ResearchFARM

EU Online Retailing 2011: Sizes and Forecasts

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OVERVIEW

The broad development in online retailing over the 2005-15 period can be characterised as moving from multichannel in 2005 to m-commerce in 2010 and towards internationalisation by 2015. As such a massive prize awaits the winning retail players, serving potential customers across the whole EU market or 126m connected households as of 2010. We forecast that this number will gently rise to 163m households over the next 5 years.

While much of the historic growth of online retailing has been driven by increasing broadband penetration, the rapid growth spurt is now over. Broadband penetration rates will soon reach a natural ceiling in most of the more advanced online markets of north and western Europe. This means that retailers now have to focus on driving average basket sizes up. On top of this the competitive environment has become considerably tougher with the number of online retail businesses soaring across the EU over the last decade. Arguably, this is another reason why retailers need to think beyond the national online market and in a true paradigm change need to adopt a pan EU perspective.

We expect the nature of online retailing to change significantly going forward, current cross border shopping trends are set to intensify, especially where linguistic similarities exist, so for example in France, (Walloon) Belgium and (non EU) Switzerland; Germany and Austria; Holland and (Flamish) Belgium and so on.

For online retailing the future is rosy, and by 2015 we expect the retail universe to have considerably moved closer to a reality where EU shoppers order their wine, fine foods and clothes from Italy, France and Spain, their furniture from Scandinavia, DIY equipment and musical instruments from Germany and CEE, books and DVDs from the UK, etc whilst other sectors such as consumer electronics and media will become even more globalised than they currently are.

- **Learn** - which EU online markets are growth hotspots, laggards and how the sizes will have developed by 2015
- **Target** - the most promising future markets and understand where you have to play in future to win
- **Assess** - the potential, as more EU household move online and see what sped can be tapped

DEFINITIONS

All our data captures online retail spend on physical goods. This means that travel and tourism (airline tickets and hotel bookings which usually make up a huge share of e-commerce) as well as online financial services (insurance, banking), gambling and digital downloads of music and video content have been excluded. Also excluded have been traditional mail order sales and a share of C2C sales, stemming from the likes of eBay or priceminister, where consumers buy and sell second hand goods to other consumers. That said often these sites are now used to fulfill the online functions of dedicated retail businesses with eBay especially targeting fashion players for its boutique offering etc. As such we had to use a degree of estimation to build the data set.

As a result, our sizes are significantly smaller than those reported by other market research institutes. However we feel that it is better to give a ‘floor’ in terms of data and leave room for upward revisions in market size. Whilst the online market might be bigger in some instances (this also depends on definitional issues), we can say with confidence that our numbers reflect what is being spent by EU consumers in the online world today. This gives our clients the most elementary spend on physical goods online, where the buying process has involved the internet.

Our forecasts are based on projected broadband connection growth correlated with a rise in average basket spend on online. Both measures are quite conservatively calculated, based on an assumption that inflation will level out around the 2% mark over the five year period, that current mail order spend will migrate to online further and that online shopping will become a lot more ‘normal’ to EU consumers, especially the older generations, going forward.

A key growth driver will be the value credentials the internet offers, again this not only impacts austerity hit countries, but is valid for the whole Union. Online prices are perceived to be cheaper and price comparison is much easier to carry out online than in physical stores. An allowance has also been made for m-commerce (though this is still relatively tiny in the EU) and cross border spend, which will intensify, especially as some markets are slowly maturing (UK).

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TESTIMONIALS AND CLIENTS

About our last report

«I found it very insightful. [...] Impressed with the amount of information that has been covered by your report.» (Retail merchandising company)

«I found the document easy to read, well laid out and the content thought-provoking. It reminds me of the major considerations that affect our markets, and to address these key issues when approaching the global brands and retailers. Retail Predictions 2011 is a very good demonstration of the quality of how ResearchFarm operates and communicates.» (Technology supplier)

«The content is very interesting to us, as we look after many of the largest shopping centres and we also represent many international retailers entering our market. There is plenty of food for thought.» (Property consultants)

«It looks impressive.» (Property company)

«It was helpful. It helped me to persuade my boss to take on a project about e-commerce research. I was really surprised by the importance of legal issues. I never read that elsewhere before.» (Government)

«Thank you again for the study. These are very, very interesting, well explained (so, logical) predictions. Highly reliable and useful (I like the idea very much that loyalty schemes will move onto smartphones). It's quite impressive!» (Publishing group)

«Great research, very useful.» (Retailer)

«We have enjoyed reading your research information and have found it to be helpful in validating some of the other Grocery industry news information and predictions.» (Retailer)

«On DLF's (Danish Association of Fast Moving Consumer Goods Manufacturers) New Years Conference on the 20th of January 2011 we had the great pleasure to hear ResearchFarm speak about future trends in online grocery retailing. The feed back from the conference participants was very positive as they gave ResearchFarm's presentation the highest score of all speakers, finding the analysis about the key success factors of chosen EU and US online retailers both very interesting and inspiring. We can therefore give ResearchFarm our best recommendation.»
Dagligvareleverandørerne – Danish Association of Fast Moving Consumer Goods Manufacturers

OUR METHODOLOGY

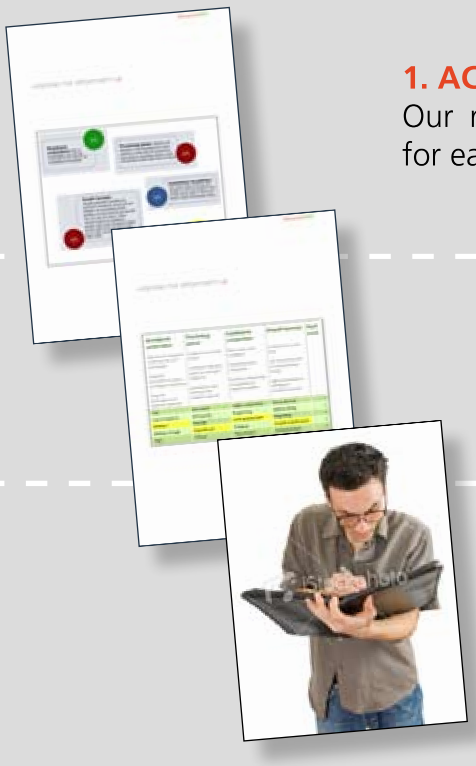
LAY THE GROUND FOR NEW GROWTH!

Researchfarm strives to deliver a starting point for constructive discussions and provide clear solutions and direction.

Our in depth observations of fundamental changes combined with our strategic insights into the sector and our entrepreneurial thinking provide unrivalled, actionable and meaningful solutions.

Our recommendations will enable you to formulate new strategies, head for the right milestones, drive future growth and set the right incentives.

DELIVERING ADDED VALUE THROUGH OUR REPORTS



1. ACTIONABLE RECOMMENDATIONS
Our reports provide you with recommendations for each chapter to help your strategic decisions.

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Every chapter features a case example and in-depth insights and recommendations.

3. INTERVIEWS WITH KEY PEOPLE
The report is based on in depth conversation with business leaders, CEOs and CRM specialists.

ABOUT RESEARCHFARM

ResearchFarm is a start up boutique focused on strategic insight and innovative topics and trends in the FMCG/retail space. A key word for us is innovation. We try to unearth what works and what doesn't and tell our audience about it. For us the client comes first, as such we are focused on the story to tell, sharing insight and analysis, not on getting our names in the media – though we will engage in this as well occasionally.

Online retailing sizes: EU 2005-2010 in €bn

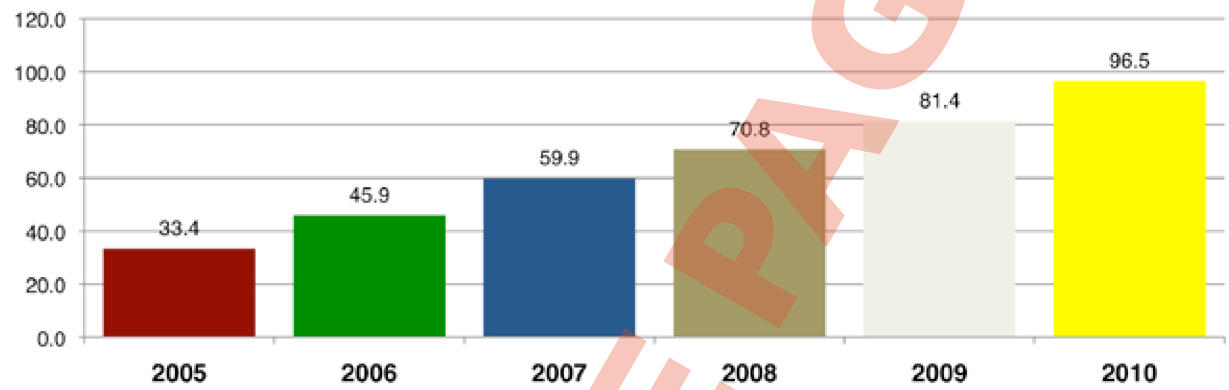

Chart 6

- Chart 6 shows the development of online retailing in the EU with the channel having grown by a CAGR of 23.8% over the last five years. Accounting for 1.6% of total retail in 2005 online has outpaced growth of the overall retail sector to stand at 4.1% of total retail in 2010 – or just shy of €100bn. This clearly shows that online has proved to be crisis resistant, storming all the way right through the deepest recession since the end of WW2.

- While growth has slowed from 37.9% in 2005/06 to 18.6% in 2009/10 it remains solidly in double digit mode. Much of this development has been driven by the increasing penetration levels of broadband across the continent. While growth rates are set to mature going forward at least in the online developed markets (though staying comfortably ahead of total retail), where the game now changes to driving average basket sizes up, rather than acquiring new customers, there is also a natural growth limit for broadband penetration in the lesser developed markets.

Broadband however does not tell the whole story as not every broadband enabled household automatically starts spending on the internet. Retailers have also actively driven online growth development forward – from the likes of industry behemoths such as Amazon, Cdiscount and eBay to the mail order players and innovative start ups.

Online retailing sizes: The leading countries

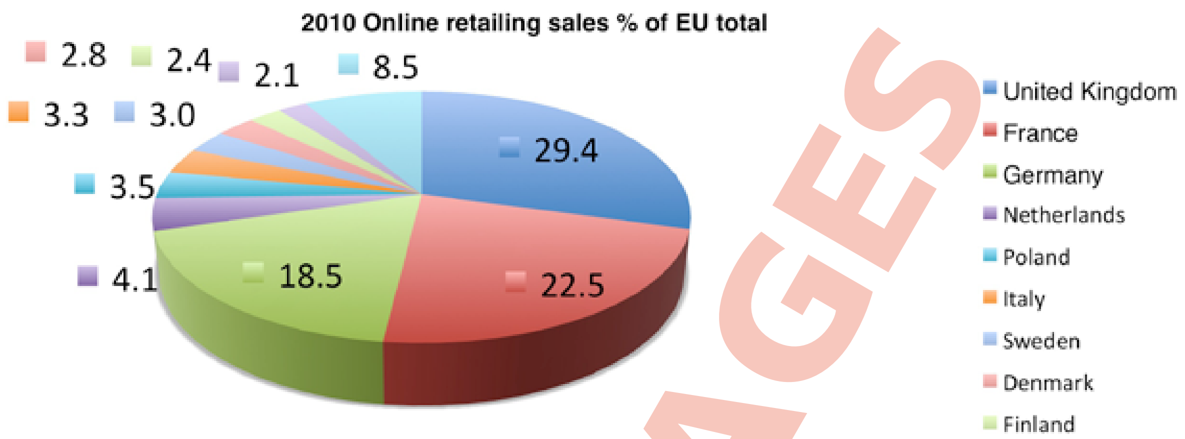

Chart 7

- As chart 7 demonstrates in 2010 EU online retailing was clearly dominated by the three major EU markets, the UK, France and Germany followed by the Netherlands and Scandinavia. There exists a definite bias towards Northern Europe, with the most advanced member states of CEE emerging surprisingly high up the table, Poland is already the fifth most important online market within the Union.
- Both Italy and Spain's online markets arguably show the biggest potential for online development as broadband penetration is still relatively low and we expect both markets to rapidly catch up over the next decade. Consumer behaviour will mirror that in Northern Europe and much spend will migrate online.
- Indeed the Spanish market is an interesting point in case, as Spaniards spend more online on goods coming from abroad (with the US and the UK major markets) than from inside their own domestic market, highlighting the massive opportunity for the likes of El Corte Ingles, Zara or Mercadonna to name but a few.
- The Scandinavian markets – while quite small on their own show a considerable degree of cross border shopping online as well, attributable to the fact that there are (Finland being the exception) quite close linguistic ties – and there exists a high degree of social trust which has transferred to online retailing as well. Germany is another market that sees many orders from its northern neighbours.

2005	2010	2015
Multichannel	M-commerce	Internationalisation
Channel integration, one IT view one, retail view	Transactional apps, new ROI models	Global retail offer
Logistics, supply chain, warehouses, dark stores	Location based advertising, social media and group buying (facebook, groupon)	Augmented reality, more internet enabled devices, connected kitchen, cars etc
Price comparison sites, new social media, more customer involvement	Bar code scanners + discount and auction sites (vente privee) driving down prices	Cross country social media and price comparison

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