Monopolistic competition in retail distribution

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MONOPOLISTIC COMPETITION IN RETAIL DISTRIBUTION

UNDERGRADUATE THESIS

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1. INTRODUCTION

1.1. Defining a problem

The extremely rapid development of digital and telecommunication technology directly reflects both, people and businesses. The changes are so significant that we are talking about the information age in which contemporary economy acquires a new name: networking economy, cyber economy, digital economy, web economy, e-economy. According to William Gates, technology has changed the economy and the way of operating a business.

In a traditional economy, the goals were narrow defined, the key resources were capital and human skills and the product was physically tangible. The research problem that arises in this paper is, to what extent the economy is changed and whether it is moving upwards? Did the increase in transactions over the Internet lead to an increase in consumption, and how did it affected individual industries?

1.2. Purpose of the work

The purpose of this paper is to examine the development of online retail mainly in the European Union, to compare the statistics and use it to get the idea of how online retail has been growing throughout the years, where are we now, and what will be different in the future.

1.3. Methods

The methods that will be used in the preparation of this paper are: method of analysis which analyzes individual complex concepts and / or conclusions to simpler components, method of description to describe different measures, methods, procedures, method of proof the purpose of which is to determine the accuracy of a cognition, method of graphical and tabular presentation of dana, the method of generalization as a method of generalization by which one particular the concept comes to a more general one that is higher in degree than other individual ones, method of classification for the division of more complex thought formations into simpler ones, comparison method for comparison of certain dana, method of synthesis as a process of scientific research which explains reality through the synthesis of simple judgments into more complex ones and method of comparison

1.4. Work structure

This paper is composed of five parts. In the first part, the introduction, the problem of the work, the goals of the work, the methods used during the preparation of the work and the structure of the work are explained. In the second part, terms are defined. In the third part an insight into the basic statistics regarding monopolistic competition and its development is given. The empirical, fourth part of the paper summarizes effect of Covid19 pandemic had on online retailers. The fourth part consists of informations regarding the country of Croatia. Lastly, in the 5th, concluding part, concluding remarks and reviews of the paper are presented.

2. BASIC TERMS

2.1. Monopoly

Monopoly (Greek monos, one + polein, sell, German Monopol, French monopole /Latin monopolium/Greek μονοπώλιον: exclusive trading right), means the lack of competition in the market for certain goods and services. It leads to the formation of different prices, which are significantly higher than the prices that ensure cost recovery and average profit. In this way monopolistists achieve above normal earnings. The tendency to create monopoly is natural and motivated by high profits, but it conflicts with the interests of consumers, who are forced to pay exorbitant prices. However, monopolist still cannot charge too high prices. At least not if monopolist goal is to maximize profit. Because by charging the abnormal price, few costumers would still purchase the product but, lower price would result in much higher earnings. The creation of a monopoly is legally prohibited and punishable, but it is often difficult to prove it and control it. With the expansion of multinational and transnational corporations and the unification of national monopolies, international monopolies are being created, and their suppression is becoming increasingly difficult and uncertain.

The monopolist's average income - the price it receives per unit of sales of the product - is the market demand curve. In order to choose the level of production at which he maximizes his profit, the monopolist needs to know what his marginal revenue is. Marginal revenue is the change in revenue resulting from a change in production for a single unit of product. The relationship between total, average and marginal revenue is shown by the demand curve:

$$P = a - bQ$$

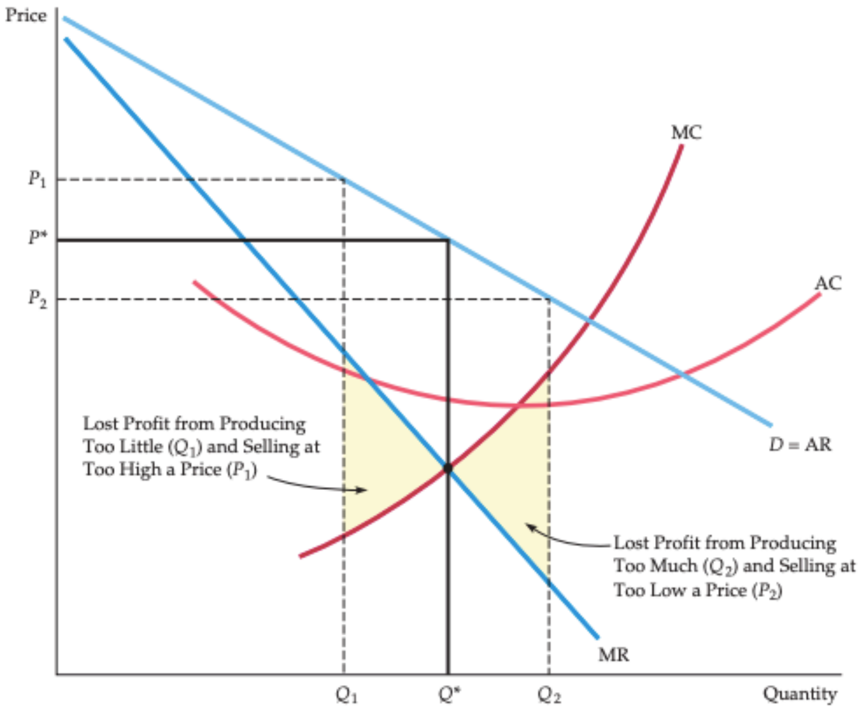

Figure 1: Monopolistic desition regarding the quantity of production

Source: Microeconomics, Pindyck & Rubinfeld (2014), pg. 330.

To maximize profits the firm must determine the amount of production so that marginal revenue equals marginal cost which can be clearly seen on the figure above. Q* is the level of production at which :

$$MR = MC.$$

If a company produces fewer product, say Q, a certain amount of profit is sacrificed as the additional income that could be earned by producing and selling units between Q1 and Q * exceeds the cost of their production. Similarly, an increase in output of Q * and Q2 would reduce profits because the additional cost would be greater than the additional revenue.

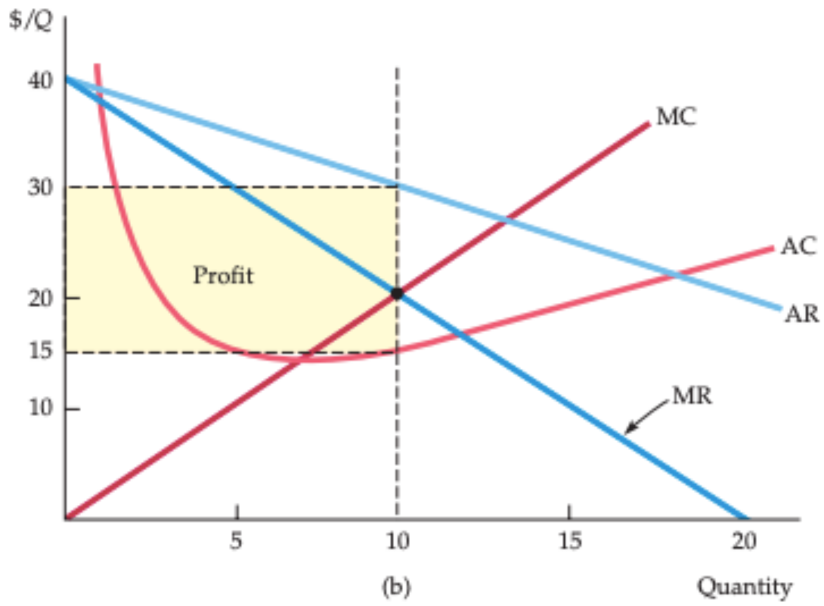

Figure 2: Profit maximization

Source: Microeconomics, Robert S. Pindyck, Daniel L. Rubinfeld, pp. 332.

Figure 2 shows the average and marginal revenue and the average and marginal cost. Marginal revenue is the slope of the total revenue curve along which the maximum profit Q * = 10 is achieved, that is, the point at which marginal revenue equals marginal cost. At this level of production, the slope of the profit curve is zero, and the slope of the total revenue and total cost curves are equal. Profit per unit is the difference between average income and average cost.

2.2. Monopolistic competition

Monopoly and perfect competition are not common in practice. Usually, businesses are between those two extremes. Companies that possess elements of both monopoly and perfect competition, however both different from monopolies and from perfect competition, belong to a market structure that is called monopolistic competition.

Monopolistically competitive market is similar to a perfectly competitive market in two essential respects: firstly, it has many enterprises and secondly, new entrants are not restricted from entering. However, it differs from a perfectly competitive market in that it produces a differentiated product. Differentiated products are products that differ from others in their quality, appearance or reputation, and each company is the only manufacturer of its own brand. The size of a company's monopoly power depends on how successful that company is in differentiating its product from the products of other companies. There are numerous examples of monopolistically competitive industries: toothpaste, laundry detergent, coffee, etc.

Pierro Sraffa (1980. – 1983.), Italian economist and professor at University of Perugia and Cambrige in a famous article pointed out that in conditions such as competition, costs do not limit the volume of quantities produced. It is demand that dictates the amount produced. Therefore, every time production and sales increase, the price of goods produced decrease and demand curve that company faces now is negatively slope (Benić, 2012).

The history of Monopolistic Competition

The "founding father" of the theory of monopolistic competition is Edward Hastings Chamberlin, whose model analyses and explains the short and long run equilibriums that occur under monopolistic competition. Furthermore, he wrote a pioneering book on the subject, Theory of Monopolistic Competition (1933) where he developed the model.

Chamberlin's whole point lies in the belief that in terms of welfare and product differenciation, monopolistic competition is desirable. His model demonstrates that in a market the number of firms can be irrelevant, and perfectly competitive results can be reached.
Chamberlin made a set of assumptions that needs to hold for this model to be valid. Assumptions are the following: products need to be close substitues - the crossed elasticity of these products needs to be high but never infinite, each firm in the market monopolises its product even though it shares the market with competition, there are many firms on the market, no entry or exit barriers to the market, the principal goal of the firm is to maximize its profits, a firm is assumed to behave as if it knew its demand and cost curves with certainty, the decision regarding price and output of any firm does not affect the behavior of other firms in a group, i.e., impact of the decision made by a single firm is spread sufficiently evenly across the entire group (thus, there is no conscious rivalry among the firms), each firm earns only normal profit in the long run, each firm spends substantial amount on advertisement - the publicity and advertisement costs are known as selling costs

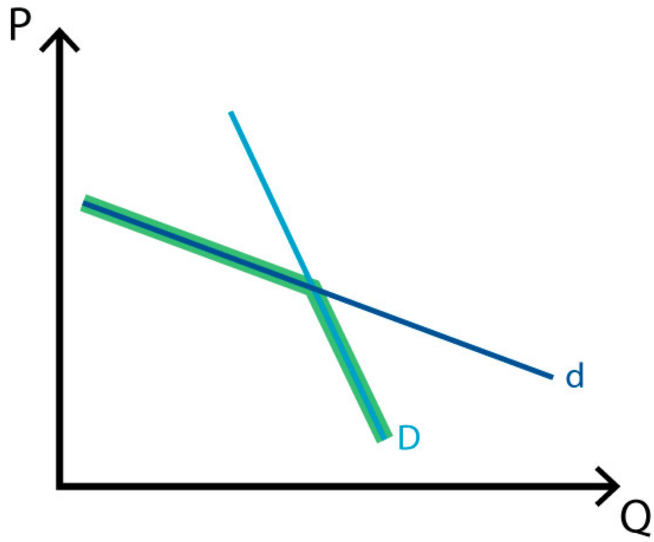

Figure 3: Perceived and actual demand

Source: www.yourarticlelibrary.com/wpcontent/uploads/2014/04/clip_image002489.jpg

In his model, Chamberlin introduced a distinction between perceived and effective demand curves. Perceived demand (d), is the demand the firm is planning to supply. On the contrary, it shows the fall in quantity demanded which will occur if it raises the product price on the assumption that others would not raise their prices.

On the other hand, effective demand, D, shows how the market will react. However, all the consumers will first try to find a way to stay on the green line. Meaning, consumers will look for the greatest possible quantity at the lowest possible price.

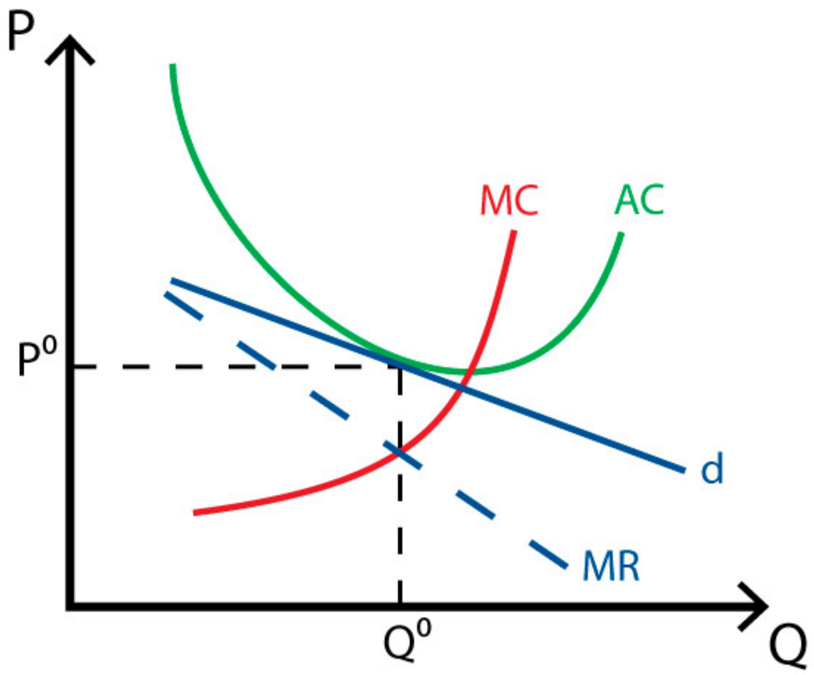

Figure 4: The short run equilibrium

Source:https://policonomics.com/wp-content/uploads/2016/02/Monopolistic-competition-Chamberlins-model-Short-term.jpg

In the short-run, each firm will act as a monopolist in its market. Given their demand and cost curves they will maximize profits by producing the level of output at which marginal cost equals marginal revenue which is the profit maximization condition for monopolists. However, it is not sustainable in the long run.

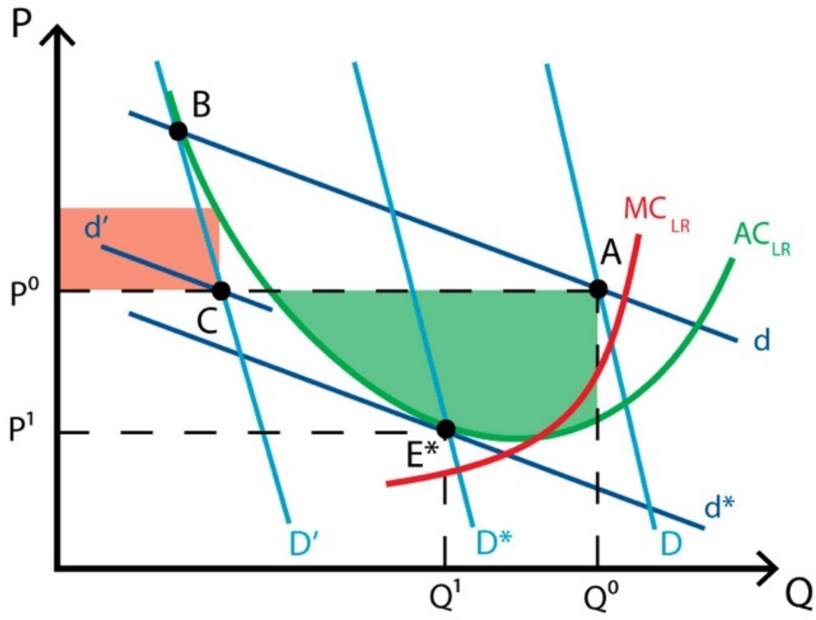

Figure 5: Equilibrium in the long run
Source:https://policonomics.com/wp-content/uploads/2016/02/Monopolistic-competition-Chamberlins.model.jpg

At given point (A) the firm is making extra profits and has no iniciative to change its price neither to move anywhere from that point. The extra profit the firm makes attracts new customers to the market. The competition becomes too big for the company to stay at the point (A) – it cannot survive by producing Q_0 output at P_0 price.

Although the aggregate demand in the market is maintained, the entrance of new firms to the market results in drop of the effective demand for that particular firm. Additionally, that drop can be seen on the graph by looking the shift of demand curve from the point D to the point D'. New equilibrium is created at point B. At this point, the firm will want to recover its old profits and therefore lower the price. This is what all companies do in order to attract new customers. The changes in its competitors and own strategies will change the perceived demand of the firm, from d to d'. At point (C) new equilibrium is created, but not for long because here firms are making loses as price is bellow average cost. This loss, however, will cause the exit of firms from the market, moving effective demand rightwards and perceived demand downwards and each firm remaining in the market will increase its individual demand. This proces will be repeated as many times as it takes for an equilibrium to reach the point (E). Here, the demand curve will be tangent to average cost in the long-run. Profits will be equal to zero and hence no entry or exit of firms will occur.

2.3. Competition

Competition, in economics, is defined as the effort of enterprises to be leaders in their industry and increase their market share. In other words, it's when one business tries to win over another business' customers or clients by offering different products, better deals, or by other means (https://www.myaccountingcourse.com/accounting-dictionary/competition).
Also competition is one of the basic principles of a market economy. It implies that every business is subject to competitive pressure from others. In this way, economic operators are encouraged to compete with each other for consumers of their products and services, which results in a number of benefits such as lower prices, higher quality, wider choice, etc. One of the basic principles of the European Union's internal market European level. The issue of competition is regulated by the Treaty of the European Community, and EU competition rules are based on five main principles: the prohibition of joint practices, agreements and associations between undertakings which may affect trade between Member States and prevent, restrict or distort competition within the internal market, the prohibition of abuse of a dominant position within the internal market if it is likely to affect trade between Member States, monitoring aid granted by Member States or granted through State resources in any form which poses a threat of distortion of competition by favoring certain undertakings or the production of certain goods, preventive monitoring of the merging of companies with a European dimension by approving or banning planned mergers, liberalization of certain sectors where public and private enterprises, such as telecommunications, transport or energy, have so far developed as monopolists

The aim of regulation is to ensure free and fair competition in the European Union. The European Commission and the Member States are responsible for the issue of competition and work together to further improve the effective and consistent application of competition rules. Their cooperation is realized through the European Competition Network (ECN).

2.4. Online retail

Online retail has brought a revolution in the way consumers shop and interact with products. It has had a huge impact on the user's journey, from the moment the user hears about the product, to the final delivery of the product / service and after-sales interaction. Although online shopping was initially limited to a few product categories that users did not need to touch and feel, the adoption of this way of shopping quickly exceeded the initial limits. By introducing smart delivery and product payment and return policies, while enabling an omni - channel experience, online retailers have contributed to the faster adoption of online channels as a sustainable channel for all product categories. Although more than two decades have passed since the early start, online retail continues to grow at an incredible pace - between 2010. and 2019., the compound annual growth rate (CAGR) reached 17% for online retail, while CAGR in offline retail was 4% at the same time. And while the excitement for e-commerce is justified, physical retail is by no means extinguished (www.jatrgovac.com/digitalni-trendovi-u-maloprodaji-sljedeca-razina-online-kupovine/).

2.5. Krugman model

Paul Krugman, the U.S. economist who won the Nobel Prize in Economic Sciences is familiar to the public mainly through his regular column in the New York Times and for his blog in New York Times titled "The Conscience of a Liberal."

Kurgman, in one of his models uses economies of scale, differentiated products and heterogenous preferences to explain intraindustry trade.

Three assumptions are made: preferences are heterogeneous between and within countries , Production experiences economies of scale, products are differentiated.

Industries within the country will try to exploit the economies of scale and they will do it by producing goods which are demanded by the majority of their consumers. However, not all consumers have the same preferences and not all them want the same style, quality, etc. Because of that, not all consumers want to buy goods produced in the domestic market. Consequently, domestic small companies find small production too costly and forget about that particular segment of market which then consumes goods produced abroad. It is also true that some portion of foreign consumers will have a greater preference for home country goods. Therefore, home country ends up exporting to foreign's minority's share of the market. The implications for this model exceeds a simple explanation of intra-industry trade. It's bottom line is found in the wrangle of managed trade and industrial policy. With economies of scale there are only a small number of firms to satisfy world demand (aircraft, for example). Under these conditions, the principle of first movers winning market share makes for compelling logic for advocates of managed trade (www.usi.edu/Business/cashel/341/krugman.pdf).

3. ONLINE RETAIL IN THE PAST TEN YEARS

3.1. The brief history of the Internet

World Wide Web (WWW) was invented by Tim Berners – Lee in 1989. He was a British scientist who had an idea that World Wide Web would help the scientists in universities and institutes around the world to share informations, data, etc. The first website was dedicated to the World Wide Web project itself and was hosted on Berners-Lee's computer. The website gave information such as: how to acces people's documents, how to set up your own server and some other basic futures of the web. In the year 1993the World Wide Web was introduced to the public. Two years later, networking service providers began to provide Internet access as part of their offering, the most popular ones were CompuServe and AOL (Gilber, Alorie, 2004) At that time, the first secure retail transaction over the Web happened. Both, Amazon and eBay, saw an huge opportunity and in 1995 launched their first online shopping sites. Year 1995 is considered the first year the web became commercialized. Mosaic and Netscape were the first graphical web browsers to appear on the market with Microsoft's Internet Explorer arriving later bundled as part of it's Windows 95 operating system. Internet Explorer is a series of graphical web browsers developed by Microsoft and included in the Microsoft Windows line of operating systems, starting in 1995. It was first released as part of the add-on package Plus! for Windows 95 that year.

With this move, Microsoft had essentially made the web browser free forcing other popular browsers of the time to follow which encouraged more and more users to get online. In the ten years from 1996 to 2006, the number of websites grew from 1.2m to 46.8m. By 2011 it was 366m.

Digitization and digital transformation are two strongly connected concepts that in today's business have an important role and cause many doubts and questions. Digitization as a term refers to the conversion of everything into digital form when and wherever possible. Digital transformation, on the other hand, describes how using digital technology can change and improve an existing business processes and / or introduce entirely new processes and business models with the aim improving the competitiveness of enterprises.

Digitization and digital transformation affect all economic sectors and therefore affect the organization of work and jobs in trade.
It is now widely recognised that the Internet's power, scope and interactivity provide retailers with the potential to transform their product to customer with a click of a mouse and consequently strengthen their own competitive positions. The Internet's capacity to provide information, facilitate two-way communication with customers, collect market research data, promote goods and services and ultimately to support the online ordering of merchandise, provides retailers with an extremely rich and flexible new channel available to all users of the Internet (International Journal of Retail & Distribution Management 38(11/12), October 2010). Not to mention that it also privides the whole new consumer experience. Online shopping is continuiously growing in the European Union. Together with increasing use of the internet and improving security standards, consumers are becoming more optimistic towards that particular subject and have started to appreciate the possibilities of being able to shop anytime, from any place, with access to a wide range of products and easy price comparisons. In the future we can expect only more people purchasing online and technology is currently developing in that particular direction. Evidence can be found in numbers which point out that 60% of people in the EU aged 16 to 74 shopped online during the year prior to the 2019. survey, compared with 56% in the 2018. survey. Compared with 2009., the share of online shoppers had almost doubled from 32% (https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20200420-2).

However, a lot of daily situations and risks are constantly affecting the consumer behaviour. Online retail, just like every other way of trade, has it's life cycle. Current Covid19 situation had a major impact on online retail, but this particular subject is covered in Chapter 3 of this paper.

3.2. E-commerce models

E-commerce is most often divided into two basic areas, according to which then e-commerce models also differ. These areas are: trade between business entities, i.e. Business to Business shops (B2B) and trade directed towards the end consumer market on a daily (non-business) basis consumption, or Business to Customer (B2C).

There are a number of other combinations and relationships when it comes to e-commerce, as it is shown in the following figure.

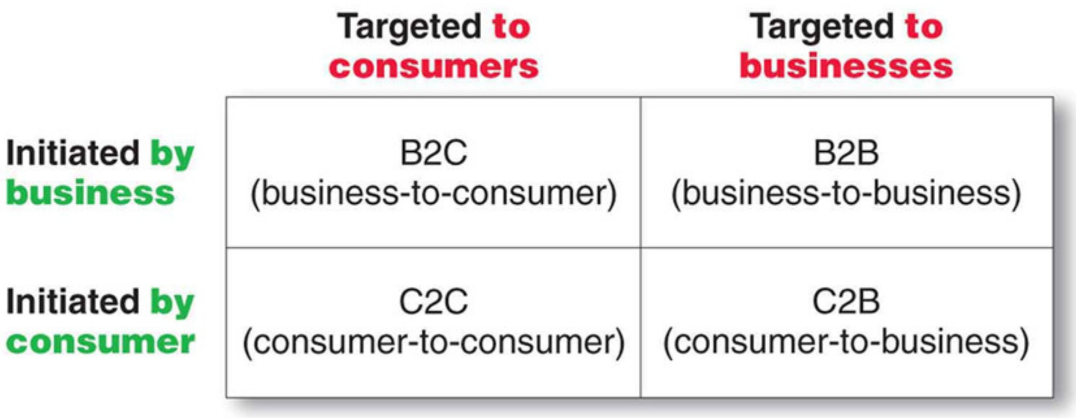

Figure 6: E-commerce models

Source: https://www.linkedin.com/pulse/whats-difference-between-b2c-b2b-c2c-c2b-apple-he/

According to the difference in the areas covered by e-commerce, there are two basic models electronic commerce:[1] Business to Business (B2B) and Business to Consumer (B2C).

B2B is defined as a e-commerce in which a business consumer targets the other business consumer. So it's the kind of business that focuses in exchange of products and services between companies (although this may not necessarily always be the case rule). (Panian, Ž. 2000.)

B2B e-commerce is thought to have grown out of the former e-commerce wholesale trade which prevailed until the mid-1990s and disposed with significant amounts of cash, which are, through closed computer systems transferred between banks, including international money trading (Babić, R., Krajinović, A., Peša, A., 2011.).

B2B e-commerce is, in short, trade between businesses and as such, for businesses and business in general, and not just electronically, means a kind of revolution. B2B electronic exchange increases business efficiency, enables identification of new sources of stocks, negotiations, execution of transactions and payments, supply chain management, such as production line planning, as well as joint product design and development, therefore this type of e-commerce is applied in numerous industries and activities - automotive, aerospace and oil industries, then chemical, food, energy, pharmaceutical industry and many others, where companies use B2B trade networks, auction stations, stock exchanges, Internet product catalogs, product sharing sites and other online resources to help reach new customers, serve existing customers in the most efficient way, perform more efficient shopping and achieve better prices (Babić, R., Krajinović, A., Peša, A., 2011.)

Another type of e-commerce, B2C, is defined as "a computer store" in which the business consumer targets the end consumer, with a large number of small consumers discovering a whole new world of electronic purchases and payments, and sellers - owners serving online, they discover an endless and insatiable market because the internet allows them access to a wide range of demographic segments and products" (Panian, Ž., 2000). B2C application means a business in which the consumer (private person) buys products online from an online retailer. This way of doing business is special suitable for smaller businesses given that using this strategy is reduces operating costs, since for example, businesses do not have to print and distribute classic catalogs but rather have everything visible online. B2C e-commerce thus represents active forms of sales in distant markets, and is, in parallel with the development of new technologies, evolving rapidly.

There is another type of e-commerce, and that is Customer to Customer, or C2C e-commerce, which, as its name suggests (from customer to customer) takes place between customers, ie clients / stakeholders / consumers. Meaning that consumers buy or exchange goods, ie products, services and information among themselves, directly with each other, without intermediaries. C2C e-commerce is a type of trade relations where both sellers and buyers are consumers, not businesses. It presupposes interaction between parties through a third one, mostly an online auction or trade website. Due to this phenomenon, selling and buying via the Internet has never been so easy. Various internet resources help sellers and buyers to find each other by charging a small fee or commission. Outstanding examples of C2C e-commerce sites are Fiverr, Amazon and Flipkart (https://drudesk.com/blog/consumer-to-comsumer-c2c-ecommerce)

Also, with the development of e-commerce and its increasing application, additional models of e-commerce have developed as well: Consumer to Business (C2B), Government to Business (G2B) and Government to Citizen (G2C).

C2B is an e-commerce model in which consumers can offer products and services to companies, and companies can buy from consumers. It's actually a contrast to the traditional business model in which companies offer products and services consumers.

The G2B e-commerce model refers to trading between government bodies and companies. It is about the interaction (non-commercial) between the state government and the business sector. The G2C e-commerce model involves business between public administration and citizens, ie state bodies are communicating to the citizens through special websites, making the information more accessible to the general public.

3.3. The growth of the Internet

Given all the data it is not difficult to make a correct update on the extent to which the Internet's predicted threat to the high street has materialised, because significant numbers of academics and commercial researchers have been monitoring and collecting data on Intrenet's growth, and some even investigated its impact on traditional retailing. Online shopping is now estimated to be the fastest growing area of Internet usage, and its growth rates have continued to rise and have far exceeded those achieved though traditional channels in the past ten years (www.internetretailer.com).

Ever since the very beginnings of the Internet invasion, the primary threat to the high-street was coming from the virtual retailers, who tended to dominate the business to consumer market-place, at this time. By contrast, most established retailers were unwilling to commit themselves to this challenging new environment because of fears about possible consequences. At the time, Internet wasn't considered as a safe place to shop, consumers were afraid to share their personal information, etc. However, many Internet businesses achieved massive stock market valuations on the basis of ideas and potential, rather than actual performance. Also, at that time, rapidly expanding *dot.com bubble* was created. Unfortunately, it soon became obvious that many of these companies lacked the business skills to translate their vision and technical know-how into a reliable income stream. When the *'dot.com bubble'* expanded in a year 2001, many of the electronic market-place's pioneering '*pure plays*' were driven into insolvency, due to their unrealistic business models.[2] Although there is still plenty of room in the market-place for innovative and well run virtual merchants, such as Amazon and eBay, in the Internet's second and more sustainable period of growth, it is the established retailers, rather than the '*pure-plays*' who are playing the more dominant role (https://core.ac.uk/download/pdf/301341281.pdf).

The question that is left to be answered is how did the established retailer community respond to the threat to their market position, posed by virtual merchants and manufactures, hungry to cut out the middleman? Many retailers now explicitly offer their customers the opportunity to shop via multiple channels, such as offering a combination of physical stores, catalogues, call centres, and e-commerce sites. Recent research has shown that selling through more than one channel has become common for many retailers but also that it is extremely rewarding strategy. As Weltevrenden and Boschma (2008) have found, established high-street retailers that have adopted to online trend experienced an improved customer relationships and enhanced promotional exposure. Moreover, they emphasise the importance of developing sophisticated web-site because this way they will enjoy the greatest comparative advantage from their on-line ventures (https://core.ac.uk/download/pdf/301341281.pdf). This important conclusion was echoed by Wolk & Skiera who found that a retailer's overall financial and strategic performance could be positively affected by the addition of representative, high quality, and easy to use Internet channel. Although there has been much positive discussion of the pros of multi-channel retailing, the belief that retailers still need improvement and knowledge until they get it right.

However, many academic studies are beginning to play down the chances of the Internet having a significant destabilising affect on the existance of the high street. As Keen *et al* (2004) suggest that *"fears that the Internet will take over the* (traditional) *retail arena seem, at least at this point in time, overblown and exaggerated"*. In addition, Weltevreden (2007) did a research which suggests that Internet retail will not significantly affect the demand for city centre shops, at least not in the short term. Consumers are enjoying the personal and sensual pleasures of going shopping and they can never be completely compensated by the Internet. As noted earlier, effective and well aligned Internet channel enhances the performance of retailers, and in so doing, helps to protect their place on the high street.

2.3.1.The transformation of the market-place

As previously discussed, in the early days of electronic commerce, it was pointed out that a radically different type of market-place would evolve. Perhaps, one of the most obvious manifestations of this transformation is that, in electronic markets, marketing is now routinely practiced on a one-to-one, rather than a one-to-many, basis thanks to the personalised adds that are becoming crucial for successfull marketing. One-to-many basis marketing was the only way of marketing before the big birth of Internet and even in it's young stages. When people actually realised they could collect data from Internet consumers such as: sites they have seen, things they searched for in their search engines, etc. and use this data to control the adds that will be shown to them, the Internet marketing became the most populat type of advertisment. Online retailing is now providing retailers with the rich source of individualized customer data, that allows them to undertake effective one-to-one marketing and in so doing make a very real contribution to improved organizational performance (http://oro.open.ac.uk/24815/2/88C00795.pdf). However, before the full potential of electronic CRM can be ralised, many challenges are to be completed like: such as data integration, building trust, system usability and customer retention.

In recent years, a lot of research have been conducted on the subject of exploring the economic impact of online markets, and how Internet - based electronic marketplaces have affected pricing and competition.

2.3.2. Why not perfect competition?

As yet, it would not be correct to claim that perfect competition has taken hold within the Internet market-place. Even though Internet prices are now usually lower than their off - line counterparts, for the same product it of course isn't always the case. In short, perfect competition conditions have not meet with the situation on Internet market place. In theory, consumers would have to be in a position to have access to all the important information regarding their purchase desition to even be able to consider the perfect competition situation. However, in practice consumers don’t usually have the time, confidence, desire, and most importantly knowledge, to always make optimal decisions.

2.4.The future of Internet retailing

Even though it may not be possible to predict how the Internet will shape the design of markets, at what speed will it develop and what exeactly will happen in the future, one thing is clear - online retailing's market - share and influence, will for sure continue to rise.

This continious expansion of on - line retailing will without a question affect the high street. Although we previously discussed that, the Internet so far has had a limited impact on city centre stores, it would seem impossible that, in the longer term, the size and composition of the high street will be significantly impacted, as on - line shopping becomes a far more mainstream activity.

This leaves us with a question who will be getting the big share of these rapidly expanding on-line markets? Undoubtedly, in a retail environment in which *brand* is getting more, rather than less, it is not wrong to assume that branded goods will continue to dominate the Internet market. However, this assumption surely holds for immediate future where the majority of these big names will be established retailers who will continue to retain a very strong position within the electronic marketplace. Moreover, given the consumers' desire to use the Internet as a flexible tool for researching products and locating stores, as well as purchasing merchandise, it would also seem likely that the multi - channel format will be the preferred design (Hahn, K.H. & Kim, J., 2009) In addition, it is likely that the established retailers will face pressure from a variety of completely new businesses, who are fighting to get their share of the electronic market. When analysing the first fifteen years of Internet retailing, one thing stands out and that is the fact that there is always the opportunity for the new, innovative business to make a impact and in doing so, grow big and powerful in a small amount of time. Therefore, Internet can be a fertile environment for organizations, if they have good, highly demanded and original ideas that can be presented in a proper way. We have seen it on the example od Amazon and eBay.

In the future, all Internet retailers will want to get even more out of their customer data - bases, so that their '*one-to-one*' marketing and customer relationship management initiatives will deliver even more value. Moreover, it is expected that in future this wealth of consumer oriented data, will also allow retailers to better predict their customers' requirements, and, in so doing, provide a better level of customer service (Kaufman-Scarborough, C., Morrin, M. Petro,G. & Bradlow, E.T., 2006.)

In contrast, there is another very likely scenario in which social networking plays an increasingly powerful role, consumers will become less susceptible to the power of one-to-one marketing. It is already the case that WOM (Word of Mouth) referrals have a more significant impact on new potential customers, than traditional advertising mechanisms. With millions of people around the world, at all ages, spending more time online than ever in the history, sharing all kinds of experiences and communicating on daily bases with their friends via social networks such as *Facebook*, it is very likely that the power of social networking will continue to expand, and have a far greater affect on the modern consumers' on - line shopping behaviour. Retailers will also face pressure to always be up with the market especially to allow consumers their services to be accessed from all kinds of mobile devices, as they want to be able to shop on the move. Consequently, it is likely that the power of the consumer will continue to grow, as they become able to seek and use information, and then either directly or indirectly exert pressure on retailers.

3.5. Statistical data

Internet use and online purchases, 2019

(% of individuals)

	Proportion of individuals who:	
	Used internet within the last 12 months	Purchased online within the last 12 months
EU-28	88	63
Belgium	91	66
Bulgaria	71	22
Czechia	88	64
Denmark	97	84
Germany	94	79
Estonia	91	68
Ireland	91	67
Greece	76	39
Spain	91	58
France	91	70
Croatia	80	45
Italy	78	38
Cyprus	86	39
Latvia	87	47
Lithuania	82	48
Luxembourg	97	72
Hungary	83	49
Malta	86	58
Netherlands	96	81
Austria	88	62
Poland	82	54
Portugal	76	39
Romania	80	23
Slovenia	84	56
Slovakia	85	60
Finland	95	73
Sweden	98	82
United Kingdom	96	87
Iceland	99	80
Norway	99	82
Switzerland	97	80
Montenegro	76	16
North Macedonia	82	29
Serbia	79	34
Turkey	75	30

Source: Eurostat (online data codes: isoc_ci_ifp_iu and isoc_ec_ibuy)

Figure 7: Internet use and online purchases, 2019.

According to the research, Iceland, Norway, Switzerland, United Kingdom, Sweeden and Netherlands, consider more than 95% of their population as an internet users and more than 80% of population have purchased something online during the past 12 months.

Internet shopping is growing rapidly esepcially within young population. When it comes to buying goods related to fashion or sports, shoppers aged from 16 to 24 were the most common (73%). Wider group aging from 25 to 54 is most represented when it comes to travel and holiday purchases (57%) and lastly, older age group from 55 to 74 when it comes to buying books, magazines and newspapers, together with those aged 25-54 (35% both).

In terms of amount spent, the highest proportion of e-buyers (42%) bought goods or services for a total of between EUR 100 to EUR 499. Furthermore, 35% of e-buyers made purchases from sellers in other EU countries, compared with 29% in 2014.

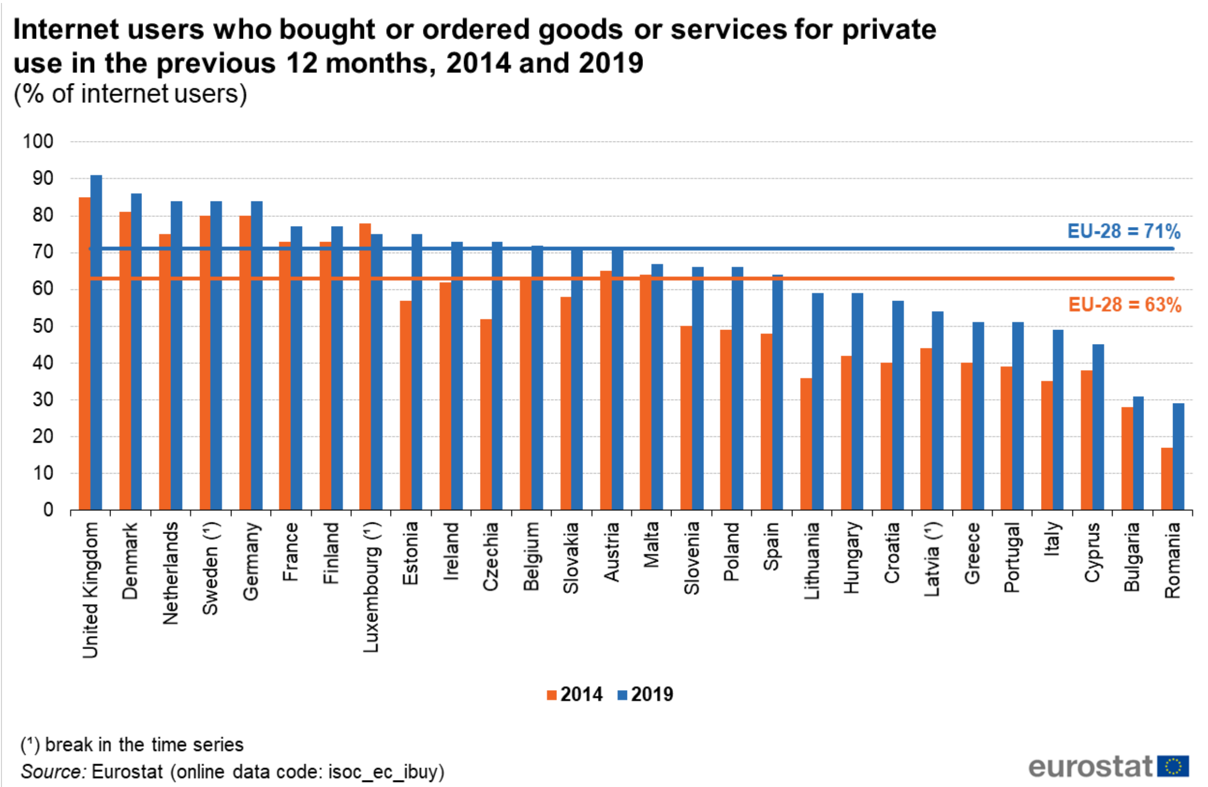

Figure 8: Internet users who ordered goods or services for private use in the previous 12 months, 2014 and 2019.

The most of online shopping in 2019. happened in United Kingdom (91%) followed by the Denmark (86%), Germany, the Netherlands and Sweden (84% each). This numbers are telling that more than eightnout of ten people in these countries have bought something online during the twelve months of 2019. On the other hand, fewer than 40% had shopped online in Romania (29%) and Bulgaria (31%). In the terms of largest increases in online shopping between 2014. and 2019. the winners are Lithuania, Czechia, Estonia, Hungary, Croatia, Poland, Spain, and Slovenia who increased their online retail for 15% or more.

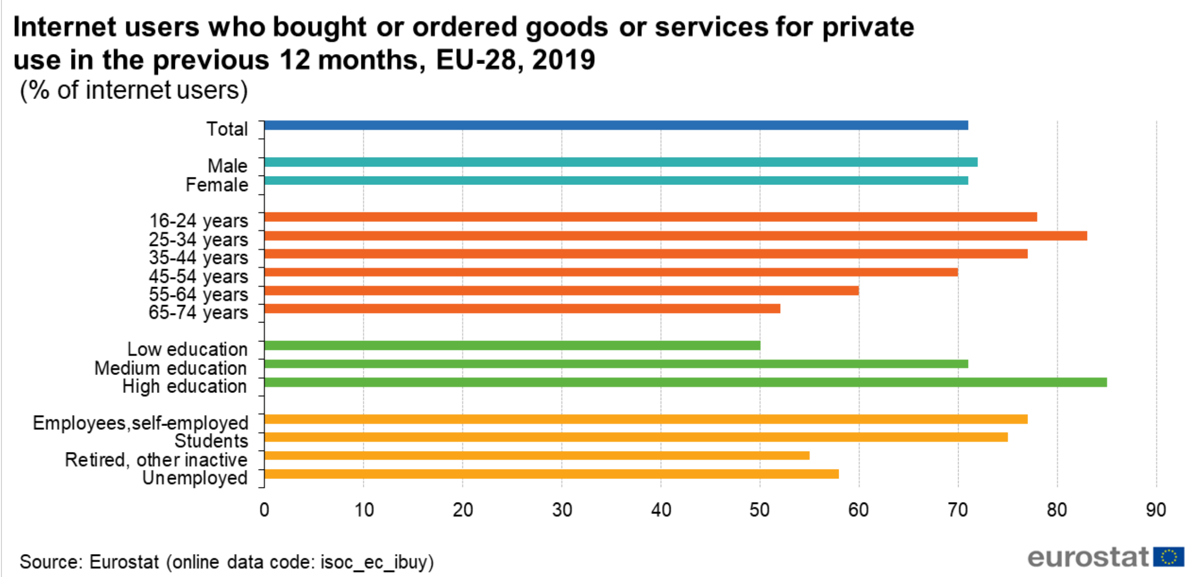

Figure 9: Internet users who bought goods or services for private use in the previous 12 months

Figure 10 represents how gender, age, level of education and employment situation all affect e-commerce activity. Men (72%) shop slightly more over the Internet than female (71%). Also, age group from 25 to 34 (83%) years shop more over the Internet than all other age groups. Furthermore, low educated people (50%) tend to shop less then medium (71%) or highly educated people (85%). Finally, employed people (77%) followed by the students shop far more than unemployed (58%) and retired individuals (55%).

2.6. Advantages and disadvantages of e-commerce

With the advancement of technology, the notion of the (physical) location of trade is relativized, given that, when it comes to e-commerce, the customer does not have to be close to the store, either it must be physically accessed, which greatly reduces the significance of the location for commercial business. Accordingly the importance of the size of a company is relativized, because even the smallest companies can be electronically known around the world, in the their market segments. E-commerce has disadvantages and advantages. Disadvantages, such as impossibility of physical contact with the product before purchase or complications when paying online, mistrust or fraud are relatively easy to deal with because, given the many benefits which e-commerce has for business, sellers have made an effort to solve the problems that affect or could possibly influence customers not to shop through e-commerce.

For the customer, e-commerce means the following benefits: the possibility of buying from the comfort of your own home or office, with the possibility of a lot larger comparisons of products and services in one place, availability of a larger amount of information, interactivity and immediacy in shopping, the ability to find a cheaper product or service unique and fast online comparison of desired specifications, gives consumers a wider choice of products and services, delivers relevant and detailed information in just a few seconds, allows users to find products according to their own tastes, from computers to cars at competitive prices, enables electronic auctions, allows users to interact with other users electronically exchange ideas and compare experiences with communities, allows individuals to do work from home, allows products and services to be sold at lower prices which ultimately results in an increase in the living standards of the population, enables the population of developing countries and those from rural areas availability of products and services that are not otherwise available to them (Babić, R., Krajinović, A., Peša, A., 2011.).

From a consumer perspective, the above stated possibilities (and many others) can have positive and negative perceptions, depending on the importance of certain good or service. However, from a company's perspective internet business means just an advantage. The benefits of using e-commerce for retailers are: direct and indirect and short-term and long-term (Bezić, H., Gašparini, A., Bagarić, L., 2009.).

Direct short-term benefits include an increase in revenue, a lower information costs, lower acquisition and storage costs, online sales and transactions, etc. Possibility of conquering international markets, attracting new investments, easier access to new customers and increased productivity are considered direct long-term benefits (Bezić, H., Gašparini, A., Bagarić, L., 2009.).

Also, indirect benefits include short-term and long-term. In the short term, the benefits include: improving the company's image, continuous worldwide advertising, wider and better customer service, disappearing geographical distance and better service and supplier support.
Additionally, long-term benefits include improving positions among the competition, shaping and expanding business networks, creating new business opportunities and many others (Bezić, H., Gašparini, A., Bagarić, L., 2009.).

3. THE INFLUENCE OF CORONAVIRUS ON ONLINE RETAIL

As the COVID-19 pandemic continues to evolve, we are starting to see far-reaching and unprecedented impact on the public health, society and economy. Having spread worldwide, Coronavirus brought a huge challenge for people, a challenge which can only be surmounted by joint cooperation of people all around the world. Due to restrictive measures, there are large economic losses that will leave consequences in the future. Even e-commerce and online retailers are feeling the effects of the Coronavirus.

The outbreak of the coronavirus pandemic has brought a lot of challenges even for e-commerce. When it comes to supplying the population with food, recent research has shown that the e-commerce sector has one of the key roles in it. The pandemic had various impacts on various sectors. For example, 25 surveyed European national markets caused the expected decline in e-commerce. This decline was made in the fashion and footwear sector (40-60%), but highest losses are recorded in the travel and leisure sector (60%). In contrast, the product categories that make living and working at home appropriate show huge growth ranging from 50% to 90%, regardless of country and product category. Examples of products in this category include food and drink, medicines, health and personal care products, home entertainment, sports, handicrafts, and freezers / refrigerators all related to working from home (www.roirevolution.com/blog/2020/08/coronavirus-and-ecommerce/)

According to Amazon, the outbreak of the Coronavirus has led to an increase in online shopping, so 100000 new employees are being sought to meet the increased demand. This should strengthen the human resources in the fulfillment centers as well as in the shipping network (www.roirevolution.com/blog/2020/08/coronavirus-and-ecommerce/).

In contrast, sales figures from China show different overall picture. In fact, retail sales there fell by 20,5% in February and unemployment rose. This means that the consequences, such as lower purchasing power, are likely to affect many companies in the upcoming year (https://getbyrd.com/en/blog/coronavirus-influence-ecommerce/). In this context, however, a clear distinction must be made between e-commerce and brick and mortar retail. Nowdays, consumer behaviour is shifting towards the Internet and online stores since, like previously discussed, the majority of people are avoiding public places in order to reduce social contacts.

4. DEVELOPMENT OF ONLINE RETAIL IN CROATIA

In the Republic of Croatia, e-business for years record a steady growth (In 2002, e-commerce in Croatia achieved 15 million kn, and 325000 people made purchases over the Internet, while about 80 companies offered their products online (Mandušić, D., Markić, L., Grbavac, V., 2004.). The first comprehensive assessment of the value of e-commerce in Croatia was made by an agency of IDC Adriatics for the period from 2002. to 2007. According to their data, in 2007. e-commerce in Croatia exceeded 700 million dollars, which meant an increase of as much as 32 percent over the year before. Comparisons For example, the value of e-commerce in Croatia in 2002 was $ 49 million, and a year later 141 million dollars. The growth in the value of e-commerce in the period from 2002. to 2007. is shown in in the following figure.

The constant growth of the value of e-commerce in Croatia is also the result of awareness of businessmen about all the advantages of trading over the Internet and doing business on so-called virtual markets. Slowly but surely entrepreneurs decide to open a web store, primarily because of their advantages in compared to classic trading. Croatian entrepreneurs realized that maintaining trade over the Webshop is much cheaper and more convenient than a classic store because there are no costs space, business hours are 0 to 24, and vendors are replaced by computers (Babić, R., Krajinović, A., Peša, A., 2011.).

5. CONCLUSION

E-commerce is important factor for strengthening competitiveness in modern business. Technology has changed the economy and caused the rapid development of ICT (Information and Communication Technologies). Nonetheless, this fast development left consequences on people's daily lives and business operations of the companies, and these consequences are not necessarily bad. Namely, by accepting e-commerce smaller companies got the chance to compete with big and global companies across the EU and the world, on the same market. Online retail has resulted in the creation of a virtual marketplace as the cheapest and developed the fastest way performing transactions.

Consumers can shop from the comfort of their home with a possibility of comparison of goods and services. As a result, larger amounts of information are available to consumers as well as interactivity and immediacy when shopping. By interacting with others, today's consumer can exchange informations with others that will help him in choosing a specific product, ie specific services. This form of trade is also extremely important to consumers from rural areas because it allows them to access products and services that they otherwise would not be able to buy.

However, consumers also fear few negative sides of e-commerce that are mostly associated with uncertainty in purchasing and overall safety of sharing their personal data. On the other hand, the benefits for businesses are multiple, and ultimately, the implementation of e-commerce reduces the gray economy and increases the business transparency with significant savings and reduction of business costs. All that leads to increased competitiveness in both the domestic and the world markets.

Trends in e-commerce from the aspect of both, companies and consumers pointed to a positive attitude towards e-commerce and further growth is expected in future.
Lastly, the development of ICT inevitably affects the understanding e-commerce so steps that are expected to happen in the future will positively affect the companies, but also meet the needs of consumers.

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