Italy

2018 ECOMMERCE STUDY

MAZARS

ECOMMERCE GLOBAL

OPPORTUNITIES & RISKS

2018

BUSINESS SOLUTIONS IN THE FACE OF NEW CHALLENGES BROUGHT ON BY ECOMMERCE

Given the digitization spree, e-commerce as a global marketplace has gained significant momentum. Together with the Ecommerce Foundation, Mazars has produced a series of country-specific studies and thought leadership pieces exploring the trends, challenges, and opportunities brought on by the emergence of e-commerce. As global advisors, Mazars' experts provide you with perspectives and tools to best leverage this new ecosystem. Our experts specialize in topics such as tax & legal, ethics & compliance, logistics & footprint, digitization & technology as well as business models and customer experience, all of which are evolving with the emergence of e-commerce.

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Ecommerce FOUNDATION

The Ecommerce Foundation is an independent organization, initiated by worldwide national e-commerce associations as well as online and omnichannel selling companies from industries such as retail, travel & finance.

Our mission is to foster global digital trade as peace is the natural effect of trade. By facilitating digital commerce we hope to make the world a slightly better place. We facilitate the development of practical knowledge, insights and services for which individual institutions, retail and e-commerce associations and B2C selling companies do not have the (financial) resources and/or capabilities.

By combining collective goals and efforts, the Ecommerce Foundation is able to realize projects which could not have been realized on an individual basis.

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ECOMMERCE IN ITALY

"Business ethics is more than best practices and fair values in commercial relationships - it can also be a real opportunity for companies to create added- value to their business."

Sylvain Rousmant, Partner, Mazars in Italy

1. THE BACKDROP

Italy (known as the Italian republic) is a culturally-driven country in south central Europe, best known for its artistic, historic and geographic diversity. It has a population of ~59.3 mn inhabitants, spread over an area of 301,340 sq. km. Economically, the GDP has increased from EUR ~1,542.9 bn in 2014 to EUR ~1,594.1 bn in 2017 (CAGR of 1.1%) and is forecast to reach EUR ~1,618.6 bn in 2018, at a year-on-year growth of 1.5%. The country is currently facing a steady decline in its birthrate and immigration, which has caused the population to dwindle by 0.2% from 2015 to 2017; it is expected to drop by another 0.1% this year, becoming ~59.3 mn in 2018. Nevertheless the demographic mix is relatively young, with majority of the population (~78.5%) being less than 55 years of age and over 42% between the ages of 25-54. Hence, there is a strong opportunity towards utilizing this large working class population towards upcoming markets concentrated in the digital-space. This is evident through the persistently rising internet usage amongst Italian people, which has culminated into a current internet user base of 73%, growing by ~4.2%. Over 85% of inhabitants up to 44 years of age are going online, along with ~60-80% of those aged from 45-64. E-activity is disseminating across generations.
In terms of performance, Italy ties up with Taiwan in ranking 19th globally and 13th in the EU on the Inclusive Internet Index, which outlines the current state of internet availability, affordability, relevance and readiness. While relevance is quite strong (standing 8th amongst 18 EU countries and 11th worldwide), the country stumbles upon readiness. This means while the existence of locally-relevant content is there (which is paramount given the considerable level of linguistic diversity), greater effort is required to build the requisite skill-set, cultural acceptance and design encouraging policies to boost e-adoption. Concurrently this should also boost the availability score, as people start having a favorable infrastructure and institutional base to access the internet, hiking up usage levels.

ITALY

GOVERNMENT
REPUBLIC

POPULATION
59,359,900
(DOWN 0.2%)

INTERNET PENETRATION
73%
PENETRATION UP BY 4.2%

GDP
EUR 1,594.1 Bn
(YOY 1.47%)

INCLUSIVE INTERNET INDEX

AVAILABILITY
74.3/100
RANK 27

AFFORDABILITY
87.3/100
RANK 19

RELEVANCE
90.5/100
RANK 11

READINESS
71.1/100
RANK 33

OVERALL SCORE 85.3/100 RANK 7

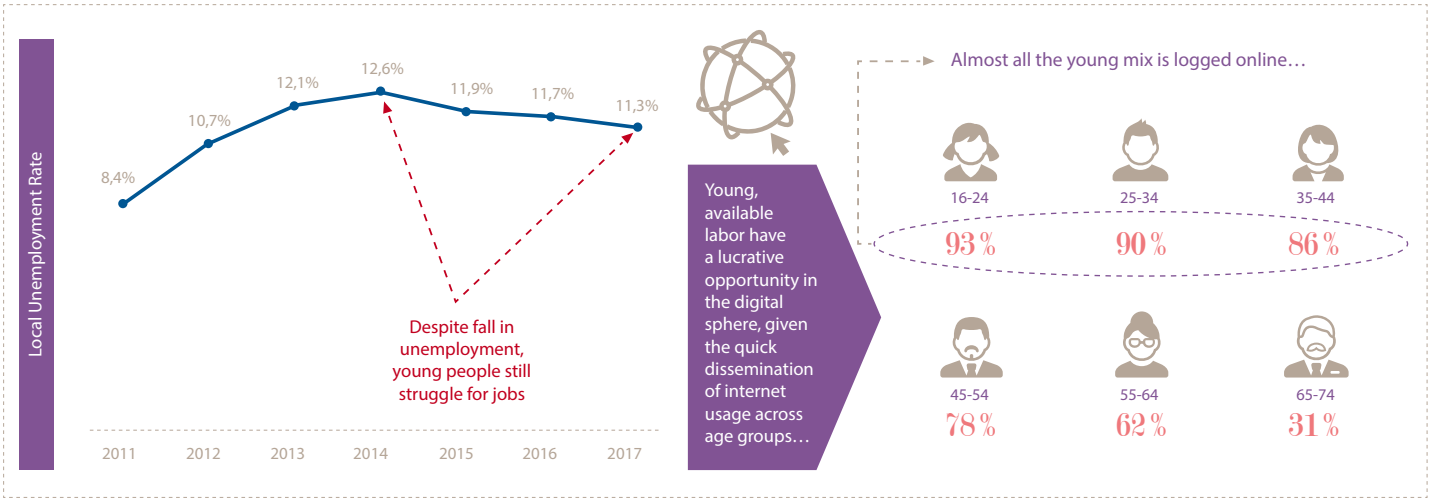
LPI RANK 8
Customs Clearance Process, Quality of Trade/Transport Infra, Ease of Logistics Services

LOGISTICAL PERFORMANCE INDEX

Logistically, Italy ranks 21st on the LPI (Logistical Performance Index), reflecting a fairly well established customs clearance process, trade and logistical services quality, as well as transport infrastructure. The government is also taking steps to further develop telecommunication, human capital and online services, given that the E-Government Development Index stands moderately well at 22nd position.

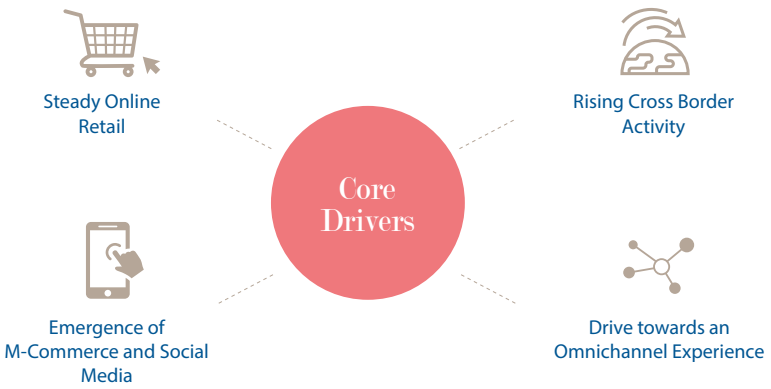
However the ease of doing business can be further improved upon, which currently sits average at 46th. This may stem from the increased complexity embedded in the Italian financial & legal environment. Factors such as differing charts of accounts, individual specificities in employee pay slips, as well as the convoluted interplay between fiscal & accounting rules, all add up onerous responsibilities on smaller companies. These hurdles can become especially burdensome in the cyber environment, where SMEs are also required to keep up with latest technological developments, monitor both tangible & intangible activities and compete amidst large marketplaces. The Death by Amazon index illustrates one of such many examples. Hence, these impediments must be ironed out in order to create a level playing field that is very much needed in the time of greater online activity.

On a macro level, Italy seems to be going for a steady e-development, with the digitization of daily life. However, this growth can be better channeled by having more fresh blood enter the working system. For example, while the overall unemployment rate has slightly gone down from its peak of ~12.6% in 2014 to ~11.3% in 2017, many young people are still unemployed. The local labor market therefore needs to utilize the available youth and equip them with the requisite skill-set for high-growth sectors. Such an environment is critical for further developing the digital economy at a country-wide level.



2. BUSTLING E-COMMERCE ACTIVITY

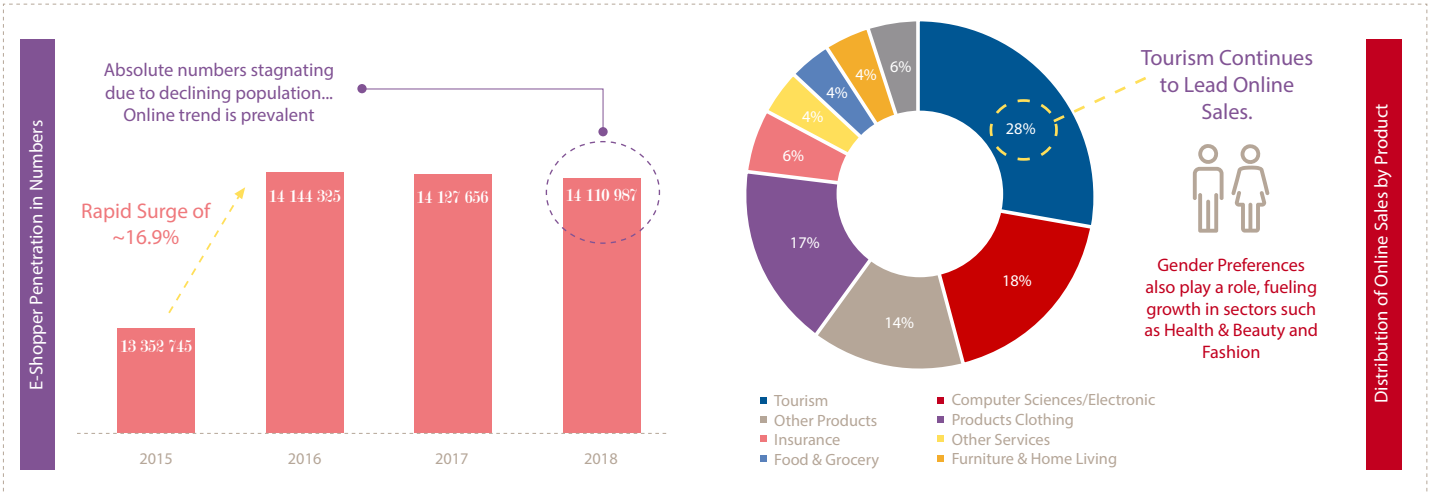
Digitization has fueled the e-commerce market in Italy, with many purchasing goods/services "on-the-go." It is a dynamic landscape where people are steadily becoming regular e-shoppers who are concerned about their entire purchasing experience, demanding real-time service along the way.



ONLINE PURCHASES KICKING IN

Italy witnessed a substantial surge in online buying in 2016, with e-shopper penetration having increased by almost 6% over a year. Though the numbers stabilized after the shoot up – owing to the declining overall population – the online buzz is still relevant. Tourism leads online sales with a share of 28%, which is followed by other diverse sectors such as Computer Science/ Electronics and Clothing, having a share of 18% and 17% respectively.

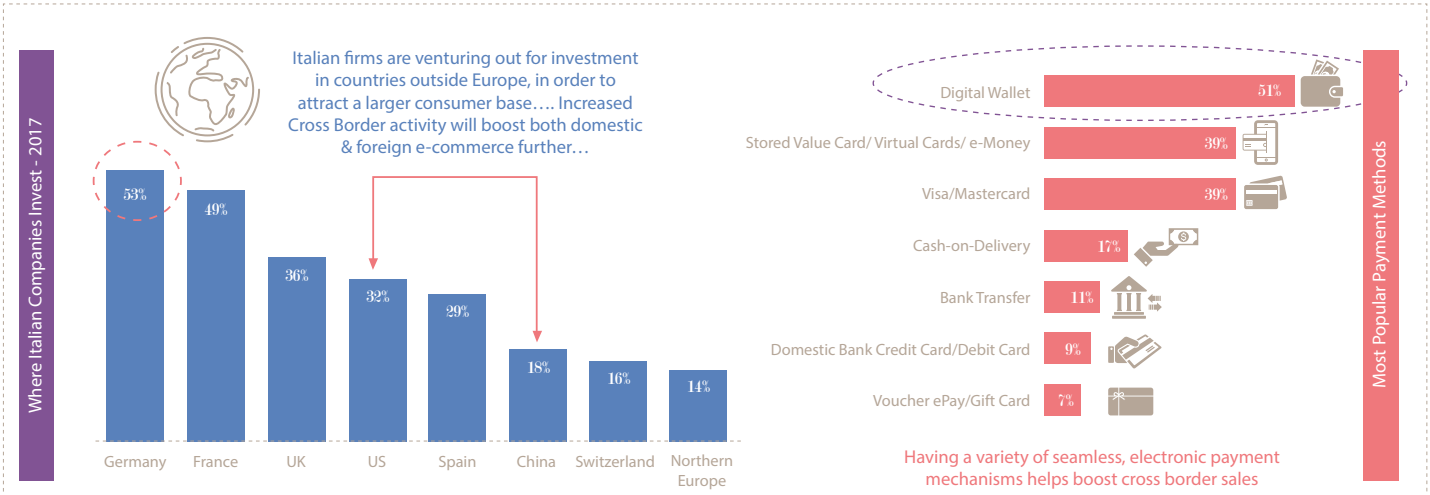
Meanwhile gender preferences also influence where e-commerce is driven to. For example, while women focus their e-shopping towards Fashion, Food & Personal Care and Furniture & Appliances, men largely go for Electronics & Media and Toys/Hobbies/DIY. This has resulted in various sectors registering a strong e-commerce growth rate over the last 4 years, with markets such as Health & Beauty and Fashion having risen by 38% and 28% respectively. In fact fashion and design still have huge growth potential ahead, particularly for businesses involved in cross-border sales.



CROSS BORDER GAINING BUZZ

While Italian stores remain the most popular constituting 33% of sales, sellers with different countries of origin have also gained traction – i.e. share in cross border shopping increasing from 6% in 2016 to 9% in 2017. Meanwhile, outbound activity has also increased with Italian e-commerce companies setting up multilingual websites and looking abroad to develop sales. Germany is the most popular online destination, becoming an investment hub for over 53% domestic e-commerce players, followed by France, the UK and the US. Around 18% firms are also investing in the Asian continent such as China.

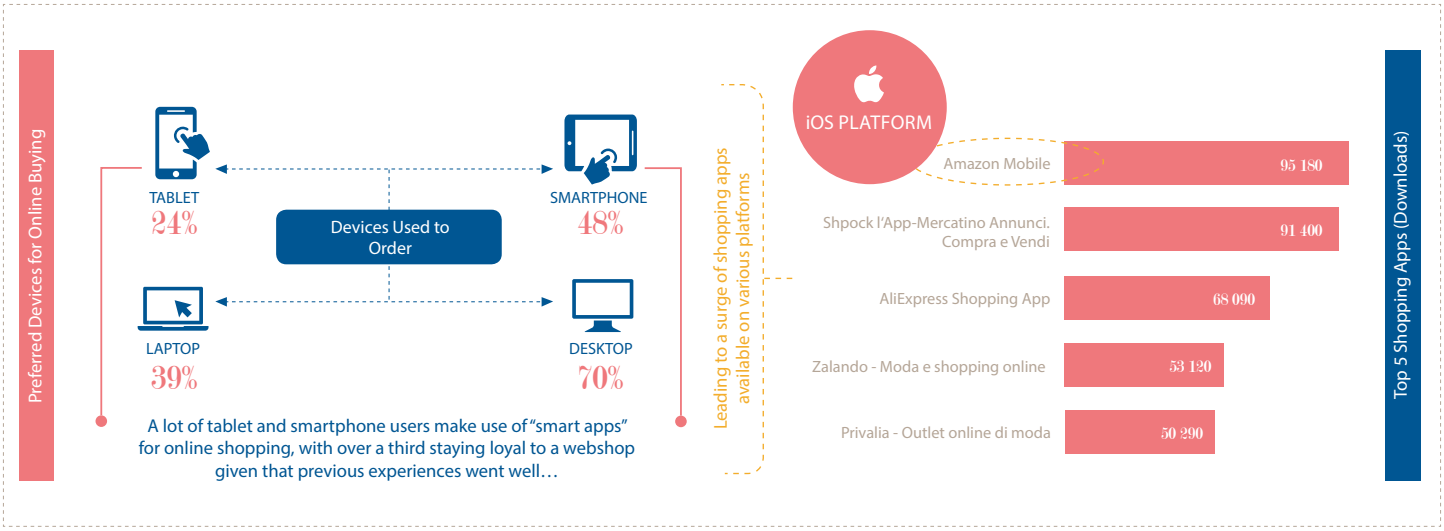
The emergence of various payment mechanisms have also opened up this sphere, as consumers can easily transact across borders. Digital wallets are highly popular, with over 51% consumers choosing to use avenues such as ApplePay/Samsung Pay/Amazon Pay etc. Stores value cards and traditional visa/mastercards are also next in line, with cash-on-delivery only accounting for a 17% preference share. The usage of fiat money will further diminish over time as cross border activity ramps up even more.



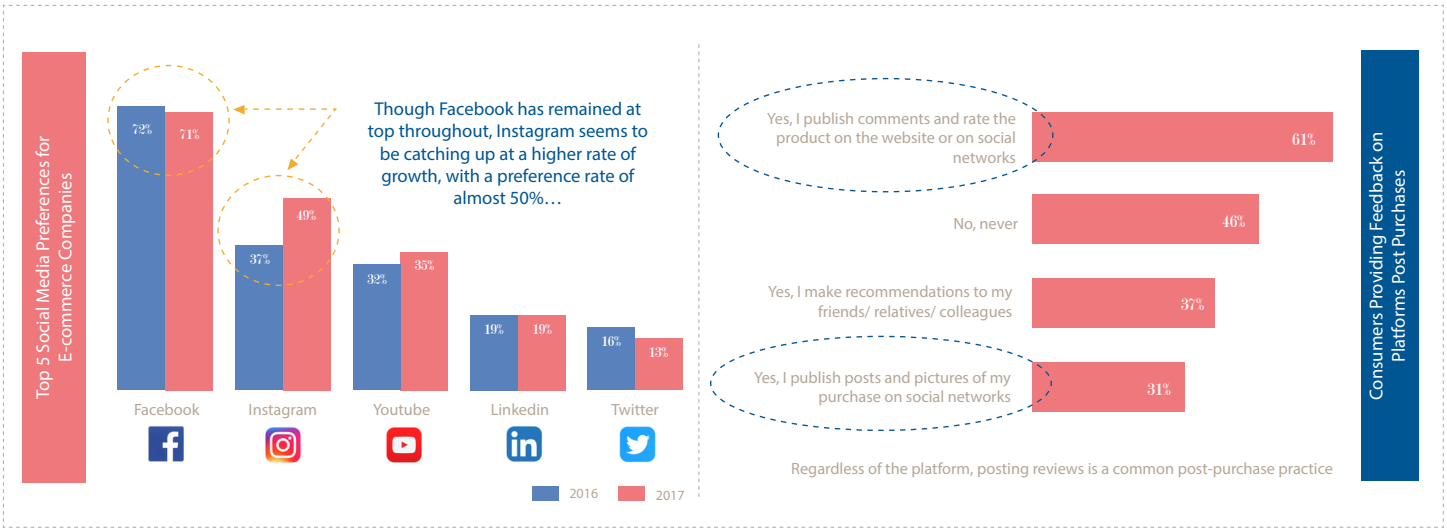
SHOPPING BECOMES SOCIALLY MOBILE

Mobile-shopping (popularly known as m-commerce) has also gained traction, with over 51% of online shoppers in Italy making use of this platform to buy goods/services in 2017. Around 48% consumers used smartphones and 24% used tablets to go mobile. Once logged in, easy navigation and clear information/product pictures help them with their buying journey.

This behavior has subsequently led to a waterfall of e-shopping applications as over 77% consumers make use of " smart-apps" for shopping on their smartphones. Popular names here include Amazon Mobile, having been downloaded over 95,000 times in 2017, which is followed by Shpock l'App-Mercatino Annunci, AliExpress, Zalando and Privalia. Over time mobiles will jump from the current usage rate of 48% to over 70%, taking over desktops as the most frequently used device for e-purchasing.



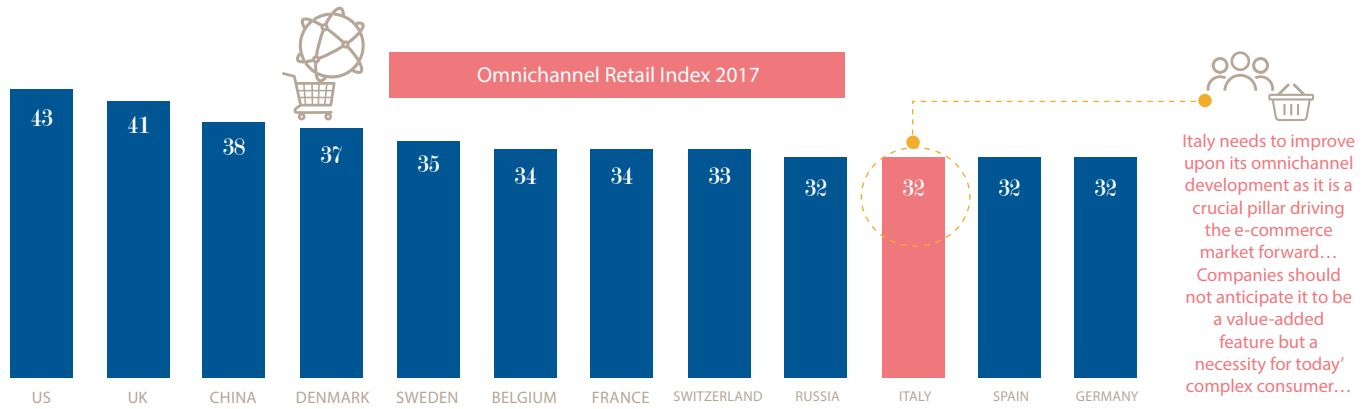
However this "mobility" is not restricted to buying alone. Consumers are also making use of social mobility to look up suitable companies, communicate with other fellow buyers and write reviews. For example, over 61% of respondents say they publish comments and rate products on seller websites or social networks. Hence, this has become a crucial marketing tool that directly influences the potential user rate and future revenue. Technically, while over 50% of Italian companies believe that the traceability of the magnitude of social media on sales is uncertain, the impact is still there. It is merely more qualitative in nature. Hence, it is not surprising that social platforms are considered part of the e-commerce marketing budget, standing right behind search and display advertising. Firms must exercise due caution on being highly responsive towards what goes on popular networking sites such as Facebook, Instagram, Youtube etc., striving to get more "thumbs up" than "thumbs down."



THE NEED FOR A "COMPLETE" SHOPPING EXPERIENCE

Today's consumer is no longer singular; he/she rather demands a holistic purchasing journey, that is a complex mix of both online and offline channels (omnichannel). E-shopping is not a zero-sum game as Italian consumers still utilize brick-and--mortar stores when buying highly perishable or tailor-made goods. This need for variety in shopping modes in-turn fuels the growth of e-commerce.

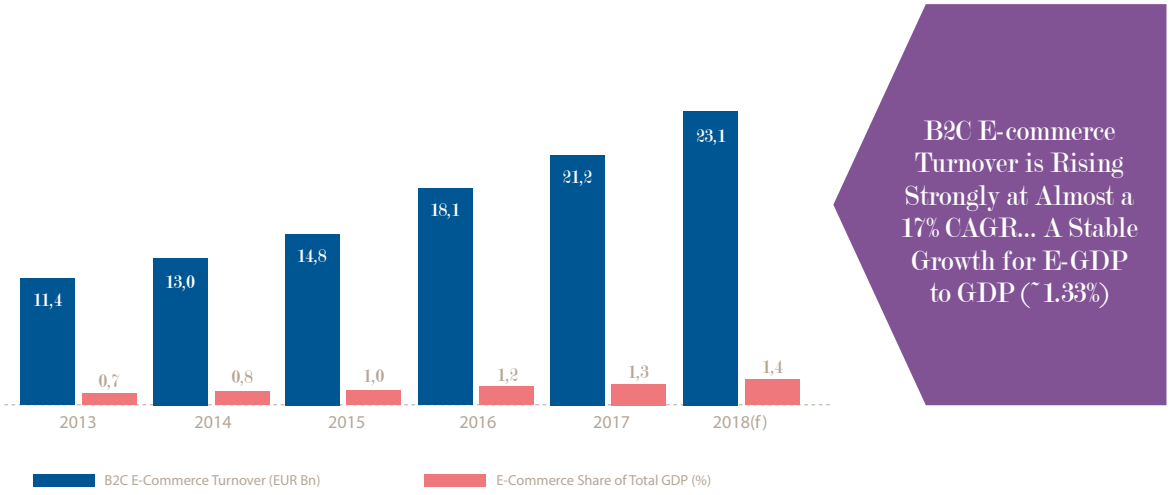
Currently, ~17% local companies have a high omnichannel implementation while 37% and 12% have either started to develop it or launch it in 2018 respectively; yet there are still 34% of the lot that believe either this avenue is not applicable for them or they do not anticipate to develop it. This approach should not be taken as omnichannel growth is needed for all kinds of sectors connected with e-commerce. Hence, many more Italian firms need to embed this tailor-made consumer journey, which will in-turn boost ranking in the Omnichannel Retail Index (with Italy currently standing at the third last position). Working with personal data is critical (as per 65% of surveyed firms), in order to drive this experience. With this, players also need to understand the purchase behavior and consumer interaction with other channels, deciphering what steps are the crucial "pain points."



POSITIVE MARKET UPTAKE

Revenue wise the e-commerce market is going strong, with B2C turnover increasing from EUR ~11.4 bn in 2013 to EUR ~21.2 bn in 2017 (CAGR of ~16.9%) and forecast to further rise to EUR ~23.1 bn in 2018. Meanwhile the E-GDP share of total GDP has steadily grown from being ~0.7% in 2013 to ~1.3% in 2017; it is expected to further climb to ~1.4% in 2018.

However, there is room for improvement as Italy lags behind mature e-commerce markets such as the UK, US, Germany etc. that have an online retail penetration of 19%, 15% and 14% respectively compared to the country's 6% rate. Firms therefore should form alliances across the entire purchasing journey through incremental innovations – i.e. automated shipping, voice assistant, augmented reality etc.



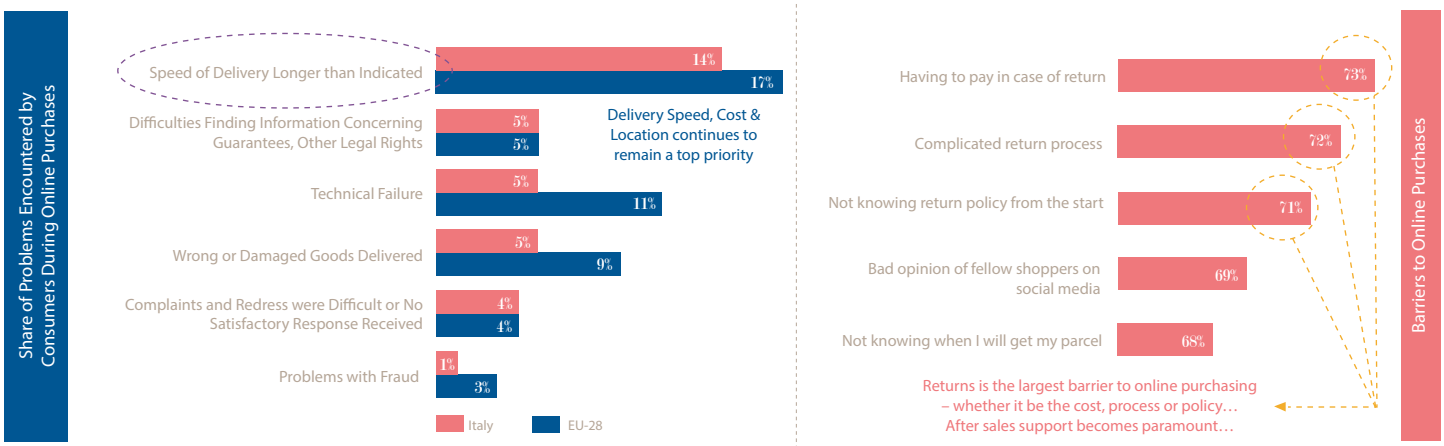
3. KEY CHALLENGES

While the drive towards e-commerce maturity is inevitable, it has its own share of hurdles that need to be overcome. Firms are expected to address these issues as early as possible, so as to avoid setbacks.

BEING EFFICIENT AND EFFECTIVE

Today's consumer does not only demand an omnichannel journey but one that is free from potholes and includes everything in real-time. Technological advancement has raised the bars for everyone to get everything on-time, without geographic barriers in place. This potentially creates a challenge for e-commerce firms as they have to be on their feet at all times.

Logistics is one of the greatest concerns in this area as delivery cost, speed and place are top most concerns for 68%, 58% and 54% online shoppers respectively. Nevertheless this is also one of the most common hurdles faced by shoppers. Over 85% of consumers prefer home delivery, followed by delivery to a workplace, alternative address, post office etc. Hence, firms are required to keep their logistics flexible (offering a variety of delivery places/timings), rapid (same-day, hour-by-hour delivery), and responsive (having in-store support). Care must also be taken in the after-sales process, assisting consumers with returns/refunds/exchanges, especially so when it is a valuable feature. For example, over 73% shoppers claim having to pay for returns to be the biggest barriers towards e-purchases, which is followed by a complicated returns process, absence of returns policy etc.



ADHERING TO ONEROUS RULES & RESPONSIBILITIES

Apart from financial accounts, Italy also houses a stringent legal e-commerce sphere. For example, consumer returns is not only a preference but a legal right, given the country having implemented a hefty consumer's code in 2014 that has introduced the right to rethink and withdraw on client acquisitions. Meanwhile, the GDPR (General Data Protection Regulation) also calls in for a greater need to protect consumer data. Along with this, tax implications further add to the responsibility bucket with the introduction of the Web Tax in 2018; both resident and non-resident companies become liable should they cross the 3,000 B2B transaction threshold. Given that 30% of e-commerce revenue in Italy is from abroad, this added burden can act as a short-term dampener for the industry. However, in the longer term this will help to add transparency to the system.

BUILDING E-TRUST AMONGST ALL

Adherence to simply legal duties is not enough. Consumers (especially "the millennials") also expect digital firms to be ethically sound all across the value chain, adopting sustainable practices such as those catering towards the environment, employee well-being, diversity etc. This, along with taking extra steps to avoid cybersecurity threats (through the use of biometrics & multilayer authentication), is pivotal in order to establish "e-trust" amidst consumers and every stakeholder involved in the ecosystem, taking e-commerce forward.

4. WAY FORWARD

In a nutshell, e-commerce can and will grow at a steady pace in Italy, given that online activity is running strong. While the Italian market is not as mature as other markets in the EU, there is a lucrative opportunity for players to gain in, as long as they are able to comply in the tight financial and regulatory sphere. Concurrently, there is also an opportunity for local players to step outwards and capture markets in other geographic locations.

The core remains on how well firms are able to manage their dispersed value chains, making use of information systems such as CRM and advanced technological features such as robotics/artificial intelligence, turning from reactive to proactive in consumer management. Providing a highly responsive multidimensional omnichannel experience to a multi-varied consumer base becomes key.

SYLVAIN ROUSMANT

PARTNER, MAZARS IN ITALY

In 'The Financial Complexity report 2018', Italy ranks 4th in the global ranking. Why is Italy one of the most complex jurisdictions for accounting and tax compliance?

The Italian accounting system contains specificities that enhance complexity. As an example, contrary to France, Italy does not have a normative chart of accounts with a predetermined structure. This situation brings more complexity and from one company to the other, the chart of accounts differs.

In most Italian companies, payroll is one of the cruxes of the accounting matter. There are more than 864 national contract types[1] in Italy, which ranks #2 (behind France) in the Global Payroll Complexity Report 2017, mainly due to fiscal government reporting and declarations[2]. Each employee has specificities in its pay slip which tends to increase the complexity of payroll management.

Moreover, companies' financial statements, and particularly SMEs, derives from national accounting rules but also includes fiscal rules that sometimes overwhelm accounting rules. Since the fiscal system is itself complex in Italy, financial statements are becoming more complex.

Thus, the tax system in Italy is time-consuming due to a jurisdiction that is frequently evolving and with a high number of reports and returns to be submitted to fiscal administration. Hence, the average time for fiscal administrative reports amounts to 238 hours vs. 160 hours in OECD countries and the number of taxes paid per year amounts to 14 vs. 10 in other OECD countries[3]. In addition, I think the complexity can also be explained by the different layers of tax raising at national, regional and municipal level.

Since 2014, Italy has implemented a consumer's code[4] which is a complex text for e-commerce. It introduced the right of withdrawal and to rethink on the acquisition made by a client. This right obliges the e-commerce company to accept a return of the good within 14 days from the reception of the good, even if it is deteriorated. Moreover, other obligations such as full transparency on costs (delivery, shipment, etc.) and the impossibility to increase the price when payments occur with a credit card.

Moreover, the Italian Association for Electronic Commerce (AICEL) gathers 5.000 companies and 25.000 persons in Italy, applying a behavior code which relates to best practices in terms of sales conditions, guarantees, data protection and sales order management. The association provides a label "Sono Sicuro" which allows e-commerce Italian customers to enhance trust in transaction and in the provider. In case of disrespect of the code, disciplinary sanctions can be taken and publicly disclosed.

> "the average time for fiscal administrative reports amounts to 238 hours vs. 160 hours in OECD countries"

What effect do current tax systems/schemes have on ecommerce in Italy?

E-commerce and digital companies may suffer from the 2018 Italian budget law which recently introduced the "Web Tax"[5]..This 3% tax rate on each transaction, is due by resident and non-resident companies rendering more than 3.000 digital B2B transactions per year. In fact, Italy has long complained that companies such as Amazon, Apple and Google have avoided taxes by maintaining they do not have a "stable presence" in the country, even though they generate huge revenues there and this new law clearly intends to get around that hurdle.

Do you think there are economical benefits from online retailers becoming and/or remaining ethical?

I think there is a real market opportunity for online retailers to become ethical. Evidence of this new generated market is the apparition of new apps, such as "Give", allowing to buy and exchange ethic products from other customers. Thus, this new kind of app also brings forward a community of online consumers that intend to make a real choice through their acquisitions.

Online communities are crucial for online retailers since their reputational risk is at stake, in the era of class action. Social networks convey digital firms that lead the ethical values and the ones to be banned. The website BESK provides customers with a selection of online retailers with social and ethical values and with sustainability criterions. Through Twitter, this wesite also communicates ratings and a focus on an online r etailer that is valuable.

Moreover, a new generation of digital consumers ("the millennials") will be much more attentive to the sustainable process of goods' production. Thus, the 2018 report "Pulse on the Fashion industry" emphasized that improving a fashion brand's environmental and social performance boosts profitability.

Implementing mainly efficient energy consumption, respectful and secure working conditions, and sustainable materials, fashion companies might have a positive EBIT uplift of 1 to 2 percentage points, which reveals the true value of sustainable policies.

Do you feel Italian consumer trust in online retailers is declining?

No, I think the trust is increasing and the arrival of Iliad (Free in France) is an example of the potential of the Italian market for online retailers. In fact, Italy is the one country with the highest penetration rate for mobile phones or smartphone in Europe (89%[6] vs. 85% in France, 86% in Germany and 79% in the UK). However, Italy remains one of the countries with the lowest penetration rate for ecommerce, so I think there is a real opportunity of catching up to the market. Moreover, the economic fabric of Italian companies is mostly composed of SMEs that must draw up to digital transformation and increase the pace of ecommerce to capture future growth leverages.

Some traditional Italian companies have experienced real success stories such as Venchi (ice-cream shop), Boggi (clothes) and Lanieri (tailored suits). Turning digital, these brands have experienced tremendous growth in the past few years and Boggi recently launched the Boggi Omnichannel experience that allows clients to acquire online and receive delivery or withdraw products in the shop. Nonetheless, Italian consumers' trust in "brick-and-mortar" retailers is still strong and the emergence of the Death by Amazon index casts a shadow on the moral sense of e-commerce.

In March 2018, the famous suit brand Cornelliani announced to initiate digitalization through a platform called Alkemy. The company asserts that a key parameter to choose a platform was the analysis of the value chain between the production of goods and the online sales.

This platform embraces a chart of ethics and compliance, as well as a behaviour code that aims at reinforcing trust in e- commerce and I think this recent launch shows the increasing trust in online retailers in Italy.
must adapt to the fourth Industrial Revolution, with a value chain focused on the consumer and a digitalization of processes affecting the whole supply chain.

What are some of the main ethical issues businesses have to deal with in e-commerce?

As we have seen recently with Cambridge Analytica and Facebook, data privacy is a key issue for digital companies. Digital companies' databases are the new oil of our century and a market already exists for data value. I trust this trend will continue to grow, embracing ethics and compliance issues. Thus, theft of information or intellectual property is a key issue to be tackled. As of today, the new GDPR regulation has reinforced the privacy regulation and governance, providing individuals with information about who and how their data are managed.

> "As we have seen recently with Cambridge Analytica and Facebook, data pricacy is a key issue for digital companies."

For e-commerce companies, aiming at delivering high-quality products with even shorter delays, supply chain traceability will be a key for consumer's trust.
As an example, the Italian brand of clothing YOOX communicates its sustainability information to e-commerce customers. The brand evokes its objectives to reach 100% of renewable energy adhering to the RE100 program, but also its adhesion to the supplier quality label "Fur Free Retailer" which is committed to caring about animals and guarantees clothes free of animal fur. Moreover, YOOX intends to obtain the rating "excellent" of the sustainability standard BREEAM (Building Research Establishment Environmental Assessment Method) for its new logistics center in Milan.

What are the opportunities and challenges for businesses to apply business ethics in their online trading ? Generally, and more specifically, for Italy ?

I think business ethics is more than best practices and fair values in commercial relationships, but it can also be a real opportunity for companies to create added--value to their business. Many studies have shown that the willingness to pay a higher price for an investor is directly related to the ethical criterion of the production of a good[7].

According to this, the word "etrust" has emerged among the e-commerce companies, indicating the situation that consumers believe in online trading where they make business transactions.

For example, when a consumer purchases a product from an online shop, e-trust recognizes the expectation of that person to receive exactly the product he or she has ordered. Thus, I think the main challenges are found in three pillars: internet trust, which is related to internet's performance as speed or integrity, vendor trust, which refers to the trust in the producer who sells the product, and third parties trust, which refers to intermediaries implied in a transaction[8].

> "the main challenges are found in three pillars: internet trust... vendor trust... and third parties trust."

It is commonly agreed that e-trust plays a key role in internet digital transactions since consumers are more likely to commit themselves in e-commerce with a company they trust more. Companies will also be assessed for having good ethical performance if they practice good e-trust and thus, develop customer relationships. Therefore, building trust that ensures a compelling reputation over transparency and ethics and leads to satisfied clients becomes a crucial task of every company doing online business.

More specifically in Italy, supply chain challenges have been raised due to the rapid growth of digitalization of brands. As an example, in 2016 the logistic center of Stradella[9], which manages the e-commerce platform of H&M in Italy, used to face important strikes[10] due to the increased pressure and the downgrade of labor conditions. Interestingly, e-commerce products must be delivered within short a short time- lapse and subsequently, supply chain centers experience a lot of pressure, creating resentment.

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3. http://www.doingbusiness.org/data/exploreeconomies/italy#pay ing-taxes
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