ONLINE RETAILING IN BELGIUM
Towards the new economy
The Boston Consulting Group (BCG) is a management consulting firm widely regarded as the global leader in business strategy. BCG works with companies in every major industry and global market to develop and implement strategies for competitive success. BCG currently operates in 32 countries and 47 cities around the world.
Foreword

Online Retailing in Belgium is the first comprehensive report on the online retailing market in Belgium. The Boston Consulting Group (BCG) developed the report’s unique fact base and analysis through an online survey among some 1,000 online shoppers and through in-depth interviews with almost 30 of the largest online retailers in Belgium. Online Retailing in Belgium provides the most up-to-date analysis of the e-commerce market in Belgium, since the final interviews were conducted in November and December 1999.

The report uncovers some surprises about the state of online retailing in Belgium. It reveals that the Belgian online market is trailing one to six months behind other European countries, despite its strong growth of over 400% in 1999, and that Belgian consumers realize 45% of their online spending on foreign sites. Also, the report points to the substantial growth opportunities in many categories of the market. Those growth opportunities are available to Belgian online retailers if they decide to pursue online retailing in a more aggressive manner.

Online Retailing in Belgium is a companion to our European report, The Race for Online Riches, which provides an overview of the state of online retailing in other developed European countries. In addition, this report extracts the key lessons for any company wishing to compete in online retailing in Europe and illustrates these key lessons through several best practice examples.

We would like to thank everyone who participated in this study, particularly the retailers who generously shared their information and experiences with the BCG project team. We hope that retailers and industry watchers, online and offline, will benefit from this study’s research, analysis and insights.

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Summary of Key Findings

Online retailing in Belgium is at an embryonic stage...

- Belgian consumers spent a total of 77 million Euro in online purchases in 1999, of which 55% was with Belgian retailers and 45% with foreign retailers.
- Travel; computer hardware and software; books and magazines; and financial brokerage were the leading online retail categories, accounting for some 70% of the market.
- Online spending by Belgian consumers represented a mere 0.16% of the country’s total consumer spending. This puts Belgium between one and six months (depending on the retail category) behind the European average for online spending. The European average is, in turn, some 18 months behind the United States.

...but it is beginning to take off

- Belgian retailers’ online revenues in 1999 increased by 420% on the previous year. This rise was driven to a great extent by the opening up of online channels by traditional retailers.

Online retailing is highly concentrated...

- The top three sites in Belgium account for 45% to 80% of online spending, the exact figure depending on the retail category.

...and it has an important international dimension

- Foreign online retailers sell 34 million Euro-worth of goods and services into the Belgian market, compared to the 7 million Euro that Belgian online retailers sell abroad. Online imports are almost five times the value of online exports.
- 15% of the online revenues of Belgian retailers come from abroad. But the retailers currently have only limited international ambitions.

Success in the online world will depend on overcoming several domestic barriers...

- The main barriers are the costly Internet access for Belgian consumers; the lack of online offerings from local retailers; the low levels of consumer trust; and the limited access to venture capital.

...and on responding effectively to the international challenge

- The main challenge for individual Belgian retailers will be to respond effectively to the global nature of online competition. They will either have to pursue a defensible local strategy or aggressively build international scale.
- The attractiveness of a local strategy will depend on the ability to adapt the product or service locally, and on the degree of fulfillment intensity that online retailers build into their offering.
CAPTURING THE WAVE OF ONLINE RETAILING IN BELGIUM

Online retailing is emerging more slowly in Belgium than in most other developed European countries. Today, Belgium is between one and six months behind the European average, which is itself 18 months behind the United States. This slower take-off might well prevent Belgian retailers from ever capturing their “fair” share of online spending by Belgian consumers. Already, 45% of the online purchases of Belgian consumers are made on foreign sites. Online imports are five times bigger than online exports.

This suggests that Belgian companies have been slow to offer products and services over the Internet. This has prevented them from building up their experience in online retailing at the same pace as their European competitors.

The danger in such a situation is that it becomes increasingly difficult to break out of it. Increasingly, foreign players might find that Belgium is an attractive and easy market to move into. And at the same time Belgian retailers might find themselves lacking both the scale and the experience necessary for them to export any successful business models to other markets.

It is, therefore, high time that Belgian retailers do not consider the Internet as just another sales channel - or, even worse, as just another communications channel - and consider it rather as a vital new competitive weapon.

PROFILE OF THE BELGIAN ONLINE MARKET

BCG’s study shows that Belgium is trailing behind other European countries in the development of online retailing. In 1999, per capita online spending in Belgium was 7.6 Euro compared to a European average of 9.3 Euro, and a staggering 125.2 Euro in the United States.

A comparison of online penetration across countries shows a similar pattern. Online consumer spending represented approximately 0.16% of overall consumer spending in Belgium, compared to a European average of 0.24% and a US figure of 1.20%. This means that Belgium is between 8 and 29 months (depending on the retail category) behind the United States. This is the time that it would take for online consumer spending in Belgium to reach the level it is currently at in the United States. And it assumes that the online market in Belgium will continue to grow at today’s high rate of 420% per year.

The lag behind the United States is smallest for online purchases of music or video (8 months), and for travel related purchases (13 months). For online financial brokerage and online purchases of computer hardware and software, Belgium is roughly in line with the rest of Europe, and roughly 16 months behind the United States.
Three main factors seem to explain the lag. First, Internet penetration, a prerequisite for online transactions, is lagging behind the European average. About 13% of the Belgian population has access to the Internet, as opposed to some 17% on average across Europe, and some 30% in the US. Secondly, for the Internet market to take off, Internet users have to be converted into online buyers. Belgium is again slightly behind on buyer conversion, with only 13.5% of Internet users making purchases, compared to a 14.7% average across Europe and 37.1% in the US. Lastly, spending per buyer (426 Euro) is one-third of what it is in the US (1,144 Euro), although it is slightly higher than the European average of 373 Euro per buyer.
Market Size

Online retailing in Belgium is still at an embryonic stage. In 1999, Belgian consumers spent 77 million Euro online, roughly equivalent to the turnover of 2.5 hypermarkets.

The largest online categories were travel (24.8 million Euro); computer hardware and software (12.3 million Euro); books and magazines (9.1 million Euro); and financial brokerage (7.9 million Euro). These four categories together account for 70% of the country’s online spending.

Belgian online consumers make about 45% of their purchases on foreign sites. In three of the four largest online categories in particular, they do a lot of shopping "abroad": 50% in travel; 41% in computer hardware and software; and 57% in books and magazines. This large proportion of foreign online shopping demonstrates clearly that the online offerings of local retailers are today unable to meet a significant proportion of Belgian online shoppers’ needs. As a result, online imports outnumber online exports by a factor of almost five. The lack of sufficient Belgian online offerings is probably also partly responsible for Belgium’s lower buyer conversion.

Another surprising observation is that the two categories where online retailing has the highest penetration in the US - financial brokerage, and books and magazines - are also the categories where the lag behind the US is the greatest (20 months for books and magazines, and 16 months for financial brokerage). This is further evidence of the Belgian market’s early stage of development, and it shows the growth opportunities that are still to be found.

Market Structure

Belgian online retailing has an important international dimension, a dimension that is currently being shaped more by Belgian consumers shopping abroad than by Belgian retailers selling abroad. Online imports are today almost five times bigger than online exports. 45% of Belgian consumers’ online spending goes to foreign sites, especially for music and video (63%), and for books and magazines (57%). Belgian online retailers, on the other hand, generate only 15% of their total online sales of 50 million Euro in foreign markets. Again, exports were highest in music and video (37% of sales), and in books and magazines (32% of sales).
In general, BCG found that relatively few Belgian online retailers currently have international ambitions. Despite the global reach of online retailing, only 55% of the companies interviewed have an ambition to go abroad at present, and less than 40% of those companies have already made specific foreign investments.

Belgian Retailers Sold 50 Million Euro Online

Source: The Boston Consulting Group survey

Today Almost 5 Times More Online Imports than Exports

Notes:
(1) Sum of online exports and imports

Source: The Boston Consulting Group survey
Online retailing in Belgium is also relatively concentrated. The top three Belgian sites represent between 43% and 79% of online purchases in each category. Concentration is particularly high in the music and video category where the top three sites represent almost 80% of purchases, and the books and magazines category where they account for 73% of purchases. The share of the top three retailers in the other categories is around 50% of purchases.

### Top 3 Category Sites Account for Half of Purchases on Belgian Sites

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Belgian sites observed</th>
<th>Belgian sites named Top site frequency</th>
<th>Top 3 sites frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer HW / SW</td>
<td>38</td>
<td>15 %</td>
<td>43 %</td>
</tr>
<tr>
<td>Travel</td>
<td>21</td>
<td>23 %</td>
<td>51 %</td>
</tr>
<tr>
<td>Financial Brokerage</td>
<td>10</td>
<td>23 %</td>
<td>60 %</td>
</tr>
<tr>
<td>Books / Magazines</td>
<td>34</td>
<td>54 %</td>
<td>73 %</td>
</tr>
<tr>
<td>Music / Video</td>
<td>25</td>
<td>43 %</td>
<td>79 %</td>
</tr>
<tr>
<td>Food / Drinks</td>
<td>24</td>
<td>21 %</td>
<td>57 %</td>
</tr>
<tr>
<td>Textiles</td>
<td>9</td>
<td>29 %</td>
<td>58 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>161</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: The Boston Consulting Group survey

Nevertheless, a number of factors might impede an increase in penetration, and thus postpone any boost in e-commerce. First, Belgian consumers seem to lack a compelling local online offering, as shown by their substantial spending on foreign sites. Secondly, Belgian Internet users today face higher than average Internet access costs. This has led to lower Internet penetration among the Belgian population as a whole and (ultimately) to a slower development of online retailing. It is clear that these barriers have to be overcome or mitigated if the growth potential of Belgium’s online market is to be fully exploited.
Several factors will determine the way in which online retailing evolves in Belgium. The ability to overcome structural and systemic barriers is one. Another is the willingness and ability of traditional Belgian retailers and start-up firms to compete in this emerging online marketplace.

**OVERCOMING BARRIERS TO E-COMMERCE**

There are a number of barriers to the growth of e-commerce in Belgium. Success in online retailing will depend on recognizing these barriers and surmounting them.

**Costly Internet access**

The cost of access to the Internet in Belgium is significantly higher than in the US. For a heavy user, the total Internet access cost is approximately 170% higher than in the US (38 Euro per month compared to 14 Euro per month).

Internet access in Belgium is more expensive because of higher telecoms charges. Lower overall telecom charges and flat-rate pricing would without doubt attract more people to the Internet, especially younger ones, and increase the time that they spend online. Recently, several Internet Service Providers (ISPs) have offered free Internet access, thereby eliminating part of the fixed costs. However, higher than average telecom charges are still an important factor impeding progress.

Lastly, the availability of high bandwidth access could well allow Belgium to catch up with other European countries in online retailing. Belgium is among the most cabled countries in the world, and this infrastructure is being used increasingly to access the Internet. This significantly enhances the online shopping experience.

**Low consumer trust and confidence**

Belgian consumers often stop short of purchasing online because of concerns about the security of online payments. Belgian consumers’ fears about online security are reflected in their low usage of credit cards in paying for online purchases. Less than half of the online purchases are paid for by credit card as compared to 93% in the case of the US, and over 95% in the UK.

Plastic card issuers are, however, taking initiatives to resolve this issue by developing more secure payment systems, such as chip cards and electronic wallets. This is again an area where Belgium has traditionally been more advanced than most other European countries. At the same time, online retailers can help to build consumer trust by adopting leading online practices in the exchange of personal information with consumers.
Limited venture capital market
In particular, there is an opportunity for specialized venture capitalists to increase the funds available for promoting more start-up companies. In 1998, Belgian venture capital investment per capita was less than half that in the US. As a result, new start-ups entering the online retailing business have suffered from more limited financing opportunities than their US counterparts. Improved access to private equity financing would without doubt allow more online ventures to develop and to expand internationally.

EXPANDING THE ONLINE OFFERING

Assuming that online spending per buyer could reach US levels, and given an attractive enough local offering, there must be large growth opportunities for Belgian retailers in key online categories. We estimate that sales of computer hardware and software could quadruple to 32 million Euro; financial brokerage could triple to 24 million Euro; and sales of travel could double to 27 million Euro.

Other categories such as auctions; flowers and gifts; and event tickets also provide significant growth potential for Belgian retailers.

Growth Potential from Achieving U.S. Spending Level per Online Buyer

<table>
<thead>
<tr>
<th>Category</th>
<th>1999 growth rate (%)</th>
<th>Online revenue 1999 (m€)</th>
<th>Gap versus US spending level (m€)</th>
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<tbody>
<tr>
<td>Financial brokerage</td>
<td></td>
<td>530</td>
<td>7.0</td>
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<tr>
<td>Travel</td>
<td></td>
<td>425</td>
<td>14.2</td>
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<tr>
<td>Books / magazine</td>
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<td>350</td>
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<td>Computer</td>
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<td>200</td>
<td>8.5</td>
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<tr>
<td>Food / drinks</td>
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<td>3.5</td>
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Source: The Boston Consulting Group survey

TAKING UP THE INTERNATIONAL CHALLENGE

Despite the relatively small size of the Belgian market, Belgian online retailers can be successful competitors in the online world. For individual retailers, the main challenge will be to respond effectively to the global nature of online competition, either by pursuing a defensible local strategy or by aggressively building international scale. The attractiveness of a local strategy will depend on the ability to localize the product or service, and on the degree of fulfillment intensity that online retailers build into their offering.
Key Lessons for Online Retailers

The key lessons detailed in the European report are entirely valid for Belgian retailers. We will therefore just summarize these key lessons here and invite you to read more about them in the companion European report *The Race for Online Riches*. In addition to these key lessons, the European report also discusses several *best practice* examples applying some of these key lessons today.

**Achieve early advantage – and continue to move fast**
Online retailers need to move quickly to take advantage of the exponential growth taking place in the European market. This window of opportunity, however, is closing fast as the cost of getting into the market and acquiring new customers increases. Once retailers have established a presence online, they must implement ambitious growth plans to stay ahead of the competition.

**Get fulfilment and customer service right**
Creating basic, customer-friendly processes is essential. Some European online retailers report rates of incorrectly fulfilled orders as high as 50% — incurring tremendous costs in terms of customer loyalty and operational efficiency.

**Scale your business to international levels**
If European online retailers continue with their strong focus on domestic markets as they do today, they will miss out on large international opportunities and lose out to more vibrant competitors who successfully build scale whilst also catering to local preferences.

**Exploit the interactivity of the Internet to learn about your customers**
In general, European online retailers are not leveraging the opportunity the Internet gives to gather a wide range of information about their customers’ shopping habits, interests and preferences — key to long-term business success.

**Combine offline and online opportunities**
Businesses that effectively integrate their online and offline channels often provide the most value to the customer. The customer doesn’t necessarily differentiate between retailer’s offline and online channels. For example, they expect to be able to return items bought online at the retailers’ shops. This “clicks and mortar” approach has yet to be fully developed in Europe.

**Explore opportunities for new revenue streams**
Online retailers in Europe are relatively weak in exploiting high margin revenue streams such as advertising and referral fees. As more European consumers migrate to the Internet, retailers must be ready to pursue these additional sources of revenue.
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