

COMMUNICATION FROM SWITZERLAND

The Services Sector, Small and Medium-sized Enterprises and
their activities related to Electronic Commerce:
the Case of Switzerland

The following communication, dated 1st March 2012, from the delegation of Switzerland, is being circulated to the Members of the Council for Trade in Services.

I. INTRODUCTION

1. In September 2011 the delegation of Switzerland submitted a communication on the role of Small- and Medium-sized Enterprises (SMEs) in Switzerland's services sector, entitled "The services sector, Small and Medium-sized Enterprises and employment: the case of Switzerland" (S/C/W/340).¹ That submission was presented in the context of the sectoral and modal Background Notes previously discussed in the Council for Trade in Services (CTS). In the course of the September meeting of the Council, many delegations underlined the importance of SMEs for their economies and for the services sector in particular. In addition, many delegations indicated that statistical information on SMEs were almost not existent.

2. Given the predominance of SMEs in many countries and their considerable contribution to these economies, various delegations expressed their interest for additional information and discussions. Members mentioned several topics for consideration, such as the basic difficulties for SMEs to participate in international markets, the absence of crucial information about market-operating conditions in foreign markets and the various capacity constraints SMEs are confronted with when operating in different markets simultaneously. As a consequence, Switzerland announced its intention to explore the feasibility of another submission with a focus on the relation between electronic commerce and SMEs in Switzerland's services sector.

3. The submission from Switzerland of September 2011 identified three major sectors: Distribution Services, Health Related and Social Services as well as Professional Services. The sector Distribution Services generated the largest number of jobs and appeared to be the most significant services sector in the SMEs in Switzerland.

4. Despite the fact that presently many producers maintain their own distribution channels, professional distributors, such as wholesale distributors, had and have a major role in developing and performing electronic commerce activities.² As a consequence of the insufficient availability of

¹ This current paper should preferably be read together with S/C/W/340.

² For instance, according to a survey on e-commerce activities in Switzerland, conducted between 2001 and 2003, wholesale trade activities ranged between the five most important e-selling industries. Additionally,

information about electronic commerce activities in Switzerland, it is not possible to present data or information making a distinction between "professional distributors with electronic commerce activities" and "producers respectively manufacturers with electronic commerce activities". However, our analysis concluded that this distinction is not necessary to identify the critical problems in the area of electronic commerce. To obtain valuable responses, we focused our analysis on the sale of goods. Another methodical necessity was that the paper does not solely focus on SMEs selling over the Internet but also on larger companies. This approach provides a more representative picture of the electronic commerce reality in Switzerland and permits us to compare various aspects between SMEs and larger companies.

5. As a consequence, the objective of this paper is to provide a general presentation of electronic commerce activities in Switzerland and to identify in which market(s) Swiss companies and SMEs in particular sell over the Internet. Finally, the objective is to identify the various barriers that SMEs are confronted with when exporting their products.

II. ELECTRONIC COMMERCE ACTIVITIES IN SWITZERLAND - AN OVERVIEW

6. Electronic commerce in Switzerland has its origin in the mail order selling. It were probably the Brothers Ackermann, the founders of a dye works company in the area of Lucerne, who in 1871 first sold their products systematically by mail. Later, more and more companies discovered the advantages of mail order selling and an increasing number of specialised distributors sold various products, such as stationery and various tools, to private and business clients. These facts suggest clearly that at the end of the 19th century most of the core elements of modern electronic commerce activities already existed: Private (B2C) or business clients (B2B) made their choice at home or at their office on the basis of a clearly defined product offer, ordered and received their products by mail.

7. In 2008, 75 percent of all companies in Switzerland used electronic commerce for purchase of merchandise and services, whereas 31 percent sold their products over the Internet.³ In the year 2000, only slightly more than 40 percent used the Internet for purchase and less than 20 percent to sell their products online. With a view to the different sectors, it can be said that in 2008 nearly 80 percent of all companies of the building and construction sector as well as of the industry (for instance chemical and pharmaceutical industry, mechanical engineering, electrical engineering and less technical industrial sectors) used electronic commerce for acquisition. In the case of the services sector, it was 72 percent. Large companies with more than 250 FTEs do generally more frequently use the Internet for acquisition than SMEs with less than 250 employees (80 percent respectively circa 72 to 75 percent for SMEs).⁴

8. In 2001, just 2,9 percent of the procurement expenses from companies using the Internet were spent online (electronic commerce intensity). One year later these figures increased to 4, in 2005 to 6 and in 2006 it reached the 10 percent mark. This continuous expansion continued and in 2008 15,1 percent of the procurement expenses were made online. If we consider all companies in Switzerland, i.e. those with or without electronic procurement, the intensity of electronic commerce was 1,9 percent in 2001 and 7,2 percent in 2008.

9. Companies with more than 49 FTEs are generally more active in online selling activities than smaller companies. More precisely, in 2008 circa 43 percent of the companies with more than 249

the sector "wholesale trade" can be considered as a sector, in which ICT technologies generally play a fundamental role.

³ Unless otherwise indicated: All statistical information provided by Federal Statistical Office, Neuchâtel, Switzerland.

⁴ FTE = Full Time Equivalent

FTEs and 38 percent of all companies with 50 to 249 employees used the Internet to sell their products online. Only slightly more than 30 percent of the small companies with less than 49 FTEs sold online.

10. In 2010, for every million inhabitants there were 1873 secure webservers (with SSL certificate), compared to only 21 in 1998 - a remarkable increase of almost 9'000 percent in only twelve years. This figure confirms the high interest of many companies in Switzerland to integrate new developments.

11. Why do companies buy and/or sell over the Internet? Statistical data provide a detailed picture about the most relevant reasons:

- (a) Online procurement⁵:
 - (i) possibility to increase market transparency;
 - (ii) acceleration of business processes.
- (b) Online selling:
 - (i) to open up new markets (new customer segments);
 - (ii) to strengthen the customer orientation;
 - (iii) image cultivation;
 - (iv) to enter into new geographical markets.

III. ELECTRONIC COMMERCE IN SWITZERLAND - EXISTING OBSTACLES

12. The following obstacles restrain electronic commerce activities within Switzerland:

- (a) the product itself (unsuitable for selling over the Internet);
- (b) the lack of willingness of the consumers to buy online;
- (c) security problems with respect to payment;
- (d) substantial additional investment costs;
- (e) uncertainties with respect to the commercial advantage⁶;
- (f) organisational matters (requirement for amendment);
- (g) logistical concerns;
- (h) uncertainties with respect to the legal framework;
- (i) concerns regarding data protection;
- (j) company-internal resistances (management, staff);

⁵ Other factors, such as lower buying prices or stockholding costs do not play a key role.

⁶ This applies primarily to companies without e-selling activities.

- (k) technological uncertainties;
- (l) the lack of relevant information (market potential, technology).

13. It can be assumed that additional investment costs and logistical concerns primarily restrict small companies. Company-internal resistances may more frequently occur in SMEs than in large companies, probably most typically in locally focused family-owned enterprises.

14. The most important conclusion of our analysis is: Even in the year 2011, electronic commerce activities in Switzerland are still geographically limited economic realities. Switzerland's online suppliers mainly sell within the country, cross-border selling only plays a negligible role.

IV. CROSS-BORDER SELLING - EXISTING OBSTACLES

15. Many SMEs in Switzerland produce and/or sell niche products, such as electronic components, tools, mechanical spare parts or accessories for machines. It is frequently the case that the national market turns out to be too small to generate substantial and sustainable revenues by offering this sort of (high-tech) products in one single market. As a consequence, many of these enterprises are forced to enter into new markets. However, also companies focussing on niche products in much larger markets are confronted with market saturation, in the end, it is merely a matter of time.

16. Why is the Swiss online market still primarily a national market and not a highly internationalised one? According to our research, SMEs and the so-called big companies are generally confronted with the same obstacles when doing cross-border selling by Internet. The most important barriers to resolve when selling in other markets are (provided the product is appropriate for online selling and the technical feasibility is given)⁷:

- (a) the absence of knowledge of the foreign market (e.g. consumer preferences);
- (b) the absence of linguistic knowledge;
- (c) legal uncertainties;
- (d) uncertainties with respect to payment modalities and conditions (other means of payment, absence of interoperability);
- (e) concerns regarding data protection;
- (f) substantial additional investment costs;
- (g) logistical concerns (e.g. costs of customs procedures, difficulties in establishing reverse logistics)⁸.

17. Concerning the costs of customs clearance it can be said that it is mainly a question of the different VAT rates between Switzerland and other countries. Furthermore, some additional costs incur for the freight forwarder and possibly industrial tariffs.

18. Niche products are generally less influenced by costs related to exportation. Such products are often comparatively high-priced goods and the demand is more or less inelastic. The same applies

⁷ No statistical data available.

⁸ "border effect"

to certain collector's items and to (classic) spare parts for veteran and vintage cars, frequently sold by specialised distributors.

19. It is also important to be aware of the significance of market dynamics in general and the dynamics in other fields, for example in the legal sector. The information about the markets must always be updated. The complexity of this continual process increases with the number of penetrated markets. There is also the fact that the companies must reach the critical size in their target-market(s) within a certain (and limited) time.

V. MAINLY A LACK OF KNOWLEDGE

20. Some pioneers have refined the invention of catalog selling by transforming it into an ICT-based activity. The accessibility of potential consumers increased dramatically. Nowadays, theoretically everybody has access to various product offers without ordering catalogs. Moreover, people do not even have to know the companies that offer the requested products, a simple Internet search helps.

21. In seven areas we identified key obstacles when selling abroad. Apart from the factor "investment costs", all the obstacles are primarily attributed to a lack of knowledge. In other words, online cross-border selling is a knowledge-based challenge. According to our research, these gaps could be closed, the knowledge is theoretically available. The questions here are: Where is it available and what does it cost?

22. Larger companies probably have an easier access to the required knowledge, possibly even company-internal. Additionally, they do more often have higher financial power to buy the know-how from specialised enterprises. Hence, it can be said that SMEs generally have to cope with additional investment costs and costs for the increase of knowledge. Especially the latter is in general time consuming - and time is a critical element.

23. According to our research, it would be a significant facilitation for many SMEs, if the required knowledge was easier and cheaper to access and if the know-how was more or less bundled available. This would also allow them to better pre-estimate possible benefits, additional costs and eventual risks by expanding the business.

VI. CONCLUSIONS

24. Electronic commerce consists of online procurement and online selling activities. Both aspects indicate the importance of electronic businesses. Most prevalent are electronic procurement activities, whereas electronic selling activities are of lower importance. The most vital reason for doing electronic procurement is the increased market transparency. To open up new customer segments is the most important reason for entering into the online-selling market.

25. Electronic commerce is still a national phenomenon. The larger the company, the more it sells via Internet. A possible explanation could be: Large and financially powerful enterprises are more likely to cope with existing obstacles and they generally have a higher ability to effect additional investments. Furthermore, it is easier for them to have access to specialised knowledge. It can be assumed that large companies with subsidiaries are in the best position for expanding into foreign markets. However, in summary it can be said that SMEs and the so-called large companies encounter the same obstacles.

26. Doing electronic commerce is primarily a question of knowledge. The know-how is from an interdisciplinary and dynamic nature. Managing and applying it requires high flexibility. The more markets into which a company enters, the more challenging it is to deal with difficulties.

27. It would be a significant facilitation for many companies and especially for SMEs, if the required knowledge was easier to access. This might reduce additional costs and simplify the process of opening up new markets. It would be appreciated if members could examine their strategies to overcome the challenges regarding electronic commerce.
