



## E-commerce across Europe

### Progress and prospects

October 2008

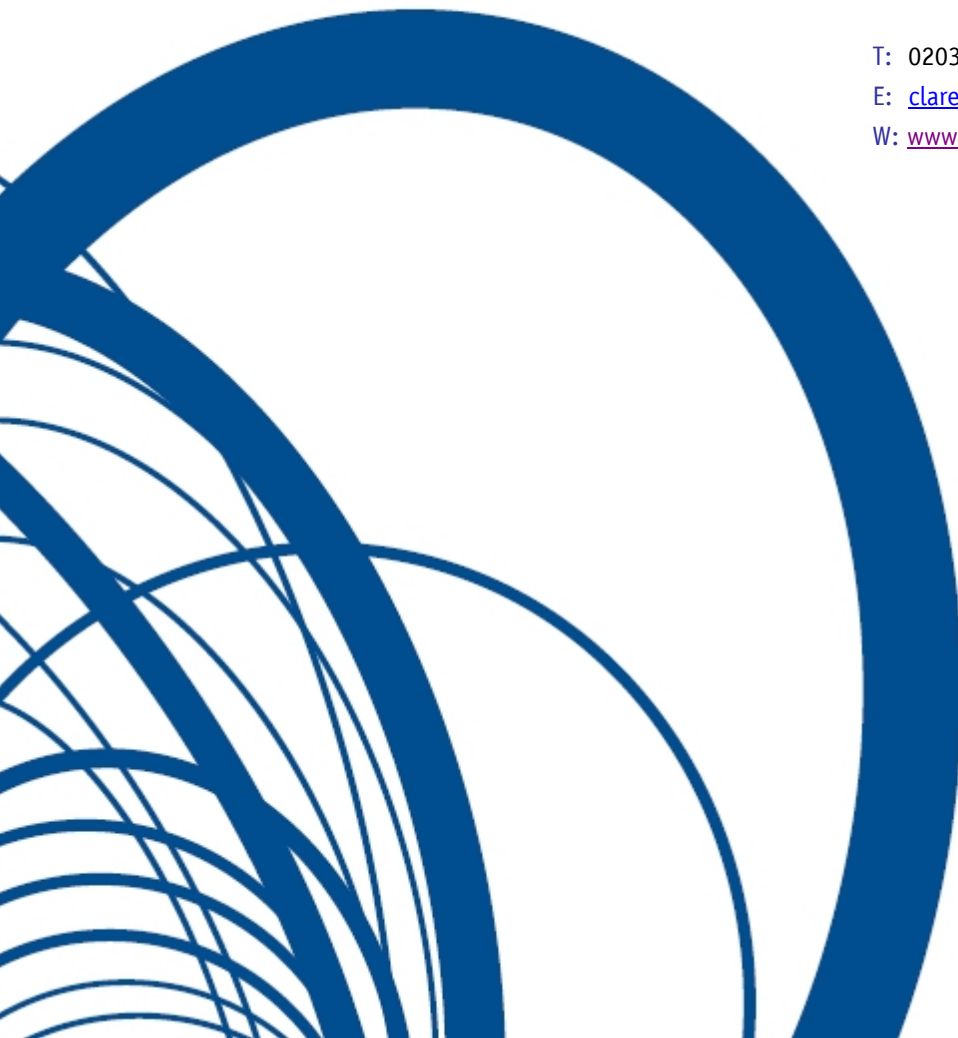
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## Contents

Introduction .....	3
Executive Summary .....	4
1. Setting the scene.....	5
1.1. The dot-com bubble .....	5
1.2. Bubble 2.0?.....	6
2. E-commerce: Facts and figures .....	8
2.1. E-commerce: Forecast to 2013 .....	8
3. Further contents of this report.....	10

## Charts

USA NASDAQ Composite index .....	5
E-commerce forecast .....	8

## Pictures

Digital wealth .....	6
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## Introduction

Online shopping's path has not been entirely smooth since its debut in Europe more than a decade ago. But the 'second-coming' of e-commerce has been based on more robust technology and business models, together with a more technologically aware population.

This report looks at current and forecast e-commerce participation levels, moving on to explore the social, economic and cultural factors that are influencing e-commerce uptake and other issues affecting the world of online shopping.

## Executive Summary

After a stuttering start, e-commerce levels across Europe are experiencing robust growth, fuelled by increased uptake of broadband, a more technologically aware population and ever improving e-commerce infrastructures. Nevertheless, the market is still highly geographically polarised, with the 'digital divide' still clearly in evidence. Nearly half of the Swedish adult population made an online purchase in 2006, compared to just one in twenty Italians. Whilst poor infrastructure is an important issue in limiting e-commerce uptake in Southern Europe, of equal importance are cultural factors, such as trust levels in business and attitudes towards distance shopping.

Personal country-of-origin proves to be by far the most accurate indicator of e-commerce uptake. Other variables, such as age and gender, are seeing their influence lessen as the online population diversifies, with online shopping set to grow fastest amongst older age groups over the next few years. This is a product of the group's increased level of online experience, a factor that has a major influence on every group's propensity to shop online. Broadband access continues to be a major driver of e-commerce participation and while other factors, such as the wider selection of goods, convenience and the ability to simultaneously compare prices, have also been crucial in driving online shopping, there are still a number of issues that limit the market's development. Despite significant strides forward in the domain of security, a significant number of consumers have fears about releasing personal details online. Low credit card ownership is also proving to be a barrier in some of Europe's largest economies, with a lack of alternative payment mechanisms hindering development. The allure of the high-street is also largely undimmed and this remains the only place to shop for the 56% of EU 25 households who have no internet access.

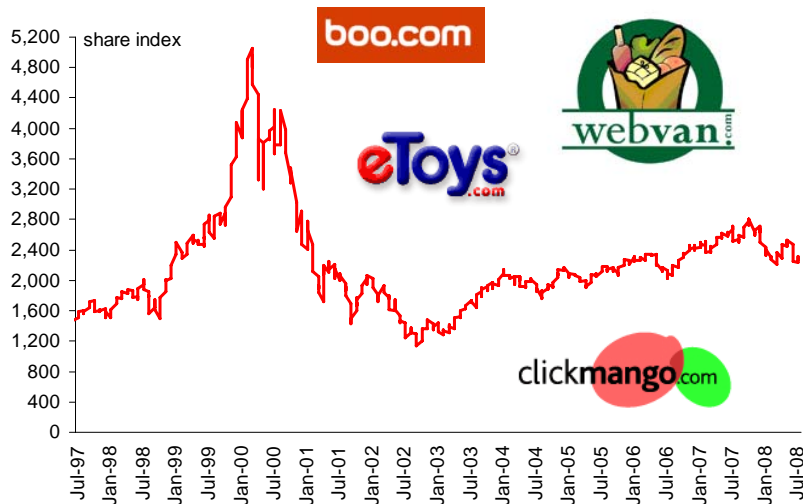
This report concludes with an overview of some of the major issues affecting e-commerce in Europe today and of how the evolution of e-commerce will affect shoppers' behaviour – both online and offline – with retailers having to adapt to the reality of co-existence.

## 1. Setting the scene

### 1.1. The dot-com bubble

Chart 1 USA NASDAQ Composite index

January 1997-July 2008



Source: NASDAQ/nVision

E-commerce's apparent newness belies the fact that it is already into its second lifestage. The first, lasting from 1997-2001 (with a peak on March 10, 2000 as the NASDAQ recorded a high of 5132.52) is commonly referred to as the 'dot-com bubble'. This period was characterised by the founding (and often failure) of a number of e-commerce operations. Two well-known sites set up during this period were Boo.com and Lastminute.com, pan-European websites which began trading in the same week in 1999. The former, set up with €100m of venture capital, sold designer clothes across eighteen countries. In spite of the buzz and hype that surrounded its launch, there were significant flaws in its business model. Unmetered dial-up access had only just been introduced in Europe, meaning that few customers who looked at the website ever managed to make it as far as the checkout stage. Boo.com CEO Ernst Malmstern famously announced on 18th May 2000, "Unless we raise \$20 million by midnight, boo.com is dead" and unsurprisingly at midnight on that day, less than a year after its launch, boo.com ceased to exist.

In contrast, Lastminute.com is one of the few e-commerce acorns to develop into oaks, surviving the first boom-and-bust. Whilst clothing retail has still to make inroads into the e-commerce market, Lastminute's products – primarily travel-based – lend themselves very well to remote purchasing. Website design was (and still is) simple, making it easily navigable for both new and experienced consumers.

Boo.com was relaunched in May 2007 by Web Reservations International as (tellingly) a travel site with reviews and listings. With consumers ever more willing to buy online and with broadband now the dominant internet connection type, Boo's time may have arrived. Perhaps original founder Ernst Malmsten was correct in stating, just after the company's collapse, that "we were just too visionary".

## 1.2. Bubble 2.0?

### Picture 1 Digital wealth

#### High purchase values



Bought by  
Google **\$3.1bn**



Bought by  
eBay **\$2.6bn**



Bought by  
Google **\$1.65bn**



Bought by News  
Corp. **\$580m**

#### High stock valuations



Valued at **\$15bn** after  
Microsoft bought a  
1.6% stake for  
\$240m



Trading at \$478 in  
July 2008. A little  
over **5 times the**  
original IPO



Microsoft offer  
**\$44.6bn** to buy  
Yahoo! in early 2008

Source: Various/nVision 2008

Startlingly high stock valuations, unsustainable price-to-earnings ratios, exorbitant purchase values and dozens of copycat sites all eager to exploit a burgeoning internet sector. It all sounds very late-90s, yet that is the reality that we are faced now in the current user-generated internet epoch. We would seem to be following the same doomed path as we did in the earlier part of this decade when we take a look at the figures: in November 2007, the price to earnings ratios of Google and Yahoo! were 55.17 and 55.96 respectively compared to just 24.37 for Microsoft which could be indicative of dangerously high expectations for these internet giants.

Of course the glut of money from venture capital firms is not at the same level as it was during the original dot-com bubble where \$100bn was raised in just one year but the level of investment in the sector is steadily growing again: just \$4bn was raised in 2002 and this had climbed to over \$30bn by 2007.

Even if the swelling tide of investment in the internet threatens to drown a number of web 2.0 start-ups, there are several crucial differences between online businesses in the late noughties and their nineties counterparts which should mean that Bubble 2.0 does not inflate to bursting point.

For instance, the figures surrounding this new generation of internet enterprises are not based on mere speculation, rather on a proven model of business operation that is primarily based on advertising. Facebook alone claims to have more than 90 million users (which equates to the 12th biggest nation in the world) and eBay's revenue of \$7.67bn is greater the GDP of many small countries.

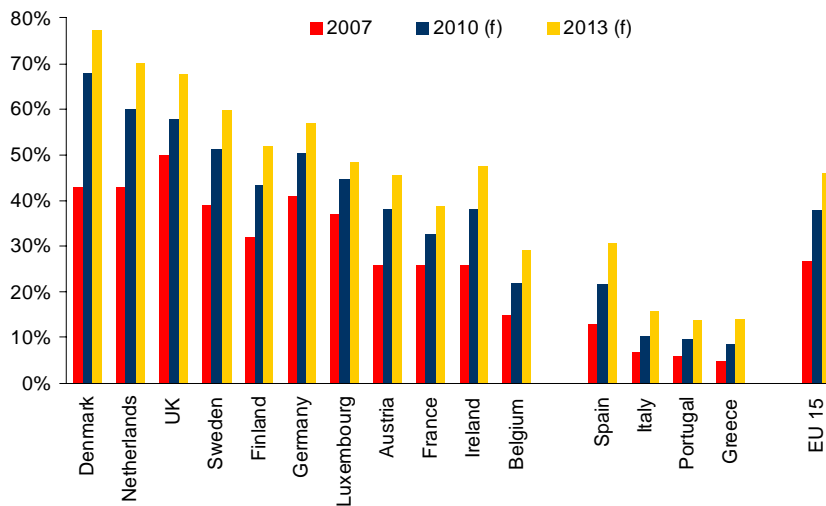
As well as this, the previous slide demonstrates that despite the vast sums of money being spent in this industry, there has been no real speculation on the stock exchange; the NASDAQ has exhibited steady growth since 2002 instead of the exponential growth in the late-90s that culminated in the crash that eliminated \$5trillion in the market value of technology companies between March 2000 and October 2002.

## 2. E-commerce: Facts and figures

### 2.1. E-commerce: Forecast to 2013

Chart 2 E-commerce forecast

% of adults in selected EU countries making purchases on the internet in the last 3 months, by country



Source: Eurostat/nVision Base: 2,000 per country aged 15+

The prospects for the e-commerce sector look very healthy over the next few years, with our nVision forecast predicting 70% growth in the proportion of people shopping online. By 2013, almost half of Europeans are expected to make a purchase online, up from 21% in 2006. Numbers are expected to grow most rapidly in Southern Europe, albeit from a very low current base. Low penetration of broadband internet and underdeveloped attitudes to shopping online mean that reaching even current Northern European levels remains a distant vision.

In North-Western Europe, it is France that is predicted by many to provide much of the medium-term growth in internet shopping, as the recent upsurge in broadband connections has not (yet) been mirrored by higher levels of online shopping (and these two factors are usually directly correlated). One of the key factors cited for the relatively slow development of e-commerce in France is the existence of the Minitel system, a internet-like network with basic e-commerce facilities. The network has been running since 1983 and an estimated 32% of the population still use the technology.

The Nordic region is, as now, expected to be at the forefront of the e-commerce sector in 2013, with more than three-quarters of adults expected to shop online in Denmark and 60% of Swedish consumers doing likewise. Staying in the Northern half of the continent, it is in the Netherlands

where growth is set to be the most rapid, predicted to nearly double over the next six years. The development of the market can be attributed to several factors, including an excellent telecoms infrastructure, a geographically compact and urbanised society and a technology-savvy population.

### 3. Further contents of this report

- The broadband effect
- Drivers of e-commerce uptake
- Inhibitors of e-commerce uptake
- Contemporary e-commerce issues in Europe
- Credit card ownership
- Security issues
- Economic climate
- The shopping experience
- Trends in e-commerce
- Personal contact
- Customisation
- Payment methods for younger consumers
- Virtual shopping
- Business implications

This is an extract from the 'E-commerce across Europe' report produced by our nVision service. To view the full report or to discuss the service please contact Clare Staunton on +44 (0) 20 3042 4747 or [clares@futurefoundation.net](mailto:clares@futurefoundation.net)