

NEW E-COMMERCE BUSINESS MODELS CAN BOOST ITS DEVELOPMENT: CASE OF NORTH MACEDONIA

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ABSTRACT

The Internet and new technology has transformed many business models and made new to appear. The advent of e-commerce has led to the creation of many new business models and affected the way of shopping goods and services. A new interesting business model that emerged in 2008 is the group-buying model. It was launched by Groupon, and very soon the concept attracted interest around the world and spread through the clones in many countries all over the world. In North Macedonia Grouper introduced this concept at the beginning of 2011, and few more group buying web sites emerged soon. The new business model initiated the revolution of the e-commerce in the country, a field that was rather disappointing so far. The goal of this article is to show that attractiveness of the deals offered by group buying site can influence the online shopping and ecommerce development. Secondary data research from relevant sources is done. The number of online transactions in 2011 rose for over 1200 % comparing to 2010 and one-third of these transactions were made by group buying sites. In the following years the number of Internet users who have made orders online constantly increases.

KEY WORDS

e-commerce, new business models, group buying model, North Macedonia

CLASSIFICATION

JEL: M39

INTRODUCTION

The Internet has become the most valuable tool of modern technology and quickly pulled in all spheres of society, anywhere in the world. It represents a major factor in the changes of companies' modern organization and an integral part of the trade. Internet access imposed inevitable opportunities for greater transformation of the conventional trade into electronic commerce, commonly known as E-commerce. E-commerce or doing business transactions online affected the economy and changed the face of business forever. By cutting costs, increasing efficiency and reducing time and distance, E-commerce became an important tool for development, especially for developing countries, since the scope for reducing inefficiencies and increasing productivity is greater in the developing countries. E-commerce has become one of the essential characteristics of the Internet era. E-commerce is a huge field with lots of different business practices, ways to market products and reach customers.

Many new interesting business models based on online selling aroused as a result of the opportunities that E-commerce offer. The new business model of group buying via daily deals, launched by Groupon, has proved remarkably successful and enjoyed massive growth in 2010 and continued to grow rapidly in emerging economies [1]. Hundreds of daily deal sites have been launched, some by large corporations and others by individuals. The model is developed as an intermediary between merchants and customers. Group buying model provides various benefits for both sellers and buyers. Sellers are merchants that use the new promotional tool for attracting new customers by giving great discounts and buyers are the end-customers attracted by the discounts. Accordingly, the new promising promotional tool should be accepted primarily by the businesses willing to offer products and services over 50% off of the regular prices, and then the customers will be incentivized to try the products or services and buy them online. In North Macedonia Grouper was the first to introduce the new trend of group buying, followed by few more sites soon after. The merchants easily accepted the model and customers could enjoy the great discounts. Despite the devastating facts presented by USAID in 2010 regarding the development of E-commerce in North Macedonia, the emergence of group buying web sites caused a revolution in this field.

The goal of this article is to show that the attractiveness of the deals offered by a group buying site can influence the rise of online shopping and development of E-commerce.

The number of online transactions in 2011 rose for over 1200% comparing to 2010. Proof of the group buying sites' contribution to the E-commerce development is its participation with one-third of the total number of online transactions. In the following years the number of Internet users who have made orders online constantly increases.

The rest of the article is organized as follows. Section 2 gives explanations on E-commerce, S-commerce, and the model of group buying, Section 3 depicts some facts about the situation in the field of E-commerce before and after launching group buying sites in North Macedonia and finally we conclude in Section 4.

BACKGROUND

E-COMMERCE

E-commerce is a huge field with lots of different business practices, ways to market products and reach customers. E-commerce consists of the buying and selling of products or services over electronic systems such as the Internet and other computer networks and thus offers advantages for consumers as: saving time, ease in finding particular product or range of

products, lower prices compared with traditional stores, avoiding crowds and lines, comparing prices, cutting transport costs to get to shops etc. Simply defined, “electronic commerce is a system of online shopping and information retrieval accessed through networks of personal computers” [2; p.29]. Raymond [3; p.411] defines E-commerce as “functions of information exchange and commercial transaction support that operate on telecommunications networks linking business partners (typically customers and suppliers)”. Unlike him, Damanpour [4; p.18] defines E-commerce as “any business activity that transforms internal and external relationships to create value and exploit market opportunities driven by new rules of the connected economy”. According to Turban et al. [5; p.4], “Electronic commerce is the process of buying, selling or exchanging products, services and / or information via computer networks, including the Internet”. This means that the e-commerce in general covers any products and services sold through the Internet. But with the development of technology, this definition can be extended, for example, with products and services sold through mobile devices. As Internet usage increases the volume of e-commerce transactions grows rapidly. Modern electronic commerce uses World Wide Web technology (www) mainly, but the electronic mail might be as well considered as technology used to do e-commerce. As a result, a wide range of trade is conducted electronically, using the innovations in electronic funds transfer, supply chain management for procurement, online transactions processing, electronic data exchange, and inventory management systems for systems for automatic data collection.

S-COMMERCE

Shopping is a social behaviour frequently performed with a companion, generally a family member or a friend [6]. Tauber [7] argues that customers do not always shop based on functional and rational reasons but also in many cases they go shopping due to non-functional reasons. He finds that main motives for shopping are the desire to communicate with others on similar interests, to share ideas about specific products, to seek the opinion of others and to enjoy leisure time with friends and family. However, sometimes it is difficult to shop in company because of the physical distance, e.g., two friends who live in different cities that can easily be overcome by buying online because in virtual malls friends do not have to be located on the same place. Rayport and Jaworski [8] suggest that the online consumers’ ability to communicate with each other is critical to the success of web-shops.

Social shopping is a buzzword that has gained attention in recent years. It is a combination of social media and E-commerce. In general, it covers all aspects of the social web: friends, groups, voting, comments, ratings, reviews and discussions and focuses on their favourite activity – shopping – in order to get social shopping. Social shopping is a method of e-commerce where the buyers’ friends are part of the act of buying. Social shopping uses technology to “mimic” the social interactions that occur when buying in physical stores and shopping centres. Social buying beat classic online buying because it brings all products in one place. Users no longer need to search web pages to find the desired product. In addition with social shopping the customer is only one click away of comparing products and prices and can easily find out what other users think about a particular product. Social buying attracted attention around the world, so, a study by SocialShop identified customers’ social needs and developed 6 types of social buyer based on those needs [9]. By breaking down traits associated with indulgent needs, impulsive needs, utilitarian needs and informational needs (Fig. 1), the researcher [9] identified the following (from light social shoppers to heavy users): Dollar Defaulter – shopper that has just one goal: to find the cheapest alternative, regardless of brand; Efficient Sprinter – shopper that will choose items based on their popularity and reviews, in order to simplify the shopping process; Quality Devotee – shopper

that uses social media to feel empowered in their purchases, using it to mould decisions and validate their choices, regardless of the time and effort involved, in order to find the best product available; Strategic Saver shopper that spends time ‘deal-digging’, to find their favourite brands at cheaper prices; Opportunistic Adventurer – shopper with impulsive shopping tendencies, everything is about scoring fun and unexpected deals, and are probably big fans of coupon sites; Savvy Passionista is the heaviest social shopping user, is indulgent and use social media to monitor trends, connect with brands and stay ‘in-the-know’ [9].



Figure 1. Social buyer’s needs [9].

Some of the features of social shopping websites are: comments and ratings of products, price comparisons, polls, advices, blogs, social trends (automated recommendations), wish lists and shopping deals/ promotional sections [10].

2010 was the year of “social shopping”, since it has reached its tremendous growth and development. Social buying is based on social networks, autosourcing and smart phones scanners. According to Macmanus [11] five major types of social shopping in 2010 are: daily deals; social buying in real time; locations checking; Facebook buying; and bar code scanning. The new kind of social buying via group buying daily deals made a huge boom. Although it does not contain the classical features of social shopping, it can be considered as social shopping because it emphasizes the power of the group, also called collective buying power.

GROUP BUYING

The group-buying phenomenon traces back to the 1860s. It was practiced in different ways and forms through time, long before the Internet was invented. Following the footsteps of traditional group buying (offline) and buying clubs, group buying with discounts represents a dynamic pricing mechanism or model that allows customers to aggregate their buying power and thus get lower prices that they would not be able to get individually. This dynamic pricing mechanism has been enabled due to the advanced information technology and was adopted primarily by Internet based companies. The dynamic pricing model enables online companies to adjust their prices according to how much the buyer is willing to pay. With regard to the data collected for the buyers, including where they live, what they buy and how much they spend, companies that implement this model are ready to respond to fluctuations in the market and customer demands. The most representative example of the application of the dynamic pricing model is the airline industry. In fact, this model is used to the point that almost all passengers on a plane pay different price for the same flight.

In November 2008, a new form of online group buying model emerged that attracted immense attention around the world and changed the group buying industry dramatically. Combining the power of the group, the social aspect of shopping and the huge discounts offered by merchants, Groupon.com is the pioneer that established the trend of group buying daily deals. The emphasis in this new form of online group buying is put on the term “daily deal”. Deal of the day can be any service or product that is offered at a discount of 50 % to 90 % off the regular price, which has to be bought by a certain minimum number of people in order to become successful. Buyers receive a coupon upon purchase that is redeemable for a service or product to the merchant. The coupon can be redeemed according certain conditions and in a predetermined time period defined by the merchant. Group buying sites are an intermediary between local businesses who want to promote their products or services at a discount in order to attract great number of new consumers to try their product or service. Daily deal services provide the merchants guaranteed number of new users of their services / products. Merchants in return pay a service fee in the form of commission from the price of the coupon. Users, on the other hand, make savings by buying with discounts and have the opportunity to visit new places and try new things. The group buying site has a predetermined minimal number of buyers that have to be purchased in order the deal to get tipped, or become successful, therefore they guarantee the merchant certain minimal number of customers. The buyer does not receive the coupon and is not charged until the deal gets tipped.

Coupons are one of the oldest means used by companies to attract huge numbers of different customers and reach bulk orders and are directly connected with the operating model of the group buying web sites. The business model is considered a combination of discount coupons and group buying [12]. Abrahamsen [13] claims as well that group buying contains all the features of the coupon as a marketing tool. Daily deals appear in the form of coupons or discount vouchers verifying that the buyer pre-paid particular service or product and should be redeemed at the merchant (the seller).

STUDY METHODOLOGY

The study methodology followed to complete the study is on the basis of secondary data. Secondary data were collected from relevant sources that are publicly available: State Statistical Office, National Bank of Republic of North Macedonia, Casys, and data from internal source: Grouper. A comparative analysis was done in the period before emergence of group buying sites and after to determine the the impact on the effective development of e-commerce in North Macedonia.

DATA AND RESULTS

The E-commerce appeared in the mid 90’s of the last century, and experienced a real boom in the last decade. In 2010 E-commerce accounts for 8 % of the total trade worldwide [14]. In the Republic of North Macedonia the data about the participation of the E-commerce in the total trade in 2010 is provided only in the study of USAID. About 1 % of the total transactions made online in 2010 are via domestic Internet merchants, according to a study of USAID [15]. Republic of North Macedonia lagged behind the developed countries in this matter because of several reasons: low internet penetration for many years; unavailability and further on low usage of payment cards; lack of choices where to buy from, since there were no North Macedonian online stores; most of the foreign online stores did not allow orders made with payment cards from North Macedonia, etc. The development of E-commerce in North Macedonia began several years ago, main reasons for that being the following: commercial banks started to issue cards authorized for online payment and to open accounts of the domestic online merchants; the legal framework for E-commerce has been adopted; reduced

number of frauds (transactions made with fake or forged cards); the number of foreign online stores that allow sales with payment cards from domestic banks has increased, etc. [15].

E-COMMERCE IN NORTH MACEDONIA BEFORE 2011

In the Republic of North Macedonia, in the first quarter of 2010, 46,1 % of households had Internet access at home, of which less than 5 % have made online orders for products and services. 84,1 % of enterprises from the financial and non-financial sector with 10 or more employees had Internet access [16]. The number of payment cards in circulation in North Macedonia is around 1,4 million [15]. The E-commerce turnover (buying from North Macedonian online merchants) in the first 10 months of 2010 amounts around 4 000 000 MKD (~ 65 000 EUR), while the E-commerce turnover from buying from foreign online merchants with payment cards issued in North Macedonia is 20 times higher [15]. Whether a card can be used for online payment depends on the bank's policy and whether the bank obtained a license from the international payment card organization. The bank does not open a separate account for the online merchant to perform E-commerce, but it requires the merchant to meet a series of conditions in order to allow him to deal with E-commerce (to obtain cash flows through Internet transactions). Most important is the assessment of the bank whether the potential Internet merchant promises serious approach to work. The number of interested merchants that gave up from the idea of opening online store was huge, after the bank gave them knowledge about all aspects of the E-commerce, which they did not take into account when developing the idea [15]. North Macedonians mostly used the Internet for general search for information, social networks, sending and receiving e-mail, following news, playing games, downloading music, etc. [17]. Based on a survey of 330 respondents, conducted by It.com.mk, a site whose visitors are IT and computer people, mistrust in online stores remains high [18]. 20 % of 330 respondents said they do not trust the sites, while 17,9 % said they would like to buy but do not know whether it is safe. Only 21 % of respondents said they would purchase from online stores. The majority of respondents, 41 % or 135 respondents said that they do not possess a payment card.

E-COMMERCE IN NORTH MACEDONIA BEFORE GROUP BUYING SITES EMERGENCE

Considering the factors that hinder online shopping such as the small number of internet merchants in 2010, and in accordance the small number of products and services offered for online purchase; the fear of safety when buying online; the small number of cards issued; and the unfavorable conditions offered by the banks to E-retailers, the overall picture of e-commerce in the country in 2010 was not very optimistic.

The turnover of E-commerce (buying from North Macedonian online merchants) in the first 10 months of 2010 was about 4 million MKD, while the value of transactions made on foreign internet retailers was 20-fold higher, which leads to the fact that North Macedonians show greater trust in foreign online stores than in domestic ones and that the supply from online retailers in the country is very low. Out of the total turnover in the country, only 8-10 % is made through payment cards, and out of these 8 %, online transactions account for only 1 % of the total payments made with credit cards, while other 7 % represent payments made on physical POS terminals [15].

Four subjects participate in the online transaction: merchant (internet retailer), customer (end user who performs the transaction), payment processing system (or payment processor) and bank (which is running the online transaction). Payment processor (payment gateway) is technical tool to the bank and links the bank with the international company that issues the payment card in order to process a transaction. Casys is one of the processing systems that

operate since 2002 in the Republic of North Macedonia. 14 of 17 banks used Casys for processing of transactions in 2010, regardless via POS or virtual terminals. 5 of those banks that cooperate with Casys offer processing of online transaction to the Internet merchants. Only 3 banks, of the total number of banks in North Macedonia, used other payment processor and only one of those three provides online processing to merchants (NLB Tutunska Bank) by using the online processing system from Slovenia – First Data. In absolute numbers according to data provided by the International Processing System – Casys in 2010 a total of 7 000 successful transactions online were realized, which represents disappointing data on the development of electronic commerce in 2010 [19]. The number of online transactions in 2010 is shown in Figure 2. It can be said that the sites for online group buying resulted from the economy recession. They appeared in North Macedonia in early 2011 and made a true revolution in the E-commerce. Consumers always prefer saving deals. According to a survey by Civic Consulting / TNS, in 2011, on a sample of 13 872 online buyers in Europe, the three most important reasons for online purchase are: lower prices (66 %), time-savings (50 %) and ability to compare prices (33 %) [20]. Daily deal sites are attractive for consumers mainly because of the great discounts, often over 50 % of the regular price.

The acceptance of the concept by consumers is shown by the growth in the number of subscribers of the group buying sites worldwide. Along with advances in technology and social media sites, group buying sites contributed to a change in consumer behavior, in particular the consumers' perception and purchase intention of online deals. In the beginning the daily deals were offered mainly from small businesses, later larger brands are present as well. This new promotional tool cannot be ignored, and more and more companies incorporate it in their marketing mix.

Group sites offer Win-Win-Win model that connects end-customers with retailers, as an intermediary that provides discount. Figure 2 shows that almost 36 % out of 11 000 total numbers of online transactions realized through C-Pay Payment Gateway in 2010 amounts were unsuccessful.

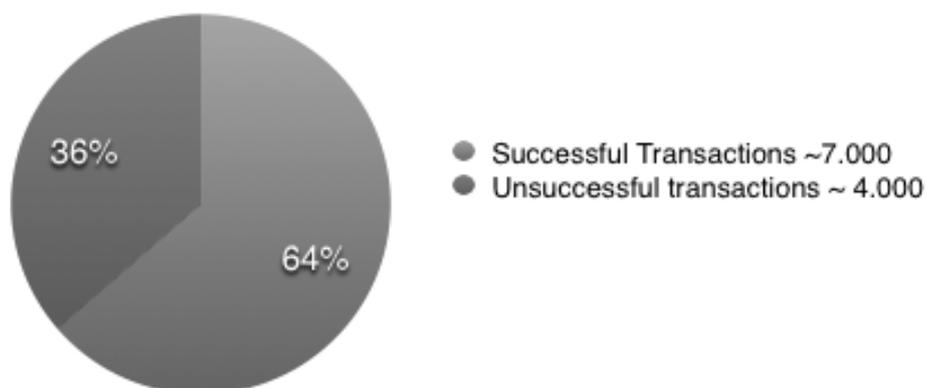


Figure 2. Online transactions realized via C-Pay Payment Gateway in 2010 [19].

E-COMMERCE IN NORTH MACEDONIA AFTER GROUP BUYING SITES EMERGENCE

The number of issued payment cards is an important prerequisite for the development of electronic commerce. According to the official annual report of the National Bank of Republic of North Macedonia for 2011, the total number of cards in circulation was 1450 340, which is an increase of only 2 % compared to the number of issued cards, 1422 339, in 2010 [21]. In the first quarter of 2011, 55 % of individuals used Internet [16]. 6,7 % of the total number of

Internet users aged 15-74 made online orders in 2011. Compared to 2010, the increase is less than 2 %, however growth is significantly greater having in mind the considerable increase in the number of Internet users in absolute numbers. The number of customers who ordered online increases as the number of Internet users increases in the following years as well, Table 1.

In 2011 through cPay Payment Gateway a total of 97 177 transactions were realized, and 85 017 of them were successful transactions [19]. The number of online transactions depicting successful and unsuccessful in 2011 is shown in Figure 3, and unlike in 2010 only 13 % were unsuccessful.

One-third of the total number of online transactions in 2011 was made via group-deal sites, according data from C-Pay Payment Gateway [19]. From the transactions made via daily deal sites, 55 % represents Grouper or 18 % of the total transactions processed online. Other deal sites, six sites in particular that were launched few months after Grouper, account for the other 45 % of the online transactions [22]. This indicates the impact of group discount sites on the development of the E-commerce in the country, and especially Grouper, which holds the largest share of the group buying market, Figure 4.

Table 1. Internet users aged 15-74 and the Percentage of them that made orders/bought online. Source: State Statistical Office.

	2010	2011	2012	2013	2014	2015	2016
Internet users (15-74) in the last 12 months	46	55	60	66	70	73	75
Ordered online in the last 12 months (percentage of users aged 15-74)	5	7	8	16	16	20	20



Figure 3. Online transactions realized in 2011 through Cpay Payment Gateway [19].

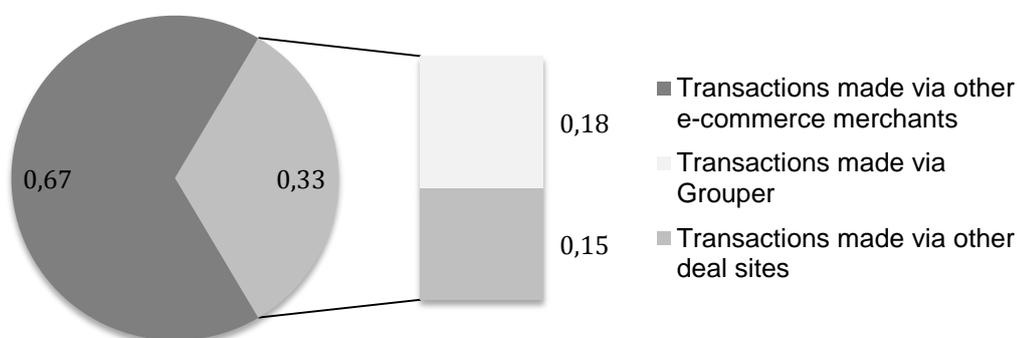


Figure 4. Online transactions realized in 2011 via group deal sites and other E-commerce companies [19].

The group buying sector gained significant attention, and an additional proof of that is the fact that several group deal sites aggregators were launched just a few months after the emergence of the group deal sites [23]. Some of the aggregators are: Popust.be, Bagatela.mk and Eftino.mk.

The banks recognized the contribution and they provided users with easy online application form for acquiring a debit card, to create awareness of the process of getting a payment card.

In 2011 Grouper reached about 15 000 successful online transactions [22]. If we compare this figure with the total number of successful online transactions, including online payment of bills and transactions of mobile operators we can clearly conclude that the first online group buying, Grouper is one of the major players in the E-commerce accounting for approximately 18 % of the total E-commerce industry.

CONCLUSION

This article explains E-commerce setting in Republic of North Macedonia before and after the emergence of group buying sites. Despite the measures and activities started by the Ministry of Information Society (MIS) in order to identify problems and opportunities in the field of E-commerce and initiating actions for their resolution in 2008, the situation in 2010 is still on a very low level.

Group-buying sites have significantly influenced the online buying in North Macedonia, as a significant part of the E-commerce sector. Along with advances in technology and social media, online group buying contributed to the change in consumer behavior or the way consumers perceive and buy online deals. In fact, the increased awareness of online shopping is due to the attractive offers that affect the “pocket” of citizens. It can be said that the emergence of group deal sites led by Grouper as a pioneer in this field, showed to be an excellent trigger for the development of E-commerce in times of economic crisis when everyone is looking for ways to save. In 2011 group deal sites made a true revolution inducing increase of 1200 % of the online truncations in 2011 comparing to 2010. One-third of the total number of online transactions is made via group deal sites. In the following years the number of Internet users who made online orders is increasing. Finally North Macedonian citizens made their first online purchase on discounted prices via group deal sites as the major motivator to buy. This proved that the attractiveness of the offer and the desire to save were sufficient drivers to overcome most of the obstacles that hamper online buying.

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