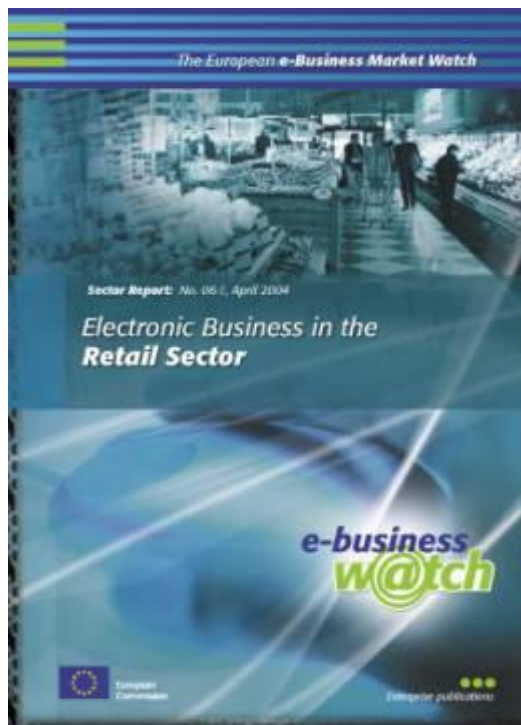




The European e-Business  
Market Watch



## *Electronic Business in the Retail Industries*

 **DATABANK CONSULTING**

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An initiative of the



**European  
Commission**

# The retail industry at a glance

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- **Operational definition**

- Non specialised stores, predominance of food (Nace 52.11)
- Non specialised stores predominance of non food (Nace 55.12)
- Specialised stores of new goods (52.4):
  - clothing, shoes, leather goods
  - furniture and lighting
  - household appliances
  - radio-TV
  - hardware
  - glass books
  - newspapers
  - paper goods
  - others

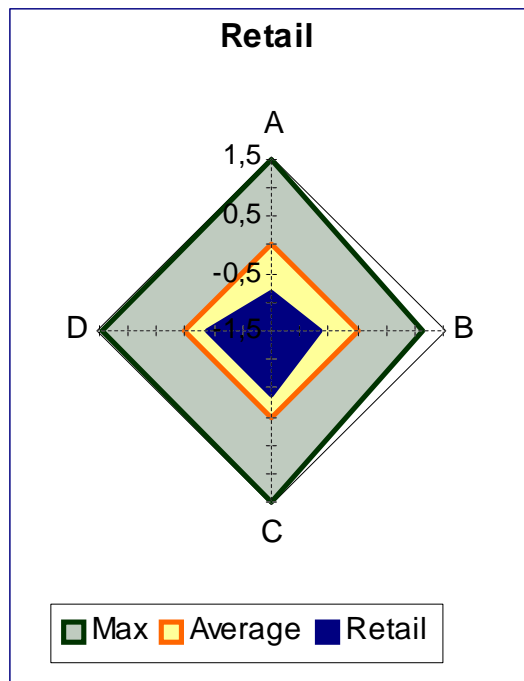
# The retail industry at a glance

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- **Key figures about the EU market size**
  - Employees: 13 million in EU-15 2003 and 900 000 in 8 new member States (year 2000)
  - Production value: more than 600 bn €, about 5% from new member States
  - Value added: 328 bn € in EU-15 2003 and 11bn € in 9 new member states
  - Productivity (a.v. per employee): 25,000 € in average in EU-15 2003 and 4,800 in average in the new member states
  - Structure: 96% of firms employ less than 10 people, but 78% of employment is equally distributed between micro firms (40%) and large firms (38%)

# Main electronic business objectives

- **The use of e-business is far from being a pervasive reality**



Max

= maximum indexed value for one of the 9 sectors

Average = mean value for the 9 sectors

#### Categories

- A) Connectivity of enterprises
- B) Internal business process automation
- C) Procurement and supply chain integration
- D) Marketing and sales

- » **Use of e-business far from being a pervasive reality**
- » **Retail perform better in e-business than in internal business process automation or in connectivity**
- » **38% of employees in the EU-5 work in firms e-procuring**
- » **17% of employees in the EU-5 work in firms selling online**

# Main electronic business objectives

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- **E-business in the retail industry**
  - 80% of employees in the EU-5 work in firms that have access to the Internet
  - SMEs are significantly involved in the e-procurement activity
  - E-procurement is more diffused among non-food retailers, but intensity of e-procurement is higher for the food retailers
  - food retailers prefer the EDI and the extranet platforms, non-food retailers prefer the Internet based platforms (marketplaces and websites)

# Main electronic business objectives

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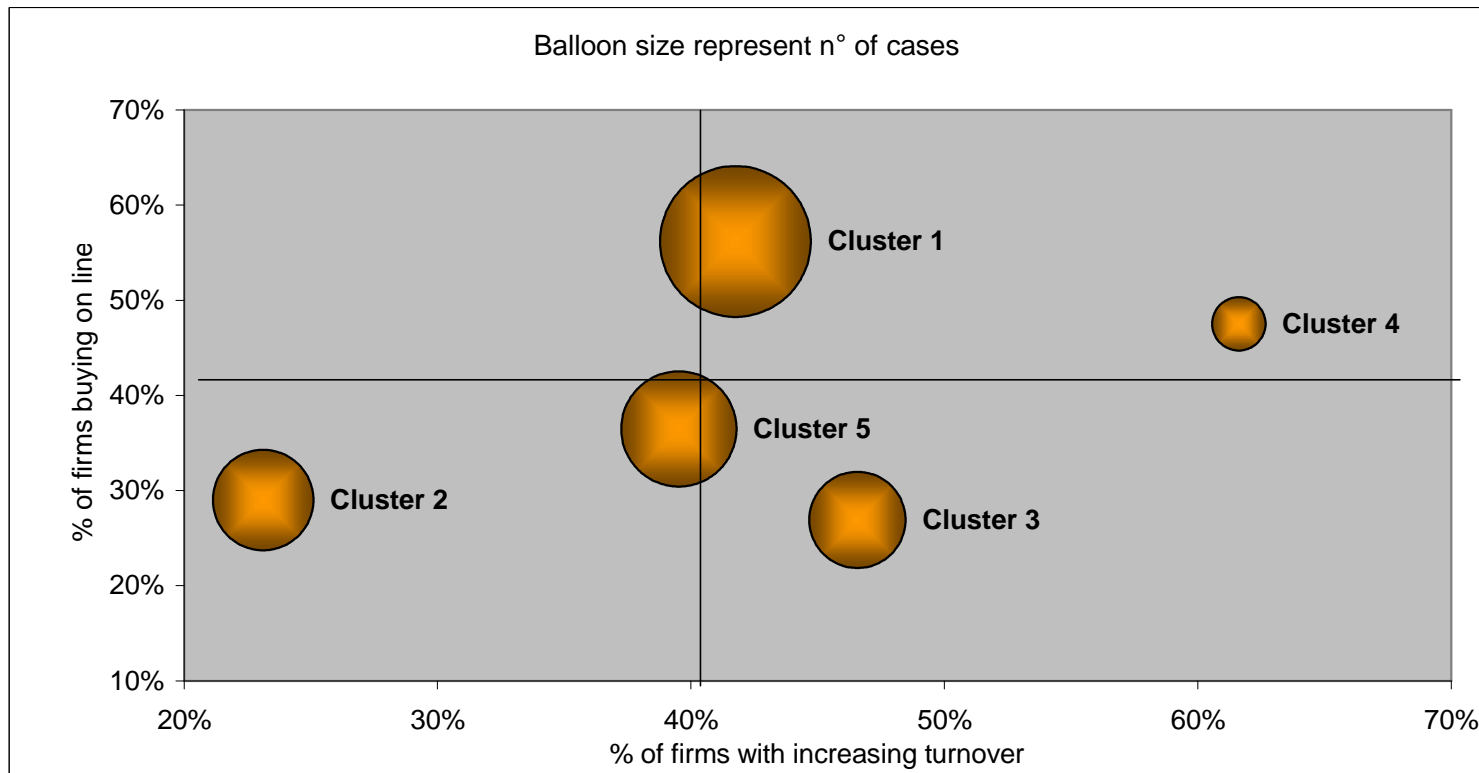
- **IT integration with suppliers is supported by less sophisticated technologies**
  - IT system integration with suppliers is more advanced in the food sub-sector
  - online technologies to exchange documents (34% of retailers and 42% of employment)
  - IT system integrated with that of suppliers for placing orders (38% of retailers and 30% of employment)
  - supply chain management system are not significantly diffused (5% of firms and 5% of employment)

# Main electronic business objectives

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- **The main objectives that companies try to achieve by using ICT & e-business in the retail industry**
  - Savings in procurement costs: perceived by 44% of the firms and mostly by food retailers
  - Improvement in relations with suppliers: 42% of the firms and mostly by food retailers
  - Improvement in internal business processes and savings in logistics and inventory are perceived by about 30% of the firms with equal frequency in the food and non food sub-sectors
  - Retailers with a good performance, located in countries with high level of productivity will have a high propensity to use e-procurement

- Retailers with a good performance will have high propensity to use e-procurement



- Cluster 1: medium-high e-procurement, good performance, Northern countries, medium-high e-commerce, households' goods
- Cluster 4: medium level of e-procurement, very good performance, low e-commerce, households' goods
- Cluster 5: medium-low e-procurement, medium performance, low e-commerce, households' goods and presence of food
- Cluster 2: low e-procurement, negative performance, medium level of e-commerce, non durable goods and food
- Cluster 3: low e-procurement, medium performance, low of e-commerce, non durable goods

## Case Study: Centralia (Italy)

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- **Small firm (40 employees) located in Northern Italy, started its activity thanks to the initiative of Confcommercio**
  - Facilitator of food purchasing processes for restaurants, hotels, caterers and independent food retailers
  - Its mission is to reduce the purchasing costs of food retailers
  - The firm is fully based on web technology
    - The website or a call centre collect orders from retailers
    - Orders are delivered to the retailer point of sale by Centralia
    - Centralia catalogue include 4000 references grouped in 172 categories, count on 90 suppliers and serve 1600 customers
  - Independent retailers take advantage from an integrated supply system without planning important investments
  - Small retailers take advantages from significant saving costs of purchases

# Business implications

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- **Conclusions**

- The structure and the competitive evolution of the retail industry create a high potential for ICT use:
  - e-business is favouring the vertical integration of the operators aiming to accelerate supply flows and to offer better customer service
- But: assessment of e-business diffusion suggests that ICT is a secondary consideration (among all company size-bands)
- Only a minority of firms believe that e-business modifies their methods of conducting business
- Costs savings and profitability gains are the e-business driving force
- Online sales
  - are a low percentage of total sales, also for large retailers
  - but the online channel is an important tool of the marketing strategy

# Business implications

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- **Opportunities**

- **Profitability (costs savings and productivity gains) is a major condition for setting up ICTs – but for the moment ICTs seem not profitable enough**
- **Increasing information about the market and the customers: ICTs may help developing the customer-supplier relationship by increasing the information content and by improving the market relationship (customer loyalty)**

- **Challenges**

- **Increasing awareness of the e-business impact**
- **Economic return of investments: SMEs are usually not in a position to plan investments from a medium or long term perspective.**
  - The perception of the continuous system and technology upgrades may favour stand-by solutions

# Policy challenges

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- **Promote the standardisation of computer languages used for the integration of supply chain management:**
  - non standardised operational practices and the rigid separation of the traditional roles of manufacturers and retailers threatened to block the supply chain integration
- **Dismantling e-business barriers for SMEs:**
  - initiatives aimed at optimising hardware and technology investments and infrastructures in general, for example
    - promotion and coordination of technology buying groups
    - advice and consultation on the implementation of e-business
    - promoting awareness for technology and e-business impacts