



EXPLORATION OF THE E-COMMERCE LANDSCAPE IN SERBIA IN THE POST-COVID CONTEXT

STUDY 2021



CONTENTS

page

2	1. DESCRIPTION OF THE STUDY
4	2. KEY FINDINGS AND RECOMMENDATIONS
4	2.1. Opportunities for Achieving Growth And Resilience
9	2.2. Typical Profiles of Businesses From the Study
10	2.3. Prioritization of Key Areas for Different Profiles of Businesses
11	2.4. Views of the Companies
15	2.5. Views of E-commerce Users
16	2.6. Theoretical Views
18	3. METHODOLOGY – BRIEF OVERVIEW
18	3.1. Desk Review
18	3.2. Qualitative Research of E-commerce Users
19	3.3. Quantitative Survey of Companies
20	3.4. Qualitative Survey of Companies (Deep-dive Interviews)

DESCRIPTION OF THE STUDY

This document is a summary of findings that emerged from UNDP Serbia's research on e-commerce related to post-COVID economic recovery, with the intention to inform programming and potential future support to the resilience of micro, small and medium enterprises (MSME). The two main tasks of the research were to:

- 1. Describe the post-COVID e-commerce landscape in Serbia**
- 2. Define a set of clear problem areas within e-commerce for MSMEs that are critical for strengthening their resilience**

In exploring the post-COVID e-commerce landscape in Serbia, we relied not only on desk research, but also took into account different views of the companies (obtained through quantitative research) and e-commerce users (obtained through focus groups). Finally, we explored certain issues in more detail through deep dive conversations with selected representatives of companies.

The following key deliverables were produced, as input into further work:

- 1. Clearly defined problem areas and opportunities for growth of relevant MSMEs**
- 2. Typical profiles of the businesses from the study**
- 3. Prioritization matrix**



A graphic description of the process and the relationship between the steps and the deliverables is shown in the figure below (Figure 1).

The study itself will feed into a design thinking process to further explore and shape solutions for MSMEs in 2021, in cooperation with multiple stakeholders.

The study does not intend to provide a representative overview of any market, sector or area, whether related to e-commerce or a “regular/physical” business activity. Rather, it is part of an exploration process raising important questions related to e-commerce that are worth addressing in the future.

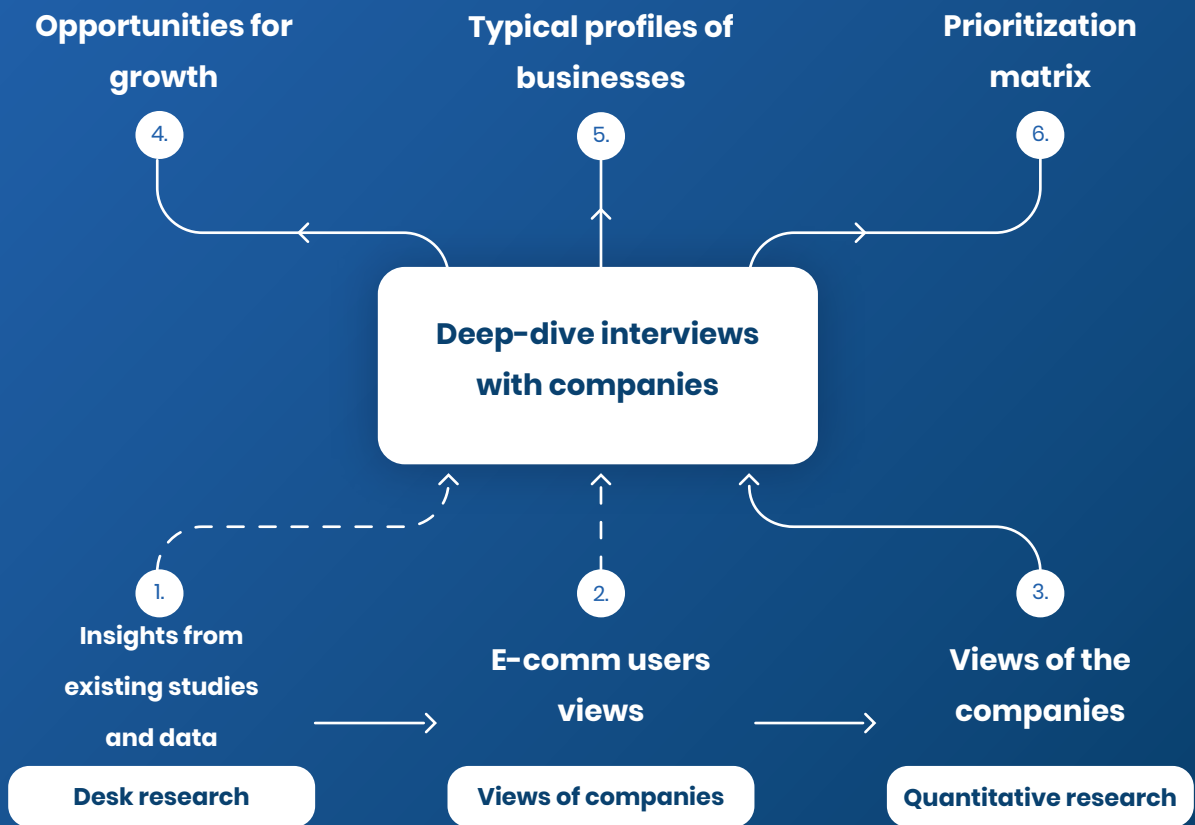


Figure 1

Legend

methodologies

Deliverables

KEY FINDINGS AND RECOMMENDATIONS

Opportunities for achieving growth and resilience

We identified the following key problem areas that are worth exploring further in order to increase resilience and opportunities for growth of the MSME sector by leveraging e-commerce:

1.

Finding new efficient and affordable delivery models

2.

Increasing the operational capacities and efficiency of the processes “beyond the basket”

3.

Providing support to companies to improve business models and establish online sales channels

4.

Increasing awareness of the customer journey and customer experience

5.

Finding new models for marketing partnerships

Finding new efficient and affordable delivery models

Delivery is the most painful point both from the perspective of the customers and the companies. It is even more evident from a geographical point of view – the less urban the market is, the problems with delivery are more visible and significant. Problems with last mile providers directly influence the quality of service provided by companies, as well as the customer experience. This problem is perceived to be hardly fixable with the existing players and traditional models.

Companies were struggling to find reliable partners that are efficient and affordable even before COVID-19 crisis. As high demand and crisis brought delivery services to near-collapse, companies tried to compensate for this gap: they organized their own delivery or joined forces with other companies with similar goods and frequency of delivery to organize and share costs. Some used a hybrid model – retaining control (through own delivery) in the most valuable segments of the market, and cooperating with courier services in other segments. Some smaller companies even used intercity taxis and buses to send their packages.

Consumers identified innovative home

Quote from an interview with a MSME owner/representative:

“Customers that received their goods on the same day they bought them were so delighted that they wrote us thank you notes on the back of the receipt.”

delivery providers such as Glovo, Wolt and Donesi as “winners in tough times”. The reason for this was two-fold: **leadership in innovation** (contactless delivery, new products and restaurants every day, upselling offers that made sense, meaningful special offers etc.) and **helping out small local restaurants and shops to keep their businesses running**. Likewise, companies saw them as very effective and reliable partners. Since their services are so well perceived by customers, it can be expected that this experience will raise customer expectations for standard delivery services, to which the existing system will not be able to respond. Still, it remains to be seen how Glovo, Wolt and Donesi will expand their services in areas outside the 5-6 biggest cities in Serbia.

The need to find new efficient and affordable ways to deliver goods is an immediate and long-term need of all companies regardless of their size, level of development or industry. Companies that managed to establish customer-centric delivery services during the crisis saw immediate results, producing a „wow-effect“ for customers.

Key findings and recommendations

Opportunities for achieving growth and resiliency

Increasing the operational capacities and efficiency of “beyond the basket” processes

Most interviewed companies struggled with operational challenges, such as managing orders from multiple channels or stock management. Due to their size and relatively modest turnover of goods, smaller companies to some extent managed to keep things under control while working manually, but a lack of human and technical capacities is evident.

COVID-19 showed us what can happen when an increase in demand burdens small and ineffective systems and highlighted the importance of having optimized and automated processes, which are the backbone of e-commerce and eliminate human error.

The need for better processes and efficiency increases with a company’s growth and expansion. While it is not immediate for new entrants, the expected post-crisis growth of the entire market will bring greater importance to development and efficiency of business processes. As the market develops, so too will the expectations of

customers – they will have lower tolerance for mistakes and will expect a higher quality of service and experience that will need to be supported by efficient operations.

Quote from an interview with a MSME owner/representative:

“I had to spend a significant amount of extra time resolving and recording increased volume of orders.”

Providing support to companies to improve business models and establish online sales channels

An immediate need of businesses in response to the crisis is to get online and open new channels – whether they see it as a lifeline or an opportunity that should not be missed.

New entrants, especially ones that are used to more traditional channels and ways of working, need guidance and mentorship in the process – from defining the new business model and revenue streams, to

Key findings and recommendations

Opportunities for achieving growth and resiliency

understanding background processes and to communication with banks and delivery services. They also need specific guidance related to their industry and/or product. While there are agencies offering technical support to establish a web shop, and most new entrants use their services, support is needed beyond the technical aspect of e-commerce.

Quote from an interview with a MSME owner/representative:

“What I needed in the beginning was mentorship and support, to exchange opinions and information with someone on a weekly basis.”

Increasing awareness of the customer journey and customer experience

While the relationship with customers is one of the key areas for long-term development and growth, interviews with companies pointed to a lack of awareness in this area, especially among more traditional companies.

Quote from an interview with a MSME owner/representative:

“Discounts are the worst thing, they only drive the market down. Adding value is the key.”

Two gaps seem particularly important:

1. data-driven knowledge and insights about customers;
2. building relationships with the customers - currently, customer care is mainly reduced to dealing with customer complaints in accordance with regulations.

This is not an issue that can be resolved quickly. While it should be treated as a long-term need, it is important to start planning and developing adequate programs and actions now, since customer care and knowledge will present a significant differentiator as the market evolves and new players enter. If resolved successfully, this area will enable companies to completely shift the focus of their value propositions. Currently, the focus of most companies is being competitive in terms of pricing. Better/lower prices will generate more sales, but profitability will probably stagnate or even decrease. Improved relationships with customers would enable businesses to focus on being competitive in terms of value. This kind of focus would allow businesses to consider

Key findings and recommendations

Opportunities for achieving growth and resiliency

price increases without jeopardizing sales and while improving profitability at the same time. Some of the most successful interviewed companies applied this approach, which produced real and positive results for them. For that reason, it is strongly suggested to focus on this area in the long-term.

Finding new models for marketing partnerships

There is a need to uncover digital marketing as a growth engine that needs a strategic approach. Traditional companies consider digital marketing a necessary cost. On the other hand, companies that embrace modern technologies have a traditional buyer-supplier approach towards potential digital marketing partners, even though they understand the benefits of implementing digital marketing. Both views limit growth potentials related to e-commerce and require creation of different forms of cooperation, e.g. revenue-sharing or co-creation approach. The study showed that companies that have a higher level of e-commerce maturity are more likely to have an advanced approach to digital marketing implementation.

Partnerships with digital marketing professionals (agencies and individual consultants) would bring value to both the companies and the customers through marketing strategies and campaigns that bring conversions. Sustainable and reliable marketing partnerships tailored to the needs of companies, their maturity level and the products they are selling, would not only enhance the growth of online businesses but also free-up internal capacities that could be redirected to other segments of business.

Quote from an interview with a MSME owner/representative:

"Marketing is a huge part of my story. Therefore, I am not interested in traditional cooperation with a marketing agency because I need a long-term partner."

Typical profiles of businesses from the study

Four typical profiles of businesses emerged as relevant through the research, which should facilitate a more targeted approach to support programs.



Traditional business owners

- | Aware of the significance of new channels
- | Ready to further invest in them
- | Predominantly bricks-and-clicks companies
- | Traditional mindset and way of working
- | Low level of maturity
- | E-commerce proponents



Modern business owner

- | Agile way of work
- | High adaptability
- | Using testing and experimentation
- | Mix of pure clicks and bricks-and-clicks companies
- | Low level of maturity
- | E-commerce evangelists



Digital business person

- | Pure click companies
- | Investing in e-commerce development (technical development, new products and new segments)
- | Working on expanding their businesses to new markets
- | High level of maturity
- | E-commerce evangelists



Digital salesperson

- | Focus on traditional sales
- | See ecommerce as just an additional sales channel and shop window
- | Would rather invest in a physical store than in a web-shop
- | Predominantly bricks-and-clicks companies
- | High level of maturity

Prioritization of key areas for different business profiles of businesses

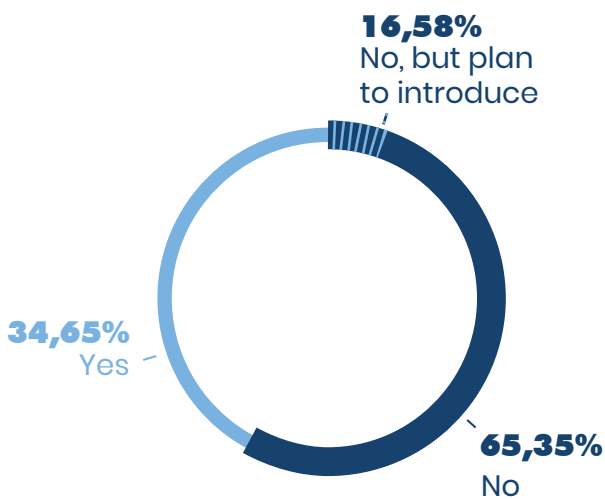
Each business profile has different priority needs. Insights from the research suggest the following prioritization matrix:

	Traditional business owner	Modern business owner	Digital business person	Digital salesperson
1. Finding new efficient and affordable delivery models				
2. Increasing operational capacities and efficiency of the processes “beyond the basket”				
3. Providing support to companies to establish and optimize online sales channels				
4. Increasing awareness of the Customer Journey and Customer Experience				
5. Finding new models for marketing partnerships				

Views of the companies

Main findings and conclusions

Q: Is your company selling products/services via the Internet (so-called e-commerce channels)?

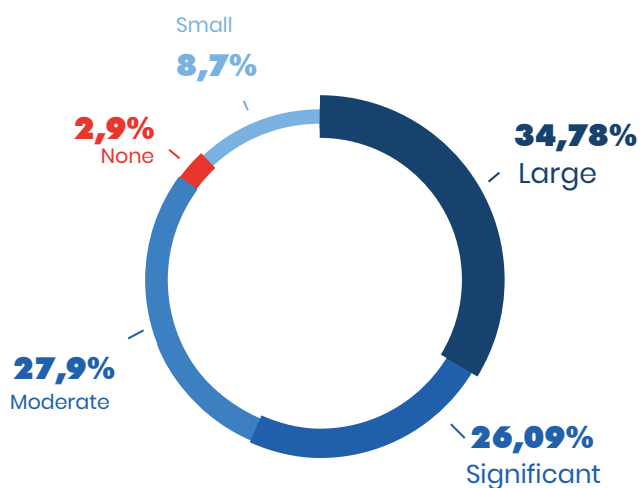


35% of the enterprises from the examined sectors have e-commerce established.

Out of the enterprises that do not have e-commerce at the moment, 25% plan to introduce e-commerce in the next 6-12 months.

This total of 51% of the enterprises from the examined sectors are „e-commerce proponents“ and represent a potential pool of suitable for further development of the e-commerce market and building enterprises' resilience through it.

Q: In your estimation, how much is the general influence of COVID-19 crisis on your business?

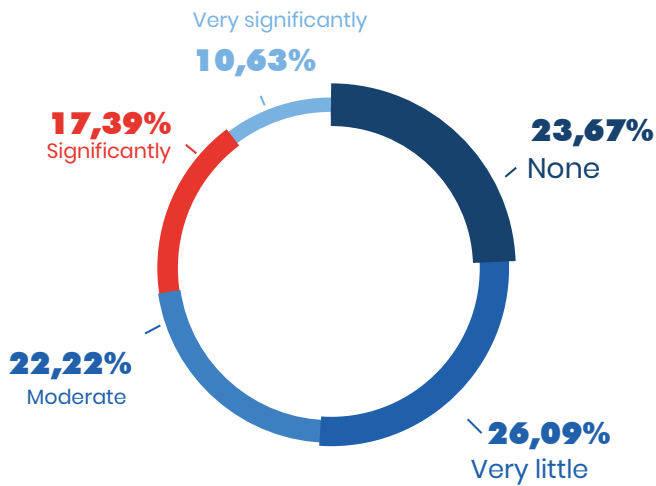


COVID-19 impact on the „e-commerce proponents“ was immense. 61% of the enterprises from this group stated that the crisis impact was significant or very significant.

Main findings and conclusions

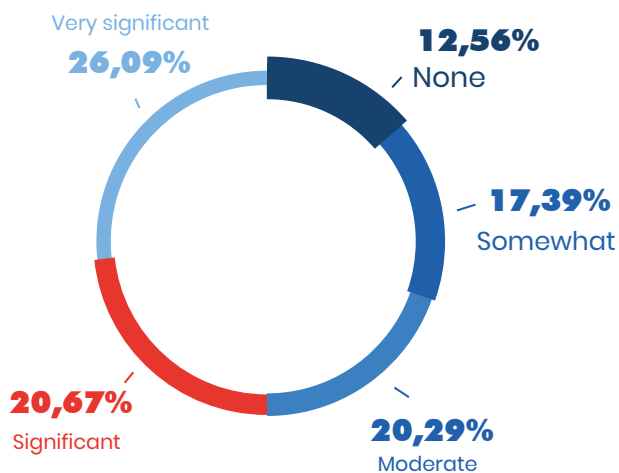
Q: To what extent did you use e-commerce as a response to the COVID-19 crisis?

Only 28% of the „e-commerce proponents“ said that they used it in a significant or a very significant way to respond to the crisis.



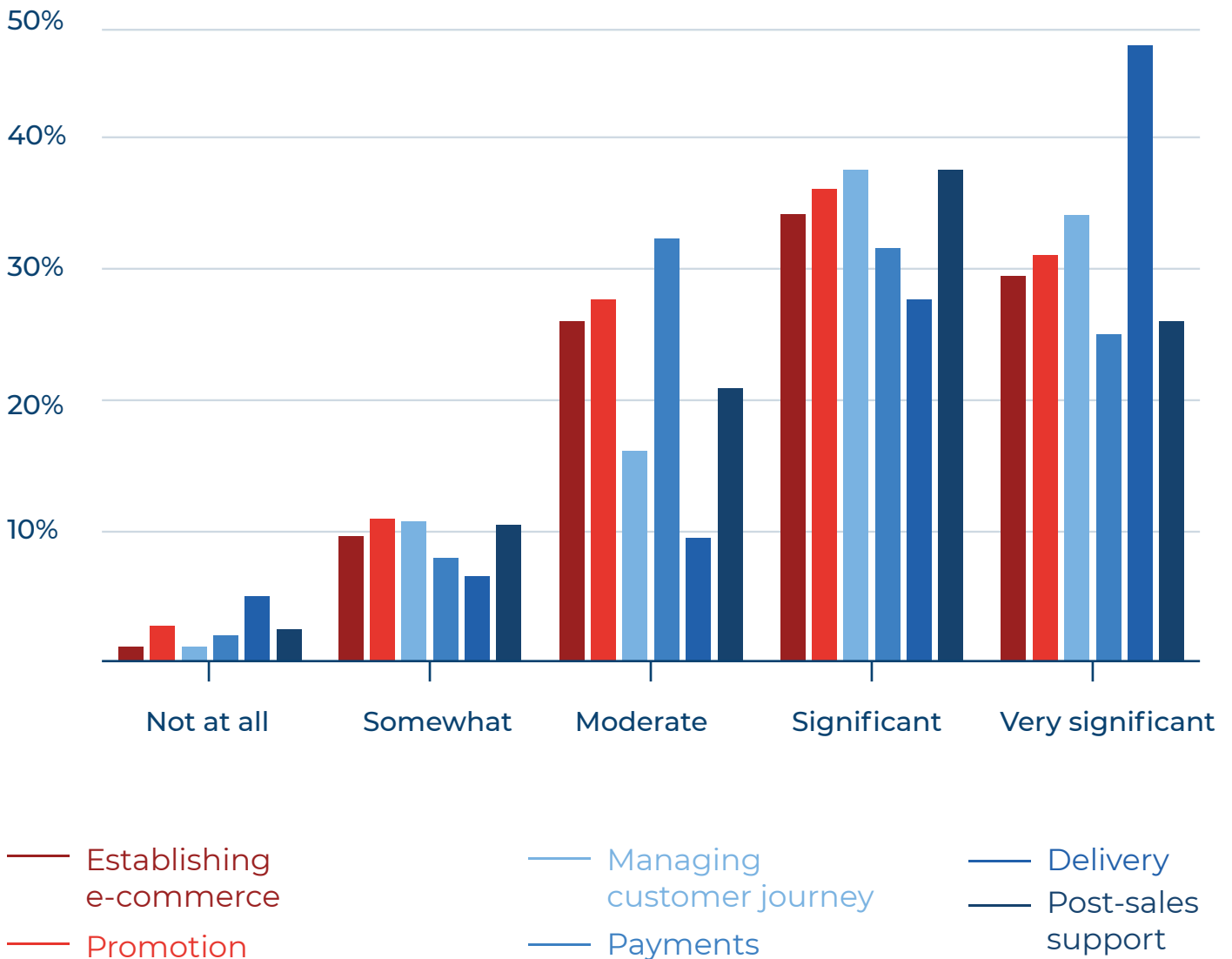
Q: To what extent is e-commerce important to your company as a means to overcoming the crisis and sustainability of your company in next period 6-12 months?

Looking ahead, 51% of the „e-commerce proponents“ stated that e-commerce is significant or very significant in helping them overcome the crisis in the next 6-12 months. This group can be described as „e-commerce evangelists“.



Main findings and conclusions

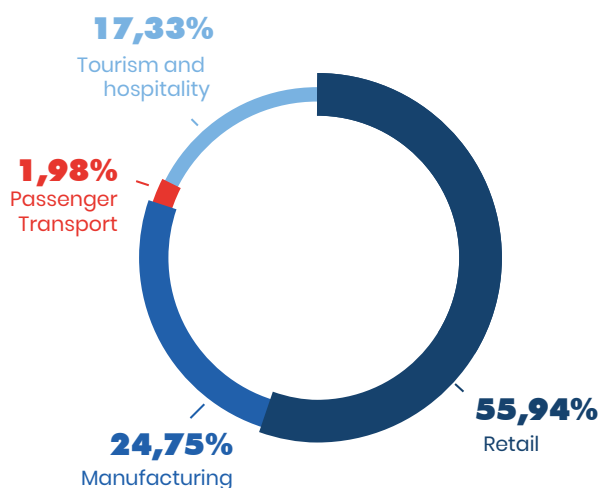
Level of importance of parts of the e-commerce process



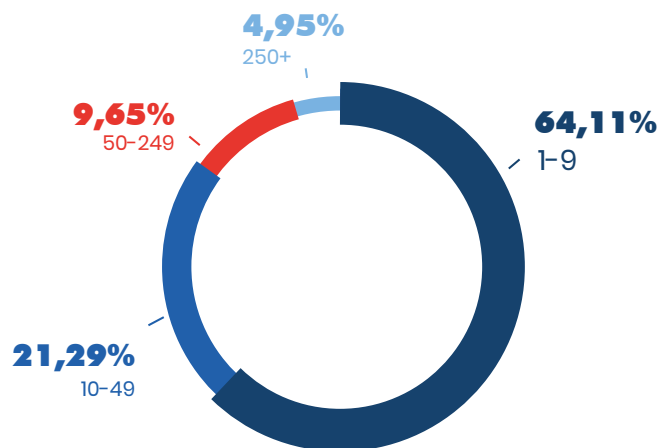
The following biggest challenges within the delivery part of the e-commerce process were identified: cost, non-existence or non-reliability of partners, and need for **additional human resources and/or qualified employees.**

The biggest challenges identified within the promotion part of the e-commerce process were: **cost, need for additional human resources and/or qualified employees, currently insufficient knowledge, skills and capacities, and technological challenges.**

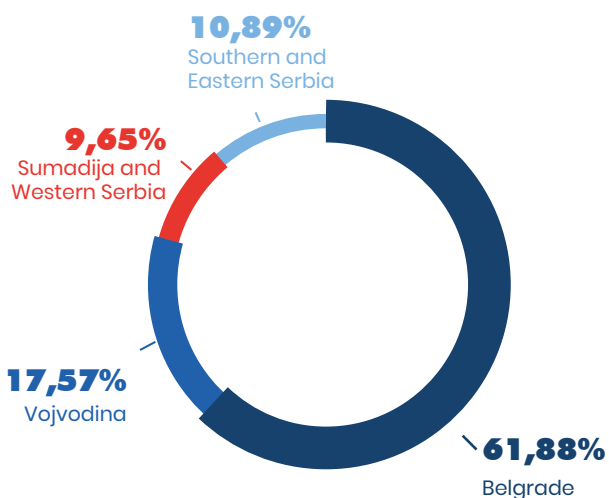
Q: What is the main sector your company is operating in?



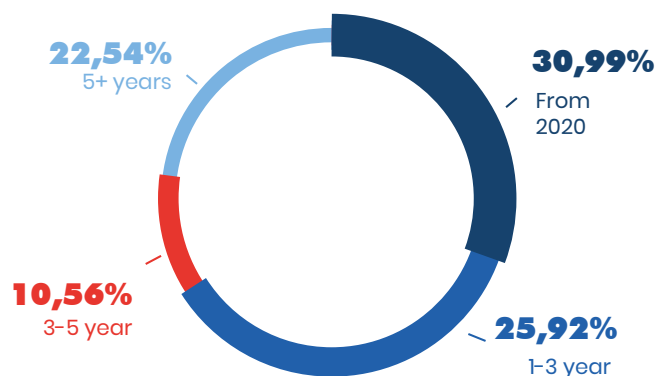
Q: How many employees does your company have?



Q: In which region is your company headquartered?



Q: How long have you been selling products / services via the Internet (e-commerce channels)?



Views of e-commerce users

The findings point to a belief that, on the one hand, COVID-19 brought a significant increase in demand for e-commerce services, and on the other that businesses did not make adequate efforts to monetize this rise in demand (with the exception of home delivery services like Glovo, Wolt and Donesi).

Younger participants tended to compensate for their lack of travel-related spending with in-home entertainment provided by e-commerce solutions (books, movies, TV shows, music) and referred to their disposable income being transferred to other items like clothing and furniture. The older focus group still felt uncomfortable buying certain items online (shoes, bed linen, clothes, sneakers...), but did purchase home appliances, toys, books and consumer electronics regularly. This indicates that product price is not a key factor in feeling comfortable, rather the fear of potential return procedures that are perceived as complicated and frustrating.

The three main **triggers of frustration** for consumers, mentioned in both focus groups, were:

1. **Customer support**

2. **Delivery process**

3. **“Out of stock” situation**

especially in cases when online payment has already been made.

The focus groups seem to indicate these three factors as key areas for e-commerce businesses to improve in the future.

Insights from existing studies and data

IMPLICATIONS AND OUTLOOK FOR E-COMMERCE WITHIN THE COVID-19 CONTEXT

More growth and dominance of big players

These times have triggered a need for as much security, stability and trust as possible among consumers. Big players have a huge advantage here due to their strong brands that people trust. Another thing widening the gap between the large and the small is storage. It remains to be seen how sudden expansion of e-commerce will affect the MSME segment on medium and long term outlook. One potential path is to use the advantageous position of the big players and become a part of a wider network, or a bigger online marketplace.

Omnichannel 2.0

For years, the promise of an omnichannel experience for the consumers has been tried and tested by many companies, with varying results. The pandemic has set an environment which is suited for omnichannel as an adequate problem-solving response. It has dramatically elevated consumers' use of both online and offline channels in tandem. With such an environment, omnichannel

resources, skills and capabilities will certainly become a differentiator for companies, regardless of their size or sector.

No one is excluded from the game anymore

Until the pandemic, e-commerce was mainly reserved for younger age groups that are more digital-savvy. With the changed environment and majority of populations spending most of their time at home, learning how to function online was a must for all age groups. Numerous reports clearly show this. Datareportal states that between 37-51% percent of members from all age groups are more likely to shop online even after the pandemic ends. This trend has also appeared in Serbia, starting with the retail grocery sector.

The e-commerce bar is increased for every sector

Consumers' expectation now is that every company needs to have an option for online shopping, regardless of the sector. Globally,

categories like household supplies, over-the-counter (OTC) medicine, groceries, jewelry or accessories are experiencing substantial growth rates in customers purchasing online. Moreover, most of these new consumers expect to continue keeping their new online habits even after the crisis.

Shift to value and essentials

With short- and mid-term negative outlooks on personal finances around the globe, consumers are being mindful about their spending and trading down to less expensive products. As consumers hunker down for a prolonged period of financial uncertainty, they intend to continue shifting their spending largely to essentials, such as grocery and household supplies, and cutting back on most discretionary categories.

Move quickly because space for change is open

For certain products and brands, COVID-19 caused supply-chain disruptions. And when consumers couldn't find their preferred product at their preferred retailer, they changed their shopping behavior. According to McKinsey, over 60% of global consumers have changed their shopping behaviour. By September 2020, 73% of consumers in the USA have tried a new

shopping method. Within this group, 22% have tried a new digital shopping method, and 81% of these new digital consumers intend to continue with it.^a

Local market is the immediate battleground

With global supply chains being disrupted and altered, local markets and products became the most important sources of supply for the consumers. For companies, especially small and medium ones, it became more complex to focus and deliver to international markets. A conclusion could be made that short-term focus of companies should be on retaining the local markets and consumers, and providing them with the best possible service.

Serbia overview

Serbian e-commerce landscape is slowly but surely progressing, recording substantial growth in the past few years. According to Statista, size of the e-commerce market in 2021 will be cca EUR 400MN. Relevant parameters such as total number of online payments and total e-commerce market value are confirming that e-commerce is on a growing trajectory. Significant progress has been made on all levels of the e-commerce ecosystem and among all stakeholders involved, but still there are certain aspects that hinder further growth and expansion of e-commerce.

METHODOLOGY

BRIEF OVERVIEW

1. Desk research

Goal

Make recommendations as to which sectors/market segments should be subject to a more detailed research in the next phases.

Methodology

Desk research of the existing studies and data on e-commerce in the post-COVID context.

List of most relevant sources which were examined:

EUROSTAT

Statista

Statistical Office
of the Republic of
Serbia

Cooperation for Growth Project
(CFG), "Strengthening
E-Commerce in the Republic of
Serbia" report

PKS and USAID "Together
through crisis" research

Direct Perspective Report
"Business in Post-Covid
period"

McKinsey reports

„Payment trends“ JP Morgan

National Bank of Serbia data

2. Qualitative research of e-commerce users

Goal

Provide insights into shopping experiences during COVID, highlight any changes in consumer behavior caused by COVID and identify major pain points for consumers. It also served as a verification point, ensuring there was no mismatch between the views held by enterprises and the views held by users.

Methodology

Focus groups of users who have bought products or services from relevant categories and sub-categories (retail, manufacturing, travel and accommodation) online at least once in the previous 12 months.

Two focus groups were conducted:

Group A, 9 participants aged 18-40,
mixed male and female

Group B, 7 participants aged 41-65,
mixed male and female

3. Quantitative survey of companies

Goal

Explore all phases of the e-commerce process and identify any gaps, pain points or triggers of frustration for enterprises (legal, technical, operational, etc.), as well as impacts of the COVID-19 crisis.

Methodology

Sample

Based on recommendations from Phase 1, the survey focused on the following sectors:

- | Retail
- | Manufacturing
- | Transportation of passengers
- | Tourism and hospitality

Since none of the official registers of legal entities in Serbia contain information on whether a particular legal entity has online sales, and since an official database of e-commerce businesses does not exist, it was not possible to achieve a representative sample by sector, size of enterprise or the region in which the HQ of the enterprise is. For the sample to be as comprehensive as possible, the questionnaire was sent randomly to over 4,000 potential respondents operating in the above-mentioned sectors, as well as to 20 targeted respondents operating in these sectors and known to have an established e-commerce presence.

Research technique

An online survey which the respondent fills out independently on a computer, tablet or a smartphone (CAWI).

Research instrument (questionnaire)

The questionnaire contained four sections:

General questions – type of business, industry classification, activity of company in e-commerce, operational aspect.

Business during the COVID-19 crisis and e-commerce aspects – impact of the COVID-19 crisis on the business and e-commerce as a possible tool for recovery.

Importance of e-commerce process phases – examination of the importance of each phase and the associated challenges.

Further contact.

The questionnaire was tested in several iterations with chosen members of the sample target groups.

Timing and response

The survey was conducted between November 12 and November 18, 2020.

A total of 404 respondents completed the survey.

4. Qualitative survey of companies (deep-dive interviews)

Goal

To more precisely map/identify pain points in the e-commerce journey, detect opportunities that might be opened if problems are overcome. Additionally, recommend a set of clearly defined problem areas that will be subject to further exploration and solutions shaping through design thinking.

Methodology

Sample

Based on the outputs from Phase 3 a total of 21 companies were interviewed. 10 companies (53%) were from the retail sector, 5 companies (26%) were from the tourism & hospitality sector, and the remaining 4 (21%) were from the manufacturing sector.

Research technique

Structured deep-dive interviews with 60-90 minutes of duration. During the interview the interviewees were guided to share their stories and uncover motivation, goals and perception.

Research instrument (interview guideline)

The guideline for the interviews contained the following sections:

- Introduction and general context
- Influence and consequences of COVID-19
- Research and setting-up of online sales channel
- Introduction and general context
- Promotion and digital marketing
- Managing an online sales-channel (e-shop)
- Order management
- Post-sales support
- Growth
- Plans and opportunities

Timing and response

The interviews were conducted between November 26 and December 8, 2020.