



# The euro and e-commerce Bringing Europe closer to a single market

By Vernon J. Ellis

The interaction of a single currency and e-commerce will forge powerful synergies across the euro zone, enhance European competitiveness and accelerate the emergence of a pan-European capital market.

**D**espite the bold vision set down in the Treaty of Rome in 1957 and a number of historic steps taken since then, the goal of a truly unified single European market has always proved elusive, in large part because of the barriers created by separate national currencies, as well as different languages and cultures. Two recent developments have changed this picture dramatically.

The first is the creation of a single European currency, the euro. Although the euro has existed as an electronic currency throughout the euro zone since the beginning of 1999, its full impact first began to be realized on January 1, 2002, with the introduction of euro notes and coins in the 12 euro-zone countries. After February 28, 2002, national currencies in these countries will cease to be legal tender.

This event is likely to have an important psychological impact on consumers within the euro zone, most of whom will be using the single currency for the first time. But it will also represent a sea change for the zone's businesses, especially for the many small to medium-sized enterprises that have continued to use the old legacy currencies during the past three years.

#### **Combined impact**

By itself, the start of full monetary union would have a major impact on the European business environment. But what makes monetary union even more powerful is that it coincides with the emergence of another force that has been breaking down barriers to a single European market: the growth and adoption of e-commerce.

The growth of e-commerce in Europe over the past few years has been nothing short of remarkable. From an inauspicious start, when it was

often seen as a kind of novel experiment, e-commerce has developed to the point where it is now firmly embedded across most business functions within European corporations. It appears that not even the collapse of the dot-com bubble and the general gloom pervading the technology sector have dented the confidence that European business executives have in e-commerce. "The Unexpected eEurope," a report published by Accenture in October 2001, shows that on average these executives expect to increase their expenditure on e-commerce initiatives by 15 percent over the course of 2002. Forrester Research estimates that Europe's share of worldwide online business-to-business activity will grow from 11 percent currently to 28 percent by 2004.

Many analysts continue to view the euro and e-commerce as largely unrelated phenomena whose effects on the business environment are being played out separately. Yet the combined impact of the single currency and e-commerce can be expected to forge powerful synergies across the euro zone, strengthening and deepening the single market. The interaction of these two forces will also enhance European global competitiveness and accelerate the emergence of a pan-European capital market. For European companies, the strategic implications of these developments are profound.

By eliminating currency conversion costs and, more important, exchange-rate risk, the introduction of the euro has eliminated two important obstacles to intra-European trade and the completion of the single European market. This will have a significant impact on trade links within the region.

Some recent studies, for example, indicate that monetary union could

more than triple bilateral trade between countries over a 10- to 15-year period. While these macro-level findings may appear somewhat on the high side, they are reinforced by anecdotal evidence indicating that many companies, especially small to medium-sized enterprises—a family-owned brewery in Berlin, for example, or a lighting company in Rome—believe that the euro will greatly facilitate trade across European borders.

For larger companies, many of which already trade across the euro zone, the benefits of a single currency are somewhat different. Manufacturers, for example, have traditionally kept a proportion of their overall production in their different export markets as a natural hedge against the effects of currency fluctuations. For these companies, the single currency creates an opportunity to realign production strategy across markets to reflect more accurately the benefits and costs of manufacturing in different countries.

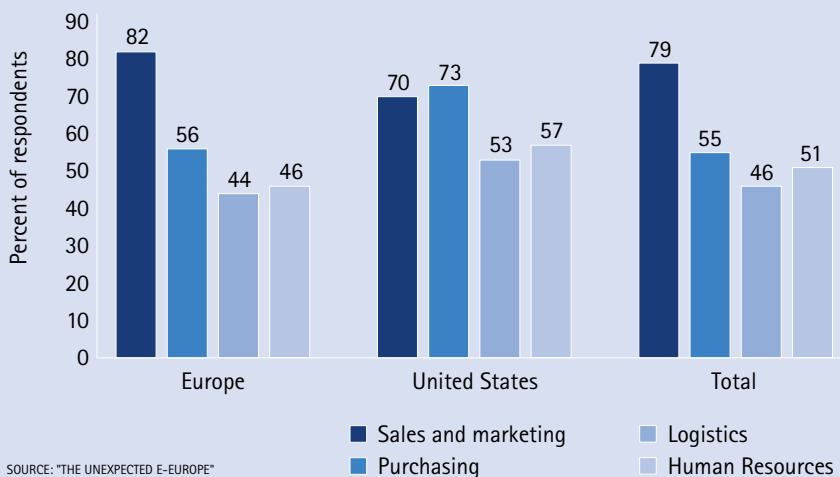
These market integration effects are being reinforced by the growth of e-commerce in Europe. Although business-to-consumer e-commerce has played an important role in integrating Europe's markets, business-to-business e-commerce has had an even greater impact on trade links, especially as more and more companies encourage their suppliers to develop online capabilities. An important factor has been the rise within Europe of several B2B exchanges, the aim of which is to coordinate transactions between buyers and their suppliers.

One example, from the consumer packaged goods industry, is CPGmarket.com—a joint venture between Nestlé, Danone, Henkel and SAP—which has facilitated the electronic sourcing of more than €200 million worth of consumer products across most European countries. To date, 400 buyers and 1,000 suppliers have been trained to use CPGmarket.com's electronic sourcing and negotiation

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### Taking advantage of e-commerce

Slightly different patterns in the adoption of e-commerce are emerging in the United States and Europe, according to an Accenture survey of executives. In the United States, for example, the greatest impact of e-commerce is being felt in purchasing, whereas in Europe the greatest impact is being felt in sales and marketing.



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tools, which can function in five different languages. The average cost savings for purchasers, in terms of reduced product costs and time spent on the tender process, has ranged from 10 percent to 15 percent.

To improve efficiencies in the reinsurance industry, Munich Re and Swiss Re have created inreon—an electronic platform for trading standardized insurance products. As of November 2001, 9 sellers and 40 buyers had joined the inreon platform, some spanning 19 European countries and the United States.

#### **Enhanced competition**

Not only are European markets becoming more integrated as a result of these developments, they are also beginning to function in a more competitive way. By providing a common metric for price comparisons, the single currency will highlight the often-significant price disparities that can exist across the euro-zone countries. Allied to a separate trend toward market deregulation in Europe—in the telecom sector, for example—this price transparency will boost incentives for companies to sell across national boundaries and for consumers and businesses to find the best suppliers.

E-commerce is also contributing to keener competition, principally in two ways. At one level, the Internet offers a highly efficient means of reducing search costs—the time and effort it takes to find goods or services of the right price-quality combination. It enables the development of sophisticated search mechanisms, such as online auctions and reverse auctions (in which the buyer specifies the goods or services required, and suppliers compete to meet this demand at the lowest price). Although sometimes regarded as a B2C phenomenon, these

types of search mechanisms are becoming increasingly important in B2B e-commerce, particularly for the types of trading exchanges mentioned above.

The second way in which e-commerce will promote more competition is by lowering barriers to market entry. In fact, e-commerce newcomers tend to be established companies, not startups, as once expected. The experience of the dot-coms has shown how difficult it is to enter markets successfully with no brand history and limited management expertise, despite the other advantages offered by online trading.

But the story is different for established companies. More than half (53 percent) of the European executives surveyed recently by Accenture believe that e-commerce provides the means for established companies to use their branding and other assets to expand into new geographic markets. This view is even more widely held among executives in European Union countries on the geographic periphery, such as Greece (74 percent), Spain (70 percent) and Portugal (90 percent). Examples of companies that are using the Internet to expand into new geographic markets and target new customer segments include Ample, an online funds supermarket operated by the global financial services company AMP, and Xelion, an online trading and investment company established by UniCredito Italiano.

#### **Synergy**

Market integration is being driven not only by the separate effects of the euro and e-commerce but also by the synergies created between them, particularly the way the introduction of the euro can improve the efficiency of e-commerce. For example, the use of the single currency will

directly enhance price transparency and ease of payments in electronic commerce across the euro zone, as well as contribute to the efficiency of Europe's growing number of B2B exchanges.

The evidence indicates that businesses in Europe, as well as in other major markets, have been quick to grasp the importance of these synergies. In Europe, more than two-thirds of business executives surveyed believe that the euro will accelerate the growth of European e-commerce. The same view is held by almost three-quarters of Japanese executives, as well as three-fifths of US executives. As a further indication of the importance of such synergies, almost three-fifths of European business executives believe that the countries in Europe not adopting the euro will experience a competitive disadvantage in e-commerce.

#### Capital markets transformed

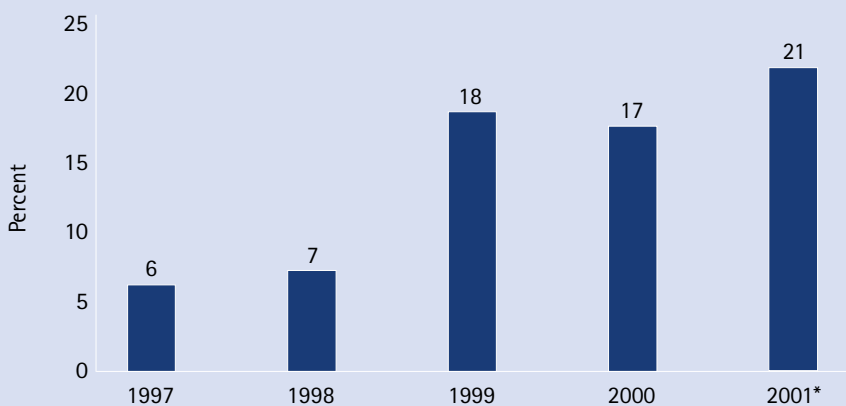
The existence of separate currencies across the EU has always been a major deterrent to the development of pan-European capital markets.

Currency fluctuations meant that investing outside national markets carried considerable risks for investors, particularly pension funds, whose liabilities are denominated in local currencies. The arrival of a single currency, however, has eliminated exchange-rate risk as a factor in investors' decisions within the euro zone, and the focus has now shifted much more to fundamentals, such as credit risk and liquidity.

The single currency has triggered important structural changes that over time will increase the volume and variety of financing available to companies in Europe and reduce their cost of capital. These include the Growth and Stability Pact, which limits the size of public-sector deficits. This is a key underpinning of economic and monetary union, since restricting government debt will indirectly increase private-sector access to capital by reducing the "crowding out" by public-sector borrowers. (Although not directly related to the introduction of the euro, attempts to defuse Europe's notorious "pensions time bomb,"

### Challenging the dollar bond market

At a time of perceived weakness in the equity markets, corporate bond issues in euros as a proportion of total non-government issuance is growing dramatically.



SOURCE: CAPITAL DATA BONDWARE

\* first quarter

Internal barriers of distance, language and culture are being further eroded through the increased adoption and use of e-commerce, especially at the B2B level.

which threatens some EU states with dangerously underfunded pension liabilities, may have a similar effect on the transformation of the euro zone's capital markets.)

Another development, attributed mainly to the creation of the euro, has been the spectacular growth in the European corporate bond market. In contrast to their US counterparts, European companies have traditionally eschewed corporate bonds denominated in national currencies, partly because the small size of national markets meant that these instruments were not very tradable and therefore were an expensive source of financing. This is now changing dramatically: The first quarter of 2001 saw 15 corporate bond issues of €1 billion or more, compared with only three such jumbo deals in the old national currencies in 1998.

In terms of issue size and overall market volume, the euro corporate bond market is now widely seen as being able to match the dollar market. At a time of perceived weakness in equity markets, the euro-denominated bonds have proved to be an especially important source of capital for many European companies, especially in the telecom sector, with recent large issues by Deutsche Telekom (€3 billion), British Telecommunications (€8 billion) and France Telecom (€7 billion).

Developments in information and communications technology are also playing an important role in unifying European capital markets. All European exchanges are now electronic, which means brokerages can connect to them remotely from anywhere in Europe (except where doing so is not permitted for regulatory reasons). There are also moves to link different settlement systems

electronically as a way to promote more fluid and efficient payment processes. Another potentially important development has been the rise of e-brokerage, which allows more direct participation by retail customers in equity markets.

### **Strategic choices**

The introduction of the single currency and the growth of e-commerce each raise many operational issues for businesses in the euro zone: accounting and IT systems, payment methods, and a host of tax and regulatory considerations. Yet the most profound and long-term effects are strategic in nature and stem from the more integrated market brought about by these developments. Some of the key strategic implications will arise in the following areas.

#### *Sourcing*

The integration of e-commerce into supply chains and the adoption of the euro will accelerate a trend toward pan-European sourcing and centralized purchasing.

Signs of this are evident already in sectors such as grocery retailing, where the French company Carrefour, for example, has run global promotions (essentially discounts or other special offers run simultaneously on particular brands across all of the company's retail outlets) by negotiating at an international level with many of its multinational suppliers. More consolidation of purchasing is also likely, as evidenced by the establishment of purchasing companies such as Opéra, a joint venture between French retailers Casino and Cora.

Overall, these trends will be challenging to many suppliers, who will increasingly need to offer terms that match the price and quality of the best suppliers internationally if they

are to retain their market positions. Some suppliers may seek to avoid the commoditization of their offerings by moving into higher-value niche sectors or by developing closer relationships with major customers.

#### *Pricing*

In an environment of greater price transparency and no exchange-rate risk (within the euro zone), retail prices for traded goods and services will increasingly begin to cluster around the European average.

This price harmonization will create challenges for many companies, especially in areas such as fast-moving consumer goods. For example, a very close alignment of prices could cause profit erosion when the costs of marketing or distribution vary significantly from one market to another. On the other hand, a multinational company that maintains existing price differences may find itself undercut by those seeking arbitrage opportunities. A very difficult balancing act will therefore be necessary in terms of pricing structures.

But companies can also anticipate some of these pressures—for example, by assessing the scope of arbitrage activity in their main markets. In the light of such an assessment, they can then consider strategies, such as product diversification and the development of niche markets, that reduce their vulnerability to margin pressure.

#### *Brands and marketing*

The synergies created by the euro and e-commerce are reinforcing a trend toward pan-European brands and marketing.

One good example is in retail banking, where earlier this year we saw the launch of [evolvebank.com](http://evolvebank.com),

an online banking division of Lloyds TSB Bank, a British-based banking group. The venture was launched commercially in Spain in January 2001, but there are plans to roll out the service to the rest of continental Europe, with the ultimate aim of developing a pan-European Internet bank.

#### *Corporate/organizational structures*

As both the single currency and e-commerce shift the market focus of enterprises, corporate structures can be expected to take on a more pan-European character.

The first signs of this are apparent even within Britain, which is currently outside the euro zone. There a recent survey found that almost two-thirds of businesses are working toward a pan-European—or even global—structure. Increased competition is likely to encourage this trend toward pan-European rationalization, as well as increased outsourcing to organizations that can enjoy economies of scale by operating on a pan-European basis.

In the past there was a tendency to lament the small and fragmented nature of Europe's markets. No longer. The euro zone now encompasses 300 million consumers and is the second largest single-currency area in the world, representing almost as large a share of global GDP as the United States. Internal barriers of distance, language and culture are being further eroded through the increased adoption and use of e-commerce, especially at the B2B level.

The new environment represented by these developments is challenging in some respects. It will certainly lead to an intensification of competitive pressures. But, crucially, it will provide business with the opportunity

to achieve greater scale and competitiveness, not only in Europe but in global markets as well. ■

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Vernon Ellis, *Accenture's International Chairman*, has a long-standing interest in European affairs. He is a regular chairman, moderator and speaker at institutions including the Royal Society of Arts and the Royal Institute of International Affairs (Chatham House). Mr. Ellis, who is chairman of the board of the Prince of Wales International Business Leaders Forum, is a council member of the World Economic Forum, a board member of the Centre for European Reform and a member of the Business Advisory Council of Britain in Europe.

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