

Management Summary

E-Commerce Report Switzerland 2019

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

11th edition

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Focussing on «A glimpse into the networked world of 2025»

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Management Summary of the E-Commerce Report Switzerland 2019

The *E-Commerce Report Schweiz* is a series of studies into the development of business concepts for the sale of products and services to consumers, focusing in particular on the use of networked IT. This report represents the result of the 11th comprehensive survey of 35 e-commerce and multichannel providers that are potentially significant for the market in Switzerland. The findings are derived primarily from the expert statements.

2018 – stability in one of the better years

Purely from the perspective of the figures, 2018 saw a continuation of the e-commerce trends that had already been identified in previous years. Consumer online spending in Switzerland rose by 10%. Foreign providers once again increased their share disproportionately, and now make up more than one fifth of the market. All of the study panel members expect e-commerce to continue to grow in their sectors, both in the current year 2019 and through to 2025. At least half even anticipate that e-commerce will more than double in value within six years. The companies on the study panel described 2018 as the best of the previous five years, based on average sales growth. Most companies are still retaining their profits. 70% of the study panel reported that they are making the most of the investment potential available to them.

Unavoidable pressure for change

Sales in the Swiss retail sector fell once again overall in 2018 and have yet to return to the level achieved 10 years ago. Swiss providers are losing market share in the growing e-commerce sector, and the revenue situation is unsatisfactory on the whole, despite the good macroeconomic conditions. Although some commentators believe that the market may be rebalanced if one or two more players were to quit, as has happened with Charles Vögele/OVS, others predict that the current revolution in the way goods and services are being distributed will continue. However, the direction of travel is uncertain.

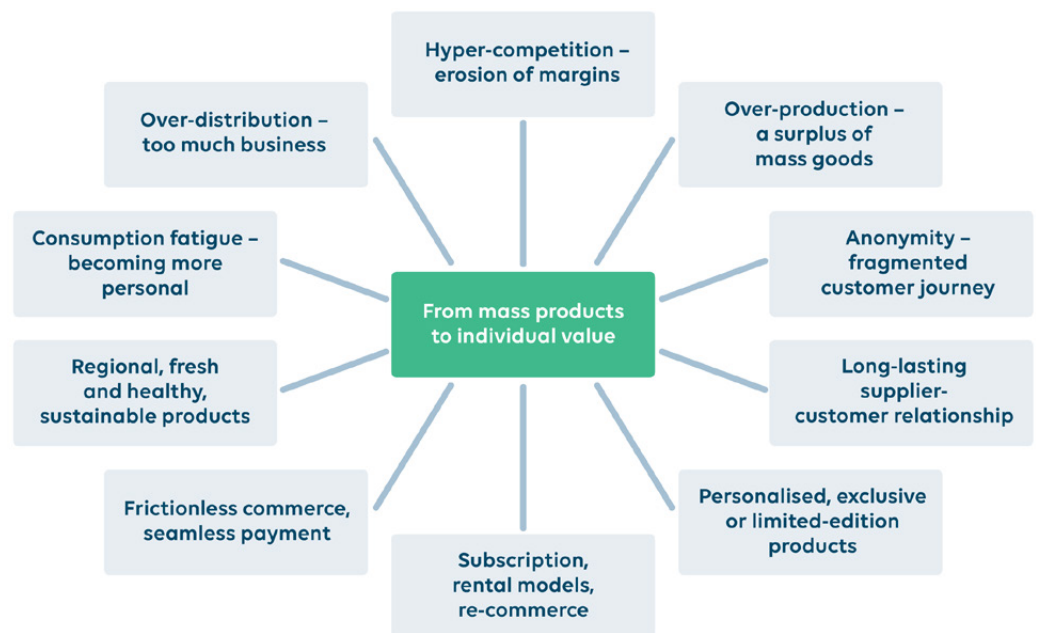
A diverse, networked world of supply

Web platforms such as market places and search engines have become a significant part of the distribution world, even if they are not involved in actual service delivery. What they are doing, however, is placing the customer at the centre of the entire sector. Businesses are closer to customers on smartphones than they are in their retail outlets, the role of which is under serious threat. At the same time these platforms increase price pressure and attract some of what is left in terms of margin. As a result, the cost structures of the old, linear distribution silos are no longer financially viable.

Manufacturers, wholesalers and retailers are all under pressure. They must explore new potential income streams, possibly even invent them for themselves, and focus all their efforts on these. This requires greater and more flexible forms of cooperation, in a connected world of supply, especially in relation to the handling of data.

Trade and distribution face lengthy adaptation process

A new focus is emerging from this difficult process of adaptation. The personal benefit for each individual customer is now at the core. A product only derives value in connection with very specific properties or additional services that are important to the individual customer. And this is only possible if the entire sector changes its perspective. It is now the customer who decides what adds value. We are witnessing an evolution from mass products to individual value.



Definition of e-commerce

Depending on situation, customers make purchases in physical shops, on desktop computers or using mobile devices. Suppliers use a combination of online and offline channels. Therefore, what is understood by «e-commerce» must be clarified.

This study series takes a very broad view of the definition. *E-commerce is the support for a company's customer relationships and processes using connected IT. E-commerce may cover one or more phases of a transaction.* Under this definition, it is not necessary for the actual purchase transaction to take place electronically. It is sufficient if the connected IT has made a relevant contribution to the creation of the transaction. This very broad definition of e-commerce applies to the development of business concepts in which a supplier wishes to operationalise customer relationships with ad-hoc or comprehensive IT-based services. It cannot be used to allocate sales in a multi-channel business.

When it comes to allocation of sales, the study's authors have adopted the transaction-focused definition of the Swiss Federal Statistical Office FSO. This classifies a sale as e-commerce if the sale agreement is concluded online.

Distribution disrupted

In traditional models for the distribution of consumer goods, the products flow from manufacturers to consumers through wholesalers and retailers. Manufacturers identify the potential, produce the goods and push them into the market. There, they are stored at an unlimited number of locations until they are sold. There are increasing numbers of distribution channels and forms, and in Central Europe there is a general situation of over-distribution. Supply has been growing more quickly than demand for many years. Sales prices are falling, along with revenues for suppliers. At the same time, customers' appreciation of the value of industrial goods is decreasing. In addition, there are reports about the unacceptable side effects of our consumption: inhumane working conditions abroad, poor animal welfare standards and environmental pollution. More and more people are exhibiting the effects of consumption exhaustion. They are moving their spending into areas in which they can have a personal experience, or that they feel are valuable according to their own standards. Customisation and individual preferences are taking over from high-volume mass-production. Distribution channels that are driven by the supply side are unable to meet these demands. The conclusion is that the entire supply side must change its perspective, focusing on customers and prioritising personal benefit over products, as well as making logistics more demand-oriented.

Sustained process of change in distribution from 2018 to 2025

Even though this edition of the study focuses on the period from 2018 to 2025, the changes in distribution are not solely limited to these years. The transformation described here started with the heyday of the Internet, which has now massively expanded market transparency and opportunities for interaction between all participants. Furthermore, there is no end to this process in sight, since technological development is constantly opening up new opportunities. For example, it is not currently possible to predict exactly what effect digital assistants will have on distribution once they are able to start buying and trading on behalf of humans. This report combines observations of current developments with assessments of the study participants. In addition, to create a frame of reference it uses a number of findings from a study into the future development of consumption between now and 2050 published at the beginning of 2019 by the Gottlieb Duttweiler Institute GDI and KPMG.

A new view of distribution

We are used to looking at a sector's distribution system as a linear sequence of activities starting with manufacturers, then proceeding to retailers through to consumers. As a consequence of the impact of the Internet, this representation no longer matches reality. A large proportion of distribution today is no longer linear. One reason is that brand manufacturers and consumers are increasingly in direct contact, but there is also the fact that participants are less likely to stick to traditional roles. In addition, new entrants who have arrived with digital platforms are now powerful enough to modify the structure of the system. Search engines, online markets, social media and blogs are no longer on the periphery, but are now more frequently at the heart of the action, at that decisive locus between retailer and consumer. They provide the consumer with many beneficial services, free of charge and around the clock. And for suppliers they act as providers of access to customers. Online marketplaces also conclude legally binding purchasing transactions that the traditional distribution chain simply has to fulfil, without direct access to the customer.

Power shift towards digital platforms

The rapid advance of e-commerce is posing a threat to the traditional pole position enjoyed by retail in two core areas: product range and customer access. Until the turn of the century, retail was almost the only means for customers to learn about what was on offer in the market. The Internet is providing this service in a much more extensive manner. Manufacturers previously were almost exclusively only able to present their products to potential buyers through retailers. Nowadays, there are many more online touch points. In all cases in which consumers do not seek out a specific provider for their requirements, digital platforms have become the core arranger of supplier-customer relations. For some time this has also become the case in physical retail too. Customer access has become the bottleneck that is critical to success, and is now a core element of the online provider's business model. The platforms are both the reason for and the winners of the structural change.

Online retail situation

E-commerce remains a very dynamic and competitive field. The range of services offered must be constantly expanded and processes trimmed to become more efficient just to allow the provider to keep up. E-commerce requires ongoing high levels of investment. The most important areas for action are IT, expansion or optimisation of logistics, and measures for personalisation and CRM, owing to the increasing costs of access to customers. The shift of transactions onto mobile devices is accelerating. Some study participants are developing better mobile-optimised use cases to finally improve conversion rates in this area. Marketing is also being adjusted to reflect the behaviour of smartphone users. Depending on the industry and frequency with which identical transactions are repeated, good mobile solutions with strong background data and payment methods are able to massively simplify purchasing processes and increase customer loyalty. Solutions as Fairtiq and SBB Easy Ride in public transport and avec box for Valora's new convenience format have the potential to popularise seamless payment solutions.

Situation for traditional retailers

The end to over-distribution is in sight, especially in traditional retail, even through the ability for customers to physically experience products and take them home with them immediately remains a key competitive advantage. Branch portfolios are being optimised and shop footprints are often decreasing. Smaller businesses should be managed more intensively, with data being used to optimise the product range. The reduction in the products available in store will be offset by virtual ranges, i.e. additional complementary items for order. As a result of this process, physical business will become a front-end for e-commerce. Conversion optimisation is now also moving into stores, with decreasing customer visit frequency being balanced out by increased purchases. However, just installing interactive terminals or giving sales personnel tablets is not a guarantee of success, especially not when it comes to self-service. Practical use cases must still be developed for these technologies. The requirements for sales personnel are growing, in terms of both the advice they provide and the way they use the electronic tools at their disposal. Something that is still to be decided is the extent to which in-store stocks can be used to fulfil the businesses' own e-commerce orders, or even integrated with those of other providers, for example to enable short-notice regional deliveries. Where an online store is operated alongside physical branches, it primarily addresses existing customers and can therefore be viewed as a customer loyalty tool. Mobile apps that simplify in-store purchasing, such as by supporting seamless payment, also have the potential to build customer loyalty. This would also meet another urgent requirement for suppliers, namely the ability to identify the customer in their stores.

Situation for brand manufacturers

Brand manufacturers need physical retailers and must at the same time step up their online commitment. Online engagement is required in order to serve the online touch points that consumers have come to expect in a way that is brand-compliant. Brands are strengthened when they deliver services themselves, and they also learn a lot about their customers and their behaviours in this way. The operation of a brand's own online store is frequently a marketing instrument first and foremost, but must not over-compete with retail partners. It can also be difficult for brands to generate the necessary Internet traffic by themselves. The potential of a purely online offering is still limited. Furthermore, brands can usually only tap into a fraction of the usually much higher potential for physical sales and locally provided services. Therefore, brands will continue to require physical retail in the future. However, they are raising their own standards and attempting to exert more influence over retailers. One tendency is becoming evident: as they offer retailers greater flexibility for back order options, and ensure that retailers can use bulk shipments for delivery of individual items, the brands are acquiring more control over what happens to the goods.

Aspects of a multi-connected network of supply

A range of changes in approach and response could be key to future success:

- Giving up the silo thinking of closed distribution systems to obtain greater openness for flexible cooperation. This includes openness to a fairer distribution of margins.
- Staking a claim for a share of rich data, which currently is solely within the grasp of digital platforms. This includes the willingness to build mechanisms for sharing data within the scope of the platforms' own infrastructure.
- Implementation of measures that increase confidence in the use of customers' data, as otherwise customers cannot be served individually.

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