

Management Summary

E-Commerce-Report Switzerland 2014

Swiss online trading from the merchant's
point of view

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Management Summary of the E-Commerce-Report Switzerland 2014

The E-Commerce Report 2014 is the result of this sixth comprehensive survey with 34 market-shaping e-commerce providers with a registered office in Switzerland. We use the term market-shaping for providers who fulfil one of the following three criteria: they have been successful over a number of years in e-commerce in their sector, they are an industry-defining commercial company with a number of distribution channels and have substantial engagement in e-commerce or they are prominent on account of their own innovations or as early adopters they transfer business models developed abroad to Switzerland. An extensive interview was carried out with 30 participants in the study. Four further companies who were questioned verbally in previous studies completed a written form.

The movement for sales to online trading continues: e-commerce sales are outperforming the overall market. More and more offers and supporting services are making online purchases even more attractive; consumers' media competence is increasing and digital natives are acquiring greater purchasing power. The substantial spread of smartphones and data flat rates means that more and more consumers are always online and providers find them on a mobile-specific basis to an increasing extent. The long-term trend towards e-commerce is uninterrupted and it will continue over the coming five years with the overwhelming majority of those who took part in the study.

An expedition to cross-linked customers: invest or be left behind: this statement is a summary of the e-commerce report for Switzerland in 2013. But to be left behind in a growing market is a bitter experience. Not only did the majority of those who participated in the study not have that experience - approximately a quarter of them achieved a growth rate above 20 %. Seven who fell back in 2011 or 2012 managed to turn the corner again. However, the intensity of competition in the dynamic in e-commerce remains high. The study participants are meeting the challenge and are determined, each in their own way in and within the framework of their own possibilities, to win over the growing number of cross-linked customers attractive offers in the future. How can a provider in Switzerland succeed in this? What exactly is needed for this? How are customers' requirements changing? What are competitors doing? These questions cannot be answered with certainty. This much alone is clear: it will take a long time, there may be difficulties and the exact way is yet to be found. Providers are on an expedition (Fig. 1). Some characteristics will be outlined below

Continuing strong competition: although there is a reduction in the inflow of new providers in e-commerce, the intensity of competition remains high. Swiss pure players and multi-channel providers are expanding and optimising their product and service range, adjusting their business concepts and identity, increasing their operational efficiency and giving more thought to the best way to gain access to customers and maintain customer relationships. Nearly half the study participants are again investing more in 2014 than in previous years. The efforts appear to be paying off: the improvement in the earnings situation is judged to be better than in the previous year.

Multi-channel providers are engaging energetically with cross-channel business concepts. They are not limiting themselves to isolated services such as click & collect; their intention is to transform the whole organisation: „Away from the channel - towards the customer“. Here there is a substantial difference with companies in terms of the degree of development and willingness to invest. Unorthodox solutions can have a considerable effect: If turnover from online orders is attributed to fixed, physical organisational units, cross-channel co-operation becomes much easier.

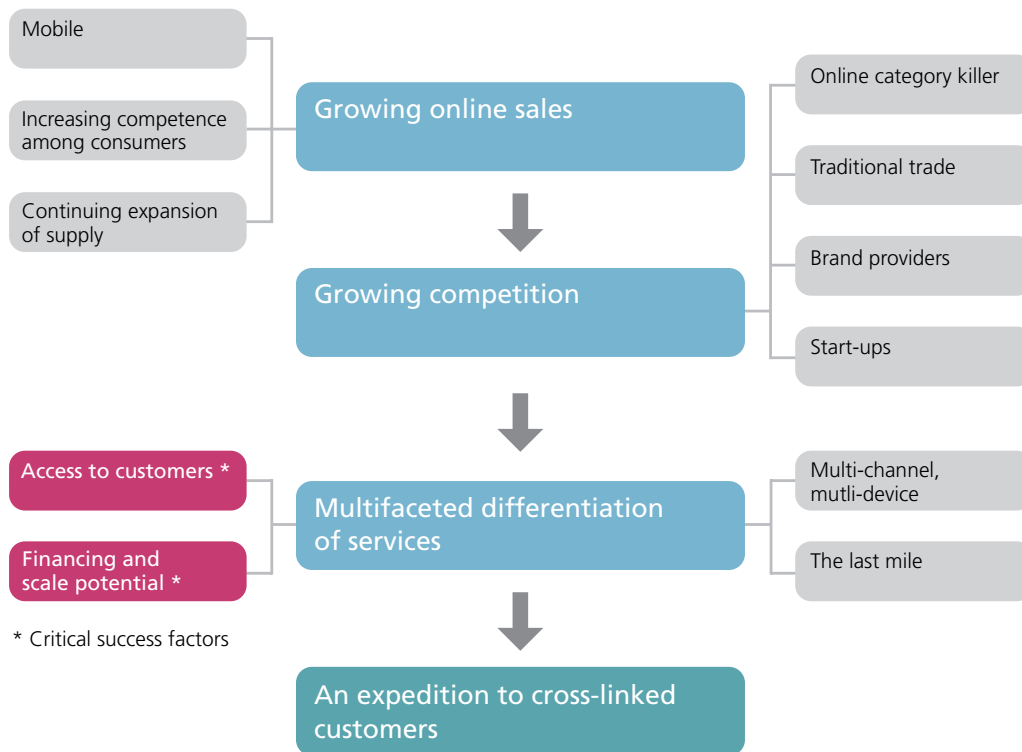


Fig. 1: Situation in e-commerce in Switzerland in 2014

Pure e-commerce providers are developing their product and service ranges. With providers of physical products, fulfilment is an important subject. Some providers have taken their funds for investment from the development phase. They have to optimise and can only invest in growth to a limited degree. The intensified price competition and the costs of increased demands mean that pure players assess their competitiveness in comparison with multi-channel providers in a more sceptical way than in the previous year.

Foreign e-commerce providers have had no significance or only minor significance for a third of the study participants, although on account of this they are more significant for others. Many consider foreign internet pure players to be superior to Swiss providers in terms of their efficiency. This is attributed primarily to the enormous advantages of scale with a multinational operation, followed by growth and the earnings orientation of capital providers. The latter facilitates fast market growth with a very strong impression by advertising.

The small size of the Swiss market is both a blessing and a curse: on the one hand it is the reason why providers from Switzerland find it difficult to be competitive on the international level. On the other hand it means that capital flows looking for large and attractive markets for fast conquests in Zalando style pay relatively little attention to Switzerland. The fact that Swiss online providers could face marginalisation on account of foreign providers is feared more in sectors where foreign providers are already active than in other areas. The reason for this is the experience of just how superior some providers are: on the one hand **online category killers** who want to dominate their sectors as happened for example decades ago with the Mediamarkt in the new arena. iTunes or Zalando could be regarded as good examples of online category killers. On the other hand there is Amazon and Google that have to be rated one step up; we call them **industry dominators**: their superiority is not limited to one group of goods. Instead it relates to business-to-consumer sales as a whole.

Amazon takes the classical trader role here. Google on the other hand positions itself as a service provider which supports commerce with individual functions. These are of existential importance for providers: access to customers – via Google search engine – and increasingly also product proposals – Google Shopping or Google Hotel Finder – are shifting towards Google. Both global players are characterised by an immense amount of information. What could a Swiss provider do in the face of both of these if they were to switch to an aggressive competitive stance?

Capital providers' growth instead of earnings orientation is regarded as one of the factors of success of foreign online providers who seem so superior. Twenty years after it was founded, Amazon is not achieving profits that are commensurate with its turnover even though it is in a position to do so. Google uses the money it has earned to develop its market position. Zalando is judged more critically on account of its speculative financing; it has awakened memories of the internet hype 15 years ago. In the case of Swiss providers there are actually no signs of an investment bubble. Local investments do entail an entrepreneurial risk and they will not always be successful. Most study participants are actually concerned with the question of whether willingness to invest is sufficient to maintain a competitive position.

The search for growth opportunities and positive economies of scale is the most important issue in strategic terms for most study participants. This is the key for further investments, for growth or even for just maintaining the current market position. Stationary traders are looking for growth in multi-channel positioning – nearly 2/3 of the study participants believe that increases in sales are possible in this way. Some pure players are trying to find positive economies of scale if they belong to a corporate group association. Some providers who originally only sold to consumers have found potential in B2B areas, building on the established areas of expertise. It is usually small niche players who pursue the international route.

The most important activities in 2014: 1. Building up the product and service range, 2. Better support for mobile end-devices, 3. Improving user-friendliness, 4. Improving product presentation in the web-shop, 5. Improving search engine rankings (SEO).

Online marketplaces – verticals innovative, horizontals free: in online market places innovations come about mainly through new vertical business models. Following the community platforms developed abroad, Airbnb and Wimdu, the intermediary platforms, GetYourGuide and Trekksoft, came about in Switzerland and they are now expanding internationally. The established horizontal market places are investing strongly in the heavily competitive market for small advertisements – in a market which hardly generates any income directly on account of free advertisements and frequently also advertising freedom. Investments are strategically motivated. It is all about size and market share: „The winner takes it all“.

From used goods to new goods: business-to-consumer sales of used goods is stagnating and growth is coming from business providers. The latter provide primarily new goods but Swiss consumers are not looking to market places yet so much to purchase new goods.

Restraint with contact exchanges and third-party market places: Swiss online market places find it more difficult here. Contact exchanges are mainly in foreign hands and the Swiss lack the size needed for the required permanent investments. Third-party market places are not reaching the level of importance they have in other countries. First of all, the technical requirements for the platforms are very high and also a considerable number of Swiss providers lack the prerequisites needed to achieve an overall high level of service together with the market places.

Expectations for the future: digital transformation will progress further. In the course of this development the importance of network electronic media is growing and the portion of e-commerce transactions will continue to increase. Both mail order companies and operators of fixed physical business operations are affected, although to what degree depends on the sector. All provider types evaluate all channels and touch points. Companies are making increasing use of them in a targeted way depending on positioning, competence and resources. The boundaries between provider types are becoming blurred in this way and the varied array of trading methods is continuing to grow. Mobiles are still regarded as the strongest trend and, looked at in terms of the next five years, the establishment of Smart TV is expected. Cross-channel and cross-device solutions are requirements resulting from this. Mobile payment solutions are regarded as important and digital wallets are consequently a hot topic. The question as to whether five years are sufficient to establish them is met with scepticism. Mobile solutions should function as a bridge from one online activity to another one. Online tools will be found more and more and high street shops although in what forms remains to be seen.

It is expected that the importance of foreign providers in many sectors will increase further although not in a destructive way - insofar as industry dominators and category killers driven by the capital markets do not set their sights more strongly on Switzerland. In the course of fulfilment the performance level will increase further; the first expectation is for more flexibility in terms of time and location. A clear majority expects next-day delivery to be standard practice in five years. Although pick-up points are becoming more important, in five years' time they will be the exception rather than the norm as a method of supply.

Excessively powerful foreign providers and external performance pressure resulting from ever increasing customer expectations are the two risks that many study participants are concerned with. Nevertheless, the predominant expectation is that current efforts and investments will bear fruit and that the revenue situation in five years' time will be better than at present.

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