# New trend of e-commerce

## Key factors to enter fresh development stage

**Trend**

By Daisuke Tanaka

E-commerce (EC) is entering a new development stage. Following the advance of "online-to-offline (O2O)" commerce, restaurants and beauty salons have started to join the flux of e-commerce, prompting the convergence of online and offline payment systems.

This trend would not have been conceivable without the distribution of smartphones. The device that enables individuals to access the internet and communicate in real time has set the stage for a new purchase style of consumers.

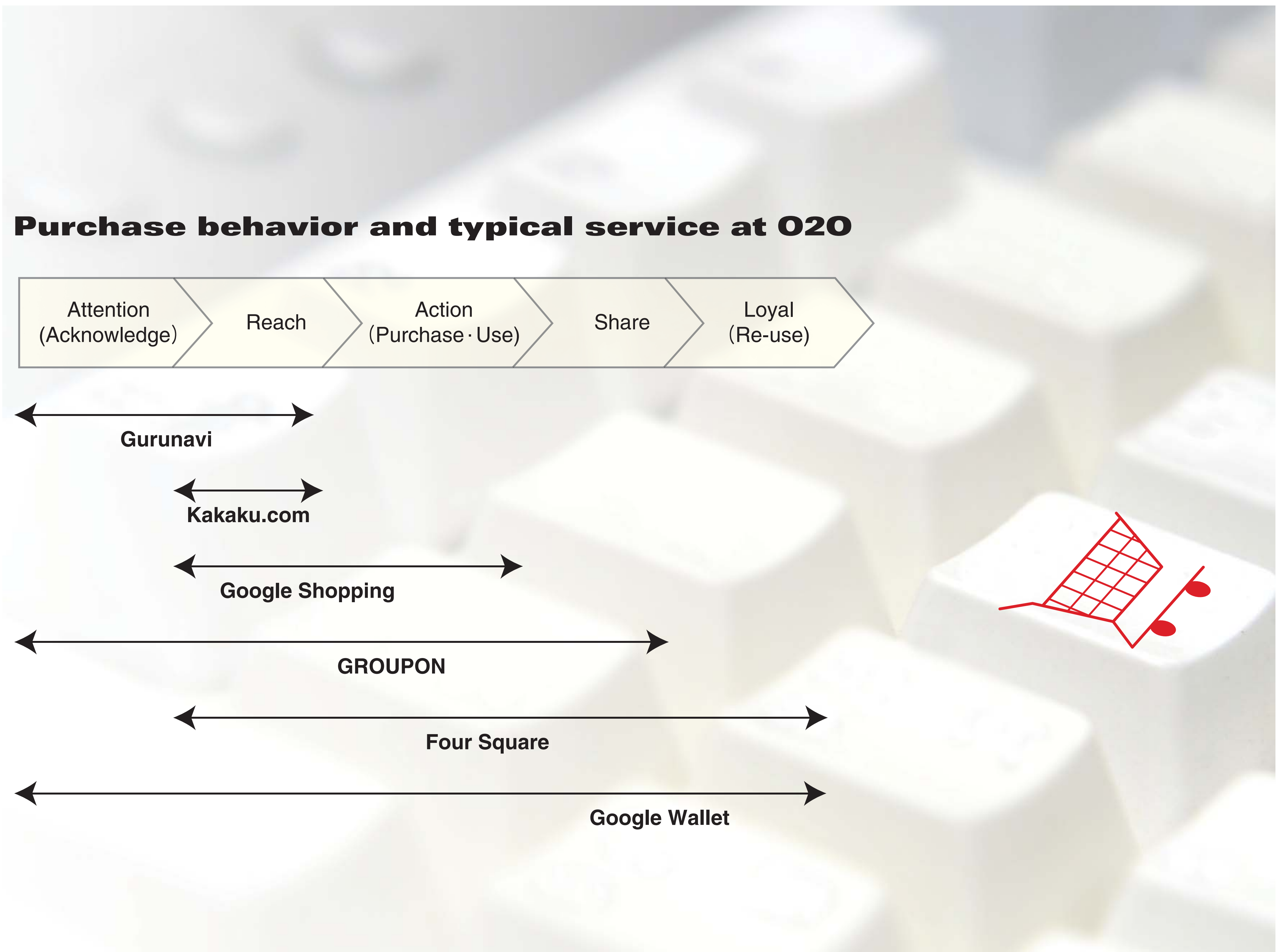
● Accelerating market expansion with e-commercialization of the service industry

According to the NRI outlook, the size of the business-to-commerce (B2C) EC market in Japan reached 7 trillion yen in 2010 and will double by 2016 to 14 trillion yen.

The total amount traded in online transactions was 8.5 trillion yen in 2010 and will exceed 15 trillion yen in 2016. The B2C EC market size of 7 trillion yen, however, is only 3 percent of 226 trillion yen, the gross private final consumption expenditure of 2010 published in the Cabinet Office' statistics that excluded imputed rent (monthly rent paid by residents). The potential for market expansion remains high.

Major products traded in the EC market have been confined to either "tangible" goods such as electronics, medical supplies, and food, or digital content such as music. Sales of "services" provided by restaurants and beauty salons have been rare on the Internet except for online reservation services on the homepages of stores. However, a new wave of EC is rolling in across these service industries.

The coupons on sale at flash marketing sites such as Groupon aim at attracting customers to traditional brick-and-mortar stores. The participants include not only stores selling tangible goods but ones providing services such as restaurants, beauty salons, and spas. The new business model of flash marketing has triggered e-commercialization of service industries which, until today, had limited online opportunities. The EC market will enter a new era in the near future with increasing online sales in the services sector.




● Key factors: use of smartphone and tablet PCs

This impressive change was initiated by the introduction of smartphones. Consumers can always connect to the Internet without interruption and complication. Traditional EC is now undergoing a transformation stimulated by smartphones that are much simpler to use than PCs and more controllable with their larger screens than other mobile phones. Advanced EC companies have adopted smartphones as their new sales channels by providing companies' exclusive smartphone applications.

Smartphone users, who account for 15 percent of all mobile phone users, access information by using location based services or SNS and exchange collected information person to person (P2P). This indicates, in the view of companies, that there are chances for them to approach specific consumers via the Internet at any time and place. The erstwhile online sales promotion was built on a premise of using PCs and assumed a scenario in which the consumer was using their PC at home, relaxed. Smartphones, however, highlight the importance of providing real time information online. And the new approach of O2O commerce that pulls consumers who are connected online to purchase goods at EC or even at traditional brick-and-mortar stores is drawing market attention.

A classic example of O2O commerce is the earlier mentioned flash marketing. Companies are also beginning attempts to open the purses of consumers by relying on go-viral-sites and SNS.

● Striving to secure loyal customers

The graph above exhibits typical O2O commerce services with buying behavior. A commonly applied flow of approach via smartphones and other online devices is to make customers aware of services or products, trigger their search and comparison of information, attract them to stores, let them share reviews, and thus make them regular visitors. Each service covers one or more areas of the flow that users may compare different services and utilize each services to the advantage of user's.

What is regarded as the most important part of the flow is "securing loyal customers." Hitherto online marketing models have made it their goal to search stores or services, dispatch recommendations, and attract customers to stores. Groupon, for instance, issues exclusive 50 percent off coupons to boost the level of attention drawn to a certain stores or services to stimulate customers' visits.

A flash marketing site plans to induce coupon buyers to revisit the site and buy other coupons, while a store that provided its coupon to the flash marketing site wishes that the coupon buyer will remain a regular customer of the store. This is where the interests of the flash marketing sites and the participating stores diverge.

There have been attempts to narrow such gaps between different stakeholders. Foursquare, for instance, encourages regular visits to a store by adding the fun factor, as if playing a game. It makes the customer who has visited a store more than anyone else in the previous 60 days a mayor. In addition, Google Wallet, which started its service in the United States, automatically renders a loyalty card when a user purchases a coupon from Google Offers, saves the coupon in a smartphone, and makes payment at a store using electronic money.

In the near future, a service might emerge in Japan that encompasses all areas of the flow, to raise awareness of a store or a service, transmit information, attract customers to a store, and stimulate repeat custom. Yet, the success of O2O marketing will drift without securing loyal customers.

● Ongoing convergence of money and e-money as payment method

As EC broadens its territory into the offline sphere, changing trends in payment methods are now apparent. Specific changes include companies accepting both paper money and e-money for transactions on goods and services in their offline stores and in virtual reality market places.

Fees earned by providing online payment services totaled 341.7 billion yen in Japan 2010, and this is expected to shoot up to 591.4 billion yen in 2016 as the EC market expands. In the meantime, the market size of impersonal payment used generally in offline stores recorded 2.17 trillion yen, based on total transaction value. Distribution of near field communication (NFC) in the coming years will increase the market to 4.15 trillion yen in 2016.

Internationally, there has been accelerating reorganization of business environment using NFC.

In Japan, although electronic payments using osaifu keitai (a mobile phone used as a wallet) has become common to a certain degree, NFC coupons and membership points are expected to spread.

Smartphones are important devices for making payments; they deserve much attention. Consumers have relied on non-smartphones for osaifu keitai, but they will soon make payments by their smartphones and tablet PCs. The services that install credit card processors on smartphones and tablet PCs are already available and demand for these services is expected to grow. Such a trend will merge together the payment methods used in virtual reality and at offline stores respectively, obscuring the boundary in-between.

※ NFC (Near Field Communication): A set of international standards for IC cards, mobile phones, PCs, and other similar devices to establish short-distance communication with each other. It constitutes the base for communication technology used in contactless IC cards such as Suica and IC card licenses.

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# E-commerce: misconception and truth

**Partner's view**

By Ahn Joong-in

The Internet shopping mall with the size of approximately 30 trillion won is the second-largest market in the Korean retail industry following the hypermarket, and is expected to maintain the fastest growth rate in 2012 (annual growth rate of 17.8 percent). Compared to the time and effort involved, however, some e-commerce related activities are yielding poor returns. These companies with poor returns are establishing a wrong strategy and moving in a wrong direction because their business models are based on some misconceptions about the success of e-commerce. NRI's perspective on the most common misconceptions can be summarized into the following three points.

● The key to success is innovating a business model rather than renovating the shopping mall.

Most companies are benchmarking e-commerce of Amazon.com, and are only interested in the technical or functional elements such as product recommendation features and the user interface configuration. However, the competitiveness of Amazon.com is expanding the value chain to a variety of platform businesses through Web technologies. The success of Netflix's video rental service is also based not on the implementation of online technical services, but on the "no late fee" revenue model which was enabled by the e-commerce platform.

● Accessibility rather than mobility when targeting the smartphone or tablet users.

According to statistics, customers are mainly using their smartphone or tablet at home to connect to the Internet, due to its easier and faster accessibility compared to that of computer. It has higher efficiency in taking advantage of using a channel with accessibility such as providing information on real-time bargains rather than building location based marketing services.

● The key point of sales expansion through SNS is, reducing the unnecessary SNS marketing budget while improving substantial services.

The nature of SNS platform is communication between customers. Only a limited number of companies with strong brand power can achieve an SNS communication effect with their customers. For regular firms, it is recommended to invest their budget into substantial services rather than to waste their resources while establishing an extra advertising SNS channel. Customers are increasingly less dependent on advertisements but more dependent on each other by mutual influence through various online networks. The best way to increase the number of customers who are willing to spread positive marketing information is to invest more on products and services and less on marketing trickery.

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