

Management Summary

Commerce Report Switzerland 2020

Digitalization in consumer sales.
A qualitative survey from the vendors' point of view.

12th edition of the study series E-Commerce Report Switzerland

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Staying competitive in the networked world of commerce.

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Management Summary of the E-Commerce Report Switzerland 2020

The *E-Commerce Report Switzerland* study series tackles the influence of digitalization on the development of industry structures and business models for the sale and distribution of products and services to private consumers. This latest report takes its findings from the twelfth comprehensive survey of 35 e-commerce and multi-channel providers that potentially define the market in Switzerland. These findings are primarily derived from expert opinions.

2019 – An average year before the storm

Compared with the turbulent start to 2020, 2019 was a decent, average year according to the participants in the study panel. Online spending by Swiss consumers was up 8.2%. While that was a smaller increase than the 10% recorded for the previous year, it remained a marvellous performance compared with the 0.3% growth posted by the Swiss retail sector as a whole. For the first time, providers based abroad grew at a slower rate than those in Switzerland. Whether this marks a turn in the tide remains to be seen. The participants in the study panel, which is not a representative group, achieved average growth of 12.8% in 2019. This corresponds exactly to the median of the past ten years.

A more differentiated picture is provided by the sales performance of the 242 members of the Swiss Association for Distance Selling (VSV), which is a more representative indicator for the physical consumer goods market. These sales figures reveal that the proportion of businesses participating in market growth is becoming ever smaller. In 2019, only around half of VSV members achieved growth of 1% or more, compared with 57% in 2018 and 67% in 2017. The figures also show that large providers are significantly outperforming their smaller counterparts.

Commerce is all around

Figure 1 is a schematic view of the Swiss commerce environment in 2020. Vertically it shows a continuum comprising three types of purchase, with the centre representing the most frequent type of purchase by volume within long-term provider/customer relationships and with more sporadic purchasing depicted down either side. The key retail formats are allocated to these three areas, along with an indication of the typical channels used in each case. It is clear that it is not possible to differentiate between online and offline purchases.

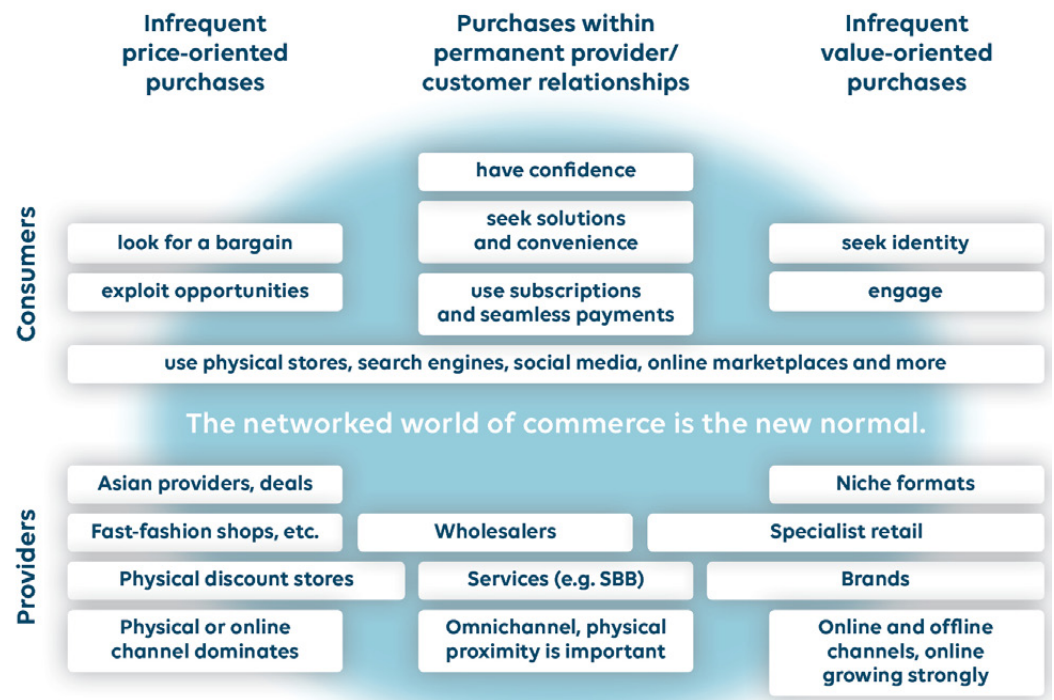
The top half of the diagram assigns typical perceptions and patterns of consumer behaviours to the three areas. With regard to customer behaviour, what is clear is that use of digital platforms has become important throughout the entire world of commerce. This reflects a significant driver of the sustained transformation process occurring in distribution.

Consumer behaviours are providing clues as to what matters to consumers. While brands tap into the consumers' search for identity, fast-fashion providers play on the joy of bargain hunting. In the middle, consumers are primarily concerned with meeting their day-to-day needs, reliability and simplicity. The blue ellipse shows the degree of familiarity within the business relationship. Where providers are also able to create confidence, they can start making use of data to develop increasingly user-friendly services for their customers.

Consumers are *always on*. Manufacturers, brands, wholesalers and retailers are online, touchpoints are connected, whether on the internet or in the physical world.

The networked world of commerce is the new normal.

Figure 1
Commerce in Switzerland in 2020:
Broad diversity of offers and
purchase channels.



E-commerce or just commerce?

Depending on their situation, customers buy in traditional retail, via web shops and lately also through social media. They do this using bricks and mortar shops, personal computers, smart phones and now even smart speakers. Providers combine online and offline channels, with specific targeting on some devices. But what does *e-commerce* actually mean in this context?

Since 2009, this study series has been based on the following definition: *E-commerce is the use of connected IT to support the relationships and processes between a business and its customers. E-commerce can cover one or more transaction phases. According to this definition, therefore, the purchasing transaction does not absolutely have to be conducted electronically. E-commerce might just mean that connected IT makes a relevant contribution to the transaction taking place. This very broad understanding of e-commerce is suitable for business models in which the customer relationships are created with the assistance of IT-based services. It is this very constellation that is under the spotlight in this study series.*

In practice, e-commerce and traditional forms of commerce have long been inter-meshed. Strategies, organizations, competences and the infrastructure of channels differ greatly, however, which is why many businesses initially maintained separate online and offline worlds – indeed some continue to do so. Yet this is no longer appropriate given the market reality. Consumers combine channels intelligently in a fragmented customer journey. Assessing the importance of online business merely from the proportion of total sales, which in some cases will still be low, creates a misleading impression. Today's view is the other way around: offerings that are not part of the networked world of commerce are in the minority, and this minority is now on the losing side.

Business models for creating and distributing goods and services make up the world of commerce. Therefore, this study series ends with a concluding *Commerce Report Switzerland 2020*. It continues to make sense to refer to e-commerce when looking in particular at the use of online channels. The same applies to mobile commerce and voice commerce. These terms represent subsets.

Allocating sales to e-commerce is often fraught with difficulties, for example in the case of multi-channel businesses. Where such statements are made in this study, the transaction-based definition of the Swiss Federal Statistical Office FSO is used. This definition classes sales as e-commerce sales when the conclusion of the contract takes place online.

2020 – The impact of COVID-19

One of the many effects of the Coronavirus crisis that began in February 2020 is the boost it has given to digitalization across society as a whole. This also applies to consumers. When it came to non-food items, consumers were faced with a basic choice for the first two months – order online or not at all. Despite the sometimes poor performance of providers during this period, the study participants assume that the crisis has provoked an increase in consumers' skills and confidence in relation to online shopping. It is believed that a long-lasting acceleration in channel switching has occurred.

Year-on-year growth rates of between 22% and 30% are anticipated for e-commerce involving physical goods in Switzerland in 2020, compared with 8% to 10% in previous years. Growth will subsequently return to normal again. Meanwhile, those who have lost out are physical shops and any channels, whether online or offline, used by service providers that rely on personal contact, such as the events sector, and travel and transport, for example.

Features of the networked world of commerce

The current state of structural change in the consumer goods industry in 2020 can be summed up in five features. The first is the already discussed *amalgamation of online and offline channels*. This change is currently being observed in many small and large occurrences. To take one example, in mid-June 2020, Coop moved its corporate website from the domain coop.ch to a link in the footer of its web shop, which is now accessed directly from coop.ch. There was also the merger of the Swiss Association for Distance Selling VSV with the Swiss Association of Chain Store Companies VSF. Further features of the structural change include the *break-up of vertical industries* with manufacturers, wholesalers and retailers no longer collaborating in strictly linear chains. Related to this are the *central roles played by digital platforms*, whether those that provide access to customers, such as Google and Facebook, or online marketplaces such as Galaxus, Amazon or Booking.com. The latter also sheds light on two further features of the transformation: The *uncoupling of traditional retail functions* means that specialization in a single function can be a way of achieving dramatic improvements in performance. Specialists can thus relatively quickly play a significant role in their sector. Finally, *specialization in customer access* is the focus of the now powerful digital platforms. Indeed, the importance of access to customers means that whoever has it can become a player in the networked world of commerce.

Expectations around the development of different channels

Online channels are a driver of structural change. But which formats will win the most market share in the coming five years?

Individual web shops, which are perhaps the first that spring to mind, are not right at the top of the list of expected winners. With one exception: groceries. E-commerce in the grocery sector generates diverse responses to many questions. The primary reason for this is that the online marketplaces are not particularly important in this segment, as is also the case with regard to direct sales of branded goods. Therefore, domestic web shops will profit the most from growth in online grocery shopping.

Individual web shops based in other countries also lag relatively far behind in terms of growth expectations. The majority of the study participants believe that consumers prefer online marketplaces when ordering from abroad. The likes of Amazon, Zalando and Aliexpress are the favourites to achieve the biggest market share gains over the next five years. Swiss B2C web marketplaces, including Galaxus in particular, but also microspot.ch, are also believed to have good prospects and are ranked second, tied with social media. More than half of the study participants believe that orders raised through social media, from WhatsApp or other influencer channels, will gain significant market share, albeit starting from practically zero. Taking fourth spot, it is anticipated that direct sales of known brands will make disproportionate gains in market share in the future.

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Physical retail without a substantial contribution from an online channel is clearly expected to lose out. No general trend statement can be made for multichannel providers. While many concepts must still be viewed as being in their infancy, Switzerland is actually home to several traditional providers that now achieve the majority of their sales online. Physical touchpoints will definitely remain important, but need not necessarily combine all retail functions. With the concept of physical stores being rethought and a physical presence serving as a touchpoint within a networked world of commerce, many innovations can be anticipated in the next few years.

Mobile-specific business models offer particular opportunities. These include automated capturing of service consumption, new pricing and billing models, seamless checkouts and payments, and identification of customers. Solutions that prioritise simplicity and customer service over the product are regarded as having good prospects for the future

Twelve years of transformation

Having observed the transformation in consumer sales for twelve years, the following is clear:

Overall, Swiss e-commerce has successfully established itself in many regards. Many Swiss providers have developed a distinct international profile, became highly effective and achieved significant turnover. In contrast to the situation in many other countries, e-commerce in Switzerland is not dominated by a small group of companies. The market share held by foreign providers is negligible. The capability and willingness to invest in Switzerland remain high. Nevertheless, the experience of the fashion sector demonstrates that there can be no chinks in the armour. Zalando spotted its opportunity and captured the Swiss fashion retail market in more or less one fell swoop.

Access to customers is a critical success factor, as everyone knows. The providers in the study panel are therefore focusing their efforts on manoeuvring themselves from the opportunistic areas depicted on the periphery of the diagram in figure 1 into the central area of more long-term relationships between provider and customer. Four approaches have been identified for achieving a top-of-mind position among customers.

1. Notable positions of confidence, such as those enjoyed by specialists like BRACK.CH, and Farmy thanks to its focus on the sustainable grocery segment.
2. Relationship-oriented business models, for example product subscriptions with Beliani, delivery subscriptions with Le Shop and seamless payments with SBB.
3. Close or easy access to goods, like at Miacar or coop.ch, with their own home delivery service in specific time slots.
4. Services based on data, such as discount vouchers tailored to personal preferences at coop.ch and the Bring! shopping list functions.

While Swiss providers have nothing to be ashamed of when it comes to capability, there are a few more generic risks. Individual providers could slip out of view in some respects, overshadowed by the global digital platforms. The main area of concern is competition for access to customers and insufficient participation in the rich pool of data. It is difficult to know what individual providers can do about this.

Potentially, it may be timely to recall the traditional strengths of the *Confoederatio Helvetica*. When individual members have lacked power, solutions have been found at a higher level. After all, Migros and Coop are also cooperatives. To remain strong in future, solutions should be sought that transcend the boundaries between individual companies.

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