

OVERVIEW OF DEVELOPMENTS IN THE E-COMMERCE SECTOR IN THE BALTICS

from 2020 to March 2022

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INTRODUCTION

This report aims to give an overview of the developments in the e-commerce sector in Estonia, Latvia and Lithuania. While very similar in terms of demographics and their geographical location, there are some considerable differences between the Baltic countries, owing predominantly to differences in (business) culture and technological prowess.

The definition of e-commerce is very broad and can be attributed to a range of services within the electronic trade segment. The Estonian E-commerce Association defines e-commerce as “the sale of goods or services online via electronic transactions,” however there are sub-sectors which all claim ownership of the term. E-commerce can be used to describe logistics, payments, web-interfaces of retail operators, online marketplaces etc.

The multi-faceted sector of e-commerce can be divided into the following segments:

- B2B e-commerce – the sale of goods or services to corporate entities
- B2C e-commerce – the sale of goods or services to private individuals
- C2C e-commerce – online transactions between private individuals commonly via online marketplaces, e.g. Facebook Marketplace, dedicated forums and portals

In the B2C segment:

- Global e-commerce platforms, e.g. amazon, alibaba, aliexpress, etc.
- Regional (EU) e-commerce platforms, e.g. aboutyou, zalando, etc.
- Local (Baltic) e-commerce platforms, e.g. A1, hansapost, pigu, 220
- Vendor e-shops

The availability of e-commerce data across the Baltics is uneven, with Estonia being the most forthcoming in terms of official e-commerce statistics provided by Statistics Estonia and the Central Bank of Estonia, mostly due to the active engagement of the Estonian e-Commerce Association. Latvia and Lithuania have not yet established a trade industry body to oversee sectoral developments and therefore the information is scarcer. The fierce competition in the Baltic marketplace between the main players also prohibits the free dissemination of actual data and statistics reflecting the state of play on the market.

Please note: the interviews and research for this report were conducted before the Russian invasion of Ukraine. The conflict is having a significant impact across Europe, including on the Baltic e-commerce sector. This means that the predictions, trends and investment plans outlined in this report may no longer reflect current expectations but should instead be seen as reflecting the situation as of January 2022.

COUNTRY PROFILES

Often regarded as a homogenous group, the three Baltic countries are somewhat different in terms of culture and economy. Sharing a common history of being subjected to Soviet occupation from the 1940s until the 1990s, the three countries have become to shine as beacons of free-market economy in Europe.

	Estonia	Latvia	Lithuania
Population/Density	1.3 million / 35 per sq. km	1.9 million / 30 per sq. km	2.7 million / 42 per sq. km
Urbanisation	70%	68%	68%
Territory	45,339 sq. km	64,589 sq. km	65,300 sq. km
GDP (2020/2021 est.)	-2.95% / 7.5%	-3.62% / 4.7%	-0.13% / 4.8%
Economic Freedom Ranking (Global)	#7	#17	#18
Average gross salary (Sep. 2021)	1,553 EUR	1,280 EUR	1,598 EUR

All three countries are members of NATO, OECD, WTO and all have the euro as the national currency.

Estonia

As the northernmost of the Baltic countries, Estonia is culturally and economically more aligned with the Nordics, particularly Finland. The Estonian and Finnish languages both belong to the Fenno-Ugric group of languages and thus share more culturally than e.g. Estonia and Latvia.

The country's largest city is the capital Tallinn with a population of approximately 430,000 inhabitants, other major towns include Tartu, Narva and Pärnu. The population is comprised of predominantly Estonians, who account for 68.5% of the population, while the Russian-speaking ethnic groups form about 25%. One of the most secular countries in the world, 55% of Estonians don't list their affiliation with any religion, while Orthodox accounts for 16.2% and Lutheran 9.9% according to official statistics.

Estonia's political landscape has been stable since regaining independence in 1991, always ruled by a coalition of different political groups, rather than a single-party majority. The current coalition took office in January 2021 and is headed by the country's first female Prime Minister in history, Kaja Kallas of the Reform Party. The country's president is elected every five years, but holds limited executive authority, Alar Karis took office in September 2021.

Relying heavily on the service industry, Estonia's key sectors are the food industry, engineering, electronics, wood and ICT, the last one becoming Estonia's most competitive field internationally. Hailed as a pioneer in digital governance and digital economy, the country claims at least six recognised unicorns, among them Wise, Bolt, Veriff, Pipedrive, Skype and Playtech. Estonia also takes pride in having introduced a 0% corporate income tax on reinvested profits in the early 2000s.

Latvia

Located between Estonia and Lithuania, Latvia is the second largest of Baltic countries. The country's largest city is capital Riga with a population of 745,000 people, followed by Daugavpils with 80,000 people. Most of the people live in rural areas, but commute to work in Riga. Demographically Latvians form 62.7% of the population with a strong Russian-language ethnic minority comprising 24.4%. The largest religion is Christianity, divided between Lutherans, Roman Catholics and Russian Orthodox.

Latvia's political landscape has also been rather stable since regaining independence in 1991, but Russian influence has played a bigger role in the country's politics than in Estonia or Lithuania. The current coalition is formed by five out of seven parliamentary parties, led by Prime Minister Krisjanis Karins from the New Unity party. The President of Latvia is Egils Levits since 2019.

The economy of Latvia suffered greatly during the 2008-2009 financial crisis, leading to a bailout by the IMF and the European Union after the collapse of one of the largest banks in the country and the burst of the housing bubble. Latvia has recovered exceptionally from the crisis and has been consistently demonstrating robust growth rates. Due to its geographical location, the country is strong in the transport sector providing transit services. Other key sectors include timber and wood-processing, agriculture and food products and the manufacturing of machinery and electronic devices.

Lithuania

Lithuania is the largest and the most populous of the three Baltic countries and has an impressive history in the region, dating back to the Grand Duchy of Lithuania and the Polish-Lithuanian Commonwealth, covering at one point a vast territory between the Baltic Sea and the Black Sea. The country's capital is Vilnius with 540,000 residents, but there are several other important cities in the country as well, including Kaunas (population 375,000) and Klaipeda (192,000 residents). Lithuanians make up 84.6% of the population, followed by Poles with 6.5%. The ethnic Russian minority only forms 5% of the population, setting Lithuania quite apart from Estonia and Latvia. Catholicism is the main religion of Lithuania with nearly 75% of the population identifying as such.

Lithuania was the first to restore its independence from the Soviet Union already in 1990. Governments are usually formed by a coalition, currently headed by Prime Minister Ingrida Simonyte since 2020. The President of Lithuania is Gitanas Nauseda, who took office for a five-year term in 2019.

The economy of Lithuania relies on the service industry (68%) and industry (29%). Notable is the emigration flow of Lithuanians to work abroad, at least one out five Lithuanians relocated to another country between 2006-2014 to seek employment and education elsewhere. Several Lithuanian retail giants have become regional players and in recent years, the country's focus has been on attracting fintech businesses to establish their headquarters in the country.

OVERVIEW OF COVID-19 IN THE BALTICS

Estonia

The first COVID-19 case was diagnosed in Estonia in late February 2020, leading the government to declare a state of emergency in mid-March. All public gatherings were banned, schools and universities were closed and PPE masks were made mandatory. By April 2020, most supermarkets and shopping centres had been closed down by government decree. The situation improved somewhat by summer and some restrictions were lifted until the second wave of COVID-19 infections later in the year. By the beginning of 2021, the situation had deteriorated to a degree where Estonia had the most infections per capita in the world. Vaccinations improved the situation during spring 2021, but certain restrictions have remained in place (e.g., mandatory masks). The number of confirmed cases in Estonia has so far been over 550,000 with 2,400 reported deaths.

Latvia

COVID-19 reached Latvia in the beginning of March 2020, forcing the government to declare a state of emergency in mid-March and impose restrictions which remained in place until June. Another state of emergency was declared in November 2020 and restrictions on gatherings, events, catering and education were tightened even further, with many shops remaining closed for extended periods of time. The state of emergency ended in April 2021, but the low vaccination numbers still forced the government to impose restrictions on unvaccinated people. The number of confirmed cases in Latvia has so far been close to 800,000 with 5,600 reported deaths.

Lithuania

The virus was first discovered in Lithuania in February 2020 and the Lithuanian authorities declared a quarantine from mid-March until mid-June. Another lockdown was initiated in November, lasting until the summer of 2021. As of January 2022, Lithuania has vaccinated nearly 70% of its population. The number of confirmed cases in Lithuania has so far been over 1 million with 8,800 reported deaths.

COVID-19 impact on e-commerce

The COVID-19 restrictions created a boom in e-commerce across all Baltic countries, expanding the consumer base and the frequency of their purchases, with product categories such as grocery products, electronics, pharmaceuticals and gardening goods gaining the most new consumers. As most shops were closed for varying lengths of time across the Baltics, parcel machines grew in popularity, as they offered an outdoor non-contact channel and could be used with gloves and contactless payment.

Adding to disruptions in global supply chains in 2020, local logistics operators at first struggled to keep up with the rapidly increasing demand for courier and parcel services immediately after the outbreak of the coronavirus, but managed to prepare for the second and third waves in 2021 by automating their processes and adding more parcel machines to their networks. In Latvia, the defining moment arrived when the government decided to issue a 500 euro one-time bonus per child to all families, considerably boosting ordering goods online. The delivery sector encountered the lack of vans available on the rental market, but most often there was a lack of parcel lockers, despite significant increases in the number and size of locker sites in the months before the pandemic took hold. This motivated logistics companies to encourage customers to vacate parcel terminals more quickly and speed up turnover at terminals. A survey by Norstat on behalf of Citadele bank claimed that according to local vendors, the pandemic accelerated the development of e-commerce by at least five years, reaching projected 2026 levels already by the end of 2021.

KEY DEVELOPMENTS IN BALTIC E-COMMERCE

Estonia

2021 witnessed a substantial increase in e-commerce turnover in Estonia, growing by 30% compared to 2020. The Estonian e-Commerce Association estimated that over 12 million parcels were delivered via parcel lockers during the year, the year before the volume had been 9 million parcels. According to Central Bank of Estonia statistics, e-commerce turnover increased to 2.6 billion euro in 2021 compared to 1.73 billion euro in 2020, of this the volume of local vendors was 1.45 billion euro and the volume of purchases from abroad with Estonian bank cards was 1.11 billion euro. The highest peak was reached in November 2021 with a total turnover of 268 million euro. It must be noted however, that card payments are not the most popular means of payment for e-commerce purchases, forming approximately 20% of all payments.



Fig 1. E-commerce purchases in Estonia between Jan 2020 and Feb 2021
(Source: Central Bank of Estonia statistics – www.eestipank.ee) *including services

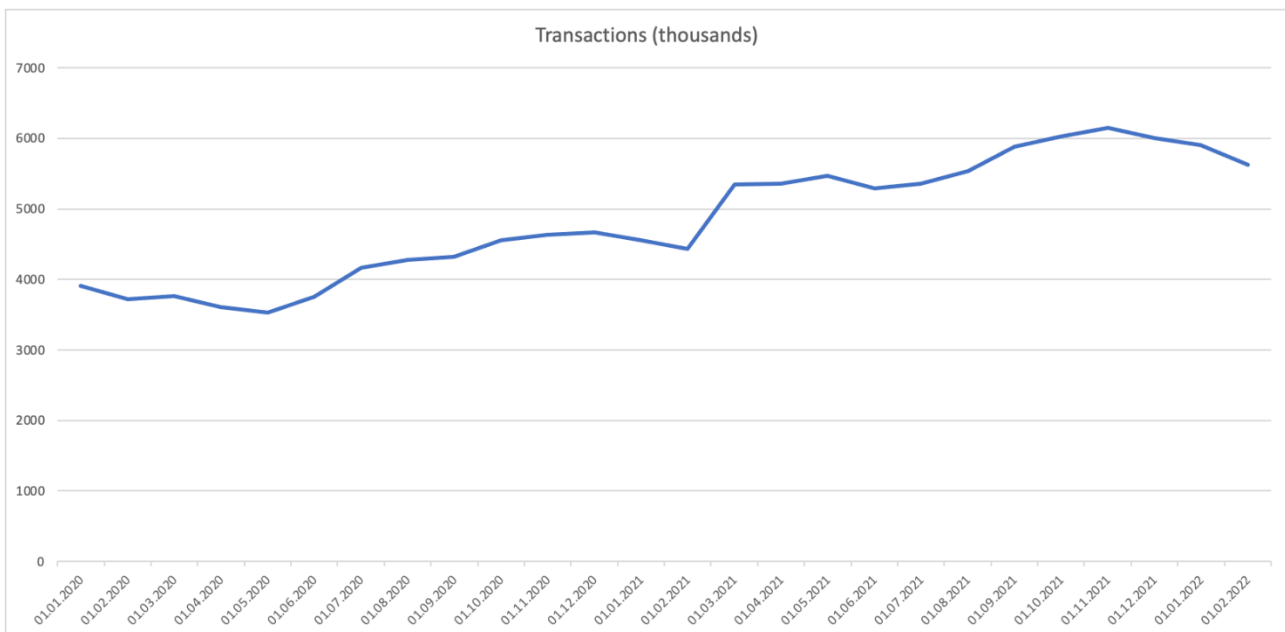
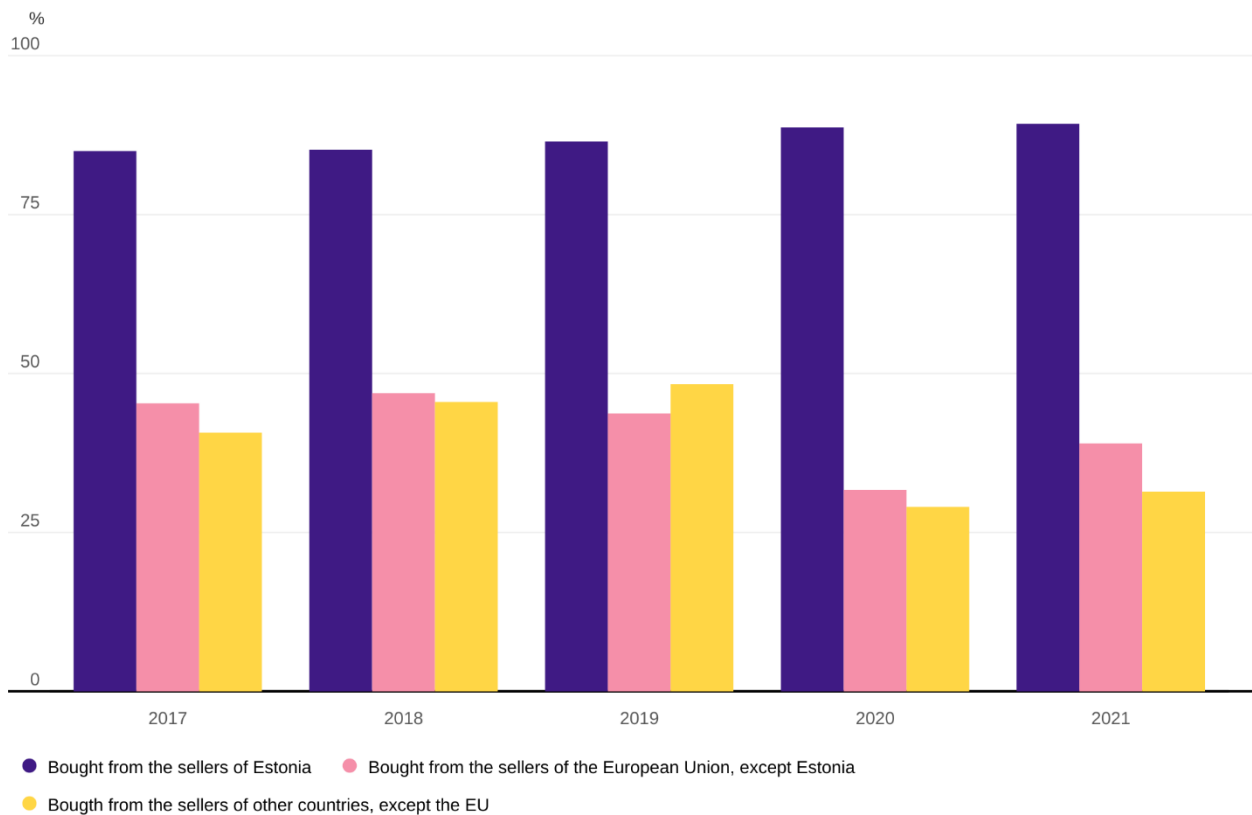


Fig 2. Number of e-commerce transactions between Jan 2020 and Feb 2021
(Source: Central Bank of Estonia statistics – www.eestipank.ee) *including services

The share of purchases from local vendors has been steadily increasing since mid-2020, despite the arrival of international brands such as AboutYou, Zalando and Boozt. The number of transactions increased from 4 million in the beginning of 2020 to over 6 million by the end of 2021.

Share of users of e-commerce aged 16–74 by trader's country of location | All persons, 2017–2021

Source: Statistics Estonia



See interactive graph juhtimislaud.stat.ee

Fig 3. Share of users of e-commerce buying from Estonian, EU or third countries 2017-2021
(Source: Statistics Estonia).

The most popular product categories in Estonian e-commerce in 2021 were electronics, furniture, books, cosmetics and fashion – according to Estonian e-Commerce Association data. In the fourth quarter of 2021, the average cost of an online purchase was 42 euro. e-Commerce Europe data suggests that approximately 76% of Estonians shop online, whereas in Latvia the figure stands at a much lower 63%. The association estimates that there are approximately 6,000 e-shops presently active in Estonia and the number has increased by thousands during the last two years alone. More specific data is unfortunately not available and there is no reliable public data about the market shares of the larger platforms or e-shops. The e-commerce solutions provider GloPal claims that the top sites for e-commerce in Estonia are:

- 1) <https://kaup24.ee/> (part of Pigu/Hobby Hall Group)
- 2) <https://www.on24.ee/> (online furniture shop affiliated with Estonian Cleveron)
- 3) <https://hansapost.ee/> (part of Pigu/Hobby Hall Group)
- 4) <https://www.1a.ee/> (part of Kesko Senukai Group)
- 5) <https://www.shoppa.ee/> (e-commerce platform affiliated with wholesale company Jungent)

The Estonian e-Commerce Association forecasts that in 2022 the share of e-commerce may form up to 25% of the total retail turnover volume, while only five years ago the share of e-commerce stood at 3%. Payment solutions provider Maksekeskus estimates that e-commerce volumes are likely to continue growing at a steady pace of 20-30% per year, which is a bit more moderate than during the last two years.

Latvia and Lithuania

Data about transaction numbers and sales volumes as collected by the Central Bank of Estonia are not available for Latvia and Lithuania.

According to a study conducted on behalf of Luminor Bank by Norstat, a fifth of Latvian companies earned more than 45% of their turnover from online sales, while more than a half of surveyed Estonian and Lithuanian companies did not earn a single euro from online sales in 2021. This finding contradicts data provided by Eurostat, which claims that the share of enterprises' turnover on e-commerce is the highest in Lithuania with 18%, Estonia following with 15% and Latvia coming in third with 10%.

The same Norstat/Luminor survey claimed that approximately 20% of the surveyed SMEs in the Baltics intend to engage with e-commerce or increase their presence in 2022.

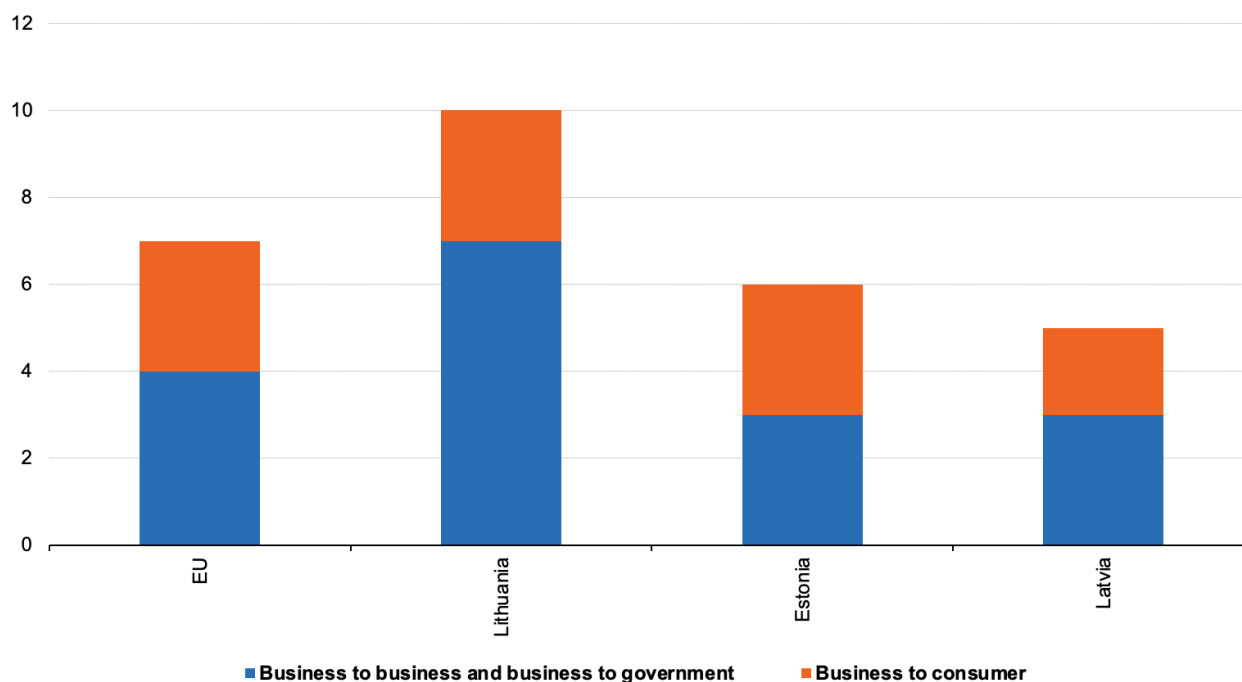


Fig 4. Share of enterprises' turnover on e-commerce
(Source: Eurostat)

Eurostat data suggests that Lithuanian companies are the most active in selling goods online to business consumers, outperforming even the EU average.

Turnover from web sales, by type of customer, 2020

(% of total turnover)



Notes: Data on e-commerce refer to the calendar year preceding the survey (to 2020 for the 2021 survey).
Source: Eurostat (online data code: isoc_ec_evaln2)

Estonia on the other hand stands out for selling goods online via their own websites or apps, while Lithuanians are keen to engage with third-party e-commerce marketplaces.

According to ecommercedb.com, the top online stores in Lithuania are:

- 1) <https://pigu.lt/>
- 2) <https://www.senukai.lt/>
- 3) <https://www.varle.lt/>
- 4) <https://www.topocentras.lt/>
- 5) <https://www.eurovaistine.lt>

According to GloPal, the top online stores in Latvia are:

- 1) <https://www.ss.lv/>
- 2) <https://www.1a.lv/> (PHH Group)
- 3) <https://www.amazon.de/>
- 4) <https://www.ebay.co.uk/>
- 5) <https://www.amazon.co.uk/>

TECHNOLOGY

Estonia appears to be the leader in terms of technological advancements that act as enablers to the field of e-commerce in the Baltics, and potentially even globally. Here is a list of some technological achievements relevant in this field.

- Starship Technologies is developing autonomous delivery vehicles and its engineering operations are based in Tallinn, Estonia. The principal founder of the company is Ahti Heinla, who was one of the original four software engineers behind the development of Skype. The company has raised hundreds of millions of euros from the likes of Matrix Partners, Daimler AG, Playfair Capital and many others. The company's electric-powered robots are already roaming the streets in Tallinn and in the U.S. and the UK, and are able to travel up to 40 km per day and carry a load of up to 9 kg.
- Cleveron is an Estonian company creating robotics-based parcel terminals and developing last mile click-and-collect pickup solutions for retail and logistics sectors, with a product portfolio ranging from automated smart lockers to the world's first fully functional parcel robot and the world's largest robotics-based parcel terminal. Cleveron has successfully partnered with the likes of Walmart, Inditex and Asda. Besides parcel terminals, the company is also actively engaged in developing delivery robots.
- ParcelSea is an Estonian start-up created by former team members at Cleveron, building personal smart parcel mailboxes which can be installed at private homes for accepting contactless deliveries 24/7. The smart mailbox also allows the users to send or leave packages for others. Cleveron has also developed a similar product for domestic use.
- Omniva is an ancillary brand of Estonian postal company Eesti Post and has completely revolutionised the parcel locker business in the Baltics. Launching the parcel locker network back in 2011, the company swiftly expanded to Latvia in 2014 and thereafter to Lithuania as well, changing the way customers picked up their e-shop deliveries and paving the way for e-commerce from cross-border platforms and local shops alike.
- Eurora and FeePort – both companies have developed platforms for handling the VAT declarations of goods from third countries, particularly from China. Both were established in time for the 2021 VAT regulation change in the EU, simplifying the procedures for both the vendors and the customers alike.
- Montonio and Everypay – payment solutions providers from Estonia enabling online stores to accept payments from major regional banks with a single integration.
- Bolt – Estonian mobility service provider active across Europe and Africa, providing ride-sharing services, urban commuting (e-scooters), rental vehicles, home deliveries and recently expanding to dark stores. Bolt has been instrumental in pushing the 15-minute home delivery service for perishables and groceries, thus driving the e-commerce momentum even further in the Baltics.
- fits.me started as an Estonian start-up focused on a fit recommendation solution for e-commerce fashion retailers, but was acquired by Rakuten in 2015 and is now exclusive to the Rakuten Ichiba marketplace.
- Digital-ID of Estonia – launched already in the early 2000s, all Estonian citizens are issued a unique identification number at birth (or upon gaining citizenship), allowing them to identify themselves and verify their identity online for public and private e-services. Digital signatures save 2% of GDP annually.

LOGISTICS

While all three Baltic countries have been vying for the position of being the central cross-border e-commerce logistics hub for the region, these attempts have not yet materialised. Estonian Omniva's subsidiary Post11 (a joint venture with Chinese SF Express) used Tallinn Airport as the hub for delivering AliExpress parcels to the Baltics and Russia, but this service has been suspended since 2017. Latvian Post embarked on a similar enterprise with regrettably similar results eventually.

Some larger e-commerce platforms and shops maintain their own warehouses in the region, but the majority of goods sold by vendors arrive in the region from hubs in Central Europe, e.g. Czech Republic, Poland, Germany. Air freight is used for express deliveries, provided by the likes of DHL, UPS and TNT. Riga Airport has become the central hub for air freight in the Baltics, thanks to the extensive network of home carrier airBaltic and dedicated cargo routes to the West and to the East. Road transport (and road feeder services) is still the prevalent means of transportation of freight due to relatively short delivery times to the Baltics and reasonable cost levels.

Most e-shops rely on third-party logistics (or "3PL") service providers to provide them with full service for sorting, packing and deliveries. Logistics services are often integrated with web-shop platforms and work seamlessly with other business systems, optimising and streamlining the entire supply process from order completion to full delivery. The main delivery partners for e-commerce operators are Omniva, Venipak, DPD and Itella Smartpost, who all operate their own parcel locker networks as well. Parcel lockers are the preferred mode of pickup for most customers, as these are conveniently located in most major urban settlements. According to Venipak, up to 90% of parcels are delivered to parcel terminals. While most parcel terminals serve specifically the operators of these terminals, then Lithuanian payment services provider Paysera has ambitions to launch the first neutral parcel locker network in Lithuania. DPD operates over 250 parcel machines in Estonia and 235 in Lithuania and over 260 in Latvia.

Omniva claims to have the largest share of the Baltic delivery and parcel market, having expanded from Estonia to Latvia already in 2012 as the first operator of parcel terminals. As of 2021, the company owned 43% of the parcel machines in Estonia and held 57% of the parcel volume. In Latvia, the company holds close 500 parcel lockers. In Lithuania, the number of parcels delivered by Omniva grew by 40% in 2021, exceeding 12 million parcels and operating 351 parcel terminals.

Venipak plans to set up about 200 contactless terminals in the main cities of Latvia and, in addition, to expand the network of pickup points to 500 in 2022. Currently Venipak operates 250 parcel machines in Lithuania and 200 in Latvia. The company also plans to continue expanding in Estonia. Venipak intends to manage a network of almost 2,000 terminals and pickup points and to become one of the largest parcel pickup networks in the Baltics within the next few years, investing more than 6 million euro in infrastructure.

PAYMENTS

The preferred mode of payment for e-commerce services in the Baltics is through an online banking payment link (or “banklink”), with a share 2-3 times higher than credit cards. One of the reasons for this is the easy-to-use yet robust online banking system, allowing shoppers to buy goods on the go without needing access to credit card information. The digital identity systems in use in all three countries adds another layer to this, as it enables hassle-free identification and authentication, giving maximum security to the buyers, the vendors and the finance institutions between them. Another reason for the preference of banklinks over credit cards is the relatively modest availability of credit cards among the population. Until about a decade ago, most online shops required a credit card for e-commerce transactions and the banks in the region were not too eager to pass them around to customers. The use of debit cards as a payment option has become more widespread only in recent years. However, card payments are on the rise nonetheless, which can be attributed to Generation Z becoming more active in the e-commerce segment – the younger generations are more eager to adopt card payments, driven also by the emergence of ApplePay.

The next payment revolution in global e-commerce will be open banking – the use of open APIs that enable third-party developers to build applications and services around the financial institutions. This option is very similar to the banklink system already in use in the Baltics, but in Europe it is projected to replace card payments in e-commerce. For the Baltic consumers, the change will be minimal, but will make business easier for e-commerce vendors. Rather than concluding separate payment contracts with different banks, the vendor will be able to use just one account for transactions with all payment providers, including banks and payment aggregators. This development will diversify competition and introduce new service providers to the e-commerce payment segment. It will also simplify the market entry of international platforms and e-shops, who will be able to tailor payment solutions to local needs without the extra burden of coordinating payment contracts with local or regional banks.

Open banking will also heavily promote the concept of “buy now, pay later,” which will certainly be the new trend to have an enormous impact on e-commerce, fuelling future growth. Subscription-based payments are not very commonplace in the Baltics and there is considerable potential for this option in the field of e-commerce and can be used for paying for goods and services alike. Balcija, a Latvian insurtech start-up, is revolutionising the insurance sector by introducing subscription-based insurance products for different needs. The underlying idea is to provide insurance policies in a similar manner to Spotify or Netflix – the key advantage will not be just the simplicity of choosing the right policy and paying for it, but also a customer-focused user interface and user experience.

TRENDS AND FORECAST

Given the turbulence in the current economical-political climate, most stakeholders have been hesitant about giving specific indications about what the future may hold, but certain global e-commerce trends can be observed in the Baltics as well.

- Russia-Ukraine war – as the outcome of the invasion of Ukraine by Russia is yet to be determined, it is difficult to assess the impact it will have on e-commerce in the Baltics in the long term. The scale of U.S. and EU sanctions against Russia may play a role in the development of the economies of the Baltics as well, but mostly related to uncertainty over the future. From a security perspective there should not be much to be concerned about, as all three countries are members of NATO and have sufficient security guarantees and literal “boots-on-the-ground” to avoid any direct confrontation with Russia.
- Inflation – fluctuating energy prices and a boom in the real estate sector have contributed considerably to inflation numbers in the Baltics – Estonia was ranked first in inflation rate in Europe for the month of December (12%), followed by Lithuania (10.7%) and Latvia (7.7%). This will undoubtedly have an impact on the purchase power of the residents of the three countries. The forecast for 2022 is looking rather grim in this regard.

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- In terms of e-commerce, there are more specific trends to be anticipated:
 - The number of brick-and-mortar retailers taking their business online will continue increasing in the coming years, while major online platforms will be reverting to brick-and-mortar operations themselves. For example, the leading online retailer in the Baltics, Hansapost/Hobby Hall/Pigu Group, has already established outlets for vending physical goods, as it provides opportunities for upselling and complements their business strategy.
 - The success of major international platforms in the region will depend on their ability to localise their platforms and content for these relatively small markets. With just over 6 million consumers and with linguistic differences between them, the Baltic countries tend to be among the last that the internet giants are aiming for due to the high cost of investment and the low rate of return. The likes of Zalando, OnlyYou and other online fashion platforms have already made the effort, demonstrating a turn in the tide. While many consumers are leaning to Amazon and AliExpress as their preferred destinations for online shopping, there is still ground to cover for them as not everyone in the Baltics speaks English or German to the required level.
 - One of the greatest challenges for online retailers and wholesalers in the region will be related to marketing efforts and activities – with such a high number of shops available, the key to success shall lie in determining the appropriate channels and tools for luring the customers to the online shops, requiring inventive, creative and costly marketing activities.
 - Currently most platforms in the Baltics feature static images of the goods on sale, but the Asian trend of featuring videos as the primary tool for promoting goods will eventually land in this region as well, making the shopping experience more interactive and providing more information about the goods on offer, leading to higher consumer confidence in the purchase decision.
 - While the Baltics still have to make the leap to the video format in e-commerce, there are already plans underway for the introduction of augmented reality solutions – XR, VR, AR. The advent of the metaverse will prove to be another lucrative and stimulating challenge for the industry, as the XR industry is developing at a rapid pace in all three Baltic countries.
 - The shops and platforms will need to pay closer attention to the overall user experience and user interface of the entire shopping process. Although customers in the Baltics are keen to get the best discounts and the most favourable shipping conditions, the long-term vision for the industry foresees a higher customer satisfaction level throughout the entire process.
 - Means of delivery will change. The Baltics are already leading in the field of parcel pickup stations, but there is a momentum for these to become even more regional and individual – i.e. even smaller community centres will have central parcel lockers and more and more households will have individual parcel delivery stations. The futuristic outlook involves drone and robot deliveries – both of which have great potential in the Baltics thanks to the endeavours of local innovators.
 - The number of returns is likely to increase, given the current relatively low number in the region compared to the rest of Europe. Unfortunately, this will also increase the number of fraudulent returns – i.e. ordering party clothes and returning them after one use or similar.
 - As efficiency gains will become more crucial to the success of e-commerce operators given their already low margins, warehouse automation and the implementation of AI (artificial intelligence) in supply chain and storage operations will become more commonplace.
 - Open banking will in time replace the banklink option in payments, opening up the option of a recurring payment mandate, suitable for subscription-based transactions. While the open banking setup is very similar to the existing banklink system widely used in the Baltics already, there will be higher costs incurred for the vendors, which will most likely be transferred to the end-customers, signifying an increased cost of goods.

CASE STUDIES

Estonia

Hansapost

Estonian e-commerce giant Hansapost's history gives valuable insight into the development of the entire sector in the region. Hansapost was established in Estonia in 1997 as a catalogue sales company and soon expanded to the Latvian market as well. 2011 saw the company's transformation to an e-shop, although a physical catalogue is still mailed to customers who prefer more traditional ways of purchasing goods. For years Hansapost has been ranked as the biggest online shopping platform in Estonia. In 2018 Hansapost merged with Finnish Hobby Hall Group and in 2021 then merged again merged with Lithuanian Pigu Group upon the initiative of investment fund Mid Europa Partners. Today, PHH Group operates the top e-shops in the Baltics, including pigu.lt, 220.lv (formerly xnet.lv), kaup24.ee and hansapost.ee. The platforms represent over 4,000 vendors with more than 2 million products, their shops and platforms attract over 150 million visits per year.

Hansapost's/Hobby Hall Group's management board member Mait Vooder recalls that by the time the real e-commerce rally started in Estonia in 2015, Hansapost was already an established player on the market as the only e-shop with a reasonable product selection. "Earlier we provided the possibility to order goods online, but it wasn't a proper webshop. Things really got off the ground when we launched our first real e-shop in 2011. And the COVID-pandemic provided the real turning point in the sector's evolution, when food retailers started selling grocery products through online channels and with efficient home deliveries. We knew already in 2015 that the e-commerce sector would only thrive if the entire retail industry embraced it," says Vooder.

The most common goods in cross-border e-commerce (goods from China and other Asian countries) are usually small in size and low in value – garments, clothing apparel, IT accessories such as phone covers and charging cables. According to Vooder, "Alibaba's or AliExpress' shipments are generally in maxi-envelopes or in smaller parcels. Local e-commerce is different in this regard because larger and more expensive goods can be sold online successfully." In mid-2021 the European Union terminated the tax exemption on goods from third countries worth less than 22 euro, meaning that bric-a-brac products from China for example became more expensive by 20% and customers had to declare the taxes and customs duties on smaller items as well. This had zero impact on the turnover and volumes of Hansapost.

Prior to the outbreak of COVID-19, the Estonian e-commerce sector grew organically by about 15-20% per year between 2014-2019 and Hansapost was consistently able to outperform the average market growth by 10-20%. Vooder estimates that half of the e-commerce revenue is generated by local players and the remaining half is from cross-border trade, i.e. international giants such as Amazon and Alibaba. The crucial question for future competition will be related to the impact of the arrival of major international brands on the market. Brands such as Zalando, Boost and AboutYou are present here and this has already contributed to the development dynamics of the marketplace – the market matures and will pick up even more momentum, as consumers become more confident about online shopping and local providers become more professional.

Vooder has defined the three pillars of success in e-commerce as 1) wide-ranging product portfolio, 2) speed of delivery and 3) punctuality and accuracy (keeping promises). "This doesn't mean that every e-shop needs to have a selection large enough to compete with Amazon, but that there's a wide selection available within the chosen niche segment." The speed of delivery also depends on the physical location of the product in the warehouse network – Hansapost carries over 600,000 products and it is impossible to keep stock in one location readily available for same-day delivery. "And the reclamation and return processes are still somewhat unfamiliar to local consumers, this is an area where they expect customer support in their native language."

COVID-19 had a positive boost on sales volumes but created bottlenecks in the supply chain and in the logistics network. "We had to rely on the delivery capabilities of our logistics partners, from whom we outsource these services. Lithuanian Pigu has moved in the opposite direction, building up their own network of parcel lockers. Hansapost had no control or influence over postal companies such as Omniva or Itella, but Pigu can exert at least some control over its own parcel network in case there are further difficulties in getting goods to customers. This is also one of the reasons why we are focusing on having physical outlets and pickup points."

International logistics were seriously hindered for everyone, not just e-commerce actors. “Production facilities were the first to go offline for some time, this built up congestion at ports, caused delays in shipping and resulted in the global deficit of transport containers. However, getting goods from European warehouses was not that seriously impacted during the height of the pandemic – there were delays of only 1-2 days. Shipments from Asia to Europe were affected more dramatically.”

Another impact of the boost for e-commerce brought on by COVID-19 was evident in a change of buyer demographics, with increased activity in the 60+ segment and particularly in the rural areas. “Online shopping had until then been mostly in the hands of young urban professionals, but now we saw the change in demographics also in the most popular product lists, with higher sales numbers for household goods for example. Obviously people had more free time on their hands and the shops were closed, so this brought many new consumers to e-commerce.”

E-commerce volumes suffered an immediate setback after restrictions were lifted and regular retail shops opened up for business. “This was expected, and this occurred everywhere around the world. But the COVID-boom was necessary and expedited the development of the industry by about five years.” Vooder believes that marketing and UI/UX¹ will assume a more critical role in the success of e-shops in the future. “One thing is getting the customer to the store, but even more crucial is the online shopping experience, from design to comfort to checkout and payment options. Future online shopping experiences will possibly rely on augmented reality solutions and will need to be visually attractive, there’s a lot to learn here from Chinese e-commerce giants.”

Although ready-made fashion products are the most popular product segment in e-commerce, Vooder says that it is also one of the more difficult ones to process. “Return handling makes it more complex, as the return rate is considerably higher with fashion than with other product categories – in Hansapost’s experience the average return rate for most products is 5-6%, but for fashion it’s 30%, and the global number is even higher”. Vooder sees a worrying trend in the increase of fraud, where people abuse the right to return products during the legally prescribed 14 days and in fact use them and wear them instead of just trying them on for size before returning. Such products are usually resold through the platform’s own outlet store at a considerable discount, which forces the vendors to factor these costs into the final price-tag of the original product.

The top product categories in Hansapost’s portfolio are sporting and leisure goods, gardening and DIY kits, and electronics. “The latter category sees intense competition from dedicated e-shops and we haven’t directed much attention or resources to this, as the aftersales service is quite demanding.” When comparing Estonian and Latvian customers, the latter are more interested in express deliveries while also keen to get the best price, states Vooder. Estonians in his opinion are more relaxed about their expectations regarding delivery times and speed of operations. “Loyalty in e-commerce is much lower than in regular retail, as price and delivery are the decisive factors and comparing prices and conditions has been made very easy online. The purchase may be emotional, but the decision is based on rational arguments and the best bidder wins.”

Vooder is convinced that the e-commerce market will continue growing in the Baltics in the future as well. Market dynamics will be defined by the actual interest of major international platforms and operators in this region, whether they are willing to invest in localisation and native customer support. “The arrival of major international players will drive growth and competition further and will likely expedite consolidation in the market. It’s impossible for an e-commerce platform to survive on one market alone, there is the need to cover all three countries and find efficiency gains through improved operations and economies-of-scale effects. And usually, the Baltics alone will not be enough, it’s natural to regard Finland as part of the region as well.”

Logistics will also likely change in the coming years, particularly in serving the last mile of deliveries. “I do believe that smaller parcels could be delivered by drones in the future, but there’s no telling when that might happen. Parcel-sized deliveries can also be handled by robot couriers and the existing network of parcel lockers is ideal for this as well – the question is what to do with the deliveries of larger items and goods. Delivering a washing machine will still require a minivan and at least two men to carry it and there are no solutions in sight at the moment in this regard.” Robots and process automation will play a bigger role in warehouse management and this is a source for efficiency gains and cutting costs.

¹ UI is “user interface design” and UX is “user experience design”

MarkIT

Markit is a provider of a B2B IT marketplace and procurement solution, active in 38 countries, but founded in Estonia in 2003 with its first expansions to Latvia and Lithuania in 2004 and 2005 respectively. The company's unique Marketplace-as-a-Supplier business model allows it to act as the sole supplier, instead of a broker.

E-tendering is the term Markit uses for its business segment, relaying real-time prices and stock availability updates. Customers are always guaranteed the best price through cost comparison and availability, making the process transparent and compliant with stringent procurement standards, while minimising the time to mere seconds. Orders and payments are consolidated into a single batch, giving a considerable edge over e.g., Amazon as a broker marketplace.

The uniqueness of the service was evident already in 2003, although the processes were extremely slow compared to today's standards. There were no real comparative case studies available, although Amazon had been launched already in 1999 – however it has always focussed more on the B2C segment. For Markit, the latter only came to life around 2017.

Markit's CEO Andres Agasild believes that Estonia is reflective of Western trends with a substantial delay, which are then echoed in the other Baltic markets. While e-banking has been a forerunner in the region, e-commerce has been lagging behind, states Agasild, adding that there has been a substantial amount of copying from Western practices. "For a long time, the share of e-commerce remained around 1% and there was little upsell. Retail group Selver launched their first online-shop combined with home delivery or self-pickup already in 2004, but was shut down soon thereafter due to limited demand," he recalls.

The B2B IT segment in e-commerce has remained below 5% for some time in Europe, as most enterprises still rely on old habits, e.g., complex procurement procedures. "IT was the high-ticket, offering a limited selection of expensive goods. Most procurement processes were designed for this, but today IT goods are a common commodity – yet the procurement processes do not reflect this, even though unit numbers have increased from thousands to millions. Most procurement processes should remain untendered, but the force of habit is strong with this one."

Markit's business model values time and efficiency, but Agasild states that its mission statement today does not differ much from the 2004 version. "We are here to bring the 'e-' into the procurement of IT goods for corporate customers, cutting out the tedious comparison of prices and the cumbersome traditional procurement method". Markit aggregates real-time online offers from the top wholesalers in any of their destination markets, covering at least 85% of the marketplace. This approach ensures consistent competition between the providers and thus outranks the benefits of a traditional tender. Agasild believes that this business proposition is still unique, even after 18 years.

Logistics forms an integral part of the Markit model – despite not having any proprietary warehouses, the company aims for next business day delivery of purchased goods. All of Markit's logistics services are outsourced by integrating wholesalers. "The service isn't the website, but the whole process, this has allowed us to outmanoeuvre Amazon on our key markets in terms of B2B IT goods sales." Companies relying wholly on 3PL outsourcing their IT goods may end up with low-quality products which have a very short shelf-life.

In the field of e-commerce, B2C always outruns B2B and often B2C acts as an extension to B2B for corporate customers. COVID-19 served as a megabooster for B2C sales in electronics, but had little impact on B2B volumes. The future in B2B e-commerce will be in further specialisation, but not only in the field of IT, but also in work apparel (clothing and shoes) and other relevant goods for corporate customers. "The marketplace-as-a-service method is the way of the future – it's not about what the technology enables, but what the customer actually demands. There will be more gamification in the UX element of e-commerce and the choice will be made easier for the end-users – many smaller shops versus one major shop with an extensive selection," concludes Agasild.

Boomerang Distribution

Boomerang Distribution is one of the largest companies in return handling and 3PL services in Scandinavia, handling over 6 million parcels every year. The company is based in Tallinn, Estonia to maintain the competitiveness of its prices, currently employing 120 people full-time and 200 during the high season.

CEO Jonas Heinonen says that the Baltic market used to be overlooked by international giants for a long time, but in recent times has come into their attention span. “The arrival of Boost, Zalando and AboutYou is a clear sign of that, particularly the fact that they’ve made the effort to localise their e-shops for each Baltic markets,” states Heinonen. Fashion is still the primary e-commerce product segment and also the main focus area for Boomerang. “We saw a boost in COVID-related products in 2020 and this certainly expedited the e-commerce boom, but this segment disappeared quickly and the lifting of restrictions gave an immediate backlash to online sales volumes across all categories.” For example, the sale of garments for going out fell dramatically during the high COVID-season, replaced instead by increased volumes in clothing for outdoor activities and sports.

While COVID-19 boosted the e-commerce business substantially in 2020, it also created quite a few headaches for the sector, particularly as far as cross-border trade from Asia was concerned. “The already disrupted supply chains were hurt even more when Evergreen got stuck in the Suez Canal, leaving many goods stuck in transit for a long period of time. As the items had been pre-sold, they cleared the warehouses very quickly and this didn’t benefit the logistics companies at all,” explains Heinonen. Such peak volumes created another challenge for logistics providers from the perspective of labour force, being forced to take on additional staff and adjusting to finding the right balance between very quick and very slow periods.

Clearing the backlog of goods was made easier in the Baltics thanks to the customers’ unwavering belief in the values of parcel lockers, where Heinonen believes that the Baltics rank in the top of the world. However, in terms of global cross-border trade, the Baltics do not seem as attractive as a hub for e-commerce in the wider picture. “The infrastructure for e-commerce isn’t really here and the investment requirements would be huge, yet it would make sense to operate a regional hub from the Baltics to cover the three domestic markets and the Nordics and perhaps even Northern Russia. “Logistics is all about distances and Boomerang Distribution has set up a subsidiary in the Czech Republic to be nearer to international e-commerce flows, however the Nordics remain as our core market.”

One trend clearly visible in the European Union is the focus on sustainability and environmental concerns, which will likely lead to increased local sourcing from within the European Union, rather than from distant countries in Asia or in the Americas. “Europe is also becoming more protective and is taking measures against the bulk import of goods from third countries without taxation,” Heinonen explains the background behind the 2021 VAT change which levied the VAT tax on all items imported from third countries, as purchases below 22 euro were previously exempt from taxation and declaration.

Comparing the three Baltic markets between themselves, Heinonen points out that Estonia is probably more mature than Latvia and Lithuania, and as such closer in comparison to Scandinavia. “But these are all separate countries with their own languages and cultural characteristics, which is why this region is often the last bit on the maps of major international players,” says Heinonen.

One interesting characteristic about the e-commerce sector in the region is the consumers’ attitude towards returning purchased goods. “This occurs far more seldom in the Baltics than in other European markets, probably due to the local mindset and cultural differences. Goods do get returned if broken, but we do not see mass orderings of items and then returning the bulk of them – whereas in Europe the return rate is even closer to 40%, in Estonia it’s barely 25% and even lower in Latvia and Lithuania.” The industry is also collectively preparing for increases in fraud numbers, where returnable items are being replaced by cheaper versions.

Latvia

Omniva

Omniva Latvia is the Latvian subsidiary of Estonian postal company Omniva, responsible for deliveries and parcel lockers across all three Baltic countries. The company entered the Latvian market in 2014 and was the first to introduce automated parcel lockers in the country, helping to boost the e-commerce sector in Latvia.

The company's Latvian CEO Beate Krauze-Cebotare witnessed the biggest growth ever in the history of the company in 2021, growing 49% compared to 2020 volumes, with revenue growing by 5.9 million EUR. She says that e-commerce changed dramatically after the COVID-19 outbreak in 2020, there have been significant changes in the market, as no-one was prepared to handle the volumes that the market had to endure practically overnight.

“Due to more severe restrictions, the physical shops in Latvia were closed for a longer period of time during the outbreak, this had a substantial impact on the e-commerce environment, as people started shopping online more,” says Krauze-Cebotare. The top month for the company in e-commerce volumes was April 2021 – part of the reason for this was the fact that the Latvian government issued a 500 euro allowance per child in the country. If you had 3 children, you received 1,500 euro. A lot of these funds went to online shopping, as the physical shops were offline. Omniva, being the largest parcel machine network operator in Latvia, was used by 63% of all households in the country, serving well over 1.8 million people.

One of the key takeaways from the pandemic was that people who weren't accustomed to shopping online have taken up this habit, even the elderly, going hand-in-hand with Omniva's expansion to rural areas, supporting their network development. “We are seeing some competition emerging in this field, as DPD has also invested heavily in their parcel pickup point network. Latvian's attitude has changed so that they are quite keen to pick up their goods from parcel machines rather than wait for couriers or queue at postal offices,” says Krauze-Cebotare. Other competitors in this field include Venipak and Itella Smartpost from Finland, with the former opening up 200 parcel machines in Latvia.

The competition and the ensuing pricing war means that Omniva needs to invest more in innovation and automation to keep up with their competition, while being happy with achieving their five-year growth plan in just two years thanks to COVID-19. “Although it's good news, we still need to consider our future plans and carefully analyse the need for future premises and technological systems to ensure our efficiency, this is what we're working on at the moment.” But given the events of today, the company needs to take a step back and review everything, states Krauze-Cebotare.

Most of the technological advancements are coming from Estonia at the moment, but DPD recently implemented a new sorting line partially developed in Latvia by a company called Perusa. There's another sorting line solution provider in Lithuania called Equinox, currently under review by Omniva as a potential cooperation partner. “There are quite a few Baltic suppliers who are able to provide parcel sorting technology at the moment,” says Krauze-Cebotare. But in her view the market is very much aligned towards government-owned company Latvian Post, who relies heavily on government subsidies. Omniva and other postal services operators have been aspiring to acquire an ETOE (Extra-Territorial Office of Exchange) status in Latvia in order to provide parcel transit services to other countries and sort parcels from international postal flows in Riga but this has not met with any support from the Latvian government. “However, Omniva was granted an ETEO status in Lithuania and we are currently providing these services out of Kaunas Airport. The growth of the logistics sector in Latvia could certainly gain from the willingness of the Latvian authorities to be more open to such opportunities, as Riga Airport shows considerable potential thanks to its excellent connectivity with other destinations.”

Despite numerous LOIs and MOUs signed by the Latvian government or Riga Airport authorities, there's yet to be a substantial hub for cross-border cargo in Latvia (or in any of the Baltic countries for that matter), although attempts have been made and aspirations run high. “If the Latvian government were more open, there could be more transit flows to facilitate cross-border trade. Latvian Post is the closest to operating these flows, as they have exclusivity protected by the Latvian government”. For example, Chinese AliExpress volumes are very price-sensitive, which is one of the reasons why according to Omniva Latvia, Latvian Post underbid to win these flows from Omniva. “When we were handling Chinese e-commerce goods, the customers were able to

pick them up directly from our parcel lockers, but now this has become means for maintaining Latvian Post's postal offices across the country," says Krauze-Cebotare.

The logistics market is driven by the bigger players, such as Lithuanian Pigu, whose business model also depends on the lowest price for logistics services. "But we are seeing many new international players entering the market at the moment, such as Asos, Boost and AboutYou, who all see potential in this marketplace. Amazon is also delivering to Latvia, but mostly through its German webshop and their deliveries are handled by Itella. These platforms are very quality-oriented with higher standards, which will likely become a game-changer for logistics providers as well," explains Krauze-Cebotare. There have been signals on the market about Amazon expanding to the Baltic countries in the coming 5 years, but nothing specific yet. For this they would most likely need to set up a regional distribution centre in the Baltics and invest heavily in localisation as well, as local consumers need websites and customer support in their native languages.

As for emerging opportunities in the marketplace, Krauze-Cebotare draws attention to the rapidly growing segment of pharmaceutical e-commerce, with Azeta (of Lithuanian Maxima Group) taking the initiative across the three countries. "With more and more parcel locker machines in smaller and remote villages, it's often easier for customers to order their products to the nearest parcel locker than actually commute to the nearest urban settlement to find a pharmacy." The predominant e-commerce category still remains fashion and footwear, notable local players include Weekend Shoes from Estonia and Membership from Lithuania, all active across the Baltics. Both seem to exemplify a recent trend where online shops are turning increasingly to physical outlets. Other key product categories in Latvia include cosmetics, pharmaceuticals and various household items.

It is also worth noting that 20% of Omniva's business in Latvia is made up by the handling of second hand goods, which are also traded online. The most popular marketplaces are Andele Mandale and ss.lv, with rumours circulating of the imminent arrival of Lithuanian Vinted on the Latvian and Estonian markets, the latter has emerged as Lithuania's first tech unicorn valued at over 1 billion dollars and is active in the U.S., Canada and Europe.

The Latvian market is quite mature in terms of consumer protection and most consumers are well aware of their rights.

Last mile delivery is becoming more challenging due to changes in the labour market, as it is becoming increasingly difficult to find drivers and couriers, due to heavy competition from food courier operators such as Wolt and ride-hail apps such as Bolt. "We are not piloting drones or courier robots just yet, but are looking for means how to cut costs and improve our operational efficiency," says Krauze-Cebotare. Cost-savings form an essential part of the e-commerce sector in Latvia, as e-shops position themselves to offer cheaper products. "The mindset has all been about low prices in Latvia, but we see more people turning to e-commerce for other benefits as well, such as saving time and having a wider selection available."

Another aspect which will likely have an impact on the future of e-commerce in Latvia is the concept of returning goods. "This is something that local customers are not used to, and local marketplaces have not made this very easy so far – for example Pigu requires the buyer to actually physically deliver the returnable product to the nearest post office." The arrival of AboutYou has changed this dramatically, by simplifying the return process to Western standards, offering money back in just 7 days. "This will be a game-changer, as it is definitely going to change the habits of consumers," believes Krauze-Cebotare.

MBD

Edgars Ejubs is currently working as the managing director of the Latvian branch of MBD, a digital marketing agency, but his background and experience make him one of the leading experts on e-commerce matters in the Baltics. Having served as the Head of Marketing an e-commerce for Danish household goods retailer Jysk in the Baltics and Belarus, in 2020 he was appointed the Chief Executive Officer of one of Latvia's leading e-commerce shops Xnet, acquired by Estonian Hansapost/Hobby Hall Group in 2015 and eventually merged into the Pigu Group. Ejubs played a pivotal role in reviving the Xnet e-commerce business, taking the company from a 3 million euro business to a 15 million euro revenue operation in just one year.

Ejubs says that the development of e-commerce in the Baltics can in some ways be compared to the advent of electric vehicles – the global trend is there, but local markets adapt to it with a delay, lagging behind Western booms. The definitive kick-off year for e-commerce in the Baltics was 2008, when all three Baltic countries were faced with difficulties brought on by the financial crisis, hitting Latvia the hardest. “This is when the foundations for e-commerce infrastructure were laid and the culture of online purchases was cultivated, mainly to provide consumers with more affordable pricing options,” explains Ejubs.

The next great challenge came along in 2015-2016, when existing e-commerce shops had been growing for some time and new market players had emerged alongside, resulting in what is colloquially known as the “price wars” period. “This is when the margins started decreasing. The new reality forced e-commerce operators to set off on a drive for efficiency, because they all had similar costs and the same sourcing yet had to find a way to offer the lowest possible price to the consumers. Operational efficiency is still the key to success in the market today, as it's easy to generate a turnover, but considerably more difficult to achieve profitability and sustain it.”

Due to the overhead costs related to running an e-commerce platform in just one market and the very limited sizes of individual countries, the pan-Baltic approach has always been there, as it makes sense to expand to cover all Baltic countries without changing much about sourcing, logistics or even staff numbers. “This has led to the major mergers in the market in recent years, particularly the Hansapost/HobbyHall and Pigu merger – it's not only about not competing against each other, but also about efficiency gains.”

COVID-19 changed the dynamics of e-commerce considerably, forcing traditional physical retailers to shift towards online sales and this dynamic is unlikely to change. One of the biggest bottlenecks during the 2020 e-commerce boom turned out to be logistics, as the massive boom in online shopping overwhelmed nearly all the logistics providers. “No one was really ready for this, but it's good that it happened, as the sector was much better prepared for the second wave of COVID in 2021, especially on the last mile and courier service aspect.” There was also the issue with COVID-related items, such as personal protective equipment, which at first were hard to acquire but later very difficult to offload.

The situation has normalised by today and e-commerce is regarded as a normal part of everyday life, believes Ejubs. But at the same time several large-scale e-commerce operators have become brick-and-mortar physical outlet operators as well. “Xnet's pickup point helped to deal with the bottlenecks and allowed a degree of flexibility for the customer in choosing when to pick up their delivery.” For the e-commerce operator it gives an extra opportunity to upsell some products that might not be as efficient for selling online, such as perfumes for example. A number of products in e-commerce may be so low-priced or with such low margins that their sales may not cover all the costs associated with handling the product, hence the minimum basket requirement in e-shops as well (usually set at 10 euros). But physical outlet or pickup points operated by the e-shop itself allow to sell such goods to customers as part of promotional packages or similar.

Latvia is a very price-sensitive market and discounts play the most crucial role in sales promotions. “There are only two brands on the Latvian market which offer no discounts whatsoever – one is Latvian-based DIY-shop Depo and the second is German food retailer Lidl, as their customer promise is to offer the lowest price available. Others have tried to build on the promise of super-low prices every day, but have failed.” Another proof of the price sensitivity of Latvian consumers is the fact that price comparison websites outperform those of actual online retailers themselves. Electronics is the most popular product category in this regard, as each product has an EAN code, which allows the customer to search for the best price on exactly the product that is needed.

The audience in Latvia requires consideration in terms of geography. “There is Riga and then there’s the rest of the country – about 70% of the e-commerce business is generated in Riga, where over a half of the country’s population work. Riga is the place to target in Latvia, whereas in Lithuania there are five major cities of considerable size and even in Estonia there are other cities of worthwhile consumer base.” In Riga, almost half of the people are Russian-speakers, which doesn’t mean that they are Russians, but that they prefer Russian as their first language. “Ads need to be targeted in Russian, but the webshops don’t necessarily need to be in the Russian language.” Marketing to the Russian-population is more complex, as the marketing channels are far more diverse, relying heavily on Russian social media like vKontakte, mail.ru, Odnoklassiki, Yandex and others, instead of Facebook and other platforms used by Latvians. As some Russian channels are blocked in the European Union, directing messages to the Russian-language groups is much harder to achieve. Also, Russian-language TV programmes have been banned in the Baltic countries.

User comments and customer feedback form the backbone of successful marketing in e-commerce, but in Latvia (and to some extent in Estonia and Lithuania as well), the culture of customer feedback is somewhat different due to cultural characteristics. “Latvians are not likely to leave positive feedback, but instead amplify their negative experiences and express their dissatisfaction through comments. This is not something to get dismayed by. Russians on the other hand are very social and the shopping experience is very important to them, making Net Promoter Score a crucial tool in analysing customer satisfaction. They’re more likely to tell 10 of their friends about a negative experience rather than leave a negative comment.” One of the quintessential aspects to consider when addressing both Latvian and Russian-speaking customers in Latvia is the quality of service in addition to the price level. “The service level has to be impeccable when starting up a new shop, so there is a strong need to pay attention to detail”.

In terms of the consumer-to-consumer aspect of e-commerce, the main marketplace in Latvia is ss.lv, which has faced some backlash in the past for its business practices, even being suspended by the Latvian Consumer Protection Board. A major segment in this area is the sale of car parts and second-hand vehicles. “Facebook Marketplace for instance is not as effective as dedicated interest-based Facebook Groups focused on the exchange of particular products.” For fashion the main C2C outlet is andelemandele.lv.

As for international players on the market, their market share is not as substantial compared to regional players, but their presence is certainly felt. “Amazon and WeShop are clearly represented on the market, but the Chinese platforms suffered a decline in 2021 when the VAT rules were changed and all purchases from third countries were subjected to VAT regulation, creating confusion and complications for the consumers.” Local operators will need to remain aware of the activities of the likes of Amazon, but until they have really entered the market with localised platforms and full customer support, there’s not much to fear. “Above all it’s a matter of trust for the local buyers – if you’re going to buy a large TV, who do you trust more – the shop nearby or an anonymous e-mail address for customer complaints?” The large marketplaces are suitable for smaller emotional purchases, but there is a trust gap in the minds of local consumers when it comes to purchasing larger and more expensive items, believes Ejubs. This also serves to prove the efficiency of the local Consumer Protection Board, as buyers are more prepared to purchase goods from vendors operating within the same legislative framework and under the watchful eye of a trusted consumer rights regulator.

Therefore pricing policies must be considered thoroughly, as legislation in fact forbids “fake discounts” – i.e. when a product has been discounted on the same level for a long period of time. “You’re allowed to discount a certain product only for a certain period of time, otherwise it’ll be heavily penalised by the Consumer Protection Board and this may result in a PR backlash”. Even when managing a catalogue of hundreds of thousands of products, this needs to be paid attention to. Compliance with the General Data Protection Regulation (GDPR) is also something to look out for when operating in the European Union, as penalties for violations could lead to fines up to 5% of the company’s turnover.

Looking forward, Ejubs sees that there are new cool redefining developments happening locally, but nothing revolutionary emerging to change the global playing field. “We are slow to adapt to new trends emerging from both the West and the East, but the metaverse is likely to change the shopping experience for e-commerce as well in the coming years. E-commerce and traditional brick-and-mortar will co-exist in some hybrid form. However, the question of introducing technological advancements will boil down to the simple question whether it’s just for fun or the new norm,” concludes Ejubs.

Lithuania

makesyoulocal.com

MakesYouLocal was established in Denmark in 2010 and has offices across Europe, including Scandinavia, the Baltics, Germany and the Czech Republic. The firm specialises in offering tailor-made specialisation services to e-commerce platforms and e-shops looking to succeed in cross-border sales, with over 100 webshops as partners in the Baltics.

MakesYouLocal's managing director for the Baltics and Poland, Donatas Gudelis says that there has been a huge growth percentage in the Baltic region, at least compared to more established markets such as Germany or Sweden for example. However, this growth has been somewhat uneven, with Estonia and Lithuania growing faster in recent times and Latvia lagging behind. The Latvian market is dominated by mostly Estonian and Lithuanian companies, yet there's a healthy share of people willing to shop online. "Latvians who are willing to shop online may sometimes struggle to find the products they want from their local market and thus turn to either Estonian or Lithuanian e-shops or to international giants like Zalando or AboutYou," explains Gudelis.

The countries are rather similar in terms of infrastructure, market players and payment method preferences. There is naturally the cultural and linguistic difference between the three countries, which divides the Baltic marketplace into three or even four different language groups. One aspect setting Latvia more apart from the other Baltic countries, is the increased presence of Russian-language speakers. "While in Estonia there's also a Russian-speaking minority which is in fact rather large in volume, Estonian e-shops tend to get by with just Estonian and English localisation, and in Lithuania there is no need for a second language edition, simply keeping it in Lithuanian. However, in Latvia there's the need to provide a Russian version of the webshop as well."

Lithuania is by far the largest market in terms of population and sheer business volumes, but Estonia is the tech leader in the region, says Gudelis. Lithuanian domination in Baltic e-commerce may also be attributed to its cross-border trading experience with neighbouring Poland. The largest e-commerce operators in the Baltics are from Lithuania – Pigu Group and Senukai. Looking at the size of the Baltic marketplace, the growth perspective is somewhat restricted, but is still lucrative to international players, believes Gudelis. Although marketing messages and channels for the three countries are very similar (relying heavily on Facebook and Google), the presence of four local languages restricts viewing it as a single marketplace. "Localization costs can be a hindrance when looking at these markets, as you need to invest energy and resources into three small markets. "

Gudelis believes that average prices in Baltic e-shops are higher than elsewhere, which is one of the reasons why international e-commerce operators find the region lucrative. The competition is lower compared to Germany, UK or Scandinavia. "But the prices in regional e-shops are similar or higher than in Western Europe. Six million consumers will not produce substantial sales volumes, but help in fattening up the bottom line, which is why Polish companies are keen to use Lithuania as a sandbox to learn cross-border trade specifics before entering Germany for example."

In terms of logistics, Lithuania has the same service providers as other Baltic countries, predominantly Omniva, Itella Smartpost, Venipak and DPD, with the addition of LP Express, a subsidiary of Lithuania Post. Payment providers tend to be Estonian (Montonia or Maksekeskus) or local (Paysera). Similar infrastructures, similar players across the entire region.

From a cultural perspective, while Estonians are closely affiliated with Finns, Lithuanians tend to be on close terms with Poland, demonstrated in their preference for Polish products due to their reasonable quality and favourable pricing. "Estonians favour premium and branded products and the Latvian market is all about the price and not so much about the quality," concludes Gudelis.

COVID-19 gave the e-commerce sector in the Baltics a good push, but Gudelis states that it is too early to call the big picture. "There's been a lot of talk about the golden age of e-shopping with new clients online and substantial growth volumes, on the other hand there are many new vendors on the market and insufficient investments into a better shopping experience – there should be more focus on return handling processes, 24/7 customer support, offering mobile app support etc."

In the coming years Gudelis expects more investments in improving user experience. Localisers and marketers and logistics providers will feel the full impact of this in 2-3 years. “Bricks-and-mortar shops went online because their physical stores were closed due to the restrictions, so they are still at the very beginning of their e-commerce learning curve. A webshop itself does not sell, you need to do more to succeed.” However, more knowledge and competence will be gained and this is why Gudelis is convinced that the competition will grow fiercer in the coming years with more stronger players emerging both locally and internationally.

Estonia and Lithuania are closer in terms of the technology used for operating webshops, although Lithuanians tend to prefer cheaper mass solutions like Magento and WordPress and Estonians opt for custom-made webshops, with the platforms integrated into book-keeping and logistics, keeping e-commerce in mind from step one. “Whereas Lithuanians are developing while doing it. It could be attributed to a cultural difference, as Lithuanians want to achieve results quicker and end up doing more manual work to keep the systems up to date and Estonians want to do it right from day one. Three years ago, an investment of 20,000 euros in a webshop was regarded as insane, but today it’s the average cost of setting up a new shop online.”

Setting up a business in the Baltics can be rather different, says Gudelis. In Estonia it is possible to set up a company in 15 minutes, receive a tax code in two days and the entire process is in English and performed completely online. In Lithuania acquiring a VAT code can take 7 days with some paperwork involved and in Latvia the process may take up to two weeks and is almost entirely handled on paper.

Lithuanian Senukai and Pigu are the largest e-commerce operators not just in Lithuania, but across all Baltic countries. They had an early start already in the 1990s, making smart decisions and building up market share. The faster growth rate allowed them to fund their expansion to other markets. Pigu was started by a few friends, opening a webshop and eventually evolving into a marketplace, most recently merging with Estonian HansaPost/Hobby Hall Group. “Their initial focus was on perfumes in the early days, finding the right bestsellers. Then their focus shifted to Poland, which gave them volume. Now they’re opening physical shops.” Senukai on the other hand started as a physical retail operator of construction materials and utensils and has now moved to online shops, having a separate company for online sales and another for physical sales. “They have mixed these competences very well and this has been the foundation for their success,” concludes Gudelis.’