallen. However, the retail trade will still continue in the future since it has become clear that its primary function is its ability to provide access to customers and to expand the range offered by manufacturers. The same applies to the e-commerce channel. Therefore e-commerce is both a driver for structural change and is also driven at the same time. (Fig. 1).

Concept of e-commerce: Customers are using stationary businesses, desktops or mobile devices with increasing flexibility to suit their individual situation while vendors are combining online and offline channels. In this situation, it is necessary to clarify our understanding of the concept of *e-commerce*. A very broad understanding has been applied to this series of surveys: *E-commerce encompasses the support of a company's relationships with its customers and processes using networked electronic media. E-commerce may involve one or more transaction phases.*

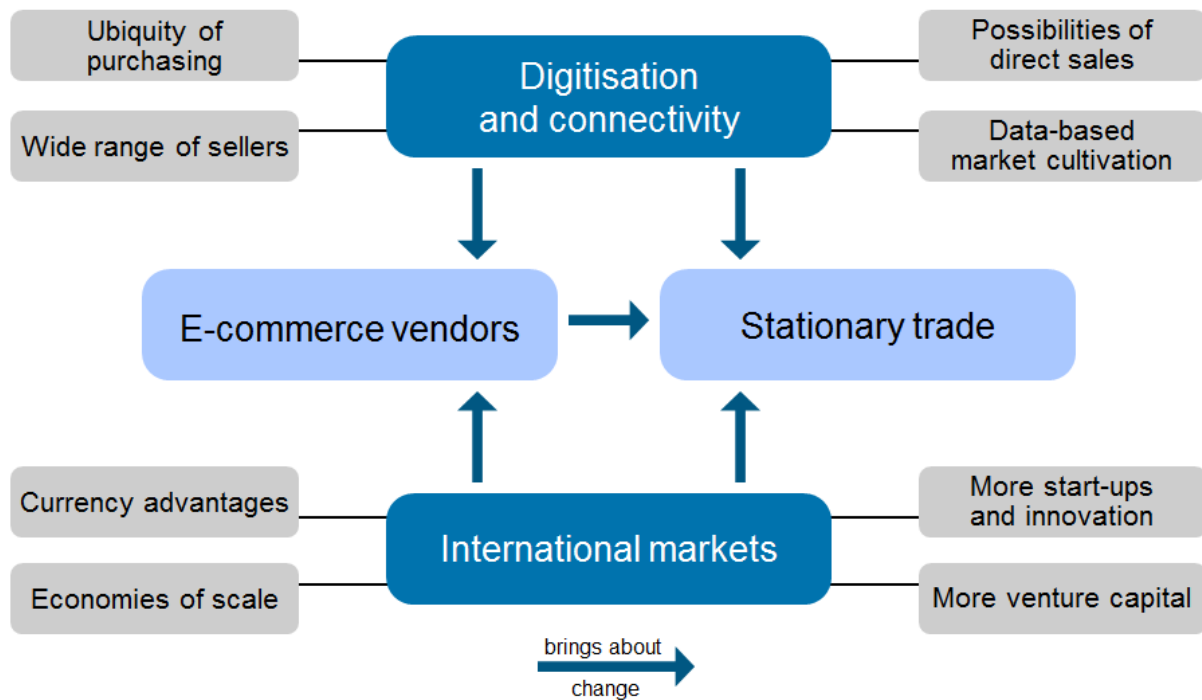


Fig. 1: E-commerce in Switzerland in 2016: Driver for structural change and driven

According to this understanding, the purchase transaction in the strict sense of the word does not necessarily need to be carried out electronically. It is sufficient for networked media to make a relevant contribution towards the realisation of a transaction. This very broad understanding of e-commerce is suited to the development of business concepts which enable a vendor to improve its relationships with its customers through the selective or comprehensive use of IT. It is not suitable for allocating sales within a multi-channel company.

When allocating sales, we follow the transaction-oriented understanding of the Swiss Federal Statistical Office (BFS). Any such transaction is realised when buyer and seller enter into a legally binding agreement. The development of e-commerce has taken many different paths across various sectors. This is being taken into account in this series of surveys by studying different issues each year. In 2016, the main issues that have been examined in detail are *structural change in retail and the behaviour of brand manufacturers*. In 2015, besides the main issue of ticketing, focus was directed towards the two service industries of transport and events.

Cross-channel business concepts: In order to define local proximity more effectively as an asset, cross-channel business concepts are being pursued further. In addition, pure online players are increasingly engaging in selective involvement with physical points of contact or are evaluating corresponding concepts. Collection points are an issue along with pop-up stores and service points. After logistics functions such as the collection and return of mail items as well as payment on collection, attempts at range integration have become the main focus of the first vendors. The idea is to expand the limited ranges in stores by providing access to ranges available online.

Payment and digital wallets: If a person wants to make a purchase, the process of placing an order should not be jeopardised by making the checkout process difficult – this contribution to the increasing of the conversion rate is the key requirement where payment solutions are concerned. While the retail trade has hit a rough patch to a large extent, with its already outdated solutions, service industries such as public transport have made significant progress by developing the one-click checkout process with mobile payment solutions.

Besides simplicity, payment processing costs have become the focus of optimisation measures. More and more frequently, customers are being charged additional fees for payment procedures, e.g. even when purchasing on account. The hot topic of digital wallets was ignored by the participants in the survey at the beginning of 2016 as the offering was too unclear. The surprisingly rapid agreement of the relevant Swiss players to a joint, open mobile payment solution for Switzerland under the name TWINT gave the topic new impetus.

Logistics: In 2016, logistics is weighted higher than ever before as a success factor in e-commerce. Many vendors have made significant investments in order to improve their level of logistics performance on the one hand and in order to improve efficiency and reduce costs on the other. Clarification before speed: the focus of efforts will not shift until at least delivery times of just a few days are achieved. The objectives are to give customers control of delivery and to improve the success rate of the first delivery attempt. The rollout of the cross-brand pick-up collection points at 290 locations can be regarded as a significant success for the decentrally organised Migros Group. In the meantime, 80% of the participants in the survey believe that pick-up solutions will be established within the market.

Services offered in addition to the delivery of goods – such as assembly, commissioning or disposal – have increased the range of options available to customers. In the medium term, the various options could lead to consignors in fulfilment working in parallel with multiple service-providers. The level of logistics performance is determined by the revenue situation of the relevant sector. In media trading, the profit on an order is so low compared to the shipping costs that next-day delivery cannot be expected to become the industry standard in the foreseeable future.

Amazon, online marketplace and online warehouses: A view that is often shared is that Amazon is of fundamental importance to the development of e-commerce and vendors in Switzerland: not because of the estimated 8% market share held by Amazon in Switzerland in 2015 but because of Amazon's potential status in the future. Amazon is feared. How could Swiss vendors oppose the determination and strength with which Amazon is able to capture new markets and business sectors?

There are two missing service features that Amazon still needs in order to become a resounding success in Switzerland: an Amazon Switzerland webshop or a filter for products that can be delivered to Switzerland as well as a logistics system at least offering next-day delivery as standard. However, the attractiveness of Switzerland to Amazon should not be underestimated. There are plenty of good reasons why Amazon could continue to be satisfied with the low-hanging fruit in the future too.

Swiss online marketplaces are predestined to be more than a match for Amazon by offering an attractive range and making use of local advantages. However, the two eligible B2C online marketplaces have now reached zero hour. Ten months after the takeover by Tamedia was granted approval by the Swiss Competition Commission (WEKO), ricardo.ch and ricardoshops.ch have given no indication as to the direction that their B2C journey is going to take. siroop, the ambitious B2C online marketplace created out of nothing by Coop and Swisscom, is the most exciting e-commerce project in Switzerland at the present time, perhaps the most exciting of the decade. Amazement, awe, hope for success – these are the reactions that can be expected whenever siroop is mentioned.

A strong horizontal Swiss B2C online marketplace would be good for Switzerland so that the business segment would not simply be left for Amazon – this statement was approved by 75% of the survey panel members. Digitec Galaxus recorded sales of just under 700 million francs in 2015 – thus overtaking the trading volume of ricardo.ch – and is now the biggest e-commerce retailer in Switzerland.

Besides Galaxus, BRACK.CH also offers an extensive range of products. Both companies can be described as online warehouses, both are believed to be capable of withstanding increased competition from Amazon. However beyond their own potential, they have not provided any leverage with which to oppose Amazon – after all, they are not online marketplaces.

Online direct sales by brand manufacturers: Brand manufacturers are taking a more active role in relationships with their end customers. They have to: traditional trade is being undermined, brand fans want direct access to their favourites and new customer touchpoints need to be continually updated. Brand manufacturers want to expand their brand environment to all important points of contact. The customer's brand experience needs to be ensured beyond the traditional distribution system. Powerful sellers such as online marketplaces can no longer be ignored. Targets are being tightened and the way forward is often still unclear.

One-way communication is no longer sufficient: brands need a community and their own direct relationships with their customers. Brands are inspiring interactive online channels and learning from undistorted feedback. The exclusive right to trade with the customer no longer exists. If the inspiration for a brand has been successful, then a transaction should follow. That stands to reason. However, historic sales partners are being alerted. The balance of power controls what works and what does not. New sales partnerships which are more flexible but solid at the same time still need to be set up first of all. But this works, as a number of examples have shown.

It is best to establish an online direct sales network when setting up a new distribution system, in parallel to indirect trade sales. It is very difficult to introduce online direct sales later on without involving trading partners. In addition, the brand manufacturer's own organisation can often be an obstacle when setting up an online direct sales network. Organisational structure, remuneration system, ways of thinking: they are all geared towards traditional distribution. What is missing is a suitable infrastructure. The learning and development curve that began in 2010 for stationary trading in retail chain stores in respect of cross-channel set-ups is now beginning for brand vendors.

If a business concept is not centred around the critical role of online direct sales right from the start, e.g. by ensuring that certain product lines or mass customisation are only available online, e-commerce itself will struggle to be profitable for many years to come. Consideration for historic sales partners can be an obstacle to a company's own sales targets. Brands need trade, now and in the future. The critical ability of trading is to provide brands with access to their customers. The significance of all other trading functions needs to be clarified on a case-by-case basis.

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