

Executive Summary

As digital transformation has accelerated, the e-commerce landscape has become increasingly dynamic. New players have emerged at the same time that established actors have taken on new roles; some barriers to e-commerce at the firm, individual and country levels have been overcome, while new barriers have emerged. New business models have transformed buyer-seller relationships and pushed out the frontier of what is possible to buy and sell online. *Unpacking E-Commerce: Business Models, Trends and Policies* analyses new and emerging e-commerce business models, examines e-commerce trends along a range of dimensions, and identifies how policies may need to adapt to remain fit for purpose in a fast-moving e-commerce landscape.

E-commerce is increasing in size and scale, but gaps remain

More firms are buying and selling online than ever before, including across borders, and the absolute value of the e-commerce market is growing. This is true across industries, including in traditionally consumer-facing sectors. In 2017, more than one in five firms in OECD countries participated in e-commerce, with the share reaching 40% in some countries. However, large firms are more than twice as likely as small and medium-sized enterprises (SMEs) to participate in e-commerce in a majority of countries, and this gap is widening on average.

Consumers also increasingly buy online, benefitting from the convenience and increasing product variety of e-commerce. In 2018, more than half of all individuals in OECD countries made online purchases over the last 12 months, a rise of more than twenty percentage points since 2009. But not all consumers are equally likely to participate in e-commerce: older individuals, people with lower levels of education and income, as well as those living in rural areas, are less likely to buy online.

E-commerce business models are evolving

Many firms are innovating in the ways in which they sell products online. Firms can make use of a range of digital technologies, including artificial intelligence, blockchain, the Internet of Things and autonomous delivery devices like drones or robots to facilitate e-commerce, while new payment services like mobile money and digital wallets widen the scope of e-commerce.

Online platforms match buyers and sellers, including across borders, to facilitate online transactions. Online platforms enable more and different products to be sold, but often require mechanisms that match buyers and sellers, boost trust among unknown e-commerce participants, and encourage more firms to enter the marketplace. Also growing are subscription service business models (e.g. music streaming). Such models enable the continuous provision of products in exchange for recurring payments. Consumers may find such models convenient, particularly for goods that require replenishment, while firms may benefit from lower marginal costs, reduced frictions and longer-term revenue streams. A third business model includes those that use offline or physical features to sell online (e.g. omni-channel models). From automated supermarkets to skip-the-queue mobile application ordering, more firms are experimenting with mechanisms that enable e-commerce while removing the frictions associated with offline ordering.

Targeted, flexible and co-ordinated policies can unlock the potential of e-commerce

The rise of the Internet in the 1990s fuelled the growth of e-commerce and put it on the agenda of policy makers worldwide. But the rapid pace at which digital transformation has progressed and the dynamism of e-commerce markets requires a fresh look at policy frameworks to ensure that they support further e-commerce innovations. In particular, three policy considerations should be taken into account.

E-commerce must be better measured and e-commerce policy more co-ordinated to unlock the potential of e-commerce for all

Technological change is altering the e-commerce landscape, and these new developments affect policy frameworks along several dimensions. Some of the challenges identified in the early days of e-commerce remain relevant (e.g. related to data protection), but new challenges have also emerged (e.g. the rise of tradeable services and their implications for trade policy). These developments require a holistic approach to e-commerce policy making, including co-operation and collaboration across policy areas. In particular, consumer protection, taxation, competition, trade and environmental policies should be co-ordinated, including at the highest levels of government and at the global level, to ensure that trade-offs are carefully considered and to guard against unintended consequences of misaligned policy action. Many such rules are local, which further underscores the need for a consistent and co-ordinated whole-of-government approach to e-commerce policy making at all levels of government.

At the same time, a lack of e-commerce data limits the ability of policy makers to determine the need for policy action and calls for more focus on the e-commerce measurement agenda. On the one hand, the harmonisation of available data on e-commerce across countries (e.g. ICT usage surveys) should continue and adjust in response to an evolving technological environment. Changing technologies and business models might eventually also warrant a reconsideration of the current OECD e-commerce definition. At the same time, the limitations of ICT usage surveys requires governments to foster the inclusion of e-commerce related questions in other official data sources, such as structural business or household expenditure surveys, as well as the use of non-standard data sources.

Targeted policies can address e-commerce divides

Those who do not or cannot engage in e-commerce may find themselves on the wrong side of a potentially persistent and harmful digital divide as digital transformation progresses. SMEs lag behind larger firms in terms of e-commerce participation, but policy can help by addressing bottlenecks that might result in high costs associated with delivery and returns. Reducing regulatory uncertainty and fostering an inclusive business environment can help small firms trade online and across borders, as well as integrate successfully with larger service providers, such as online platforms.

E-commerce gaps for individuals remain significant along a range of dimensions, including education, income, age and gender, as well as for those living in rural areas. Factors that reduce participation of these groups are often related to economic and social conditions that reach far beyond e-commerce, including rural-urban divides, income distribution, unequal access to education and an aging society. With regard to e-commerce, these conditions may manifest themselves in low connectivity, a lack of digital skills, low levels of trust or a lack of viable payment options, all factors that can be addressed by policy action.

Public policies can support the creation of innovative e-commerce business models

As digital transformation progresses, new business models will arise in ways that are difficult to predict, but which also challenge traditional policy frameworks. In particular, some regulatory barriers preserve artificial distinctions between online and offline commerce, even as firms increasingly pursue business models that combine both elements.

Where local zoning laws prevent multi-purpose use of brick-and-mortar stores, or planning regulations prevent the development of new last-mile logistic solutions, the potential of e-commerce diminishes.

Regulatory approaches to new e-commerce business models should focus on remaining experimental, transparent and flexible. Experimental regulatory waivers have been successfully used to test new technologies like drones and digital payment mechanisms; future applications for e-commerce could include cryptocurrencies and 3D printing. Existing rules could be made clearer to reduce uncertainty for innovative firms. Policy makers should avoid attempting to regulate particular business models. Instead, they should ensure that particular business functions conform with regulatory frameworks, while better accounting for the interlinkages across business functions.



From:
Unpacking E-commerce
Business Models, Trends and Policies

Access the complete publication at:
<https://doi.org/10.1787/23561431-en>

Please cite this chapter as:

OECD (2019), "Executive Summary", in *Unpacking E-commerce: Business Models, Trends and Policies*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/dcbabb1c-en>

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