CONSUMERS INTERNATIONAL
COMING TOGETHER FOR CHANGE

WORLD CONSUMER RIGHTS DAY 2018 BRIEFING: E-COMMERCE BACKGROUNDER

MAKING DIGITAL MARKETPLACES FAIRER

WHAT IS E-COMMERCE?

For consumers, e-commerce means being able to buy anything from clothes, music and films, to gadgets and groceries online; booking and paying for transport, accommodation; or buying tickets to events. In just a couple of decades it's opened up a vast array of choice in products and services; all available from a connected device that can be used anywhere, anytime.

For policy makers, 'an e-commerce transaction is the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders.' [1]" e-commerce can be business to business (B2B), business to consumer (B2C), consumer to consumer (C2C) or peer to peer (P2P).

Consumers' needs, wants and views have played a central role in shaping e-commerce. Consumers can respond directly to companies through social media and reviews, aggregating demand with such ease that new services can enter the market relatively quickly and cheaply. Through these new means of participation, consumers are shaping the economy in ways that couldn't be imagined when the first secure transactions took place in the mid-1990s.

In some countries, particularly for younger consumers who've grown up with the internet, the distinction between online shopping and in person is less clear. Major high street brands have developed online offers alongside physical shops, with services such as 'click and collect' (in which consumers pay and reserve items and then collect in store) blurring the line between shopping on and offline. For many consumers, e-commerce is increasingly just shopping, with distinctions like P2P, C2C and B2C meaning very little.

Along with benefits, e-commerce raises key issues for consumers such as: access to fair and secure markets, being sure there is redress when things go wrong, and being exposed to scams and fraud.

1 'Glossary of Statistical Terms: Electronic Commerce', OECD, 2002

THE E-COMMERCE MARKET AROUND THE WORLD

The percentage of the world's population with access to the Internet has grown from 1% in 1995, to almost 50% in 2017.[2] During the same time frame, e-commerce has grown at a dizzying pace. In 2016, an estimated 1.61 billion people worldwide purchased goods online.[3] In 2016, global e-commerce sales amounted to 1.9 trillion U.S. dollars and projections show a growth of up to 4.06 trillion U.S. dollars by 2020.[4]

The explosion in smartphone ownership has meant that more transactions are via mobile. The number of smartphone users is forecast to grow from 2.1 billion in 2016 to around 2.5 billion in 2019.[5] Just over 36 percent of the world's population is projected to use a smartphone by 2018, up from about 10% in 2011. Broadband subscriptions on mobile phones are 34 percent of global mobile phone subscriptions, and have tripled since 2008.[6] Most of these users are in developing countries where mobile is the primary connection to the internet. For example, 40% of Nigerian digital consumers are mobile only.

According to a March 2016 study[7] 46% of internet users in the Asia Pacific region and 28% of those in North America had purchased products via a mobile device, whether through smartphone or a tablet computer. As of the fourth quarter of 2016, desktop PCs still accounted for the majority of global e-commerce orders but, smartphones are the number one way that consumers visit retail websites (not necessarily always to buy). During a 2017 survey, 11% of online shoppers stated that they shopped online via smartphone on a weekly basis.[8]

2 'World Internet Usage and Population Statistics', Internet World Stats, 2017
3 'Number of Digital Buyers Worldwide from 2014 to 2021', Statista, 2017
4 'Online-Shopping and e-commerce Worldwide', Statista, 2017
5 'Number of Smartphone Users Worldwide from 2014 to 2020', Statista, 2017
6 'Global ICT Developments', ITU Statistics, 2014
7 'Mobile Shopping Penetration Worldwide', Statista, 2016
8 Digital Shopping Device Usage and Frequency World wide', Statista, 2017

For consumers, much e-commerce entails buying directly from a business. This is known as B2C (business to consumer). However, a growth in sites such as eBay, Mercadolibre, Rakuten, Kaymu, Craigslist and Amazon Marketplace which act like hugely scaled up versions of classified adverts, allow consumers to buy and sell directly to other consumers. This is known as consumer to consumer, or C2C e-commerce. These platforms earn their money mainly from small fees charged to sellers and often provide a secure and convenient payment method – whether it's facilitating cash on delivery or providing a secure payment platform.

Peer to Peer (or P2P) ecommerce is a type of C2C ecommerce, more closely associated with services like AirBnB, Tujia or Uber which has gained a lot of attention because of the way it is disrupting industries.

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REGIONAL AND COUNTRY VARIATION

The way in which e-commerce has developed in different regions and countries has varied according to multiple factors. The United Nations Conference on Trade and Development's (UNCTAD) B2C e-commerce Index 2016[9] measures 'e-commerce readiness.' The index is composed of four indicators: Internet use penetration; secure servers per 1 million inhabitants; credit card penetration and a postal reliability score.

Luxembourg is ranked as the top performer. Among the top 10 economies, six are European, three are from the Asia-Pacific region and one is from North America. Among developing economies, three high-income economies – Republic of Korea, Hong Kong (China) and Singapore – rank the highest, followed by several Gulf States. Uruguay is the top performer in Latin America and the Caribbean. At 61st place in the Index, South Africa is the front-runner in e-commerce readiness on the African continent.

9 'B2C e-commerce Index 2016', UNCTAD, 2016

GLOBAL COMPANIES: USA AND CHINA

E-commerce is dominated by a relatively small number of global companies, but there is significant difference in terms of which companies dominate where. This further contributes to the regional variations in the way in which consumers experience e-commerce.

The biggest internet platforms in terms of market value are from the USA, with Apple, Google, Amazon and Facebook taking the four top spots. This is changing however. Chinese companies Alibaba, Tencent, Baidu and JD.com are catching up. Unlisted company Huawei is bigger than Baidu and Tencent in terms of revenue, pulling in US$75.10 billion in 2016.[10] These companies completely dominate the Chinese market and operate globally. For example, Alibaba has shaped the way e-commerce payments are made in China through its escrow payment system, Alipay. Alibaba processed 175,000 transactions per second on the peak time of “Singles’ Day” in 2016. At the end of the day the number of orders processed totalled 657 million.[11]

The growth in Chinese companies has been aided by the failure of major US platforms to take off in China. Amazon has just 0.8% of e-commerce market share in China, eBay failed and withdrew, and PayPal accounts for just 0.0001% of China’s e-commerce transactions. Facebook, Twitter and Snapchat are all banned in China.

These big Chinese companies look certain to continue to overtake their American rivals, due to the sheer size of the Chinese market, and its potential for growth. In 2016 there were already 702 million Chinese consumers online, compared to 264 million US consumers. There remain a further 676 million Chinese consumers yet to connect, compared to 59 million offline in the USA.[12]

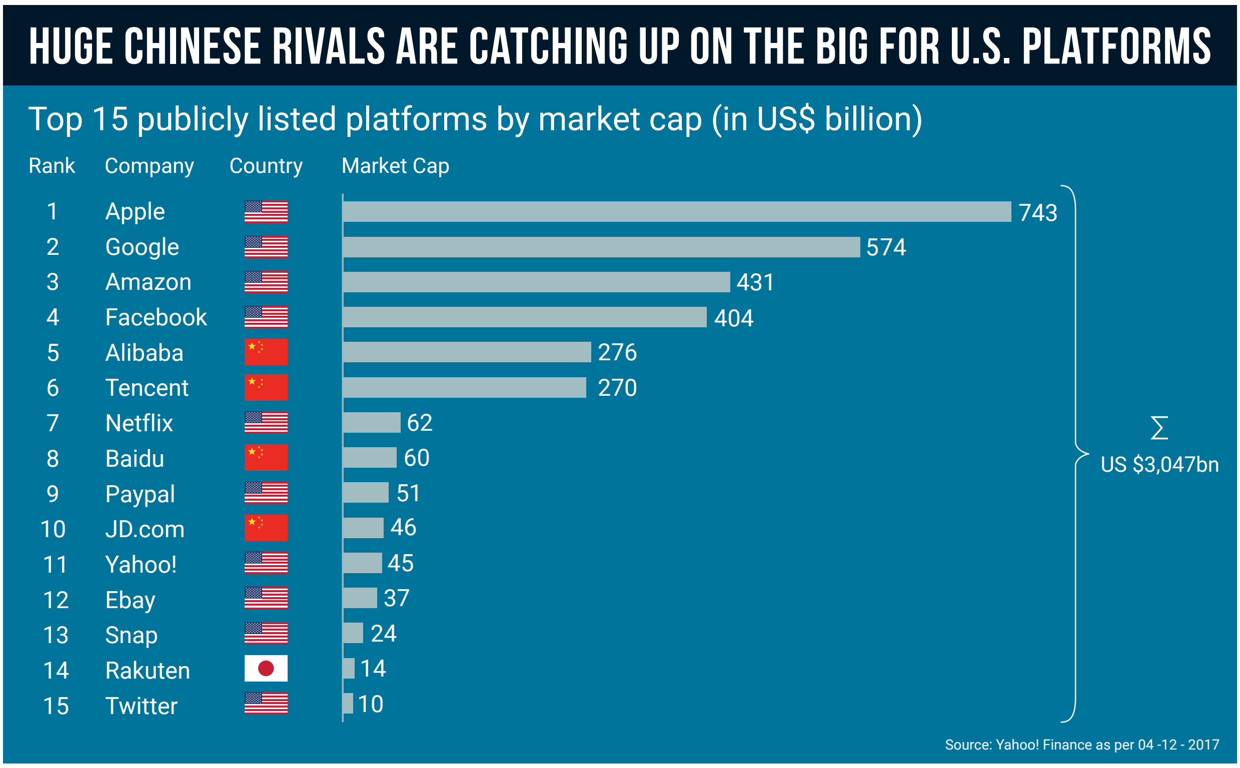

Figure 1: Top 15 publicly listed platforms by market cap
Source: Yahoo Finance, cited in Digital Economy Compass, Statista, April 2017

10 Digital Economy Compass, Statista, April 2017

11 ‘Alibaba Sees Record-Breaking Sales of $17.8 Billion on Singles Day’, Multi-Channel Merchant, 14/10/2016

12 Digital Economy Compass, Statista, April 2017

CROSS-BORDER E-COMMERCE

Cross border e-commerce is growing. Over half of online buyers worldwide already make purchases across country borders.[13] On the whole however, consumers continue to prefer buying from within national borders. In a 2017 survey of 24,225 Internet users in 24 countries by CIGI-Ipsos, 55% indicated that they prefer purchasing online goods and services made in their own country.[14] **Even** within the EU, with a common body of law, there is notably less confidence among consumers about e-shopping across borders (38% felt confident in 2014) than about shopping within their member state (61%).[15] In 2014, only 15 % of consumers reported buying goods or services via the Internet from other EU countries while 44 % bought from national sellers or providers.

Growing cross border e-commerce is seen by national governments as important for economic development. Connecting producers in poorer countries with consumers in richer countries has clear benefits for boosting trade. There have been recent proposals to the World Trade Organisation (WTO) for new rules covering e-commerce which have attracted controversy. Critics argue that WTO rules may be more beneficial to current globally dominant companies than to developing countries or to consumers. See Consumers International's recent blog for more.

LACK OF TRUST IN E-COMMERCE

With half of the world's population not online, access is the biggest barrier to e-commerce for consumers. Once online, there are clear benefits for consumers from e-commerce. Respondents to the recent CIGI-Ipsos online survey of 24,225 internet users in 24 countries listed saving time, convenience, ease of use, flexibility of prices, a wide range of choices, and the ability to buy items they can't get elsewhere as the driving factors for shopping online. In the same survey however, 22% of online respondents said that they never shop online. Of these 22%, 49% of these said gave lack of trust as the reason.[16] As figure.2 shows, lack of trust is highest in the Middle East, African and Latin American countries.

What contributes to this lack of trust? The consumer experience of shopping online is affected by numerous local factors including telecommunications infrastructure, available payment systems, the state of consumer protection, which companies are dominant and more. It is possible however, to identify some common issues that consumers encounter that can make them unable or reluctant to shop online. These range from unclear and confusing business practices to outright scams and cybercrime. Lack of redress when things go wrong can also undermine trust.

Figure 2: Lack of trust as a barrier to shopping online. Source: 'Global Survey on Internet Security and Trust', CIGI-Ipsos Global Survey on Internet Security & Trust, 2017

13 'Global Cross-Border B2C e-commerce 2017', PR Newswire, 07/06/2017

14 'Global Survey on Internet Security and Trust', CIGI-Ipsos Global Survey on Internet Security & Trust, 2017

15 'Consumer Conditions Scoreboard', European Commission, 2015

16 'Global Survey on Internet Security and Trust', CIGI-Ipsos Global Survey on Internet Security & Trust, 2017

COLLECTION AND USE OF DATA

Concerns about their data can contribute to lack of trust in e-commerce for consumers. In a 2017 KPMG online shopping survey of more than 18,000 consumers in 50 countries, 41% of respondents said that having control over how their personal data is used was more likely to make them trust a company, especially in North America, Europe and South Africa.[17]

Data is a key asset in the digital economy. There is great potential for consumer data driven services to deliver innovative services that help consumers make decisions, or save money and time. Yet companies have largely shaped the context in which it is collected and used. Security and privacy concerns and lack of trust in organisations' motives will limit the benefits of personalised services if trust, confidence and control are not built in.

Many countries, especially developing countries, do not have laws or regulations concerning data protection and privacy thus leaving consumers completely unprotected in the face of breaches of privacy. According to the UNCTAD Global Cyberlaw Tracker, 57% of countries have data protection and privacy laws.[18]

In the European Union strong new privacy laws will come into force in 2018 in the form of the General Data Protection Regulation (GDPR). Stronger proof of consent will be needed to collect data and consumers will have to be informed immediately about security breaches. Data will need to be more portable so that consumers can switch services. And consumers will have the right to be forgotten by asking for data to be erased. See the recent Consumers International blog on the international challenges and opportunities that the new legislation presents.

Consumers are left in the dark when it comes to how their data is collected, stored and shared. Even if information is shared it can often be written in complicated technical language that makes it hard for people to understand. Also, the prevalence of disclosure and consent models leaves consumers with little opportunity for control or understanding. Services provided free of charge still involve a transaction – in this case your data and information.

CONCLUSION

E-commerce has transformed the way in which many of us shop, although this has happened differently and to varying extents in different countries. The key challenges to overcome to make e-commerce work for consumers, are access and trust. Governments, companies, consumer groups and other stakeholders need to work to address these challenges. This may involve developing practical solutions together that work for consumers. The global nature of companies and e-commerce itself means any solutions need to work internationally.

17 'The Truth About Online Consumers', KPMG, 2017
18 'Global Cyberlaw Tracker', UNCTAD, Accessed 31/8/17