

# An iDEAL Solution to the Single Online EU Market?

## CASE STUDY

In 2017, Eurostat, the statistical agency of the European Union, published some interesting data on Internet use and online shopping, and one of the findings was that the European Union is very diverse in terms of behavior. In Romania, for instance, only 12 percent of the respondents had purchased a product online in the 12 months leading up to the date of the research. In Denmark, this percentage was much higher, at 82. The research also found that online shopping has been increasing steadily, mostly among younger consumers (the 16–24 and 25–54 age groups). The most popular category of products purchased online were clothes and sports goods, followed by travel and holiday accommodation.

But is the European Union one market online too? Eurostat found that the percentage of people buying goods from other EU states is not very high—just 32 percent. This percentage has been increasing since 2012, when it was 25 percent, but as these statistics show, it has not done so very rapidly. So what's standing in the way?

One serious issue is that some companies just do not want to sell their goods to customers in other EU countries. A good example is the travel industry. Companies that sell flight tickets like to segment their markets by country. The reason is commercial. A Dutch consumer organization, for instance, found that flight tickets are cheaper in Germany than in the Netherlands even if the passenger flies through Schiphol Airport.

The extent to which the European market for travel products is still segmented was proven in 2017 by the Dutch website VPNgids. The staff of the website twice booked the same trip online—a return ticket from New York to Kuala Lumpur with an airline from the Middle East and 15 nights in a hotel in Kuala Lumpur. The first time, the staff used a Dutch IP address; the second time, a Romanian. To make sure that the time of booking did not play a role in determining the result, the bookings were made with just a five-minute gap between them.

The price differences were staggering. The hotel was €172 cheaper when using a Romanian IP address than when it was using a Dutch one—€1033 instead of €1205. The difference in price turned out to be even bigger with regard to the flight ticket; the Romanian

ticket was €935, whereas the Dutch one was an astonishing €3914.48. By using a Romanian IP address, the staff of the website noted, savings of over €3000 were achievable.

The location of the IP address was the most important factor determining price differences between bookings. Consumer websites often give readers special advice to make sure that travel companies will not increase prices: Book flights during the evening, as prices go down at that time; avoid looking at the same travel itinerary several times while using the same computer, as that gives the impression that the reader is really interested in buying tickets. However, according to VPNgids, none of that advice is really useful—the only thing that results in real savings is changing one's IP address.

Another problem for prospective shoppers across borders is customer care. An online store in Bulgaria, for instance, may want to sell goods to people in the United Kingdom, but if there is a problem, they need people who can answer questions in English. Customers may also be resistant to buying goods from other EU countries for another reason: if they don't like the product, they can send it back, but they would have to pay for the shipment costs.

And then there is, of course, the issue of fraud. In many countries, customers have to use their credit cards to pay for their purchases, and sometimes, more money is deducted from the account than was agreed on. To counter such abuse, many banks advise customers to open a special account for potentially "problematic" purchases, specifying a limit to the amount of money that can be deducted. Financial companies like PayPal also have procedures in place for customers to dispute payments.

The Netherlands has been very successful in developing a safe and reliable payment system for online shopping in the form of the iDEAL system. The name of this payment structure, which was created in 2005, is intended to be interpreted in many ways; one could read it as a "deal" made on the Internet (i-deal), "I deal" in English, and idéal (meaning ideal) in French. While opinion is divided in the Netherlands about whether the system really is "ideal," it is certainly easy. When buying online, customers in the Netherlands have iDEAL as an optional payment



method; they can click on it and then choose their bank, upon which they are immediately directed to its website. If they agree to a payment, they need to confirm it on the website by using a code that is sent to their mobile phone. When this code is verified, the bank deducts the amount from the checking account of the customer and sends a message to the online shop that the payment has been made.

There were several reasons why the iDEAL system was devised. One was that Dutch consumers are very cautious, and online retailers and banks felt that they would only shop online if a safe and easy payment structure was provided. Another problem was that in the Netherlands (unlike, for instance, the United States) people do not use credit cards very often; they rely on debit cards instead, and this is what iDEAL is linked with. A third reason for the creation of the system is the large number of banks in the Netherlands—if every bank had created its own payment system, it would have made it very difficult to shop online.

Although developments in fintech are fast, it is reasonable to say that iDEAL has been a big success in the first ten years of its existence. When it came into use in 2006, the number of yearly transactions was less than a million. In 2013, 142 million payments were made—a massive figure given that the population of the Netherlands is around 17 million—and the average amount per transaction that year was around €75. The iDEAL system has proven so successful that websites outside the Netherlands that are frequented by Dutch customers (like Amazon.de and websites in Belgium) offer iDEAL as a payment method.

Critics, however, see significant disadvantages. Consumers may feel more secure when they use iDEAL, but in practice they are less protected while using it than they would be if they used a credit card instead. Additionally, payment through iDEAL is more or less definitive; consumers can't approach their banks to claim their money back. (Compare this to some credit cards, which automatically insure purchases made for 120 days and immediately return the money to the consumer if there is a problem). Another downside that is especially relevant for online shops is that the system is expensive: every transaction through iDEAL costs them 40–50 eurocents, and it takes several days before they receive the actual payment.

Will the Dutch iDEAL system become a prototype in the development of European-wide payment systems? The Dutch are not the only people who use debit rather than credit cards; in Germany, the most populous country in the European Union, only 34

percent of consumers regularly use credit cards while shopping. Will a European iDEAL system develop, or will payment systems like PayPal become more and more important?

The European Commission would certainly like to transform Europe into one market, and the Internet is a major part of this endeavor. The fact that many countries in the European Union use the same currency should be a powerful impetus to online shopping. To make online shopping more reliable, the European Union adopted the European directive “Buying Online” in 2014, and several basic rights were given Europe-wide validity to make things easier for European consumers. Products must now be delivered within 30 days. Every consumer now has the right to send a product back to the online store within two weeks and have their money refunded within 30 days. For its part, the online shop is also obliged by the directive to provide the customer with detailed information about, for instance, the price of the product and how delivery will take place.

*Sources:* Research and Markets, “2019 Study on the Alternative Payment Solution: iDEAL,” BusinessWire.com, March 8, 2019; Ecommerce News, “iDeal Now Has a Market Share of 57% in the Netherlands,” Ecommerce News, January 26, 2018; “Geld besparen op vliegtickets en hotelovernachtingen: Zo vind je de goedkoopste vluchten en hotels,” www.vpngids.nl (accessed December 11, 2017); Currence iDEAL BV, “iDEAL Information,” www.ideal.nl (accessed December 11, 2017); “New EU Rules on E-Commerce,” ec.europa.eu, accessed March 27, 2019; “iDEAL,” www.adyen.com, accessed March 27, 2019.

## CASE STUDY QUESTIONS

- 10-15** Douglas is a perfume shop that has branches in many European countries. Go to their European website ([www.douglas.eu](http://www.douglas.eu)) and choose a country. Now choose a perfume and look at the online Douglas shops in other European countries. Is there a price difference? Would you buy your perfume in the online shop of another country? What problems might you experience?
- 10-16** You are thinking of opening an online shop in the Netherlands. Would you include iDEAL as a payment option or not? What factors would you take into consideration before taking a decision?
- 10-17** The world is, of course, bigger than the European Union. Does the legislation of the European Union give the same rights to those who buy online from within the European Union as opposed to those who live in the European Union but buy online from, let's say, a shop in China?

*Case contributed by Bernard Bouwman*