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Management Summary

E-Commerce Report Switzerland 2017

Digitisation in consumer sales.
A qualitative survey from the merchant's point of view.

9th edition

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Focussing on «transformation in the accommodation business»
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Management Summary of the E-Commerce Report Switzerland 2017

The *E-Commerce Report Switzerland* is a series of surveys on the development of business concepts for selling products and services to private consumers which focuses in particular on the use of networked IT. This report is the result of the ninth comprehensive survey involving 36 potentially dominant vendors in Switzerland's e-commerce market. The results were predominantly derived from the information provided by experts.

Growth trend in online business intact: There are no signs yet of the growth in e-commerce slowing down in 2017 either. The participants in the survey established that **dynamism** has also increased even more. **Willingness to invest** is still very strong and **competition** tough. No reversal in trend is expected over the next five years. Quite the opposite: in the future, forms of interaction via browser and mobile apps will be supplemented by chat-based forms. Then natural language dialogues could follow, fully automated purchase processes and also digital assistants. The latter could one day carry out product searches, price comparisons, vendor selection and other aspects of purchase processes on behalf of consumers. **Digital transformation** is also in its very early stages in e-commerce.

Classic sales structures in crisis: For now, the 8% increase in sales from **distance trade in goods** in Switzerland in 2016 – with online and mobile orders accounting for more than 80% – cannot disguise the fact that trade in consumer goods as a whole is existentially challenged due to digitisation amongst other things. That applies regardless of whether or not a merchant is selling online.

Although the situation is different within the **service industries**, the drivers of digitisation are present there too. In terms of acquisition, the **accommodation business** is in the process of losing access to customers to online booking platforms – with considerable cost implications. In the meantime, a lot of hotels have installed their own booking solutions – just as merchants have set up online shops – though this has only slowed down the trend rather than broken it.

The sales channels that have been created by the Internet and have already been refined and professionalised over the past two decades are increasingly proving to be **superior** compared with traditional forms of provision. However, the difference between old and new is not limited to the instruments used. That is evident from the fact that even if they have modern online shops, traditional vendors are not automatically successful.

Start of the transformation: The champions in online business stand out from traditional vendors in one essential aspect: their attitudes. That has since become apparent in Switzerland too. At the heart of this are innovative concepts that bring together the capabilities of multiple vendors – this is described in detail in this report. Swiss vendors are at the **start of the transformation** process (Fig. 1).

Concept of e-commerce: Customers are using stationary businesses, desktops or mobile devices with increasing flexibility to suit their individual situation while vendors are combining online and offline channels. In this situation, it is necessary to clarify our understanding of the concept of e-commerce.

A very broad understanding has been and is to be applied to this series of surveys: *E-commerce encompasses the support of a company's relationships with its customers and processes using networked IT. E-commerce may involve one or more transaction phases*. According to this understanding, the purchase transaction in the strict sense of the word need not necessarily be carried out electronically.

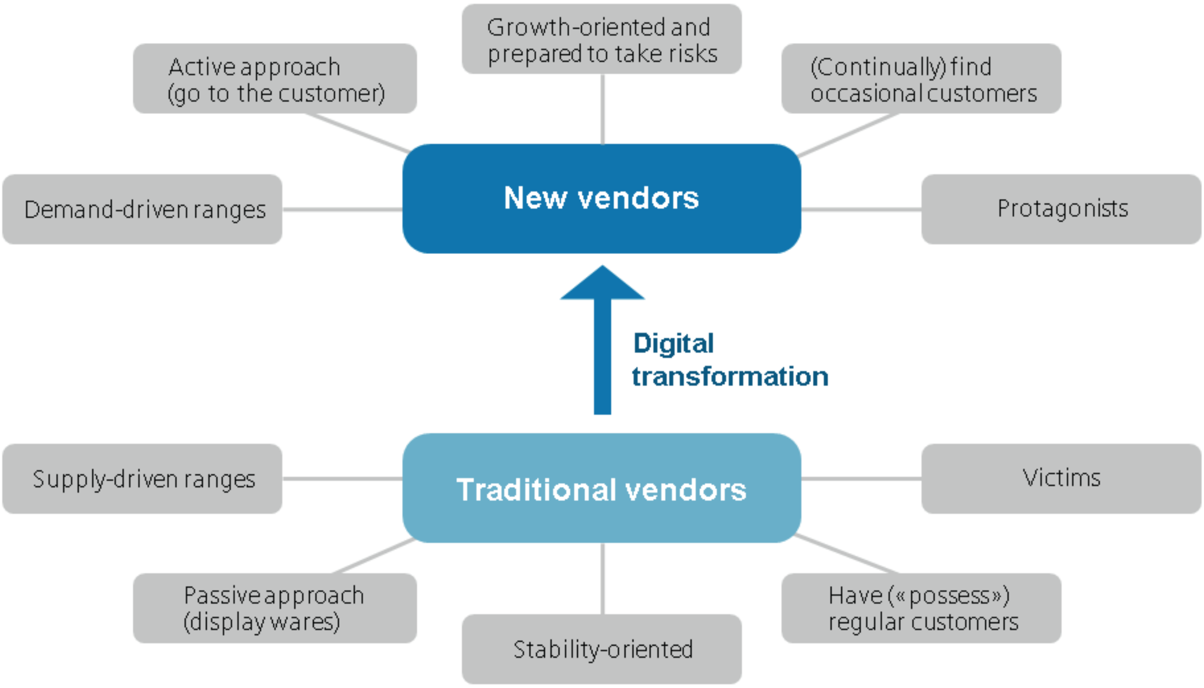

Fig. 1: E-commerce in Switzerland in 2017: Start of the transformation

It is sufficient for networked IT to make a relevant contribution towards the realisation of a transaction. This very broad understanding of e-commerce is suited to the development of business concepts which enable a vendor to improve its relationships with its customers through the selective or comprehensive use of IT. It is not suitable for allocating sales within a multi-channel company.

When allocating sales, the authors of this study follow the transaction-oriented understanding of the Swiss Federal Statistical Office (BFS). According to this, a transaction is realised when buyer and seller enter into a legally binding agreement.

E-commerce has been developing very differently within different sectors. This is being taken into account in this series of surveys by studying different issues each year. In 2017, *the digitale transformation in the accommodation business* will be examined in detail. In 2016, focus was directed towards *structural change in retail and the behaviour of brand manufacturers*.

Agility: What distinguishes successful online vendors from traditional companies? The answer focuses on the concept of agility – the ability of an entire organisation to be able to react very quickly to new opportunities or changed conditions and to continuously improve. The starting point is the focus on the customer. What sounds like a phrase has a lot to do with technology. Only the factors which help to convert customer contacts into orders will be pursued further. Key figures relieve hierarchies and those who find solutions are on solid ground. One of the most important instruments for successful implementation is IT – a high level of competence in IT is of central importance. Agility calls for freedoms, budgets for experiments and an error culture. It leads to surprising solutions and motivated employees.

Key factor access to customers: Customers are going to vendors less and less. In stationary trade, frequencies are decreasing and online traffic is scarce. Also, customers have access to everything at any time via their smartphones and in the future, the digital assistant will be able to do a lot more. As part of the paradigm shift in the digital transformation, vendors have lost *their* customers. A lot of businesses have not realised that yet, e.g. in the hotel industry. Customers will have to be newly won. It is getting harder and taking more time for individual vendors to find access to customers. That is where platforms come in: online marketplaces, whole ecosystems and also social media. However, unbundled access to customers has to be purchased!

Specialised vendors have lost the value creation function of offering the customer an attractive point of contact – and with it the margin share linked to that function. The new key competence for vendors is to control the *access to access to customers*. Vendors who work out the mechanisms of the individual platforms will find bundled demand potential.

Logistics: Reliability, speed and flexibility – these characteristics of physical fulfilment are being worked on intensively. The necessary solutions are becoming more and more differentiated. There is a real race in progress which has also been spurred on by new innovative solutions. E-commerce vendors will need to balance out their answers to the following three questions: What level of performance do I need to achieve, what are the costs involved and how can we use logistics to positively differentiate ourselves from competitors if need be?

Cross-channel trading concepts: Major importance is still being attributed to multi-channel concepts which is evident from the development of further physical and digital touchpoints. But even after many years of development, in a number of sectors even the major multi-channel companies have not been able to realise a comprehensive cross-channel customer experience. Also, channel conflicts are not yet a thing of the past.

The costs and mastering complexity remain central challenges for multi-channel trade. However the lack of visions, strategies and concepts is currently regarded as a really critical success factor. Thinking in terms of channels has still not been overcome, the interlinking and differentiated positioning of channels has still not been achieved and the mindset of employees has not changed.

Two mysteries: Two global players have developed into real mysteries in Switzerland. They are regarded with fearful respect, signs are read and still attempts are made to anticipate their decisions that are regarded as inevitable. What if…? Their names: Google and Amazon.

Google, the eye of the needle to be passed through in order to gain access to customers: For smart vendors, Google represents the gateway to success while for ones who are less proactive, it represents the barrier through which they are simply unable to pass. What if Google itself was to become a vendor in the markets in which they are the current gatekeepers and have in-depth know-how of what works and what doesn't? That is the question that has been raised mainly within the sales departments of service providers, including those in the travel sector. A function like *Book on Google* needs to be understood correctly. To date, Google has not crossed the line between intermediation and implementation and, unlike Amazon, is not a hybrid vendor.

Bedfinder, the new international business area of the Hotelplan Group, recognised the trend and has given Google what Google itself does not want to get involved in: the taking and processing of bookings. The strategy could turn out to be entering into promising cooperation with a superior partner: taking hold of the dragon's neck and flying round the world on it.

Amazon is the seemingly unattainable benchmark for online trading in non-food products. One day, the technology-driven market leader may possibly also turn stationary trade upside down. Amazon is already showing how to do things properly in the logistics sector. And a wide range of digital media are simply provided as goodies in the customer loyalty program. What if Amazon was to establish a *real presence* in Switzerland?

Up to now, Amazon has regarded Switzerland as an incidental market, without providing any specific solutions for the market outside the EU, filters for any of the products available in Switzerland, premium logistics or Amazon Prime goodies. Even so, the range of products that can be ordered in Switzerland has grown and Swiss customers are increasingly placing orders. The majority of the participants in the survey are of the opinion that Amazon is growing faster than online trading as a whole in Switzerland.

But there is still an output gap in Switzerland which has sparked a national race. Galaxus, siroop and also ricardo.ch have made major investments. The majority of the survey panel members believes that at least one Swiss player will be able to establish itself as a B2C marketplace – as long as Amazon leaves it alone.

Digital transformation in the accommodation business: The debate on developments within the accommodation business has demonstrated how difficult it is for a sector that is predominantly made up of small businesses and in which there is a lack of role models to grasp and respond to the changes associated with the digital transformation. Misconceptions, excessive demands and a lack of willingness to cooperate give no indication as to how the sector could reorientate itself in the short term. Many of these aspects can be applied to other sectors too.

The excessive demands arose from the overlapping of the consequences of the economic crisis in 2008 and 2009 – primarily the strong depreciation of the euro – and the changing of the sales structure with the emergence of online booking platforms around fifteen years ago. There is a kind of love-hate relationship towards the latter: People would like to use them because they are an efficient acquisition tool but do not want to pay the commission charged.

The misconceptions are the result of a lack of understanding of the consequences of the transparency that the Internet has brought to the market on the one hand. On the other hand, there is a lack of understanding of the fact that the online platforms that have arisen have outclassed direct sales in many situations to such an extent that the question that people should be asking themselves is not how they can avoid cooperation but what is the best form of cooperation to use.

The lack of willingness to cooperate prevents the transparency and coordination of the actors within the sector required in order to develop best practices, achieve efficiency through joint solutions and reduce the risks associated with the unilateral balance of power.

Bischof's motion: Bischof's political motion launched in autumn 2016 is entitled *Prohibition of adhesion contracts imposed by online booking platforms on the hotel industry*. It aims to establish a legal prohibition of restrictive price parity clauses in the contractual relationship between online booking platforms and hotels. It is apparent from the very term *adhesion contracts* that they are not only about objectivity. The term was not clarified during the political debate and has been questionable since mid-2016 when Booking.com – the dominant platform in Switzerland – relaxed its terms and conditions in response to pressure from other European countries.

The motion was driven by the enmity between the accommodation industry and digital platforms. The various opinions of the survey panel members can be summed up by saying that the motive of supporting the pressured sector is shared by many. The Competition Commission is regarded as the right point of contact for assessing disputes on this subject.

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