

Development of E-commerce in the Czech Republic

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Introduction

E-commerce sales have been growing quite steadily since mid-90s. In the western economies, especially in the United States, this grow has been so dynamic that it led to unrealistic investor expectations and the so called „Dot Com Bubble Bust“ in 2000. On the other hand, in post-communist Central European countries E-commerce boom didn't happen in the mid-90s. In Czech Republic, for instance, only 27% of households owned a computer at that time and out of these only 8% had access to the Internet¹. Internet user base has been increasing only slowly prior to 2000. However in the following year's user base increased significantly and at the beginning of 21st century E-commerce growth started to gain momentum in the Czech Republic as well. On a global scale E-commerce sales were growing since the mid-90s and it is expected² this grow will continue, mainly because of increasing Internet user-base, online shopping convenience and wider availability of electronic payment tools.

Internet has become an important sales channel, not only for tech-savvy entrepreneurs but for many businesses worldwide. After reading this article you will have a good understanding of what E-commerce is and how can your company benefit from joining the global E-commerce market. You will also be able to explain how E-commerce developed in the Czech Republic and in the USA and what was the so called “Dot Com Bubble Bust“.

What is E-commerce

E-commerce is a term for an economic exchange conducted over an open electronic network, typically Internet or a Mobile phone network. *“Both business-to-business and business-to-consumer transactions are included.”*³

Following characteristics distinguish E-commerce from other forms of commercial transactions:

- Customer has to own a device connected to a network in order to participate in e-commerce transactions (i.e. PC)
- Merchant has to have a retail space within the network (i.e. domain name and website)
- Customer obtains information about the product electronically
- Customer confirms his decision to purchase the product electronically (i.e. filling in a form on a website)
- Customers often pay online, at the time of purchase. In some e-commerce stores online payment tools have to be used (i.e. Credit Cards, PayPal, PaySec(Czech), SMS payments)
- Purchased products can sometimes be delivered electronically (i.e. songs & books, software & graphics, services)

¹ STUHLÍK, P; DVOŘÁČEK, M. *Reklama na internetu* (2002)

² Building Confidence – Electronic Commerce and Development, *United Nations Conference on Trade and Development* (2000)

³ ITC Glossary Guide @ worldbank.org

- Product price can be determined in real time and based on user input (online auctions)

E-commerce in the context of International trade

E-commerce transactions are conducted over open digital networks, usually over the Internet. Internet is a global computer network and allows buyers and sellers find their trade partners conveniently, cost-efficiently and quickly. E-commerce lowers transaction cost of international trade and therefore facilitates international trade. Kofi A. Annan believes that: „*Information and communications technologies have considerable potential to promote development and economic growth. They can foster innovation and improve productivity. They can reduce transaction costs and make available, in mere seconds, the rich store of global knowledge. In the hands of developing countries, and especially small- and medium-sized enterprises, the use of ICTs can bring impressive gains in employment, gender equality and standards of living.*“⁴

Benefits of E-Commerce Summarized

In addition to aforementioned lower transaction cost other benefits can be pointed out in Marketing and Finance areas. Following table provides a brief summary.

Lower transaction cost	<ul style="list-style-type: none"> • Merchant side <ul style="list-style-type: none"> ○ Store, inventory, staff, communication • Customer side <ul style="list-style-type: none"> ○ Time needed to get information and compare prices, communication
Marketing	<ul style="list-style-type: none"> • Communication + Convenience <ul style="list-style-type: none"> ○ Complete <i>A-I-D-A chain + payment + distribution</i> in one continuous time-frame <ul style="list-style-type: none"> ▪ targeted advertising (i.e. search engine) ▪ product description, screenshots, trial (website, web store) ▪ online payment ▪ download (Internet as a distribution ch.) <ul style="list-style-type: none"> • 10 minutes • Customization <ul style="list-style-type: none"> ○ <i>Great possibilities</i> ○ Automatic (i.e. Google recognizes your language settings) ○ Based on user input (i.e. Dell store)
Finance	<ul style="list-style-type: none"> • Cost cutting <ul style="list-style-type: none"> ○ Outsource services worldwide (i.e. Exxon Customer service Centre in India) ○ Global market place - take advantage of exchange rates...

⁴ E-commerce and Development Report 2004. *United Nations Conference on Trade and Development* (2004)

E-commerce Timeline

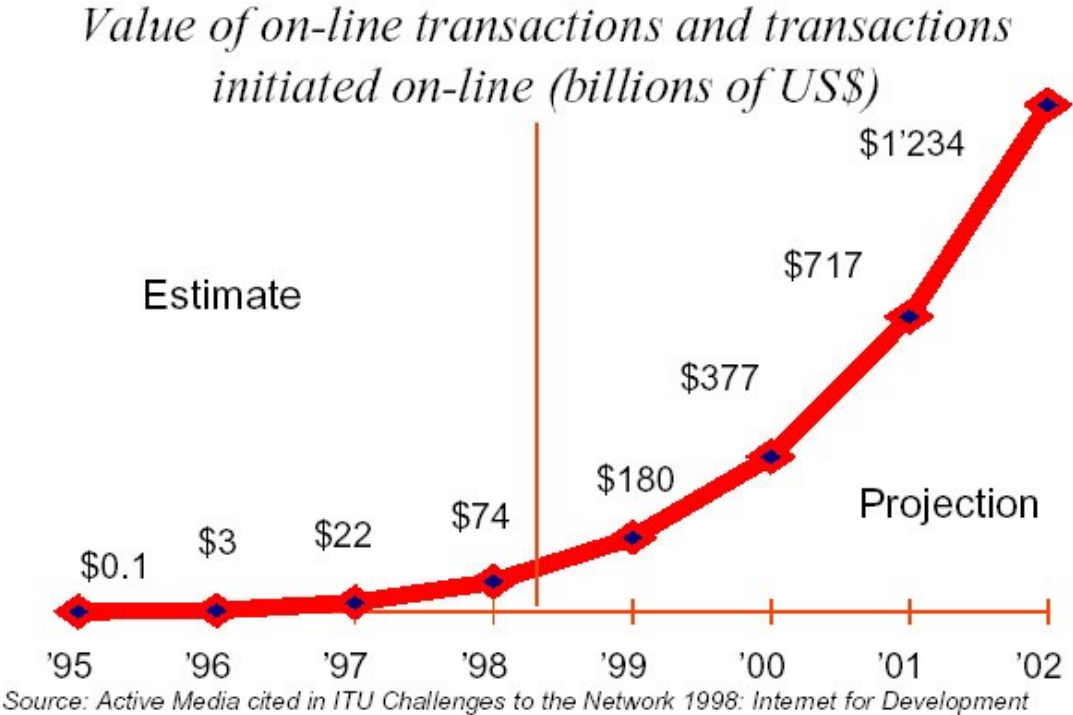
By now, you learned that E-commerce development was more dynamic in the USA than it was in the Czech Republic, especially in the late 90s. Let's review some major moments throughout the development of E-commerce in these two countries.

1995-1999

United States	Czech Republic
1995	
<ul style="list-style-type: none"> • Jeff Bezos launches Amazon.com • The first commercial-free 24 hour, internet-only radio stations, Radio HK and NetRadio start broadcasting • Dell and Cisco begin to aggressively use Internet for commercial transaction • eBay is founded by computer programmer Pierre Omidyar as AuctionWeb. 	<ul style="list-style-type: none"> • „Czech Telecom“ loses monopoly • It is now possible for other providers to offer Internet connection • First households connect to internet.
1996	
<ul style="list-style-type: none"> • Google began in January 1996 as a research project by Larry Page, a Ph.D. student at Stanford, he was soon joined by Sergey Brin 	<ul style="list-style-type: none"> • Seznam.cz, now a major Czech search engine is founded by Ivo Lukacovic • Vltava.cz and Cybex.cz among first online Stores
1997	
<ul style="list-style-type: none"> • Business.com sold for 150 000 USD • Amazon IPO on Nasdaq • 30% US population is online (that is nearly 60 million people) 	<ul style="list-style-type: none"> • Seznam reaches yearly turnover of nearly 50 000 USD - most of the income is from advertising • Only 27% households have a computer <ul style="list-style-type: none"> ◦ out of these only 8% are online (0.216 mil. people)
1998 & 1999	
<ul style="list-style-type: none"> • Dot Com bubble growing, lot of start ups, some succeed (Paypal founded 2000) • In 1999: 3,7 billions USD spent on online advertising 	<ul style="list-style-type: none"> • 27% of households owns a computer, out of these 33% are online • In 1999: 2,7 millions USD spent on online advertising <ul style="list-style-type: none"> ◦ No bubble – too little money involved... • Paegas Internet Call <ul style="list-style-type: none"> ◦ First VoiceOverIP service

The second half of 90s is often mentioned as the golden era in the USA, user base grew very quickly, electronic payment (credit cards) has been accepted and widely used by consumers. Several companies founded in the mid-90s are billion dollar businesses nowadays (Yahoo, eBay, Amazon, Google). On the other hand in the Czech Republic internet user base grew very slow, not only because the Internet connectivity was relatively very expensive but also because only one-third of households actually owned a computer. Furthermore electronic

payment was not adopted by consumers at that time. On a global scale though, E-commerce sales were growing steadily, as you can see in the following graph.

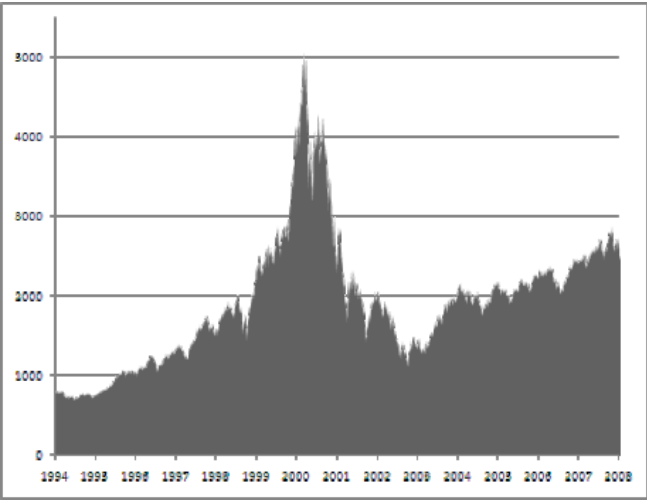


Dot Com Bubble Bust

With growth of Internet user base in the USA and other western economies and with increasing number of on-line commercial transactions stocks of “dot-com” companies grew in price.

“A combination of rapidly increasing stock prices, individual speculation in stocks, and widely available venture capital created an exuberant environment in which many of these (dot-com) businesses dismissed standard business models, focusing on increasing market share at the expense of the bottom line.”⁵

While *“number of these new entrepreneurs had realistic plans and administrative ability, many more of them lacked these characteristics but were able to sell their ideas to investors because of the novelty of the dot-com concept”⁶* Many e-startups were overvalued on the stock market. When investors realized that these businesses are not creating profit and don’t have a sound



⁵ Dot-com bubble. Wikipedia 2009
⁶ same

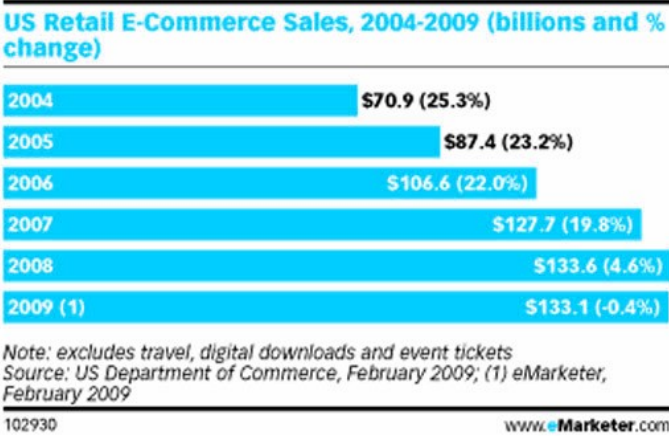
long-term strategy they quickly got rid of those stocks. NASDAQ index peaked on 10th March 2000, and declined several times throughout 2000 and 2001. Since 2003 the NASDAQ index has been recovering nicely.

2001-2009

In the first decade of 21st century E-commerce development began to gain momentum in the Czech Republic. Second half of the decade is market by a huge popularity growth of wave user added content sites, such as YouTube, MySpace or Facebook. These websites are based on the so called Web 2.0 principles, the main one being that the website is a platform for users to connect, interact and share content.

United States	Czech Republic
2002 & 2003	
<ul style="list-style-type: none"> eBay acquires PayPal for \$1.5 billion 	<ul style="list-style-type: none"> Ministry of Informatics established
2004 & 2005	
<ul style="list-style-type: none"> 2004: E-commerce sales grow at a 25% rate 2005: E-commerce sales grow at a 23% rate 	<ul style="list-style-type: none"> 2005: APEK reports 40% E-Commerce sales growth from 2004, total of 0.5 billion USD sold in CZ that year 2005: Mall.cz the becomes the largest E-commerce store in CZ, reports sales over 50 million USD (1 billion CZK) 2005: Electronic Communication Bill passed
2006 & 2007	
<ul style="list-style-type: none"> Microsoft bought 1.6% share of Facebook for \$240 million, giving Facebook a total implied value of around \$15 billion Google buys You Tube in 2006 (\$1.65 billion USD) US E-commerce sales 1st time over 100 billion USD 	<ul style="list-style-type: none"> Seznam.cz reports over 1,5 million users daily

E-commerce sales did grow at a higher rate in Czech Republic than in the USA in 2005 and 2006. Following graph shows certain slow down in the E-commerce sales growth rate in the USA. Emarketer.com⁷ predicts a stagnation in 2009.



⁷ Online Sales Slip. Emarketer.com (2009)

Conclusion

Low communication cost and convenient information research typical for open electronic networks such as Internet can be beneficial for businesses worldwide. E-commerce is a “particularly visible and spectacular incarnation of globalization“ as Ricuper⁸ states. Benefits of global trade do apply to E-commerce, plus there are lower transaction cost and new possibilities in Marketing and Finance areas.

In order to participate in E-commerce buyers and merchants has to own an appropriate device and be connected to a network, this is limiting, as there are and will be many people who do not have an access to internet connection. Another limitation of E-commerce is availability of electronic payment tools in given area and security issues connected with such online financial transactions. All of these four factors influenced relatively slower E-commerce development in the Czech Republic.

On the positive note though Czech republic did not suffer from the Dot-com Bubble Bust as much as USA did and while E-commerce sales have been growing continuously, the growth rate was higher in the Czech republic, especially in the second half of the first decade of 21st century.

⁸ Building Confidence – Electronic Commerce and Developemnt, *United Nations Conference on Trade and Development* (2000)

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