



Management of Online Shopping Determined by COVID-19 in Romania

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Abstract: Online commerce was defined by most as the winner of this period, which was marked by the Covid-19 pandemic, when offline businesses closed in many areas, as did restaurants, cafes and bars, as well as schools. So the pandemic forced the world to go digital and adapting to the new reality meant the persistence of online shopping behavior. This can also be seen in the numbers. To be more specific, data from the National Institute of Statistics shows that retail sales through contract stores or over the Internet increased by nearly 40% in the first half of 2020 vs 2020 compared to 2019. The pace slowed (7-13%) in January and February 2020 (compared to the same months in 2019) and increased to 27% in March 2020 when the state of emergency was declared in the middle of the year. Progress then galloped, peaking at 75% in April 2020, after which the pace slowed in May and June 2020 without falling below 50%.

Keywords: Romanian e-commerce; COVID-19 e-commerce; online shopping; online customer behaviour; COVID-19 customer behaviour.

JEL Classification: M31; L80; L81

1. Introduction

After a massive growth in 2020, e-commerce in Romania only reached the previously estimated level between 2023 and 2025. Thus, the accelerated growth pleasantly surprised online retailers and prompted those with traditional retail stores to urgently invest in electronic versions of their stores. Against the backdrop of the pandemic, the e-commerce environment has improved by around 40% according to

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many market estimates. There are retailers that have not only doubled their online sales, but also online stores that have announced truly spectacular growth but at the same time have the relatively low level of the local market before 2020.

In 2021 Romania will certainly to see major new developments in e-commerce, both in terms of product and service sales. Growth will continue in the segments that have had star status in recent months, for example in the food sector – sales from the markets, but also from the restaurant sector through specialized platforms. Profile applications have more and more installations and new consumption habits are evident. As things stand, the pandemic is not going to end anytime soon, so for many months to come consumers will not only order online by choice, but mainly out of necessity to avoid travel and prolonged physical contact. However, as things return to normal, especially in the second half of the year, the e-commerce environment will continue to be very attractive to those already accustomed to the many benefits of this shopping channel. Pandemic or not, it is clear that the e-commerce environment will continue to evolve in 2021, as well as in the years to come.

If the spring vaccination campaign produces the desired results and the pandemic is kept under control, tourism will pick up and people will want to travel again, both within and outside the country. Travel agencies have had to restructure and will now really have a full online presence. The volume of tourism sales online will increase significantly, from accommodation to airline tickets, stays and other tourism packages. The government has announced that it will offer vacation vouchers from 2021 in addition to the existing vacation vouchers, which have been expanded. Other consumer product niches are expected to continue to grow, including adult-addictive and stimulant products such as alcoholic beverages, coffee, cigarettes and cigarettes, liquid e-cigarettes, or heated tobacco devices. Stores selling these types of products also saw a significant increase in 2020, activating habitual consumers of the offline environment in the online space as part of the constraints caused by the pandemic. The truth is that online shopping was not only a form of damage, but a new consumer habit. Romanians do not forget about shopping malls, but it is likely that they will visit them more often in the future specifically for the entertainment section (which is currently completely closed due to Covid-19). The modern consumer of products and services is used to spending a lot of time on the internet and moving most of their daily activities here, from information and communication to banking and online shopping.

2. E-Commerce: An EU 2020 Overview

A study by the European Commission shows that by 2020 more than seven out of ten internet users will be shopping online. Among the age groups between 16 and 24 and between 25 and 64, the share of online shoppers among internet users is

increasing. Clothing, sportswear, footwear or accessories were the most frequently purchased products online in the EU within 3 months of the survey. Across all age groups the share of first-class online purchases was 64%, followed by restaurant visits.

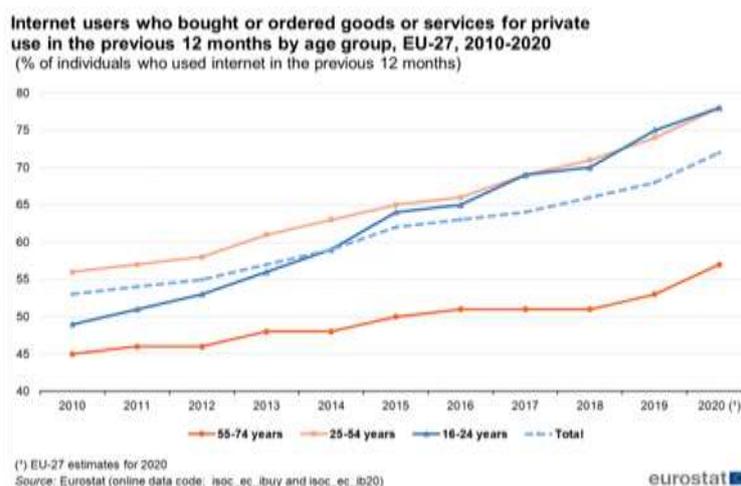


Figure 1. Internet Users Who Bought or Ordered Private Products or Services from the EU-27, 2010-2020 age Group During the Previous 12 Months.

Source: Eurostat, 2021

Online shopping in the EU is very attractive. In the 12 months prior to the 2020 study, the proportion of 16 - 74 year olds who shopped online was 64%. Benefits include the ease of shopping, access to top deals on services and products, the ability to compare prices and leave reviews and sharing different opinions with other consumers who have used the products or services. During the period of the study, almost 90% of 16 - 74 years old used the internet to search for various topics of personal interest, while more than 70% of them used e-commerce platforms.

Taking a closer look, online purchases increased by almost 19% compared to the first year of comparison (2010). By 2018, people aged 25 to 64 represented the largest share of e-commerce platform users while in 2017 the situation was reserved as people aged 16 to 24 represented the largest share of online shoppers. The 16 to 24 age group was higher than the EU average ranging from 25 to 54 in 2019. Aged reached the same level in 2020. From 2010 to 2020 e-commerce grew across all age groups, with the highest growth of 29 percent between 16 and 24 years old. In contrast, less than 50% shopped online in Bulgaria (42%) and Romania (45%) .Romania, the Czech Republic, Croatia, Hungary, Slovenia, Latvia and Cyprus, saw the largest increase (20 percentage points or more) between 2015 and 2020.

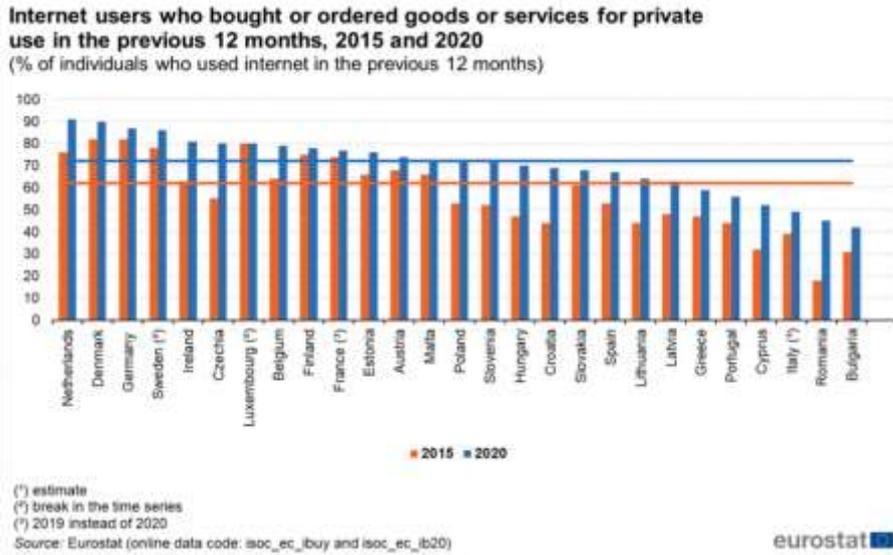


Figure 2. Internet Users Who in the Previous 12 Months, Purchased or Ordered Goods or Services for Private Use.
 Source: Eurostat, 2021

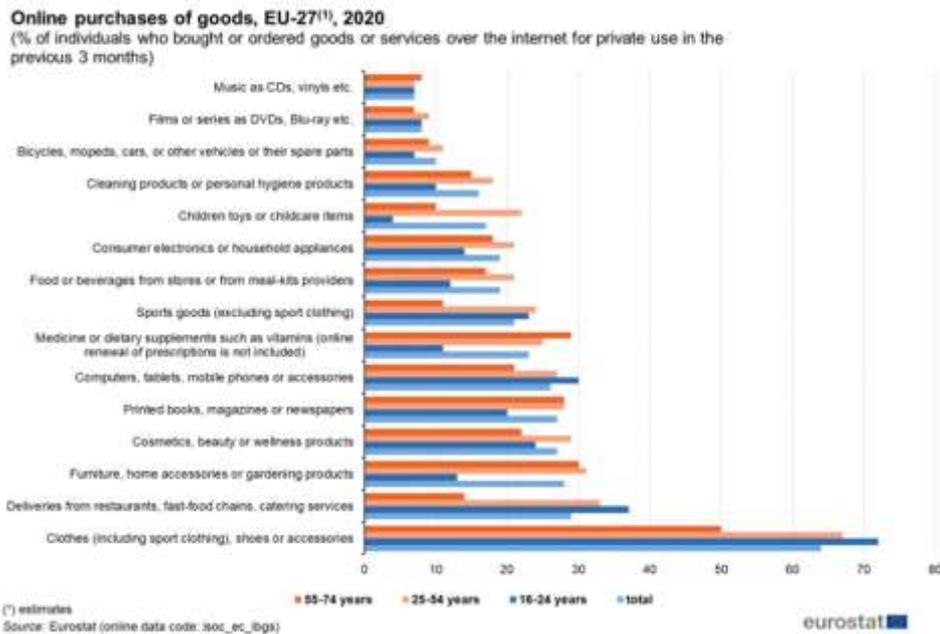


Figure 3. Online Purchases of Goods, EU-27, 2020
 Source: Eurostat, 2021

Figure 3 shows that the majority of goods purchased were clothing, shoes or accessories, 64 percent purchased electronics, 29% restaurants, fast-food chains and catering.

Figure 3 shows that 27 percent of the products purchased were furniture, home accessories and garden products, cosmetic products, beauty products or wellness products, books, magazines and newspapers printed, computers, tablets, mobile phones and accessories, 26 percent of the population. The group of 16 – 24 years old reaches the largest share of users in the purchase of clothing up to 72 percent, restaurant stores, fast food chains, catering – 37 percent, computer and tablet purchases, mobile phones or accessories up to 30 percent, cosmetics, beauty and health products up to 24 percent.

More than four in ten e-shoppers said they had made online purchases worth between € 100 and 499 in the three months prior to the survey. Online purchases worth less than 100 euros were carried out by the youngest age group. Online purchases worth from €100 to € 499 accounted for 47%, between € 500 and € 999 accounted for 12% and purchases worth more than €1000 were made by young people aged 25- 54 representing 8 %.

3. E-commerce: a Romanian 2020 Overview.

In 2020 there is an unexpected growth in the e-commerce industry. One of the leading industries is the COVID-19 pandemic. Many companies that do not yet have an e-commerce business rushed to open in digital versions in the first quarter of this year. It is predicted that the industry will reach \$6.5 billion globally by 2022. These predictions are expected to rise even before the corona virus. Romania has a 38.4% annual growth in retail by 2020.

Romania is in an accelerated phase of digitalization with a direct impact on traditional retail , which will increasingly shift to online retail. After a jump of at least three years last year, online retail will continue to develop and grow by at least 15% by 2021, which makes local businesses optimistic. We will see a stronger acceleration and surge in investment in digitization, technology and services by established players in this space. The e-commerce market is still in its infancy, as are services and the shift towards innovation or offline experiences. So there is a lot of potential. In the medium term, the market will also “sit” and revolve around marketplaces, with the global trend being to consolidate the shopping basket in one place. Consumers have their preferred shopping destinations and want to do all their shopping in one place. While before the pandemic, many retailers preferred their own distribution channels to better control the customer experience and brand, now marketplaces are becoming a very good solution for medium and small retailers. Trading conditions have become more attractive for sellers and technological

developments offer better and better tools, from marketing to logistics, which is why retailers have begun to be present in their own stores and in as many distribution channels as on the websites possible. On the other hand, new markets will also emerge, supported by large retailers that are at an advanced stage of development and want to offer customers access to a wide range of products.

In 2021, the adoption of communication solutions through the Internet will increase due to distance learning and work organization. Thus, the penetration rate of Internet services has increased and will bring an increase of 33% in computers connected to the network and 12% in mobile devices. Romania is thus in an environment that favors the adoption of online commerce. In order to offer customers a better online experience, but also to complement the physical interaction with the product, companies will invest in the integration of AI solutions for operations management allowing cost optimization and logistical efforts. AI technologies also increase the quality of services offered and contribute to the development of a better shopping experience.

In Romania, the sectoral economic impact of the COVID-19 pandemic was divided into four categories, Essential Services, Big Winners, Losers and Survivors, which include e-commerce, video communications, cloud platforms and telemedicine. Essential services include pharma, food, healthcare, telecom and utilities sectors. For example, major winners, where the current crisis has led to an increase in market demand, include companies involved in e-commerce, video communications, cloud platforms and telemedicine. The obvious losers of the impact are the economic entities of tourism, entertainment, traditional retail or restaurants. The survivors, the sectors least affected by the crisis, could be financial services, real estate, online retail, fashion or media companies.

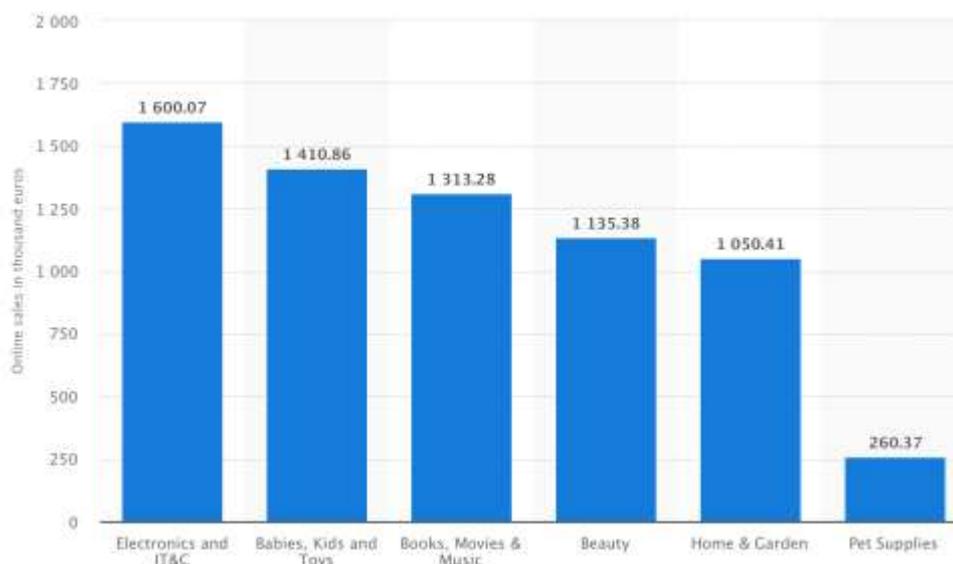


Figure 4. Ecommerce in Romania by product category in 2020 under the coronavirus pandemic (COVID-19)

Source: Statista, 2021

The share of online purchases has increased significantly. Due to traffic restrictions, consumers have quickly shifted and started ordering products online. Over time, this has become the new normal. Initially, this is done as a precautionary measure, but it has quickly become a convenience. Online commerce in Romania is on the rise and the pandemic has accelerated the pace of growth. The number of card payments has increased. Out of prudence, Romanians have started to change their behavior when it comes to payment methods. Where we used to find that customers only paid by card for large amounts, consumers now prefer to use the card when buying small amounts. This reduces contact with other strangers. At the same time, there is a growing trend to pay for purchases at self-service checkouts. Large hypermarket and supermarket chains have modernized their stores to offer such tills, for similar reasons to card payments. There has also been a change among consumers. Now Romanians think twice before buying something, analyzing whether the product is useful or not. The financial uncertainty caused by the first months of the pandemic is not forgotten so quickly. Therefore, consumers are more careful than ever with their budget and prefer to be financially cautious.

Food retail seems to be the clear winner of this pandemic, but the coming months and even years could fundamentally change this industry. Non-food retail has evolved differently over this period, with some sectors going fully online and others

showing a mixed pattern. However, the future will bring changes for this type of retail, many of which are expected and many of which are difficult to predict. Local trade, one of the main drivers of Romanian GDP, will change after the pandemic COVID-19. In particular, buying behaviour will change, customers preference for certain formats will change, and we will probably see more transactions in this area. At the same time, new players will enter the scene, namely, fast food chains such as McDonald's, which could start selling consumer goods, while hypermarkets could be transformed into food court-like restaurant spaces in shopping malls.

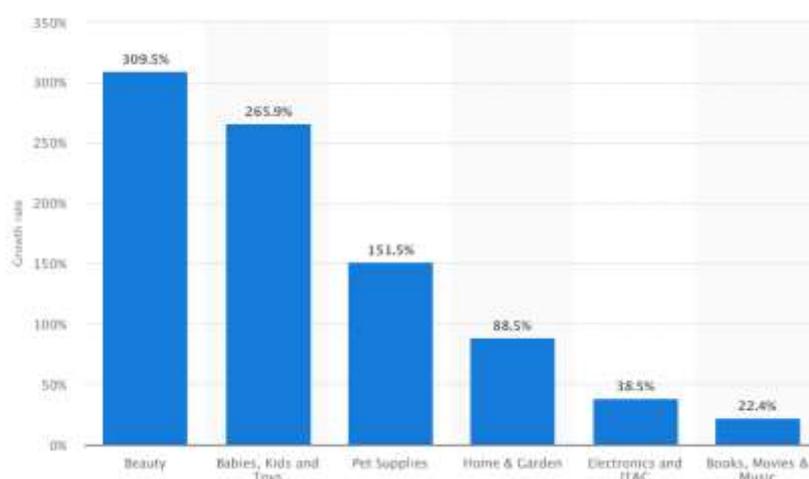


Figure 5. E-commerce coronavirus (COVID-19) sales growth by product category in Romania in the year 2020

Source: Statista, 2021

4. E-commerce trends from a Romanian perspective

Romania is experiencing an accelerated digitalization process with a direct impact on traditional retail, which will increasingly move towards online retail. After jumping at least three years into 2020, e-commerce will continue to develop and grow by at least 15% in 2021, providing an optimistic outlook for local businesses.

- Shopping malls will shift to omnichannel business models and strategies to support retailers-affected by the pandemic and ensure the survival of the sector. Whereas before the pandemic most retailers had privileges in their own retail channels to better control the shopping experience for customers and brands, these days markets are becoming a very good solution for small and medium retailers. Trading conditions have become more attractive for sellers and technological advances offer

better and better tools, from marketing to logistics, so retailers want to be present in as many sales channels as possible, in addition to their own stores and websites. On the other hand, we will most likely see the emergence of new marketplaces supported by the major retailers, which are at a higher stage of development and want to offer their customers access to a wide range of products.

- In 2021, the adoption of Internet-mediated communication solutions will increase due to telecommuting and online education. As a result, the penetration rate of Internet services has increased and traffic from connected computers will grow by 33% and from mobile devices by 12%. Romania is thus in an environment that favors the adoption of e-commerce. According to available statistics on online payments, the acceptance of card payments is increasing: The introduction of additional security measures or the possibility of immediate refund of the money have increased the confidence in this type of secure payment method.

- In order to offer customers a better online experience, but also to replace the physical interaction with the product, companies will invest in the integration of AI solutions for operations management, allowing cost optimization and logistical efforts. AI technologies also increase the quality of services offered and contribute to the development of a better shopping experience.

- More and more users are accessing social networks, which is why they are playing an increasingly important role in retail strategy. According to Veranda Store Online, live shopping will also take place in Romania and will serve as a lever that combines online and offline interaction. This type of purchase will become more important, especially for niche products.

- In order to increase their sales and provide customers with access to products from different categories, retailers will partner with collaborative commerce platforms to cover a wider range of needs and services. The year 2021 will bring organic growth in categories such as home & decor (driven by the retention of remote working and learning), pharma, and fashion.

- All businesses are looking for ways to generate more sales and selling through online marketplaces is very convenient. Of course there are international markets like Amazon, eBay, Alibaba, Etsy, etc., but those are not the only options. In fact, there are many other local virtual markets that are much better for businesses that sell locally. The focus for 2021 will be on the niche market in many industries and sectors. Even Forrester predicts the (re) emergence of B2B niche markets. These online niche markets will continue to attract sellers and B2B customers in 2021.

- While more and more people are shopping online, the shopping experience is becoming more expected. It's not enough for a company to create a website for sales, because its revenue is not just generated by its online store. Competition is increasing, and online shopping behavior is changing faster than ever before. When

the shopping experience is personalized, customers spend 48% more. It is important for any business to know its own customers in order to provide them with a personalized experience and present relevant offers.

- Today's consumers have very high expectations from the business experience. They want an integrated experience on social networks and they need to use a single website to buy the product. 30% of online shoppers surveyed say they want to store directly on social media. In addition to using traditional social media sites like Facebook and Instagram, online stores can attract more customers and sell products through various other sites. For example, according to the cited source, about 47% of people search for a product on Pinterest, while only 15% of Facebook users and 11% of Instagram users search for products. Social commerce sells products directly through social media. The difference is that social media marketing does not redirect users to an online store, but offers them the opportunity to directly check the network they use.

- Voice Commerce offers enterprises a different way of contacting shoppers, integrating their shopping experience into their everyday lives and increasing their sales opportunities. Google or Apple voice assistants are gaining increasing popularity and opening the door for new sales methods. Artificial intelligence (AI) chatbots are also beginning to mature and offer more sophisticated solutions. Chatbots are today a key and inevitable instrument for effective chat marketing, particularly on the marketplace for B2B. Specialists therefore advise that the website be optimized to integrate all new technologies.

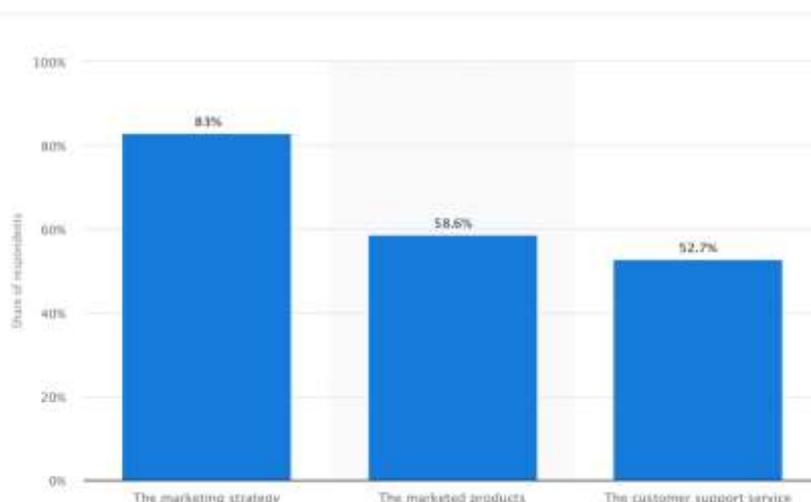


Figure 5. Most Important Factors which Guarantee the Success of an Online Store in Romania in 2019

Source: Statista, 2021

5. New E-Commerce Rules: A EU Legislation Perspective

Voice commerce offers businesses another way to retain customers, by incorporating their shopping experience into their daily lives and increasing their revenue opportunities. Voice assistants from Google or Apple are becoming increasingly popular, opening the door for new sales methods. Artificial intelligence (AI) chatbots are also beginning to mature and offer increasingly sophisticated solutions. Chatbots are now an important and inevitable tool for effective chat marketing, especially in the B2B marketplace. Experts therefore advise optimizing the website to integrate all new technologies. The new rules will give EU firms the same opportunities as non-EU firms, which will not have to charge for VAT under the rules in force until July 2021, simplify their VAT obligations for businesses involved in cross-border e-commerce and deepen the single market. What are the main changes?

- Introduction of IOSS (Import One Stop Shop): given the success of One-Stop Shop (MOSS) where telecommunication, broadcasting, television and electronic (TBE) service providers and service suppliers can register for the purposes of VAT. The system will be extended to cover other B2c services, intra-Community distance selling of goods and certain n Member States, by reporting the VAT due in the other Member States.

- Abolition of the € 35,000/€ 100,000 threshold: the current threshold for intra-Community distance sales of goods will be abolished and replaced by an EU-wide threshold of € 10,000, under which TBE services and intra-Community distance sales will fall VAT.

- There are special provisions to allow the business facilitating supplies via an online electronic interface to accept that it has received and supplied the goods itself VAT (“purported supplier”).

- A new special scheme for the distance selling of goods imported from a third country or a third country, with an intrinsic value not exceeding EUR 150 called One Stop Shop Import, is abolished for small consignments up to EUR 22. The exemption VAT will be abolished (IOSS).

- Simplification of measures for online sales: Imported goods in consignments not exceeding EUR 150 will be simplified by the distance selling measures where the IOSS (special rules) does not apply.

- New record-keeping obligations are introduced for businesses, that enable the supply of goods and services via an electronic interface, although the electronic interface does not constitute a supplier.

The EU decision to raise the VAT exemption threshold for imports of low-value goods to up to € 22 and the introduction of a single electronic customs declaration for all low-value parcels lead to a new import system in the whole EU. It is a

disruptive transformation that opens up new opportunities and business models not only for retailers and online markets, but also for other e-commerce service providers such as postal operators. Importing low-value parcels into the EU has been the exclusive right of national postal operators for many years. Approximately 75% of these cross-border goods are collected, transported, classified and delivered by postal operators on the UPU (Universal Postal Union) network. With the introduction of electronic customs declarations, the dominance of postal operators and the monopoly of paper customs documents will end. As of July 1, 2021, all service providers handling the importation of low-value packages into the EU will have the right to submit customs declarations in accordance with the new EU model, including express couriers and distribution and customs agents.

New players can enter the commercial market to import low-value goods, not only markets, but also logistics companies, transport companies, e-commerce resellers, courier companies, and cross-border e-commerce service providers. These companies are currently having a significant impact on the online retail supply chain. They also have access to relevant data and can control and monitor the flow of packages much better than postal operators. All of these new regulations and specifications provide the tools that e-commerce companies can use to organize their business operations and develop new business models. At the same time, it offers retailers and markets the opportunity to optimize their flexibility and costs by selecting a service provider for each import business model.

What categories are affected by the new legislation?

- Online shops and other taxpayers selling products to end customers, individuals in the EU and imported products.
- Companies providing electronic platforms like a marketplace, portal or the like facilitate the supply of goods to (consumers) in the EU;
- Postal operators dealing with the imports and shipments to (consumers) of goods in the EU.

6. Conclusions

Romania is in an accelerated phase of digitalization with a direct impact on traditional retail, which will most likely move to online retail. After making a leap of at least three years last year, online retail is likely to develop further and grow by at least 15% by 2021. Romania remains the country in the European Union with some of the best developments in online retail. The biggest breakthrough come in the context of the pandemic and, moreover, e-commerce kept the economy open and moving during the pandemic.

The pandemic, which has already under pressure before the onset of lower profit margins, a flood of online shopping and a growing number of competitors, drove many of these trends excessively. As entire countries continue to be quarantined and consumers shun human contact, retailers are struggling to adapt. The continued rise of e-commerce, a growing preference for contactless payments, and a new role for brick-and-mortar stores as delivery locations are just a few of the changes likely to outlive the current health crisis.

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