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THE BOSTON CONSULTING GROUP

THE FUTURE OF SWISS E-COMMERCE

EXECUTIVE SUMMARY

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A study specifically addressing the Swiss market

With a revenue of CHF 8.6 bn, online retail in Switzerland so far only represents approximately 8% of the entire retail sector. However, with a growth rate of 8.5%, the e-commerce sector has last year grown considerably faster than the stationary or offline trade, which increased by only 0.1% during the same period. Currently, the online share in the Swiss market still differs strongly by category. For instance, within the overall trade of the 'Books and Media' and 'Consumer Electronics' sectors, the online share registered above 40% by the end of 2017. In the 'Food Products' and 'Cosmetics' sectors, on the other hand, the share was significantly smaller. Compared to international standards, Switzerland is positioned midfield. For example, the online share in Great Britain across all categories was 15% on average, whereas in Switzerland it was at just 8%.

Swiss reports on e-commerce in Switzerland consistently foresee a growth of 9 – 12% per year. By 2020, online trade could thus account for between 30 and 40% of the total absolute growth in the retail sector. In several aspects, the Swiss market has its own dynamism and the media and retail practitioners are actively discussing a set of hypotheses which will prove to be decisive for the future of Swiss retailers. Will the physical business effectively remain the main starting point for the shopping journey of Swiss consumers? Will the Swiss retail trade lose the battle against global players like Amazon? Is the Swiss customer in principle not open to a stronger personalization? The debate about these questions is only partly based on facts. Instead, it is often driven by concerns and a pessimistic assessment of the situation.

BCG has examined the most widespread myths around e-commerce more closely. For the study, BCG surveyed over 1,000 consumers in both Switzerland and Germany, interviewed >30 e-commerce experts and analyzed Google search data and existing studies. The combination of these different lenses of analysis has led to a series of new insights.

Myth 1 | The physical store remains the main starting point in the shopping journey of Swiss customers

Already today, 60% of surveyed Swiss customers begin their shopping journey online (Exhibit 1). This is the case when they either actively search for a product or service, or directly purchase goods online. Online searches are particularly prevalent, e.g. in the category 'Consumer Electronics', with 83%. But even in the food sector, where only a small portion of revenue is made online, already 33% of consumers start their journey online via research.

Exhibit 1 | Where are customers starting their journey?

Source: BCG E-Commerce Survey 2018

More than 60% of Swiss consumers today begin their search online, and mostly start on common search portals like Google, Bing, and Yahoo. In contrast to German customers (8%), the Swiss are considerably more likely to visit the respective companies' websites when searching for information (13%). Furthermore, Swiss consumers read significantly less online reviews (7%) to obtain information than German consumers do (15%). While Social Media plays a comparatively small role for online research, it is rapidly gaining in significance amongst younger populations (born 1980 and older). Also social commerce – an online purchase is being initiated via a social media link – occurs ever more frequently amongst Millennials. That the significance of Social Media as a relevant factor for e-commerce is bound to increase further is reflected in the search volume for YouTube videos. Here, a clear increase in search queries with direct correlation to purchase decisions can be observed. For instance, search queries with the word "buy" have increased by as much as 38% from 2015 to 2017.

Conclusion on Myth 1: Weakened

Already today, the physical store is no longer the main starting point in customers' shopping journeys in most categories. The trend of customers starting their journey online will continue to intensify. This however contradicts the status quo of traditional retailers, who continue to put physical business and client experience in the forefront of their business practice. Instead, retailers have to expand and professionalize their online presence and online marketing. To this end, a fundamental change in companies' mindsets needs to be initiated, to further align their energy and focus with the online channel.

Myth 2 | A seamless integration of all channels as part of Omnichannel retailing is the future

So far, only few retailers have solved the challenge of seamlessly connecting the customer experience across various channels (Exhibit 2). Pitted against this are ever more flexible, mobile customers who, along their shopping journey switch channels as well as devices, nevertheless expecting a harmonious, bespoke purchasing experience. The BCG study shows that Swiss customers already expect a seamless link of channels today. More than 70% of Swiss respondents want the same prices, a consistent range of products, and use of common Omnichannel services such as 'Click & Collect' or in-store returns of online purchases, regardless of the channel or device they used to shop (Exhibit 2). With German customers, these expectations are at only 60% not quite as high.

Exhibit 2 | What are today's customer expectations regarding an Omnichannel shopping experience?

	Same price	Same offer variety	Omnichannel services, such as return & pick-up at the point of sales
Switzerland	75%	73%	71%
Germany	59%	63%	60%

Source: BCG E-Commerce Survey 2018

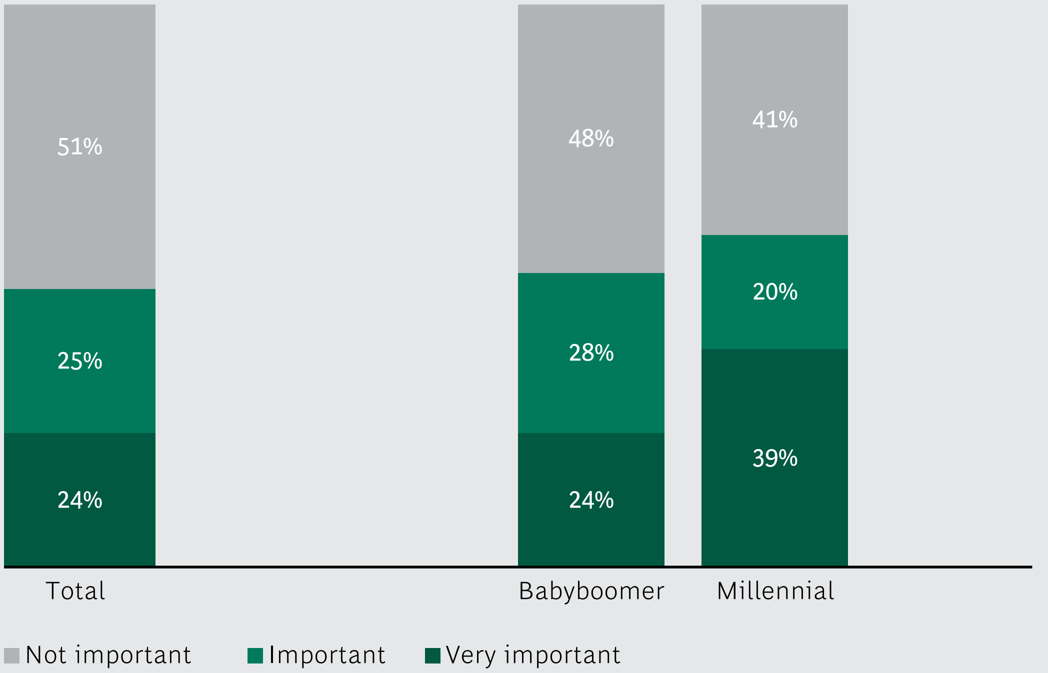
Conclusion on Myth 2: Strengthened

Today, more than 70% of Swiss customers expect the online and offline shopping environments to be seamlessly connected. Because progressively more customers use the online channel in direct relation with the offline experience in the store. The channels must therefore present a uniform customer experience and present a consistent offer no matter which channel the consumer chooses to engage with. Swiss retailers need to move this issue to the top of their agenda now, and required is, above all, a better understanding of customer journeys. Moreover, investments into Omnichannel competences and infrastructure must be made.

Myth 3 | Mobile will overtake desktop as the main device and will become the dominant form of E-Commerce

Herein a clear generational difference becomes apparent. Nowadays already almost 50% of Millennials use their smartphones as often as their desktop for their online purchases. Baby boomers, on the other hand, shop online mainly (62%) via their desktop PCs. Only just 10% make their purchases via smartphone. This divide will grow larger over the coming years. When asked about the planned shift in usage behavior concerning online purchases, over 40% of Millennials declared they want to handle their purchases primarily via smartphone. The majority of Baby boomers stated they will continue online shopping via their laptop or desktop PC.

Exhibit 3 | What significance do personalized product offers and product suggestions have?



Source: BCG E-Commerce Survey 2018

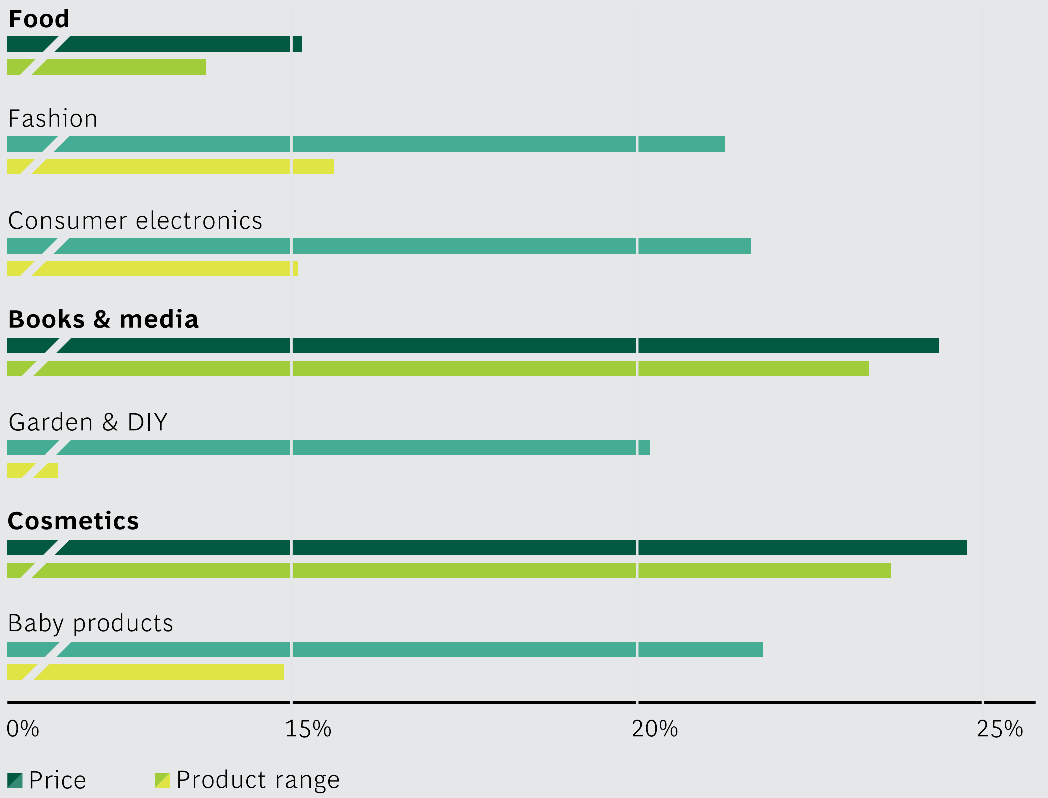
Conclusion on Myth 3: Strengthened

Baby boomers will continue to transact their online purchases primarily via laptop and desktop PC. However, in the future the next generation will use their smartphones for online purchases even more than they have done up to now. To account for this generational shift, retailers have to prepare themselves with further investments into their mobile solutions and adopt a clear 'Mobile First' strategy.

Myth 4 | Swiss customers are concerned about data security and have no desire for personalization

Nearly 50% of Swiss respondents desire a personalized offer. These are offers tailored to the customer's specific requirements, like product recommendations or discount coupons based on their personal shopping history (Exhibit 3). Among Swiss Millennials, the topic is indeed important to roughly 60% of respondents. At the same time, Swiss customers are concerned about data security. But they are less worried than German customers that their data could be misused or not used in their best interest. What's more, German customers described personalization far less often as important.

EXHIBIT 4 | What criteria are relevant for shopping abroad?



Source: BCG E-Commerce Survey 2018

Conclusion on Myth 4: Weakened

Swiss customers want to use personalized offers when shopping. Nonetheless, they are concerned about the security of the personal information they need to disclose to allow for such personalization. But the Swiss know there is no guarantee for absolute security. The right approach for retailers lies therefore in a consistent personalization of their offer. This must correlate with a maximum of granted transparency, e.g. by giving customers insight at all times as to what happens to the data they choose to share. Lastly, customers should also be enabled to manage their stored data themselves if needed. What this could mean is offering customers an option to choose between various degrees of personalization, depending on how much data they want to share.

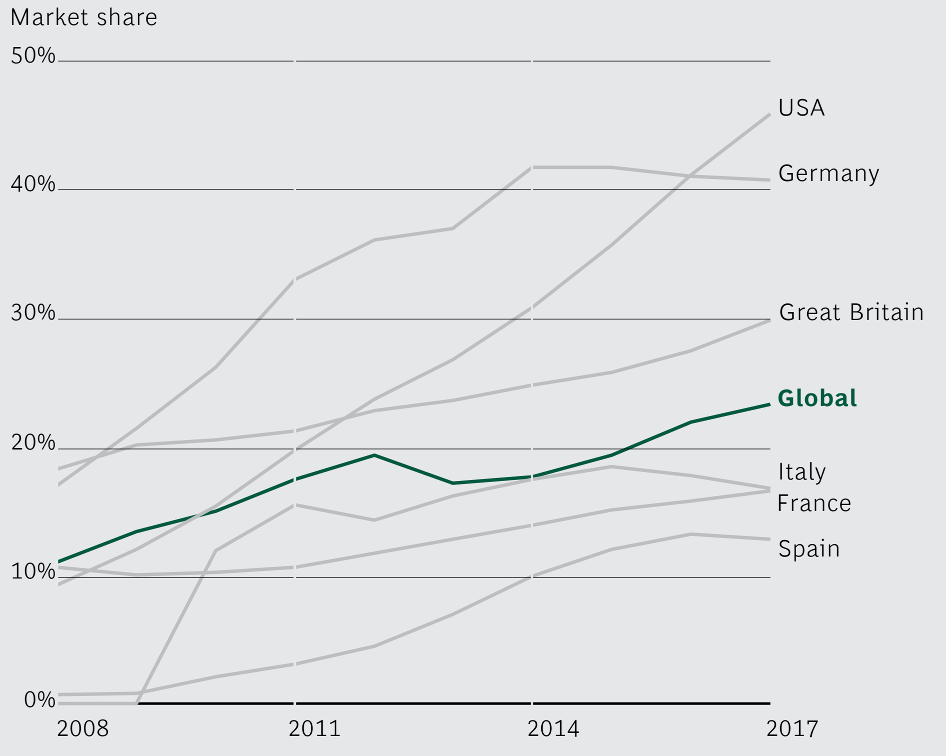
MYTH 5 | LOWER PRICES ARE THE MOST IMPORTANT DRIVER OF CROSS-BORDER E-COMMERCE

The cross-border trade is very important in Switzerland. In 2016, buyers on Swiss territory already spent CHF 10 bn on purchases abroad. For online cross-border trade, 'Books and Media', 'Fashion', and 'Baby Products' were purchased most frequently. Against the common belief that price is the dominant driver, the study finds that for a number of categories price alone is no longer the main reason for purchasing abroad.

Conclusion on Myth 5: Weakened

Price is still the most relevant factor determining why a customer purchases a product from abroad online, but other factors are increasingly playing a role as well. Thus, in the sectors 'Food Products', 'Books and Media', and 'Cosmetics', consumers pay similar attention to the variety and breath of the product range (Exhibit 4). Retailers must therefore focus on establishing a relevant product range, particularly in categories in which consumers already shop mostly online, to counter the migration of customers abroad.

EXHIBIT 5 | How high is the market share of Amazon in other countries?



Source: Forrester 2018

Myth 6 | with the market entry of Amazon, market places will take massive market shares from Swiss retailers

In Switzerland, online marketplaces like Zalando and Amazon still play a subordinate role. According to the BCG study, about 40% of Swiss respondents still prefer to shop at online specialty stores like Migros or Coop. Merely 18% buy products via online marketplaces, compared to more than 50% in Germany. Furthermore, the international comparison shows that Amazon entering the market has quickly led to a significant shift in market structure and customer behavior towards marketplaces: since Amazon's market entry, consumers in the US, Great Britain, or Germany are purchasing substantially more products via Amazon's online portal (Exhibit 5).

Conclusion on Myth 6: Development still open

Amazon's 'market entry' through the cooperation with Swiss Post will significantly change the importance of online marketplaces in Switzerland. But this does not necessarily have to lead to a displacement of Swiss retailers - retailers have the opportunity to position themselves as an alternative to the global player. That this challenge can be met is demonstrated by successful examples like FNAC, Sephora, or Wayfair. To ensure success however, local players must be able to demonstrate a customer-relevant unique selling proposition (USP). This could be a focus on a superior customer service as with FNAC, a stringent focus on personalization and customer retention as with Sephora, or an inspiring, diverse range of products combined with expertise in neat logistics for furniture, as with Wayfair.

'Call to Action' – what each retailer now has to do

The results of this study show that – especially in the three areas of Omnichannel retailing, personalization, and defense strategy against Amazon and other online marketplaces – there is an acute need for action for Swiss retailers. In the first area, Omnichannel retailing, retailers need to develop a deeper understanding of the customer journey and increase their Omni-channel competencies. Relevant silos within companies must be removed and the required IT infrastructure must be established. In the second area, personalization, retailers should aim for a specific 'Swiss Way' when developing their capabilities towards a more personalized offer. This can cover the creation of transparency and the possibility of offering various options concerning data usage, from which customers can select their preferred solution, based on resulting personal benefits. In the third area, the defense strategy against Amazon and other online market places, retailers should clearly define and consistently implement their unique selling propositions compared to Amazon and other global providers, for instance in customer service and customer retention, in the presentation of offers, or in (specialized) logistics.

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