

**WHY IS B2B (E-COMMERCE) MODEL TAKING OVER TRADITIONAL MARKET IN  
MACEDONIA**

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**ABSTRACT**

Electronic commerce is an explosive appearance of the Internet as the main channel for the distribution of goods, services, even in managerial and professional matters. All this leads to a profound shift in the economy, markets and industrial structure, products and services and their flow, consumption segmentation and behavior, the labor markets. The impact is great on society and politics, even the impact of the way we see the world is felt. Electronic commerce is by definition a process of buying, selling, transferring or exchanging products, services or information through computer networks, including the Internet.

The importance of e-commerce has been changing over the past 30 years. Initially, electronic commerce involved electronic facilitation of commercial transactions, using technologies such as EDI and EFT. This technology was invented in the late 1970s and allows businesses to send commercial documents, such as orders electronically. The use of computer electronics in stores in the second half of the 70s is taking place in two directions, namely: new technology has found its application in traditional trade institutions, the development of computers and communications, and support for the creation of a new institution – electronic commerce.

Electronic marketing channels and e-commerce during the 80's were mentioned primarily in the vision of developing large business systems. Large companies are aware of the possibility of expanding their businesses, and this is a very important tool. The increased acceptance of credit cards and telephone banking in the 1980s are also forms of e-commerce. Another form of e-commerce might be mentioned the airline reservation, which at that time was characteristic of Saber in the US and Travicom in England. Since the 1990s, e-commerce includes enterprise resource planning, data retrieval and storage. Until 1991, the commercial use of the Internet was strictly prohibited. Although the Internet became quite familiar around 1994, it took 5 years for the construction of security protocols. By the end of 2000, many European and business companies from the United States began to offer their services via the WWW.

**Keywords:** Internet penetration, personal computer, payment cards, merchants, online purchasing.

## **INTRODUCTION**

Unfortunately, Internet trade in Macedonia is still poorly developed. In FYR of Macedonia there are already models of e-commerce that are used in small scale without defined conditions for safety and security among users. Shopping via the Internet with a credit card became reality a few years ago, but the companies almost did not apply. The number of companies offering an opportunity to sell online is still very small. About 35 companies electronically sell computer equipment, pharmaceuticals and books. Businessmen from the information chamber say banks are the biggest culprit for the underdevelopment of e-commerce because they want a large part of their earnings and take huge commissions.

In order to build consumer confidence, it is necessary to have an effective mean of enforcing contracts, both in written and in electronic form, that is, the legal framework to ensure that electronic documents have the same meaning as written documents. This imposes the need for the adoption of adequate electronic commerce regulations that will define the security and safety requirements for the provision of existing electronic services in the field of e-commerce. The problem occurs with the banks, because they need investments on their part so that they can be equipped technically, but also licensed. The principles of credit cards that they represent in Macedonia (e.g. MasterCard, Visa) require considerable funds to allow them to issue so called POSs, exactly, the execution of transactions with payments via the Internet. Here is the question of the technical equipment of the banks, the establishment of the possibility for their authorized servers to work with requests submitted online.

During the last few years, the conditions for e-commerce development have been gradually formed in the Republic of Macedonia, and many businesses have begun offering their products and services on the Internet. First of all, the number of Internet users rapidly increased and enabled the formation of a significant wave of potential customers, and thus created several options for efficient online payments that were offered by banks and post services were liberalized across the country. One of the main challenges that Macedonian online businesses face is building a critical mass of users in order to achieve profitability and enable them to grow in the long run. The problem is that some of the banks do not provide online electronic transactions.<sup>1</sup>

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<sup>1</sup>Krstevska Ana (2014), Models of e-commerce with a focus on models of income from digital content, University "St. Kliment Ohridski" – Bitola, Faculty of Economics – Prilep, p. 82 – 83.

**1.Usage of information and communication technologies, and online purchasing in EU**

**Table 1: Usage of the Internet in Europe by individuals in 2016 (in %)**

	<b>Country</b>	<b>Proportion of individuals who used internet in 2016</b>
1.	Luxemburg	98
2.	Norway	98
3.	Denmark	97
4.	Sweden	95
5.	United Kingdom	95
6.	Netherlands	94
7.	Finland	94
8.	Germany	91
9.	Estonia	88
10.	France	88
11.	Belgium	87
12.	Austria	85
13.	Czech Republic	83
14.	Ireland	83
15.	Slovakia	83
16.	Spain	81
17.	Latvia	81
18.	Hungary	81

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19.	Malta	78
20.	Cyprus	76
21.	Slovenia	76
22.	Lithuania	75
23.	Poland	75
24.	FYR of Macedonia	75
25.	Croatia	74
26.	Italy	71
27.	Portugal	71
28.	Greece	70
29.	Romania	66
30.	Bulgaria	62
31.	Turkey	59

Source: Eurostat, Statistics Explained. Retrieved from [http://ec.europa.eu/eurostat/statistics-explained/index.php/E-commerce\\_statistics\\_for\\_individuals#Context](http://ec.europa.eu/eurostat/statistics-explained/index.php/E-commerce_statistics_for_individuals#Context)

According to Eurostat (Table 2), Luxemburg's and Norway's population are leaders in the usage of the Internet in 2016 in EU. With just one percent behind is Denmark. Sweden and the United Kingdom follow with 95 percent. Above 90 percent are also the Netherlands (94%), Finland (94%) and Germany (91%). Estonia and France close the first ten countries with 88 percent. Macedonians take the 24<sup>th</sup> place with 75 percent usage of the internet in 2016, while Turkish population is last with 59 percent. (FYROM and Turkey are not EU members, but are included as EU candidates).

**Table 2: Online purchasing by individuals in Europe in 2016 (in %)**

	<b>Country</b>	<b>Proportion of individuals who purchased online in 2016</b>
1.	United Kingdom	83
2.	Denmark	82
3.	Luxemburg	78
4.	Norway	78
5.	Sweden	76
6.	Germany	74
7.	Netherlands	74
8.	Finland	67
9.	France	66
10.	Ireland	59
11.	Austria	58
12.	Belgium	57
13.	Estonia	56
14.	Slovakia	56
15.	Czech R	47
16.	Malta	47
17.	Spain	44
18.	Latvia	44
19.	Poland	42

20.	Slovenia	40
21.	Hungary	39
22.	Croatia	33
23.	Lithuania	33
24.	Greece	31
25.	Portugal	31
26.	Italy	29
27.	Cyprus	29
28.	Bulgaria	17
29.	Turkey	17
30.	FYR of Macedonia	15
31.	Romania	12

Source: Eurostat, Statistics Explained. Retrieved from [http://ec.europa.eu/eurostat/statistics-explained/index.php/E-commerce\\_statistics\\_for\\_individuals#Context](http://ec.europa.eu/eurostat/statistics-explained/index.php/E-commerce_statistics_for_individuals#Context)

British population leads in European online purchasing in 2016 with 83 percent. Denmark's population is only one percent behind. Luxemburg and Norway take 3<sup>th</sup> and 4<sup>th</sup> place with 78 percent. Sweden is 5<sup>th</sup> with 76 percent, while Germany and the Netherlands follow with 74. Macedonians take the penultimate place with just 15 percent. Behind them are just the Romanians with 12 percent.

## **2. Usage of information and communication technologies in Macedonian enterprises**

According to the data of the State Statistical Office of the Republic of Macedonia, as of January 2016, 93.8% of the enterprises with 10 or more employees had broadband connection to the Internet (via fixed or mobile broadband connection). Access to the Internet via a portable device using mobile telephone network (3G/4G) was used by 69.3% of the enterprises. This type of mobile Internet connection (via portable devices: notebook, laptop, smart phone, PDA phone,

etc.), for business purpose, was used by 14% of the persons employed. 52.5% of the enterprises used social media (e.g. Facebook, LinkedIn, Twitter, Present.ly, YouTube, Flickr, Picassa, Wiki-tools, etc.), i.e. had a user profile, an account or a user license for using certain social media. Around 53% of the enterprises had website/homepage, of which 83% provided on their website descriptions of goods or services, price lists, 59% had links or references to their social media profiles, and 20% provided online ordering or reservation or booking. Cloud computing services used over the Internet were bought by 6.9% of the enterprises. In 2015, 23.5% of enterprises sent or received electronic invoices in a structure suitable for their automated processing. During 2015, 11.4% of enterprises with 10 or more employees had e-commerce, i.e. buying or selling goods or services over computer networks (via websites or EDI-type systems), 7.4% of enterprises had e-sales, and 5.6% of enterprises had e-purchases.

**Table 3: E-commerce in the enterprises, according to the number of employees in 2015 (in %)**

	<b>Total</b>	<b>Enterprises according to the number of employees</b>		
	<b>(10+)</b>	<b>(10-49)</b>	<b>(50-249)</b>	<b>(250+)</b>
<b>Enterprises that have e-commerce (e-sales or e-purchases)</b>	<b>11.4</b>	<b>11.4</b>	<b>10.6</b>	<b>16.2</b>
<b>E-sales:</b> have received orders via computer networks	7.4	7.1	8.0	11.3
<b>Web sales:</b> received orders for products or services via a website	6.9	6.8	7.1	7.6
Percentage of the total turnover resulting from orders received via a website				

= / > 1%	2.7	2.7	2.7	3.7
< 1%	3.4	3.5	3.3	1.9
unknown	0.7	0.6	12	1.9
<b>Sales via a website by type of customer:</b>				
B2C (Sales to private customers)	4.5	4.4	4.7	5.1
B2B (Sales to other enterprises) and B2G (Sales to public authorities)	3.2	3.3	3.0	1.9
<b>Means of payment for sale via a website:</b>				
Online payment, i.e. payment integrated in the ordering transaction	3.6	3.8	2.3	5.7
Offline payment, i.e. payment process is not included in the ordering transaction	4.7	4.8	4.3	4.4
<b>EDI-type sales:</b> received orders via EDI-type messages in an agreed format, e.g.				



EDIFACT, UBL, XML				
Percentage of the total turnover resulting from EDI-type sales				
=/> 1%	2.7	2.8	2.1	2.5
< 1%	2.7	2.7	2.0	6.1

Source: Republic of Macedonia, State Statistical Office, Information Society, News Release, Usage of information and communication technologies in enterprises, 2016 (p. 5). Retrieved from <http://www.stat.gov.mk/pdf/2016/8.1.16.29.pdf>

### 3. Where do Macedonians shop online?

There is a huge number of factors that influence the development of the e-commerce such as: population inclination towards cash payments, political and economic factors, speed of adaptation and acceptance of new technologies and trends, computer literacy of population etc. Of course one of the preconditions for the e-commerce is the internet penetration. According to the data above, we can see that FYR of Macedonia has a long way to go to get close to the developed European countries, both from the aspect of the e-merchants, the institutions and banks concerned, and from the aspect of the end users.

The E-commerce market in FYR of Macedonia registers continuous rise and growth especially in 2011. Remarkable role in the e-commerce growth had the website for group online buying, and especially Grouper which started working in January 2011. Grouper initiated citizens to make their first online purchasing through attractive offers with huge discounts and made an effort in the education in online buying to the users on one side and involvement of enormous number of companies on the other side. Today, Grouper has more than 130.000 users who also use it as a guide in exploring new places, organizing travels or simply to find the desired product.

The growth of the e-commerce in FYR of Macedonia recently was followed through the value of the transactions made by personal computer published by the National Bank of the Republic of Macedonia. The biggest rate of the annual growth in transactions made by personal computer is registered in 2014 compared with 2013 i.e. over 350% which is not a real growth of the online

purchasing market, because it is largely due to the launching of the campaigns that stimulate the online paying of bills (electricity, telephone, water etc.). in 2015 compared to 2014 there is a 61% growth in the value of the transactions made by personal computer, shows the analysis of the Macedonian E-commerce market for the period from 2011 to September 2016, made by Dr. Nina Angelovska, founder of the service for group buying and leader in the e-commerce in FYR of Macedonia.<sup>2</sup>

### **Changes by the National Bank of the Republic of Macedonia that open new opportunities to analyze the E-commerce market**

Considering the needs to analyze the growing E-commerce market, the National Bank of the Republic of Macedonia in April 2016, decided to change the methodology for collecting the information from the payment systems which in huge part is tailored to the standards of the European Central Bank. The new statistics opened the opportunity to create more detailed analysis of the e-commerce state in the FYR of Macedonia and primarily in that how much Macedonians bought online from domestic merchants, how much non-residents bought online from Macedonian stores and how much Macedonians bought from merchants outside the country. In the new report for Payment Transactions with Payment Cards according to the device are contained in more details the following types of transactions:

- transactions on the devices in the country with cards issued in the country
- transactions on the devices in the country with cards issued outside the country
- transactions on the devices outside the country with cards issued in the country.

The number of transactions made with payment cards in 2016 is 69 million transactions, from which 95% are made in the country and the rest are foreign transactions. The value of the total trade made using payment cards is 191 billion Macedonian denars, from which 94% are made in the country, while the rest of the total value with payment cards is made on devices used by non-residents (foreign).

Regarding to the purpose of the payment cards on the territory of the Republic of Macedonia, e-commerce was the last option for the residents with just one percent from the total value of the transactions made by payment cards.

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<sup>2</sup>Retrieved from <http://faktor.mk/makedoncite-kupuvaat-onlajn-povekje-od-stranski-otkolku-od-domashni-onlajn-prodavnici>

**Table 4: Transactions in virtual outlets for sale on devices in and outside the country with payment cards issued in the country (in Macedonian denars)**

Transactions on devices located in the country with payment cards issued in the country	1,418,185,923
Transactions on devices located outside the country with payment cards issued in the country	3,804,387,927
<b>Total</b>	<b>5,222,573,850</b>

Source: National Bank of the Republic of Macedonia, Annual Data on Payment Operations in the Republic of Macedonia, 2016. Retrieved from [http://www.nbrm.mk/content/Platni%20sistemi/Godisna\\_info\\_platen\\_promet\\_2016.pdf](http://www.nbrm.mk/content/Platni%20sistemi/Godisna_info_platen_promet_2016.pdf)

According to the Annual Data on Payment Operations in the Republic of Macedonia in 2016, the total value of the e-commerce in the Republic of Macedonia is 5,222,573,850 Macedonian denars. Macedonians spent 1,418,185,923 Macedonian denars in domestic online stores or 21.15% from the total value of the transactions and 3,804,387,927 Macedonian denars in foreign online merchants or 72.84% from the annual value of the e-commerce transactions.

On the other hand, the value of the transactions on devices located in the country with payment cards issued outside the country in virtual outlets for sale is 125,305,659 Macedonian denars. In other words, Macedonians spent 3,679,082,268 Macedonian denars more on online shopping abroad than non-residents spent in Macedonian online stores, i.e. the e-commerce deficit in 2016 is 3,679,082,268 Macedonian denars.

Favorable prices and wide range of products are the main reasons for which more and more Macedonians decide to order clothes, techniques, and furnishings online. The convincingly popular website for e-commerce is the Chinese Ali Express. In the moment, the most required are the sunglasses.

From 75,000 shipments per month, even 33,000 are ordered through this website. From China, via Czech Republic in Prague, in deadline not longer than one month, the shipments arrive at the Skopje airport, from where teams of Macedonian post offices with vans, twice a day ship the shipment bags to the Directorate. To investigate the security, each shipment passes through a

detector. However, sometimes omissions happen – the delivery of the shipment is late or the shipment is delivered to wrong address.

According to Aljo Hasanbegovic, Head of postal traffic at GCPS 2 – Skopje, the biggest problem is when the shipment is not properly addressed, but there is a telephone number on some of them, so it is easier. Shipments do not late, perhaps only for big holidays like New Year and Easter, when someone wants to give something.

An additional problem for citizens who buy online in huge amounts is that they are exempt from customs duties and VAT only if the goods cost up to 22 Euros. For example, for branded sports equipment ordered from England worth 190 dollars, the Customs pay an additional \$110. To avoid duties, citizens make several orders one after another. Macedonian post offices report that they have made efforts to change this situation.

Namely, from 22 to 45 Euros, they pay only customs, and if the price of the product is more than 45 Euros, then citizens are obligated to pay all duties. There is possibility goods worth much than 200 Euros to be exempted from customs duties which will result with higher trade.

The path of the shipment can be followed through the website of Macedonian post offices. Products are picked up from the main mail or the branch offices. Employees mostly call up by phones or leave cards in their mailboxes, in case the buyer is not home. If the order is not picked up within 5 days, Macedonian post offices send the shipment back.<sup>3</sup>

### **Conclusion**

As we can summarize by the information presented in this thesis, the internet penetration in FYR of Macedonia is high, even  $\frac{3}{4}$  of its population used the Internet in 2016, but that does not affected a lot to the e-commerce because just 15% of Macedonians purchased online in 2016.

Yet, there is a constant growth in the value of the online shopping in the past six years. What has to be considered with caution is the inclination of Macedonian to buy from foreign online stores. Chinese Ali Express is their favorite online store. Paying custom duties and VAT do not stop their online purchasing, because its wide range of products and cheap prices is what they pay attention to. When they turn to Macedonian websites than that is mostly Grouper, the largest online merchant on the Macedonian e-commerce market.

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<sup>3</sup> Retrieved from <http://www.alfa.mk/News.aspx?ID=114030#.WdKOGGiCzIW>

Seen by the macroeconomic glasses, this situation causes damage to the Macedonian e-commerce balance due to the enormous budget deficit. This negatively affects Macedonian enterprises as well because they lose their profit on foreign merchants' behalf.

### **Reference**

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National Bank of the Republic of Macedonia, Annual Data on Payment Operations in the Republic of Macedonia, 2016. Retrieved from [http://www.nbrm.mk/content/Platni%20sistemi/Godisna\\_info\\_platen\\_promet\\_2016.pdf](http://www.nbrm.mk/content/Platni%20sistemi/Godisna_info_platen_promet_2016.pdf)

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