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# Electronic Commerce: What is Different in Germany?

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## **Abstract**

*An outline of the current E-commerce situation in Europe, especially Germany, including the demand side as well as the supply side is presented. Although Germany can be regarded as the most important European market for E-commerce, it lags behind the United States by at least three or four years. Some explanations for this difference are offered.*

## **Introduction**

According to a widespread opinion, Germany is lagging behind. Many people in and outside Germany believe that the Germans slumber through some of the most important economic trends and technological developments, especially at the incipient stages. For example Coke, color television, and computers were not invented there, and Germans often regarded words like Internet or E-commerce as slips of the pen.

But does this picture accurately portray today's reality of the Internet and E-commerce? In the following, I will present an outline of the current situation in Germany and Europe. This will include a view on the general importance of Germany as a market for goods sold online, an examination of the demand side as well as the supply side of E-commerce transactions, and of the differences between Germany and other European countries and especially between Germany and the United States.

## **Electronic Commerce in Germany**

According to studies conducted by Forrester Research and IDC, the total sales revenues from E-commerce transactions on the Web should rise by the year 2002 to more than \$500 billion worldwide. This would include \$108 billion in the U.S. and \$20 billion in Germany. Even within the next two years, Germany will probably become the largest and most important market for E-commerce businesses in Europe (BBE 1998). Germany's share of the European E-commerce sales revenues will be 25%, followed by the shares of Great Britain (20%), France (13%), and Scandinavia (10%).

The business-to-business area is of most importance for E-commerce in Germany. The share of the business-to-business sales revenues is nearly twice the amount of the business-to-consumer sector (65% vs. 35%, see BBE 1998, 72). Looking at the various branches of business, wholesaling and retailing account for 50% of the sales revenues, other services 10%, and the production sector 30% (BBE 1998, 73).

Other studies also emphasize the important role of the German market for E-commerce. The European Information Technology Observatory (Eito) for example analyses the capital spending in E-commerce technology in Europe. By 2002, such spending will increase to DM 4.72 billion in Germany, to DM 4.17 billion in Great Britain, and to DM 1.45 billion in France (Eito 1999a). Another example: Jupiter Communications has projected the online shopping revenues from four popular product categories in Germany, France, and Great Britain (Jupiter Communications 1998). Germany is expected to realize revenues of \$782 million in online air travel, \$674 million in books, \$216 million in music, and \$174 million in software sales by 2002. Leading in all four categories, Germany is projected to be well ahead of France and Great Britain, the other big European E-commerce players, and offers the greatest potential for online sales growth. But compared to the corresponding U.S. market, which is expected to reach \$37.5 billion by 2002, the European markets will continue to be significantly smaller.

### *Supply Side Perspectives*

Let us take a closer look at the Web-based marketing activities of German firms. Our own research (see Fritz and Kerner 1997) shows that these activities started in 1994, but only within a few industries which I will call the Web leaders in Germany - the computer and the media businesses. Others, the followers, started one year later such as, for example, the financial services industries like banks and insurance companies (see Fritz and Kerner 1999). In view of the fact that the year 1993 is considered as the year of birth of the Internet economy, German firms seem not to have lagged behind so much at that time.

Compared to the Internet marketing activities of the followers, the Web leaders show a somewhat different profile. The Web leaders emphasize the coming significance of the Web for the sales and distribution mix and for product development to a higher, but for advertising to a lower, degree than the Web followers. These findings indicate, that the Internet marketing of the Web leaders is more affected by E-commerce considerations than that of the Web followers. In contrast, the Web sites of the followers are primarily characterized by focus on communications objectives (Fritz and Kerner 1999).

But some things are changing even in Germany! Recently we conducted two surveys within the insurance industry (Fritz 1999). This study should reveal the changes in the Internet marketing during a period of one year. The findings suggest that even the Web followers have begun to further develop their Internet marketing towards E-commerce, although such development is occurring at a rather slow pace.

Although we can identify a slight tendency towards E-commerce within the Internet marketing of German firms, other studies report that the firms do not exhaust the given potential by far. This was indicated, for example, in an analysis of the Web sites of the leading 100 German industrial firms, conducted by Norbert Mundorf, Detlev Zwick, and Nik Dholakia (1999). Very often the Web sites offered no possibility for feedback, interaction, and online purchasing to the Web user. A recent study by Roland Berger & Partners, a famous German consulting company, shows that only with the exception of a few industries (i.e. media/entertainment and information technology) German firms do not offer electronic transactions to their customers and suppliers and thus do not sufficiently utilize the given E-commerce potential (Preissner 1999).

One reason for this state of affairs may be the generally insufficient level of capital spending in E-commerce in Europe. According to cost estimates from Forrester Research, a

successful E-commerce Web site connected to business logistics and the management information system requires an annual average of \$6.81 million in the business-to-business and of \$11.34 million in the business-to-consumer area. But even the leading E-commerce firms in Europe spend only \$1.8 million for their Web sites on the average (1999b). There are only few exceptions, like Bertelsmann, who spent more than \$150 million to introduce their online bookstore BOL in Europe, and to successfully compete with Amazon.com. On the whole, the old phenomenon returns: Europe and Germany are lagging behind.

### *Demand Side Perspectives*

According to NUA Internet Surveys (1999), 179 million people worldwide have been online since June 1999. Among these 102 million were in Canada and the U.S., and 42 million in Europe. In Germany, 13 million people have access to the Internet, and 8.4 million make use of it at least occasionally. In 1998, the number of Internet users increased by 40 %. Within the next two or three years, the number of Internet users in Germany will climb to 20 million (Spohrer and Bronold 1999, 44).

Within the European Community, 12.4 million private households (not individual people!) were online by 1998. An increase to 43.4 million is expected until 2003 (Datamonitor 1998). In Germany, the number is expected to increase from 4.5 million in 1998 to 12.2 million by 2003. In Great Britain, the increase is expected to be from 2.0 to 8.6 million, and in France from 1.0 to 5.7 million within the same period. Once again, these data indicate the high importance of Germany for the rising Internet economy in Europe.

Online surveys conducted in the U.S. and in Germany show a high percentage of online shoppers among the Internet users. In the U.S. 89 % of those surveyed and 60 % of those surveyed in Germany declare that they have made use of the Internet for online purchasing at least once (GVU 1998, Fittkau & Maaß 1999). But these findings may be biased and overestimated because the studies suffer from the methodological problems associated with online surveys. In the summer of 1999, the true share of online shoppers in Germany was estimated to be 28 to 30% (Spohrer and Bronold 1999, 16). Compared to the U.S., this share is rather small. Nevertheless, the items most frequently purchased online are the same in both countries: books, software, music (CDs), hardware, and travel. Because of the growing diffusion of the Internet and the continuously increasing share of online shopping, one can predict a significant growth of the market potential for E-commerce in Germany. More than 50% of the German Internet users are of the opinion that the Internet is well suited for online shopping.

There are, however, important barriers inhibiting the use of the Internet especially in Germany. In a recent study conducted in the U.S., Ruby Roy and Nik Dholakia found that privacy, security, pornography, online crime, and danger to children were among the serious concerns U.S. people have with the Internet. High costs for the use of the Internet did not seem to play an important role (Dholakia and Dholakia 1999). This is completely different in Germany, where the Internet users consider the telephone charges and the access costs to the Internet as much too high. Even though these costs are currently declining in Germany, they continue to be a high hurdle that prevents many Germans from taking advantage of the Internet (Booz, Allen & Hamilton 1999, Fittkau & Maaß 1999).

## Conclusions

In regard to the Internet usage and E-commerce, Germany lags behind the United States by at least three or four years. Nevertheless, based on the emerging evidence, it should be regarded as perhaps the most important market for E-commerce in Europe.

There are several explanations for this big difference between Germany and the United States. Among these, there are technological reasons - the diffusion lag in computers and modern communications technologies. Economic and political reasons could also be pointed out - the much higher telephone fees and access costs, and even the more restrictive legislation to govern E-commerce in Germany. But one additional aspect has to be mentioned which will give us a deeper insight.

Germans are generally more hesitant than Americans in adopting new ideas or technologies which could lead to a fundamental change. This could be illustrated by Geert Hofstede's cultural theory. Hofstede found that the cultural dimension of "uncertainty avoidance" is significantly higher in Germany than in the U.S. (Hofstede 1998). As long as this difference exists, Germans cannot be expected to be as ready and primed as Americans in facing new, life-changing technologies such as the Internet. And for the foreseeable future, Germany has to accept that it can hardly be a world-leading country in groundbreaking innovations and technologies that may change the economy and even the society.

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