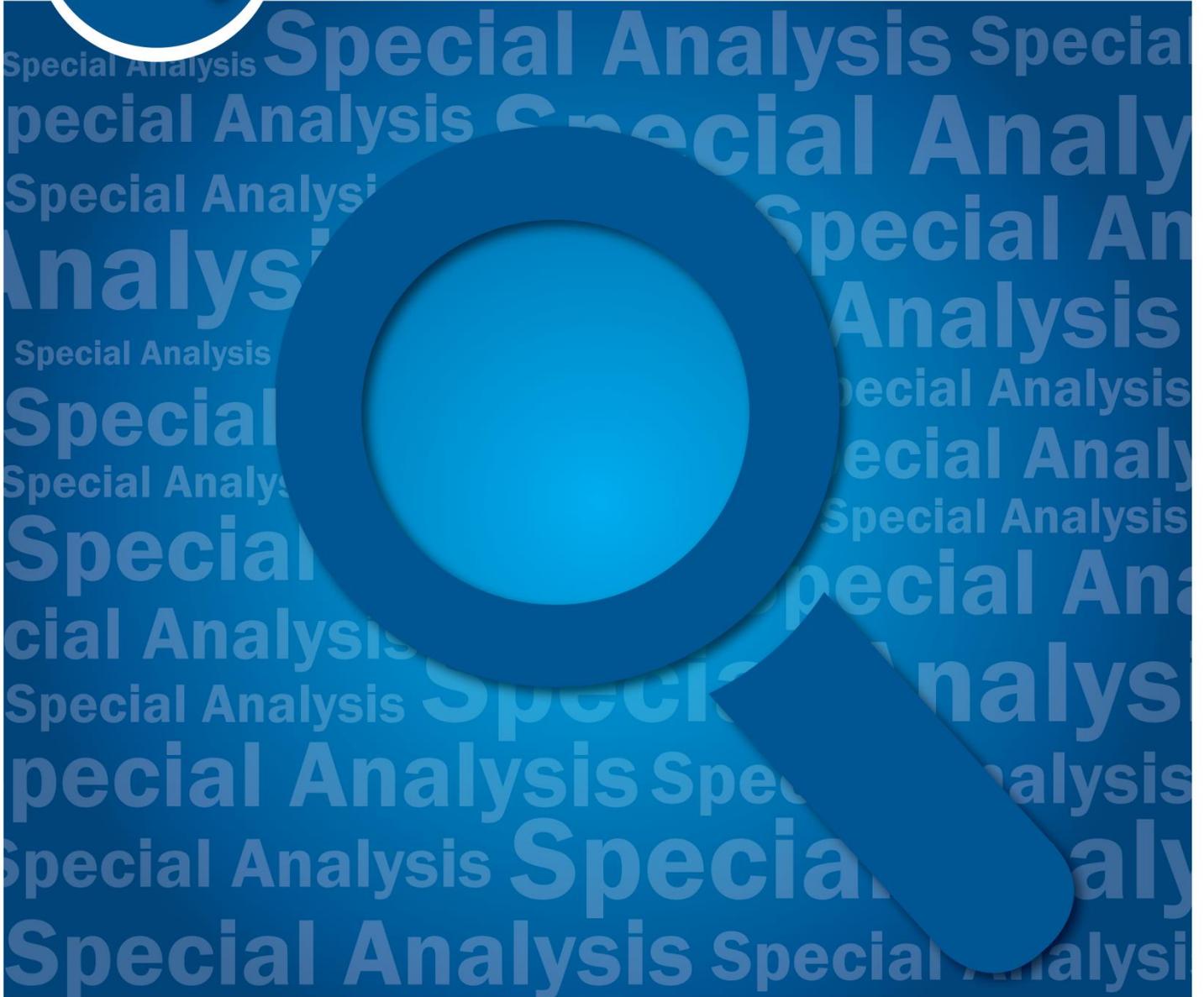




SPECIAL ANALYSIS

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E-commerce: World Trade Online

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Introduction

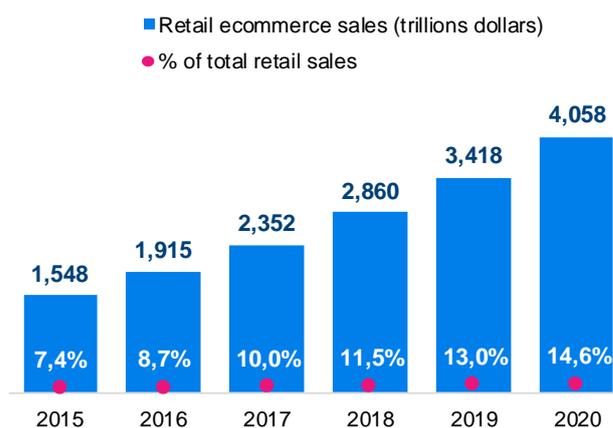
Buying goods and services over the Internet is becoming commonplace, as evidenced by the constantly growing number of people shopping online and the growing sales of online shops. According to estimates of the comparison shopping website Heureka.cz, there are over 36 thousand active e-shops in the Czech Republic. Many of them originated during the economic downturn of the Czech economy after 2008 as a source of additional income for individuals and most therefore still generate turnover in the order of hundreds of thousands of crowns a year. Since 2014 (when there were approximately 37,200), the number of e-shops in the Czech Republic has been declining slightly in connection with market consolidation.

A big trend in the Czech e-commerce sector is merging the boundaries between classic e-shops and traditional bricks-and-mortar shops. Traditional stores are increasingly starting Internet forms of sales, whether due to retaining or expanding the circle of potential customers. Conversely, online stores are building a network of outlets or showrooms where customers can not only collect, but also see and try goods ordered over the Internet. Besides strictly Internet and physical stores, a growing group of traders is thus emerging which is engaged in both forms of sales.

E-shops can be divided into specialized (often medium-sized) businesses for a certain segment and large universal stores. Besides classic e-shops a sector of other Internet services related to Internet sales is also developing, such as mail order or storage locations where it is possible to pick up ordered merchandise, additional delivery services (for example prepared meals or food), price comparison websites, aggregators of supplies of goods and services, "Slevomat", aggregators of shipments and others. For e-commerce seasonality of sales is very typical with Christmas having major significance: usually e-shops make about as much money in the last 4 months of the year as in the previous 8. Recently however, seasonal variations in revenues have slightly blurred because of the way people increasingly buy daily necessities (food etc.) over the Internet. The weakest periods are usually the summer months.

The most common method of payment still remains cash on delivery, but Czech e-shops also offer payments by bank transfer, credit card, quick online payment (the so-called payment button), electronic payment systems (PayPal, GoPay), payment on receipt, in installments or in the form of deferred payment (FerBuy twist). Payment using QR codes is also expanding. On the contrary payment by invoice, which is standard for example in Germany, is rather unusual in Czech e-shops.

Retail Ecommerce Sales Worldwide



Source: eMarketer

Statistics and current developments

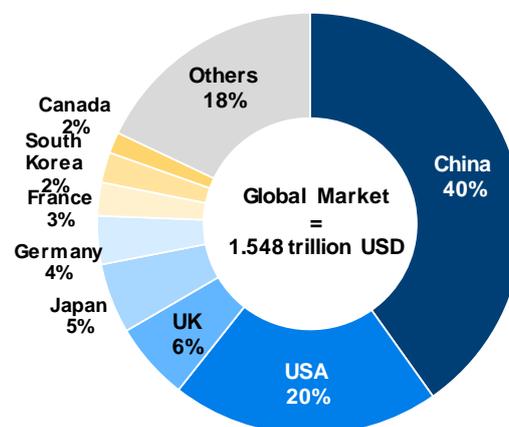
Online shopping is a global and rapidly growing phenomenon. Of the nearly 7.5 billion people in the world, 3.5 billion people use the Internet and over 1.5 billion people shop online.

According to the server eMarketer global online retail sales in 2016 approached the level of 1.9 trillion dollars and by 2020 should double to 4 trillion dollars. Even so e-commerce sales will contribute only 14.6% to total retail sales. The world's biggest online market is China, whose share will also grow in the future. Following it is the online market in the US.

The largest online retailer in the world by a wide margin is the American company Amazon. Other companies from the US and China are ranked behind it.

The largest European online retailer is a German company focused on fashion called Otto.

Retail Ecommerce Sales Worldwide (2015)



Source: eMarketer

Retail Ecommerce Sales Worldwide - TOP10 Online Retailers

Retailer	Total Revenue (bn USD)
Amazon.com Inc.	79.3
JD.com, Inc	27.0
Apple Inc.	24.4
Wal-Mart Stores, Inc.	13.7
Suning Commerce Group Co., Ltd.	8.1
Otto (GmbH & Co KG)	7.2
Tesco PLC	6.5
Vipshop Holdings Limited	6.1
Liberty Interactive Corporation	5.1
Macy's, Inc.	4.9

Source: Deloitte, data as of 2015

The European Union

The Internet and its use in EU member states is very widespread. In 2016 more than 80% of the population aged 16-74 years connected to it at least once a year. It is gratifying that the Czech Republic has improved in this respect and is beginning to be among the developed EU countries.

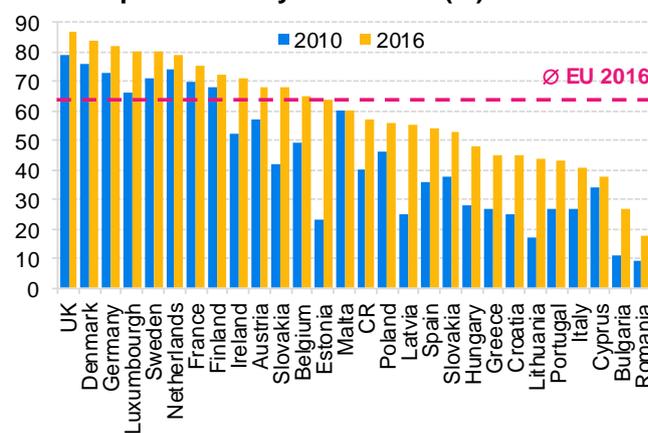
One of the many opportunities that the Internet offers is shopping. In 2016, 66% of all Internet users in the EU utilized this possibility. Nevertheless there are big differences between individual countries - the countries at the top are the United Kingdom (87%), Denmark (84%) and Germany (82%) and at the opposite end and far below the EU average is Romania with a mere 18%.

With 57% the Czech Republic belongs among the below average countries, but it is among the countries with the biggest growth in recent years. The fastest growing age group of Internet users is not surprisingly 16 to 24 years, which only in the past 10 years has increased by more than 20 percentage points to 68% in 2016.

Among the most popular types of goods and services that are traded on the Internet in the member states are clothing and sporting goods (61%); purchases of consumer goods and tickets for various events are also popular. A definite boom is being recorded in the area of food, which is even slowly catching up with the electronics category.

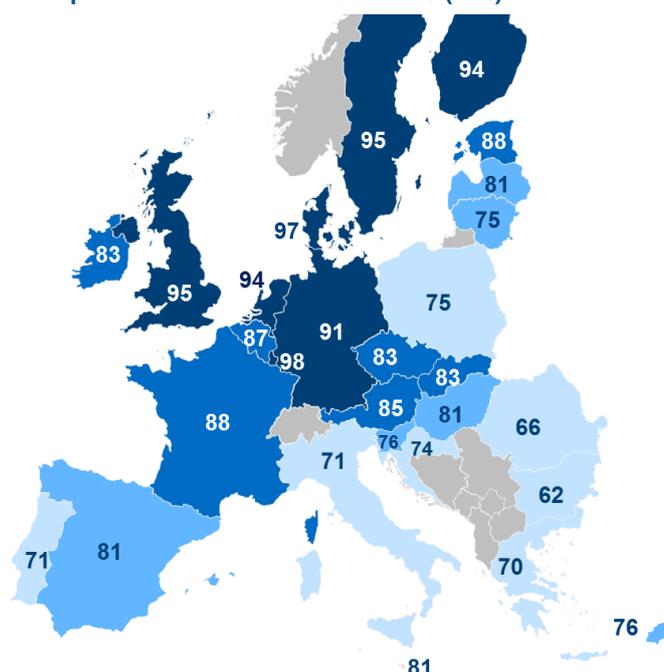
There are not significant differences in Internet shopping between the European Union average and the Czech Republic - except for purchasing films and music – Czechs have simply not yet learned to shop on the Internet for these.

Internet purchases by individuals (%)



Source: Eurostat; % of individuals

Proportion of Internet users in 2016 (in%)



Source: Eurostat

The Czech Republic

The number of Czechs with access to the Internet has been growing in the long term. Compared to 2010, the number of Internet users in the Czech Republic increased by about 15 percentage points and thus got closer to the EU average. Among the economically active, almost all people with higher education and young people under 30 now use the Internet.

The number of households connected to the web is also rapidly increasing. In 2016, 76.1% of all households in the country were equipped with the Internet. In households with children over 95% of people have Internet access.

The popularity of Internet shopping is also growing. According to a CSO (Czech Statistical Office) survey, in 2007 15% of the population older than 16 years had made a purchase over the Internet in the past year, in 2010 the figure was 25% and in 2016 already over 43% (in absolute terms nearly 3.9 million people).

According to a survey by the Association of E-commerce (APEK) only 3% of the active Internet population have never made a purchase online and at least 3/4 of people shop in e-shops at least once a quarter.

The increasing popularity of online shopping is also confirmed by the increasing sales of e-shops. They have been rising continuously since 2001, and with two exceptions by double-digit rates.

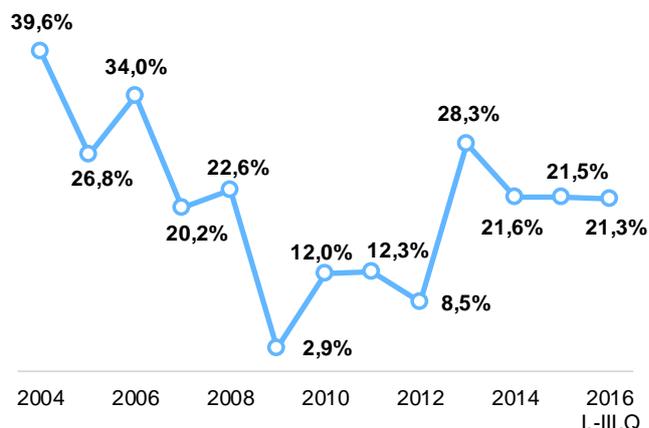
Furthermore, e-shops are one of the few groups of retail businesses which have showed growth even in periods when households began to save due to the worsening economic situation and total retail sales of consumer goods rather stagnated.

According to estimates by APEK, revenue for goods from Internet sales in 2016 in the Czech Republic amounted to 98 billion CZK, which was 21% more than in 2015 (sales of goods and services exceeded 130 billion CZK). Moreover double-digit growth should continue in the coming years according to APEK's estimates.

The share of the online segment in total retail sales already reached 9.5% in 2016. If one subtracts food retailing (which accounts for roughly 40% of total retail sales), the share of revenue realized by e-shops amounted to almost 15%. The popularity of shopping in foreign online stores is also still growing.

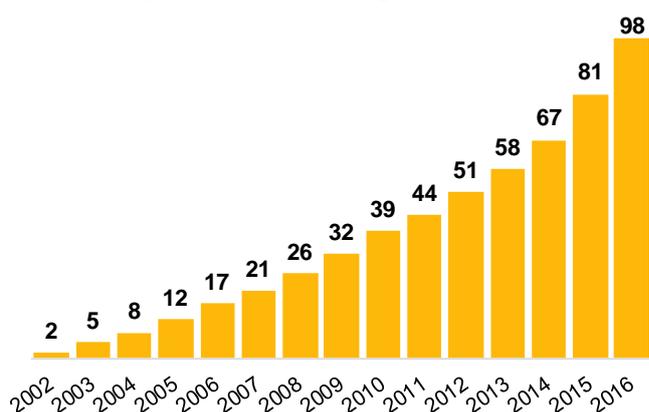
British e-shops are most popular in the Czech Republic, followed by American ones and interest is also increasing in goods from Chinese online stores. For shipments from countries outside the EU worth over 22 euros however VAT must be charged and for shipments over 150 euros duties as well.

Retail sales over the internet or mail order service - increases



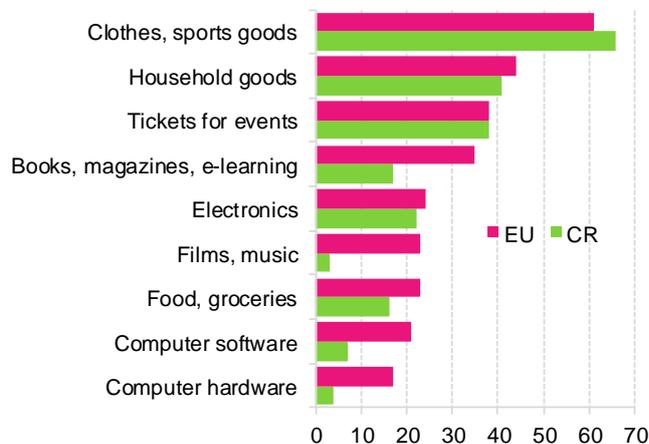
Source: CSO; year on year, at constant prices

Turnover by Czech e-shops - goods (bn CZK)



Source: APEK

Share of individuals who ordered in categories (%)



Source: Eurostat; data as of 2016, % of internet users

Categories of goods and services

The CSO conducts an annual survey of what people in the Czech Republic buy most on the Internet. The survey shows that in 2016 people who regularly shopped on the Internet had the most interest in clothing, footwear, fashion and sports equipment - 66% of shoppers reported that in the last 12 months they bought goods from these categories.

Next in popularity were household items (including appliances) and electronics on which Czechs also spend the most (the estimate is about half the amount of money when shopping on the Internet).

The interests of Czech consumers are also reflected in the offer (selection) of e-shops. A total of 17% of e-shops operating in the Czech Republic are focused on selling clothes, shoes and accessories, followed by online stores offering house and garden equipment and the third most widespread product range is electronics.

Shopping for services over the Internet is also becoming more and more popular. The greatest interest among regular online shoppers is tickets for cultural events, followed by accommodation and the categories of flights, transportation tickets and car rental.

Czechs also utilize popular comparison shopping websites before the actual purchase. They choose according to price, but also on the basis of sufficient information about the product, the availability of goods in stock and shipping methods.

According to the CSO survey 48% of online shoppers use comparison websites always or almost always, 37% of shoppers occasionally and only 14% never or rarely.

The most utilized comparison shopping website is Heureka, followed by Zboží.cz. In the area of fashion however, 30% of searches are carried out via the server Glami.cz.

Methods of payment and delivery

The most popular method of payment and delivery in Czech e-shops remains cash on delivery, although it is gradually losing popularity.

By contrast people increasingly prefer to order goods at a bricks-and-mortar store or outlet and personally pick them up along with payment in cash.

The number of people who pay for ordered goods in advance online is also growing. Delivery time for goods is also being reduced. While in 2002 the average time for delivery of goods from Czech e-shops was still 5-6 days, currently it is about 2.5 days. While most purchases are carried out via computer, ordering through mobile phones is growing rapidly.

A common method is that customers search for goods through a mobile phone and subsequently purchase using a computer.

Trends in e-commerce

Continued growth in sales

Due to growth in the popularity of online shopping and the increasing expansion of e-shops with physical stores, sales in the e-commerce sector will continue to increase, and with similar growth as to date which is over 10% annually. Thanks to this the share of online shopping in total retail sales, which currently amounts to 9.5% in the Czech Republic, will also grow. In addition to traditional online customers senior citizens are also increasingly buying online. They are losing their fears about a new way of purchasing things and have no problem with new technologies.

Expansion of the range of goods, growth in sales of food and other categories

In 2016 the range in Czech e-shops expanded by a fifth and they are increasingly offering goods online that were dominated by bricks-and-mortar stores until recently. Expansion of the range of goods in e-shops as well as the sale of goods that until now have not been sold over the Internet (e.g. furniture, pharmaceutical products, foodstuffs) will also continue in the future.

Linking bricks-and-mortar stores and the online market

The erasure of differences between classic e-shops and physical stores will continue into the future. Merchants who are not yet on the web (even smaller and local ones) will open or develop their e-shops in an effort to maintain or increase their revenues. Existing e-shops will continue building their own distribution points (showrooms), whether as stand-alone stores or in shopping malls.

Optimization of logistics processes and warehouses

The aim of all e-shops is to optimize costs for warehousing and logistics, customize logistical processes for potential rapid growth and accelerate delivery of goods. There is also pressure to improve customer service, especially delivery speed - large e-shops in big cities already offer delivery on the day of the order, on Saturdays and Sundays. At the same time more and more distribution points are being opened (also in connection with mail order or storage), deadlines for returning goods are being extended and other services are being offered (advice, product reviews). Delivery and establishment of distribution points is also being planned at petrol stations and for example tobacconists (trafiky). Supply chain optimization is a particularly important topic for food retailers. Automated (robotic) smart warehouses and logistics will thus play an increasingly key role in storage. Services enabling the storage and delivery process to be completely outsourced are also emerging.

Strong development in mobile e-commerce

With the growing use of smartphones and tablets and confidence in these, interest in buying through these devices is rapidly growing.

Foreign expansion

To maintain the current pace of sales growth it will be key for medium and large e-shops to succeed in foreign markets as well. The natural first objective is Slovakia, followed by Hungary, Poland and Romania, also typically German-speaking countries, Great Britain and the USA.

Market consolidation

Given the large number of e-shops in the Czech Republic and the low profit margins of the small ones in the lower segment, continued market consolidation is expected. Changes in ownership will also occur in medium-sized and specialized e-shops however, which have also become attractive to investors from other areas who see potential in the e-commerce segment.

Personalization of e-shops and data analysis

E-shop personalization allows customers to customize an e-shop according to their wishes, preselecting their favorite categories of goods, current offers and discounts. The online store then uses this for its marketing. E-shops will also be helped more and more by aggregators and analyzers of data about customers, thanks to which they will be able to tailor offers, discounts and additional services.

Retreat from photography

Customers will want to be able to "touch" the product even online. Photos of goods will therefore be replaced by 360° product photography which will show products from all sides, spatial animation or videos. The future is shopping using virtual reality.

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