E-Commerce

Major Industry Trends

In 2014 global retail sales (all forms) are expected to be worth US$1.4 trillion, driven substantially by rapid growth in Asia and by the change in consumer shopping preferences worldwide, as well as by the increasing use of m-commerce, or mobile phone-based shopping. Electronic commerce, or e-commerce, involves the sale of goods and services via electronic means—principally over the Internet, although sales via television (terrestrial, cable, and satellite) are also included. E-commerce can be further divided into the following sectors: business-to-business (B2B), business-to-government (B2G), consumer-to-consumer (C2C), government-to-business (G2B), government-to-citizen (G2C), and business-to-consumer (B2C). Retailers that rely primarily on e-commerce to sell goods or services are often referred to as e-tailers.

Retailing over the Internet generally takes one of two forms:

cybermalls—the most famous cybermall is eBay, which offers access to products from a variety of independent retailers;
individual websites—most major retailers now have their own websites, which complement their traditional “bricks-and-mortar” outlets. Some retailers operate solely over the Internet.

An interesting additional development has been the emergence of “connected TVs,” or “smart TVs.” Beginning around 2012 and selling in increasing numbers into 2014, smart televisions have Internet connectivity built into them. As well as providing consumers with Internet access from their living rooms via the TV, this enables TV program-makers to draw on the power of the Internet to enhance and transform both TV advertising and the kind of television selling that has long been a staple part of the medium. Over the last few decades television selling through programs on dedicated shopping channels generally featured a presenter demonstrating products on air. Viewers buy these products by telephoning an order line with their credit card details, or, in the case of interactive television services, by using their remote control. Recent years have seen the development of a variety of selling techniques, including on-air auctions.

By 2014, according to market analysts DisplaySearch, shipments of smart TVs will amount to around 123 million globally. Program-makers will be able to target advertising more directly to the individual, using similar technologies to that applied by Amazon and other e-tailers with their “if you bought this, you’ll probably also like these” approach. Combining this with social media and “big data” mining by e-tailers opens up the possibility of putting a “social widget” on the screen, showing a consumer which of their online friends also recently bought that same product—all via the TV set.

The history of e-commerce and the Internet has proceeded in a series of leaps forward. A number of the start-up companies from the early days of the Internet, such as Amazon (founded 1994) and eBay (1995), are now retailing behemoths in their own right. However, e-commerce has also been hugely developed by established large retailers, who regard the Internet as simply another sales channel. The giant grocery retailers have used the power of the Internet to aid the extension of their brand from groceries into a wide variety of other areas, such as clothing and electronic goods.

The medium has also created opportunities for small niche businesses that offer a wide range of specialized products. In the process, the Internet has provided a lifeline for many small producers, and has allowed entrepreneurs to enter the retailing sector without the need to invest heavily in physical retail outlets.

E-commerce has proven so successful because it offers significant advantages to both consumers and retailers. Consumers can compare products and prices from an array of retailers with a few touches on the screen or clicks of a mouse—giving them a power that never existed previously. In itself, this changes the game for retailers since it raises huge issues of customer retention.

Online retailers often sell products and services at a significant discount to those offered by traditional outlets. Buying online is convenient: consumers can make their purchases from the comfort of their own homes and have them delivered to their door. Furthermore, online shopping appeals to the environmentally conscious. In March 2009, researchers at Heriot-Watt University in Edinburgh showed that online shopping is 24 times “greener” than taking the car to the shops and seven times “greener” than taking the bus. The researchers compared the carbon footprint of a typical delivery from a local depot with average carbon
footprints for shopping trips by car and bus, and found that home deliveries involved much lower levels of carbon emissions. In June 2009, a study by the Carnegie Mellon Green Design Institute in the United States found that shopping online can reduce “our environmental impact by as much as 66%.”

For businesses, the advantages of e-commerce lie mainly in the low cost of setting up and maintaining a business. Firms do not need to invest heavily in a physical presence, or in sales staff. However, they do have to organize systems for payment, distribution, and returns.

Industry Suitability for E-Commerce

Undoubtedly, at the present stage of technology some industries are more suited to e-commerce than others. This type of retailing is most applicable to goods that are fairly simple, commoditized, and do not require on-the-spot input from knowledgeable sales staff. Thus, grocery retailing is ideally suited to e-commerce, whereas consumers generally need to try on clothing before they make a purchase. Technology will change this. Progress in refining 3D avatars and more computing power will allow viewers to try clothes virtually on an avatar of themselves, allowing them to view the clothing from every angle, to form their buy—don’t buy decision, and social networking will allow them to get instant feedback from their friends.

Similarly, advances in computing power and technology will make even the most complex items purchasable online, with full advice being provided by an avatar of a shop assistant. These features will probably be standard by 2016 or thereabouts as broadband connectivity moves toward an average of around 20 megabytes per second and the computing power in the various devices, tablets, and PCs increases in accordance with Moore’s law.

Since e-commerce is still a relatively recent development, its penetration is often high in some sectors of a given market but low in others. In financial services, for example, the purchase of insurance or a loan—both highly commoditized products—is ideally suited to the Internet. However, many people prefer to buy a sophisticated financial product, such as a pension, on a face-to-face basis, as they will almost certainly require advice before making their choice. Generally, it is difficult to make online sales of sophisticated goods and services that require a large amount of advice or input from the retailer.

Technological Advances

The growth of faster broadband Internet connections around the globe has undoubtedly boosted online shopping. Faster connection speeds allow users to download larger files, such as music, video clips, and movies, or to compete in online gaming, further boosting the potential revenues generated by e-commerce.

The power of social media to influence buy decisions is widely recognized, and e-commerce channels are being active and innovative in seeking to harness the power of social media to enhance the consumer’s shopping experience. Much of this is still in the experimental stage as retailers try to figure out how their offerings can grab a more prominent share of “curation” communities like Pinterest, where consumers can build and share their own collections of favorite products and images. Brands are becoming ever more important, and protecting the value of a brand is a huge issue for retailers and manufacturers in the digital era, particularly in the face of online “scams” and “cons.”

Market Analysis

Calculating the overall size of the global e-commerce market is complicated by the relatively high levels of cross-border sales that take place. Furthermore, few research companies measure all of the various sectors of the market (B2B, B2C, etc). However, estimates from various analysts suggest that the global market was worth around US$500 billion in 2009. According to IMRG, the UK industry association for global e-retailing, by 2013 the size of the UK online retail market was estimated to be £87 billion (~US$145 billion), and through 2012 mobile commerce grew by some 300%. By 2013, China had the largest number of Internet users, with one in every four users in the world based in China. South Korea had the highest percentage of mobile broadband subscriptions, with 91%.

Statistics from the government-linked China Internet Network Information Center (CNNIC) showed that around 51 million new Chinese users accessed the Internet in 2012, bringing the number of online users in the country by the end of 2012 up to 564 million, an increase of 10% on the 2011 numbers. According to
a report in ZNet, by January 2014 this had increased to 618 million. The Chinese Ministry of Industry and Information Technology estimates that the country’s Internet users will reach roughly 800 million by 2015.

Varying Business Models

Companies have adopted differing business models for their e-commerce operations. Amazon operates from vast warehouses, as does Ocado, a grocery retailer based in the United Kingdom. In the Ocado model, there is no supermarket for shoppers to go to. The entire business is online. Pickers inside the warehouse service thousands of Internet orders, which are stacked, packed into pods that are attached to big trucks, and then transported all over the United Kingdom to car parks, where the pods are slotted on to individual vans for street-level deliveries. Other retailers have different models. The United Kingdom’s Tesco, the third-largest retailer in the world, bases its online shopping business at individual stores. Tesco’s website sends orders to the store nearest to the shopper and pickers go to the store’s shelves to fulfill the orders. Tesco vans then take the orders out locally.

Amazon is regarded as one of the pioneers of e-commerce, and it continues to go from strength to strength. Founded in 1994 by US entrepreneur Jeff Bezos to sell books, Amazon now sells a wide range of consumer products and is one of the best-known Internet retailers. By the end of the 1990s, Amazon's revenues were around US$1.5 billion a year—but it was still making a loss and had to borrow around US$1 billion each year just to keep afloat. However, it managed to survive its financial problems and by the middle of the current decade was making a healthy profit. Indeed, in 2005, on Amazon’s 10th birthday, Bezos said that his aim was to turn Amazon into the Wal-Mart of electronic retailing, with a company mantra of “get big fast.” In the year ending December 31, 2009, Amazon’s net sales increased 28% year on year to US$24.51 billion. By the third quarter of 2012 Amazon’s net sales for that quarter alone had reached US$13.81 billion, and by the same quarter in 2013 they had grown a further 26% to US$17.09 billion, demonstrating the maturity and power of e-commerce.

More Info

Websites:

- China Internet Network Information Center (CNNIC): www1.cnnic.cn
- Interactive Media in Retail Group (IMRG): www.imrg.org
- Ecommerce Europe: www.ecommerce-europe.eu
- Ecommerce Merchants Trade Association: http://www.ecmta.org/

Reports:


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