

*Management Summary*

# E-Commerce Report Switzerland 2018

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

10th edition

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Focussing on «Dealing with powerful digital platforms»

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# Management Summary of the E-Commerce Report Switzerland 2018

The *E-Commerce Report Switzerland* is a series of studies on the development of business concepts for the sale of products and services to private consumers, with special emphasis on the use of connected information technology. This report is the result of the tenth comprehensive survey of 35 e-commerce providers potentially shaping the Swiss market. The findings are mainly derived from experts' statements.

**Tense reality:** From an outside-in point of view, 2017 appears to have been a normal, good year for e-commerce: Swiss consumers ordered 10% more goods on the Internet than in the previous year. However, 38% of the growth is attributable to foreign vendors which gives cause for concern. Their share of Swiss e-commerce has reached the one-fifth threshold. In the past five years, foreign vendors' growth has been more than three times greater than that of Swiss vendors. So it is not good news if Amazon accelerates its export processes to Switzerland or if the Chinese vendors JD.com and Alibaba invest billions in the development of their logistics networks for Europe.

**The change has just started:** Global economic shifts are by no means the only cause for concern. The increasing shift in demand away from individual providers and towards digital platforms is causing providers to lose control, especially when it comes to access to customers. This is associated with a loss of vertical integration – the disruption of the traditional retail value chain is continuing: specialized technology companies outperform generalist retail companies. The existing performance level is still being expanded, whilst consumer expectations are also increasing. Distribution structures are also changing: linear distribution chains with stable roles and business relationships are turning into multilateral distribution systems.

The increasing importance of platforms is also evident in the service industries. Since services map easily to IT, i.e. with a digital ticket, it is easier to use technology to simplify processes. New app-based solutions for seamless payment are a current example.

It has become apparent in 2017 that large internet players will also bring their expertise to the bricks-and-mortar retail sector. Traditional retailers have often neglected the logistics potential for local orders in terms of the goods available in store and customer identification, data generation and payment processing. But that will change. In logistics, foreign providers are the first to tap into the potential of proximity. The successes achieved so far by digitalization in traditional retailing are quite moderate. Only a few companies have become part of a connected and diverse retail world.

The emphasis on the critical aspects in this summary reflects the change in mood of the study panel. Initially, everything is set to continue as before: the bricks-and-mortar sector will continue to grow, a considerable number of Swiss online providers will continue to grow, access to customers will continue to shift to digital platforms, and there will be fewer Swiss providers in the Swiss e-commerce top ten rankings. The study participants fear that they will **lag behind as the market opens**.



Fig. 1: E-commerce in Switzerland in 2018: Lagging behind in the opening market

**E-Commerce:** Customers use bricks-and-mortar shops, desktops or mobile devices. Providers combine on-line and offline channels. In this situation, the understanding of the term *e-commerce* needs to be clarified.

A very broad understanding is used for this series of studies: *E-commerce is the support of a company's relationships and processes with its customers through networked information technology. E-commerce can comprise one or more transaction phases.* According to this understanding, the purchase transaction in the narrower sense does not necessarily have to take place electronically. It is sufficient if the networked information technology makes a relevant contribution to the conclusion of a transaction. This very broad understanding of e-commerce is suitable for the development of business concepts in which a provider wants to operationalize the relationship with its customers either selectively or comprehensively with IT-based services. It is not suitable for allocation of sales in a multi-channel company.

In allocating sales, the authors of this study are guided by the transaction-oriented understanding of the Swiss Federal Statistical Office (FSO). In accordance with this approach, a transaction comes into being the moment at which buyer and seller reach a legally binding agreement.

**Sales performance:** Swiss online orders accounted for 9.6% by volume of the Swiss retail trade in 2017. Compared with 2012, e-commerce grew by 50%. Over a third of the 10% growth in 2017 can be attributed to foreign providers. Expectations for their development have risen continuously over the past five years: 90% of those surveyed expect the market share of foreign providers to keep growing in the coming years.

**Bogey team:** With regard to foreign competitors, there are three categories that Swiss providers see as superior: Amazon as an industry dominator is feared for its ability to dominate markets and achieve strong customer loyalty. Zalando as an online category killer is admired for its uncompromising focus on customer benefit and the unimaginable market share that was achieved in Switzerland within a short time. Chinese vendors are viewed with perplexity because their price level is beyond any economic reality in Switzerland and they are favored by accompanying market-distorting factors.

**Swiss online marketplaces with goods:** By Swiss standards, Galaxus and siroop made enormous efforts to improve their positioning in 2017. siroop has since given up the race, which is a plausible decision according to the assessments of the study participants. Galaxus is expanding its product range at a fast pace to carefully transform itself from a hybrid provider into an online marketplace. Its objective is to support its growth trajectory by expanding to Germany. With its international orientation, Galaxus has access to the product ranges and purchasing conditions of the European single market. Given the basis for fast, automated self-managed customs clearance and import into Switzerland is being put in place at the same time, Digitec Galaxus can offset the disadvantages of being a Swiss company.

**Prospects for the Swiss retail sector:** Despite the good macroeconomic conditions, the study participants are rather pessimistic about the prospects for bricks-and-mortar retail in Switzerland. While the supermarket segment is expected to remain stagnant, further declines are expected for sales of non-food. As retailers are unable to reduce their costs to the same extent, further disruptive events are expected, such as the radical restructuring of Ex Libris' business model with the resulting closure of two-thirds of its stores. Traditional retailers' efforts in the area of digitalization have not been sufficient to give companies a promising position in the networked retail world. In most cases, only the loss of market share slowed down.

Bricks-and-mortar retail is still largely isolated from the online channels in which consumers increasingly make their purchasing decisions. In particular, OTC retailers have failed to connect their in-store ranges to online search processes. Businesses retain their blinkered attitudes and believe that they must solve all challenges alone and for themselves. Meanwhile, their importance is at risk to diminish.

The increasing involvement of what were originally purely online providers in bricks-and-mortar settings is in no way a confirmation of existing retail store concepts. These are not omnichannel concepts in the sense of the bricks-and-mortar sector, but service points where technology providers make their brand tangible. The smaller areas are managed more intensively. The operational processes in a day-to-day business are digitally controlled, highly automated and generate data comprehensively.

**Logistics as a competitive advantage?** For large, foreign online providers that operate to modern professional expectations, cross-border shipping to Switzerland is no longer a significant barrier. Despite this, the longer distances and the overnight downtime for customs and road freight mean that the delivery from Germany often takes at least one day longer than within Switzerland. If foreign distributors want to overcome this disadvantage, they must opt for more expensive forms of distribution and delivery, e.g. same-day delivery within Switzerland. This results in a potential competitive advantage for Swiss vendors who can deliver very quickly. To exploit this potential, companies are investing in their internal logistics. Many vendors still experience difficulties in being able to include goods that they do not keep in their central warehouse. As the vast majority of logistics is mostly outsourced to Swiss Post, any possibility of differentiation from foreign competitors is therefore eliminated. The question arises as to whether an increase of added value in logistics – at best in a network of Swiss companies – could lead to new competitive advantages. If foreign vendors were able to include goods stored in Switzerland in their offer faster than Swiss vendors do, this would be a major setback.

**Dealing with powerful digital platforms:** The trend for digital platforms to positioning by offering themselves between providers and consumers outstanding services and as a priority point of contact for consumers, continues unabated. Providers must pay more often for access to customers; there is a shift in power towards the platforms. As a result, individual providers generally hold a critical attitude towards platforms. On the other hand, digital platforms as integrators can give a provider a large reach. It can be assumed that business with own customers will be less and less self-evident for providers. They will serve their own and others' customers. The decision can be made according to make-or-buy criteria for access to customers.

The aim must be to exploit the potential of platforms in the best possible way while taking precautions to avoid excessive co-dependency. In practice, working with a platform is often challenging, not at least because its business models are often very one-sidedly oriented towards the consumer.

In order to protect their interests in a platform-dominated industry, it is crucial for individual providers to keep a smart, benefit-oriented attitude combined with a readiness to withdraw. Competitors on the platform should also see themselves as allies in this respect. The most important common measure is the creation of transparency.

Other ways of competing with powerful players are sometimes offered in alternative scenarios with other digital platforms. Success in collaborations between competitors – as for example in the Tolino alliance for e-books – is regarded as an exception by study participants.

**Ongoing transformation in retail:** The structural change in the distribution of goods and services to consumers continues. Technology-driven providers focus on individual value-added functions, e.g. the provision of access to customers. They tie in with existing sales structures, whereby the balance of power is shifting. The traditional providers are losing market share. If one observes the development of new technologies and what the leading providers are currently working on, it becomes clear that the transformation will continue.

**Seamless Payment:** Shopping without payment? Only check-in/check-out in public transport or «No lines, no checkout - just grab and go!» as Amazon Go claims – e-commerce can be that simple. The check-out process is considered a conversion killer anyway. Many companies are working on simplifying it, e.g. with one-click checkouts. But seamless payment goes even further and is the prerequisite for concepts such as frictionless commerce.

With seamless payment it is sufficient to be able to determine an action as a clear declaration of intent for the chargeable purchase of a service. This must be agreed once between provider and customer. The identification method is agreed in advance, via a personal device such as a smartphone or car. A payment procedure is also set up. After that has been done, the customer can use services or obtain goods without having to carry out any further actions for payment.

Settlement of seamless payments is normally initiated by the provider on an agreed date. This results in numerous new service options, e.g. the subsequent determination of the optimum price for the sum of the services used.

Seamless payment is usually implemented in conjunction with an app, which opens up further opportunities for an individualized approach and customer service. Customers find it increasingly convenient to make use of the product or service and the solutions can make their everyday life noticeably easier.

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