

Buying Patterns in E-Commerce

In the 1940s, Thomas Watson, then chairman of IBM Corp., estimated the global aggregate demand for computers to be five. He simply could not foresee the explosive development that information technology (IT) would have over the second half of the 20th century, and especially its implications. The Internet is one such recent IT breakthrough that is taking place worldwide, and today more than 25,000 people gain Internet access every hour. This growth offers great opportunities and great challenges for existing businesses and potential customers (Figure 1).

Computers and the Internet are being adopted more quickly than previous technologies, such as the steam engine and electricity. For example, it took an estimated 90 years before 50% of American homes had even one product made by a U.S. manufacturer. In contrast, the Internet is already approaching a 50% penetration in the United States.

By increasing access to information, IT contributes to making markets work more efficiently. For example, the Internet allows consumers to seek the lowest price, and a firm can solicit bids from more suppliers. Reduced transaction costs and barriers to entry have brought the e-commerce economy closer to the utopian concept of perfect competition, which assumes complete access to information, many buyers and sellers, zero transaction costs, and no barriers to entry or exit. IT makes these conditions less implausible. Better-informed markets can more efficiently allocate and use resources. For example, manufacturers can track changes in demand more easily via direct links to electronic scanners in stores, and farmers can get information almost instantly on weather, prices, and crop conditions.

In the West

The need to attract, acquire, leverage, and retain customers remains a primary concern to business. Revenue growth through cus-

tomers acquisition and retention is as important a requirement in e-commerce as it is in other business. Customers, especially in the Western business culture, count speed of service as a key reason that they do business with a company. They resent delays and hate waiting for service. In the United States,

East and West approach Internet purchases differently

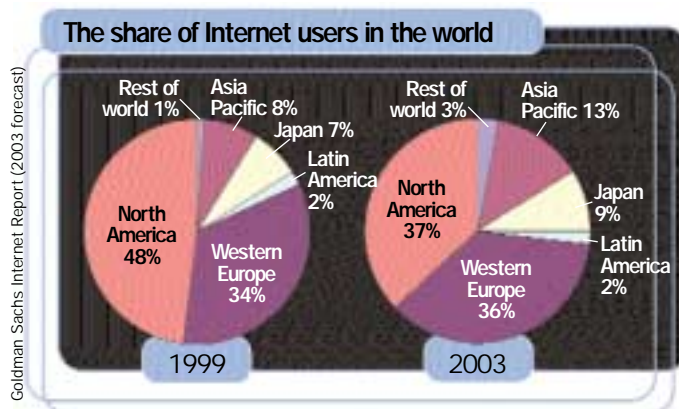


Figure 1. The use of the Internet is exploding world-

wide, and market share by region is changing.

almost 80% of the gross domestic product (GDP) is generated through different kinds of services, and speed of service no longer distinguishes an enterprise as providing superior value. Customers generally are not thrilled if they receive good service, but they are highly dissatisfied if they do not. E-business provides the necessary framework to cope with these demands by cutting the waiting time for a service.

Customers also want consistent, reliable, and easy-to-use service. As the speed of service increases, customer expectations grow. Thus, making customer service friendly, easy, and solution-orientated is an important business trend. The increasing popularity of outsourcing makes this issue even more important. For outsourcing to suc-

ceed, enterprises must coordinate their operations with their partners and vendors. E-business helps streamline this integration process more accurately and efficiently than other business models.

Although the European market theoretically represents e-commerce opportunities that are equal to those in the United States, political, linguistic, and cultural barriers make achieving this goal more difficult than in the U.S. market. The European consumer market is not homogeneous, and personal-computer and Internet penetration varies throughout the region. Northern European countries have the highest e-commerce penetration ratio, but the three largest traditional markets are the United Kingdom, Germany, and France (Figure 2). Internet penetration continues to climb in Europe, and with its head start in wireless communications future prospects for e-commerce look bright (Figure 3). However, growth has been constrained somewhat by telecommunications regulations.

Merrill Lynch expects the number of European Internet users to jump from 72 million in 2000 to more than 200 million by 2004. European consumers, however, have yet to get used to shopping online. Many are unfamiliar with the technology or have concerns about security and privacy. Commerzbank (Frankfurt, Germany) estimates that at 8.5 billion euro (about \$8.5 billion), online sales account for just 0.3% of the total retail market in Western Europe. Not until 2004—when interactive TV and mobile media take hold—will the online market reach a projected 4.7% and approach a meaningful proportion of retail sales.

Developing e-commerce in Central and Eastern European countries is slowed by the low amount of online spending, which results from a low general income, low GDP, weak basic telecommunication infrastructure, and foreign investors' disparate confi-

European Internet penetration, 2000

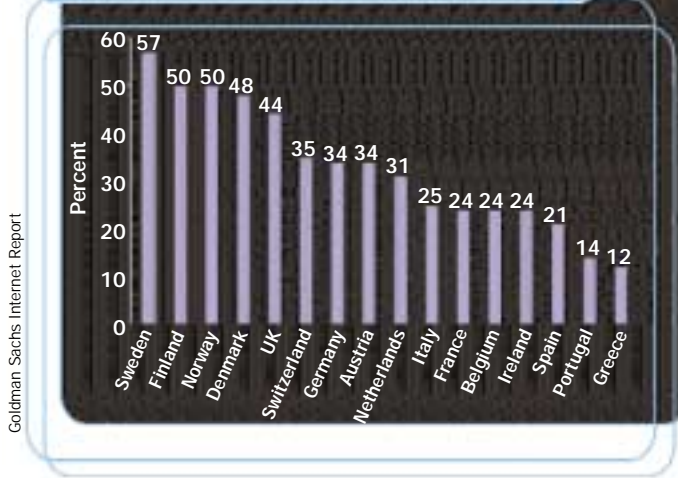


Figure 2. The European market is not homogeneous, and Internet penetration is scattered by political, linguistic, and cultural barriers.

dence levels in the market's profit potential. The Central and Eastern European market will likely reach its huge potential, but this growth will not happen soon.

In Japan

Japanese citizens began exploring the Internet in large numbers in 1995, and by early 2000, 20 million people were online (Figure 4). E-commerce began there in 1999, and it is expected to grow dynamically. According to Ministry of Telecommunications forecasts, the economic impact of e-commerce on Japan between 2004 and 2009 will increase its GDP by 10%.

Internet sales by some Japanese companies are impressive. However, many factors, including, legal, cultural, and financial issues, hinder the development of e-commerce in Japan. The high cost of Internet access is a strong barrier to its growth.

believe that this phenomenon will provide the much-needed catalyst to change Japanese culture. The first signs have appeared in the form of quitting the lifetime job. Until now, the most promising jobs were in government ministries or large corporations. Today, some bright entrepreneurs willingly give up their prestigious positions to launch their own Internet companies or join someone else's start-up.

Other cultural barriers also hinder the spread of e-commerce. Shopping in Japan is regarded as an important social activity, an

time to spend it. Because of shopping's important social function and the distrust of using credit cards, Internet sales of brand goods have not taken off. Companies that do sell online appeal to a specific market—for example, cosmetics for particular skin ailments. But consumers are starting to move online for some less-expensive products in which trust in a brand name is not a concern.

Clearly, online shopping is in its infancy in Japan. But although the proportion of women using the Internet is only 30%, industry projections show a sharp rise in the coming years. The next 10 years will likely reveal greater changes in Japanese shopping habits than seen in the past decade.

Reference spending—the term for offline purchases of products or services based on information obtained online—is important in Japan. Real estate, automotive, and finance are three areas in which consumers

increasingly refer to Web-based material in preparation for purchases. In many cases, purchase decisions are made exclusively on the basis of Internet research.

Reference spending usually occurs as a result of specific consumer behavior typical of the market conditions or a cultural setting. The Japanese are time-conscious Internet users because access fees there are expensive. Japan's Web surfers rely more heavily on traditional paper media for site information than do their counterparts in Europe and the United States. Many paper magazines now serve

such users, particularly older or novice users who carefully study the sites they want to visit before spending their time (and money) online.

Japan's 19.4 million wired citizens (24.6%

Online shoppers as a percentage of adults in Europe

European adults with a personal computer at home who shop online

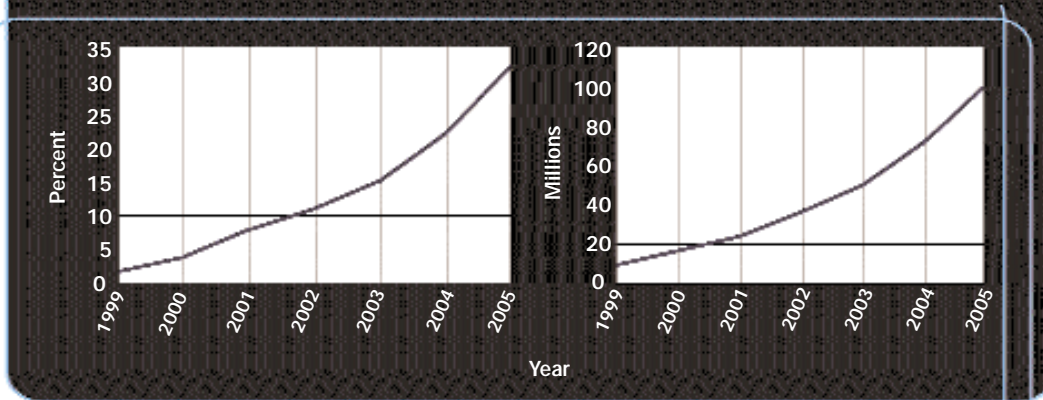
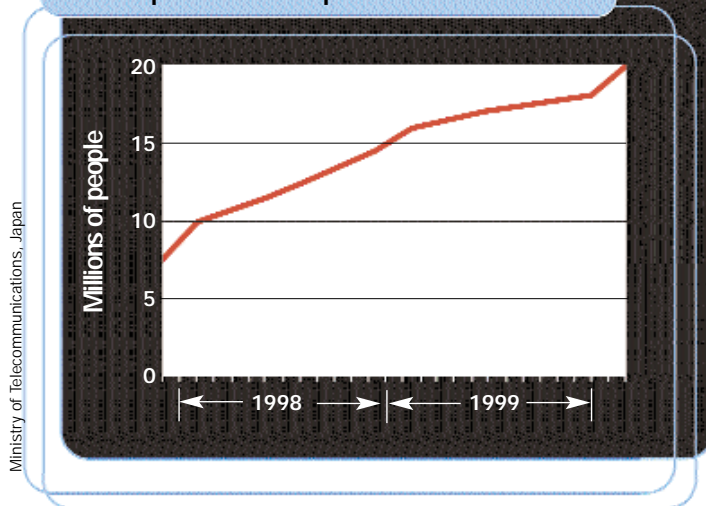


Figure 3. In Europe, online shopping represents a potential market comparable to that in the United States, despite its more fragmented nature.

Japan is not a country eager for change. However, once change starts, it seems to roll along. Although late to arrive in Japan, the dot-com fever created a shift in the mindset of some people. Many observers

opportunity to meet friends and spend time together. Many young women (ages 16 to 26) still live at home, work part-time, and represent a significant spending group because they have disposable income and

Internet penetration in Japan



Ministry of Telecommunications, Japan

population penetration) are rapidly gaining confidence in e-commerce—46.5% of male and 44.3% of female home Internet users have made a purchase online or subscribed to a service. Despite the cell phone's bright future as a sales device, 95% of online purchases in Japan are still made via a personal computer.

Women are the most important target consumer market in Japan, and not just because of their purchasing power. Japanese women are trend-setters in many areas of consumption and from a surprisingly early age—high school or even junior high school. Female online shoppers buy clothes, food, or games and toys; men go for computer hardware, books, and software. Overall, the most popular item among Japanese e-consumers is food. In Japan, customers are treated with the utmost respect. E-retailers that fail to satisfy Japanese consumer demands and tastes will quickly lose out to those who do.

East versus West

Patience and expediency are two very different approaches to choice. We can characterize the former as an Eastern and the latter as a Western decision-making style, and the two approaches differ in several important dimensions. The Western view considers speed a virtue, whereas Eastern philosophers and ordinary people view patient reflection as a virtue. The Western decision process is systematic and linear; the Eastern decision process makes holistic leaps in nonlinear ways. However, neither side of the world holds a monopoly on one or the other approach.

E-commerce is based on the expedient decision-making approach. It supports customers' requirements for speed and comfort. Therefore, buying online is not a big challenge or cultural shock for Western shoppers, but it is quite unusual for the reflective customers of the East. In the Western marketplace, e-commerce does not

Figure 4. Internet penetration has grown rapidly in Japan, but online buying patterns are different from those in the West.

change people's shopping habits and traditions, only the channel of the transaction. Moreover, because goods are less expensive online than in shopping malls, people are stimulated to shop online.

Expedient Western customers choose known brand names instead of generic products to get quality. The weak point for them is that they must provide their credit-card number. The expedient decision-maker/shopper is characterized by systematic and linear decision processes. This corresponds to the logic of the Internet. Searching algorithms and menu model the expedient-thinking pattern.

Reflective shoppers get some support from e-commerce as well. They like to investigate products precisely and consciously. However, when browsing costs a lot because of on-line charges, they do less of it. Consequently, they do not get a holistic view of the available options, and their expectations often are not met. Reference-spending customers do not let themselves be hurried or forced. They use alternative offline sources to get information. They refuse aggressive marketing, which is accepted in Western e-commerce. The Japanese might be approached more successfully through games, which even adults like to play.

The Internet provides transparent solutions, but it cannot maintain the personal care customers seek. Missing is the human contact and advice of traditional shopping

because these functions are built into e-commerce in a rigid way. Especially for women, shopping is a social event, and they do not find the same rewarding interaction when shopping with a computer. However, e-commerce offers the opportunity for quick choices and lets customers surf and learn about all options. Because of its fast development and acceptance, e-commerce could modify customer behavior and shopping habits in the West and East.

Entrepreneurial and investment opportunities exist in e-commerce across three evolutionary stages: companies that serve domestic markets only, those that serve a geographic region's population, and those that serve worldwide markets. Opportunities within each stage reflect the maturity of a country's markets and business infrastructure. For greater success, e-commerce needs to recognize the different cultural backgrounds and needs of Eastern and Western peoples.

Further reading

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