



RETAIL & WHOLESALE: KEY SECTORS FOR THE EUROPEAN ECONOMY

UNDERSTANDING THE ROLE OF RETAILING AND WHOLESALING
WITHIN THE EUROPEAN UNION

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FOREWORD

The activity of retailing and wholesaling shapes both our economy as well as our daily lives. Consumers and businesses buy products and services every day according to their needs and preferences. But our familiarity with shopping often leads us to take the retail and wholesale sectors for granted.

What is the contribution of retail and wholesale to the European economy, in terms of economic added value, employment, innovation and competitiveness? This report shows the magnitude of the retail and wholesale sectors in the European Union, in terms of enterprises, numbers of jobs as well as of contribution to Europe's value added. It demonstrates the diversity and multiplicity of business formats in both sectors – from global business leaders to a myriad of small local or international businesses. It shows the extreme dynamism and innovation of sectors driven by intense competition as well as by ever changing and diverse consumer demands.

Technological progress and consumer behaviour are at the heart of a profound transformation within retail and wholesale and the growth of online trading is changing the way businesses operate and consumers interact, generating new challenges and opportunities.

The study shows that retail and wholesale are engines of growth and employment, which can play a critical role in the future of Europe's economy and prosperity.

April 2014



Jonathan Reynolds

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Richard Cuthbertson

A handwritten signature in black ink that reads "Richard Cuthbertson".

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EXECUTIVE SUMMARY

This report attempts to capture the **economic contribution of the retail and wholesale sectors to the European economy** at a time of major transformation due to the rapidly developing digital economy.

Towards a better understanding of the European retail and wholesale sectors

The **activity of commerce** consists of an exchange of products and services, usually for money. This concept of exchange provides the basis on which an economy is built. Wholesalers sell goods in large quantities to businesses, including hotels, caterers and others, as well as to retailers who sell to the public in relatively small quantities for use or consumption.

These businesses vary greatly, reflecting the wide variety of consumer and customer preferences and needs throughout the EU, as well as other external issues, such as the regulatory environment. Retailers can appear under different formats, sell different products, have different legal structures, and be located in different locations. **A retailer's competitive capabilities** derive from its superior ability to produce the **range of goods that consumers will want to buy**, and offer them **in the right way, in the right location and at the right price**. In the same way, **wholesalers** try to provide the best service for their customers by acting as **exchange facilitators** and by identifying and offering **solutions to their customer needs**. International trade also gives rise to global supply chains, requiring complex and sophisticated transport and logistics solutions to operate successfully.

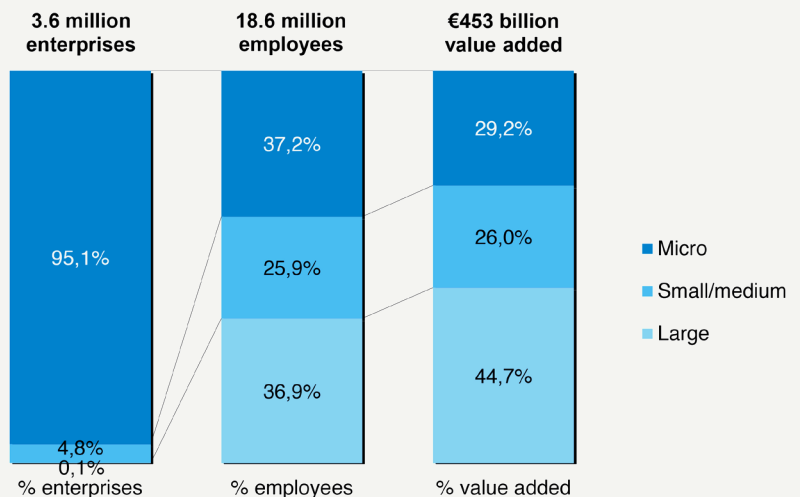
Over time, the **distinction between wholesale, retail, and even manufacturing firms** has become **increasingly blurred**. Driving factors for this derive from various elements ranging from the information technology revolution to the search for efficiencies through economies of scale and the need for differentiation.

Furthermore, due to customer-centric nature of their activities, many retailers and wholesalers are investing heavily in **their communities** as well as in **environmental and social responsibility**. These wider benefits for society are not discussed in detail in this report.

The contribution and rich diversity of commerce in Europe

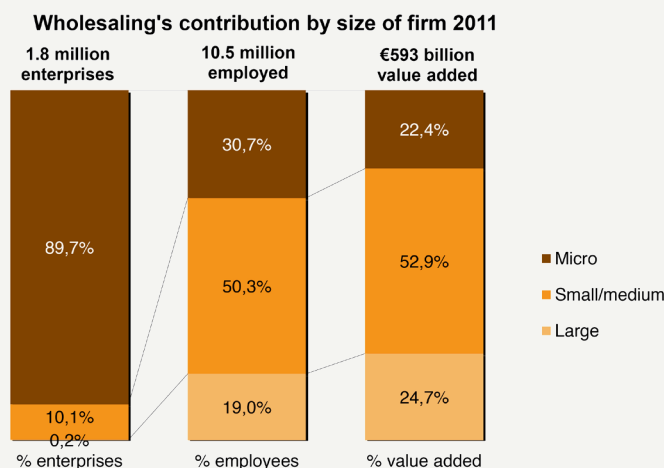
The retail and wholesale sectors in Europe significantly contribute to the European economy, accounting in 2011 for **5.4 million businesses**, of which two thirds operate in retail (3.6 million businesses) and one third in wholesale (1.8 million businesses). Overall, they represent over 22% of all active non-financial business enterprises, and as many as 30% of all European small and medium-sized enterprises (SMEs) across all sectors. Both sectors also generate a **combined turnover of €8.3 trillion**, of which €2.6 trillion is generated by retail and €5.7 trillion by wholesale.

Retailing's contribution by size of firm 2011



Retailing is essentially a local business and barriers to entry for small shops are comparatively low. Hence, more than 95% of retail businesses are micro businesses, employing less than 10 people, making up nearly 40% of retail employment and generating almost 30% of value added. **Approximately three-quarters of retail employment are in large firms** and in **micro firms** (less than 10 people), reflecting the twin challenges of efficiency through scale and meeting local demand.

On the other hand, while wholesaling is also dominated by micro enterprises (approximately 90%), **wholesale employment** and value added are **spread across all sizes of business**: micro, small, medium, and large, reflecting the customer demand for local, regional, national, and global sourcing.



Employment in the European retail and wholesale sectors

As well as the retail and wholesale sectors' contribution to the European economy in terms of enterprises and turnover, the combined sectors represent the second largest employer in the EU after manufacturing, **employing 13% of the European labour force**. This accounts for 29 million Europeans, of which 18.6 million people are in retail and 10.5 million people in wholesale. Almost two thirds of retail and wholesale employees work in organisations classified as SMEs. The retail and wholesale sectors pay slightly above the expected median hourly wage despite the large amount of necessary unskilled, and hence low paid, work.

The retail and wholesale sectors also provide **diverse forms of employment** for all types of people: young and old, male and female, permanent and temporary, employees and self-employed. Retailing displays a younger and more female employment profile as compared to wholesaling. Nearly 26% of retail workers work part-time, which is well above the EU average of 19.3%, while the wholesale sector is below (12%). Temporary workers comprise approximately 10.8% of those engaged in European retailing and wholesaling, less than the European average across all sectors of 11.4%. Finally, the retail and wholesale sectors are also an important source of self-employment, comprising 5 million individuals, or 18% of those employed in commerce in 2012.

The retail and wholesale sector show a relatively good performance in terms of addressing the **skills** mismatch. The range of skills used in both sectors includes mostly commercial skills but continues to grow with the development of new formats and channels, especially increased demand for e-skills. Importantly, the diversity of employment opportunities in retailing and wholesaling is matched by the significant potential for upward mobility within the sectors, particularly within larger organisations.

Added value of the retail and wholesale sectors to the European economy

Across the European Union, retailers and wholesalers jointly create **€1 trillion of gross value added (GVA)**, of which €453 billion is generated by retailers and €593 billion by wholesalers, comprising 9.6% of total EU GVA. For retail, value added is mostly generated by specialised (non-general) stores focusing on a particular product genre, such as electronics, and overall large firms contribute approximately 45% of added value, small/medium-sized firms 26% and micro firms 29%. Value created by wholesale firms is spread more evenly across micro (22%), small/medium sized firms (more than 50%) and large (25%) businesses, reflecting the existence of all types of wholesalers, from niche players to mass operators.

In addition to their direct added value and beyond the estimated €6 trillion spent on products for resale, European wholesalers and retailers buy many products and services from other sectors of the economy. This value amounted to an additional €871 billion of GVA in 2008, of which €336 billion was generated by retail and €535 billion was generated by wholesale. Key beneficiary sectors include agriculture, manufacturing, energy, construction, real estate, transport and communications, the financial sector and business services.

Unlike many other sectors, the hidden economic **multiplier effects** of retail and wholesale activities **are strong** both upstream and downstream within the value



chain, as the sector helps drive consumer demand for other firms' products and services. While it is always impossible to calculate an exact multiplier effect, estimates suggest that 1 in 4 jobs are dependent upon the retail and wholesale sectors.

The retail and wholesale sectors are **important contributors of value through taxation**, including property, sales, and employee taxes. Together, European retailers and wholesalers contributed an estimated €171.5 billion in labour, profit and other direct taxes in 2010, €102 billion from wholesale and €69.5 billion from retail, representing 16.5% of the total tax intake of the European business economy covering industry, construction and services. Retail and wholesale paid a further estimated €518 billion and €1,023 billion respectively in Value Added Tax (VAT) to European governments in 2010.

Retail and wholesale are also contributors to economic **growth across the world**. European retailers have been at the heart of international development, and operate in more than twice the average number of countries than international North American businesses. Global retail sales turnover in 2012 amounted to over €10.4 trillion of which 23% corresponded to retail in the EU 27 – equivalent to the whole of North America (US, Canada, Mexico).

Competitiveness of European retailers and wholesalers

The competitiveness of European retailers and wholesalers depends on various factors, including market consolidation, price levels, profit margins, concentration, the impact of regulation, market dynamism and labour productivity.

When analysing price levels, research shows that consolidation can lead to efficiency gains and put a downward pressure on prices. **Average consumer prices** in the EU 27 tend to be much lower than in countries such as Norway, Switzerland and Japan, and comparable to US price levels. Price differences within the EU reflect differing income and consumption patterns, as well as underlying regulatory, labour, infrastructure and tax differences. Territorial supply constraints also play a role. Price variations are often related to longer-term structural demand or supply factors, such as global population growth, higher incomes in emerging economies, increased energy and production costs, as well as on short-term impacts, such as weather conditions and exchange rate volatility. The drive for efficiency in retail, combined with a high degree of competition, has supported a relative decrease in food expenditure in developed countries, where food expenditure today represents only 12% of the average consumer basket in Europe.

Due to the competitive nature of the sectors, retail and wholesale in Europe show very **low levels of profitability** compared to other sectors. The constant need to adapt to market conditions is essential for these businesses to survive. Apart from market forces, retailers and wholesalers are subject to regulatory intervention, which can affect their ability to compete optimally.

The **high level of births and deaths of retail and wholesale firms** reflects the dynamism and competitive nature of these markets, as well as the pressure to constantly adapt to ever changing social, economic, and political conditions.

Labour productivity is another measure of the competitiveness of an economic sector. The wage-adjusted labour productivity ratio for retailing in Europe is lower than for wholesaling. Both sectors however show lower levels of wage-adjusted labour

productivity than other knowledge-intensive service sectors, such as real estate, or high intensity manufacturing industry, such as pharmaceuticals or consumer electronics. However, measures of productivity alone can be misleading as other factors such as differences in structure, operating and regulatory environment also need to be considered.

The retail and wholesale sectors thrive on diverse competition. Unlike other sectors, **there are no dominant retail or wholesale companies** on a global, European, and national scale, even within specific product categories. At their heart, even the largest retailing and wholesaling firms have to serve the local customer, while leveraging scale efficiencies. When looking at specific sub-sectors, the most concentrated sub-sectors tend to be the electronics and groceries markets. Market concentration may be considered as an indicator of competition but a more concentrated market may also reflect a higher degree of efficiency. Therefore, one should not rely on a single indicator but on a more holistic view and understanding of individual markets.

Innovation in the European retail and wholesale sectors

Innovation also constitutes a key element for **measuring competitiveness**. Being so close to the consumer, retailers and wholesalers receive feedback every day on how well they, and the overall market, are performing. To reflect this changing environment and thus changing consumer needs, they can incrementally adapt their services and value propositions accordingly, through continual innovation.

Most official measures of innovation however tend to significantly under-represent the efforts of the retail and wholesale sectors. This is because **retailers and wholesalers innovate differently**, by being more often engaged in open, collaborative innovation and placing as much emphasis on less tangible forms of innovation, such as new business models or processes. A key driver of innovation is the ongoing trend towards online retailing and wholesaling. Figures show that 29% of European wholesale firms and 28% of retail firms that engaged in innovation did so co-operatively rather than in isolation. This is often due to the inherently greater transparency and highly competitive nature of both sectors. Technological innovations include self-scanning, loyalty marketing systems, new payment methods, mobile and online platforms. Non-technological innovations include new in-store merchandising techniques, new customer service approaches, new business models and formats. Many of these innovations quickly transfer across the sector as a result of the openness of innovation and of competition in the market.

Both retailers and wholesalers also increasingly engage in the development of new products or packaging, which corresponds to more visible kinds of innovation. Perhaps, the most obvious example is the development of private label brands. It has been estimated **that private label products** accounted for nearly all of the growth in packaged food, beauty and home care categories during the first decade of the 21st century in Western Europe. And private label presently accounts for over 30% of food retail sales volume across Western Europe. Moreover, according to AC Nielsen in 2010, 47% of European consumers felt that private labels were a good alternative to named brands, whilst 66% felt that private labels were as good as, or of a higher quality, than named brands. Markets with greater efficiency display a richer private label environment.

In spite of all this activity, there is a prevalent lack of visibility and awareness of retail innovation by both policymakers and retailers themselves. Other barriers to retail innovation include the costs and business risks associated with radical innovation projects, skills shortages, and a number of regulatory constraints.

The digital economy and the European retail and wholesale sectors

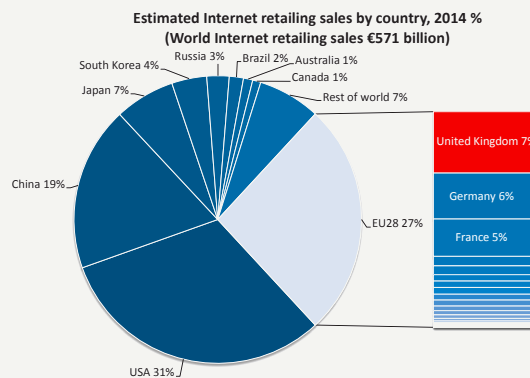
The scale and nature of innovation being generated by **online, store-based, and multichannel retailers** is making a significant contribution both to the competitiveness of the European economy as well as to the welfare of its consumers.

The digital economy has two kinds of impact. On the one hand, for retail and wholesale firms and for business management – whether online or multichannel – the digital economy brings opportunities and challenges for greater efficiency, transforms management and the business environment, stimulates new business models and trading formats, and creates new jobs with new skill requirements. On the other hand, consumers and customers are seeing even more price competition, greater convenience and new opportunities for cross-border purchasing.

The effects of the digital economy on retail and wholesale and on consumers are both direct and indirect, with direct effects in terms of immediate changes in retail and wholesale operations, and with indirect effects in terms of deeper transformations in consumer and customer purchasing behaviour and in job requirements and skills.

Investment in technology can be significant, leading to lower transaction costs, higher productivity, and the enhanced capacity for innovation and revenue growth for firms. European retailers and wholesalers of all sizes increasingly engage in the **development of e-commerce strategies**.

The average share of **online retailing** sales as a percentage of total retail sales across all European countries is estimated to reach 6.2% in 2014, accounting for €150 billion or 27% of all global online retailing sales in 2014, creating a market second only in size to the US. Penetration levels however differ across Member States, depending on the size of the market, consumption preferences and structural dissimilarities. European m-commerce sales were estimated at €14 billion in 2013. For Europe as a whole, most striking is the rapid growth in sales via tablet, which contributed an estimated 8% of all e-commerce sales in 2013. **Consumer-to-consumer (C2C) trading** platforms provide additional channels through which consumers can engage in e-commerce directly with each other. As a consequence, the value to logistics firms of deliveries arising from the C2C market in Europe was estimated at €2.1 billion in 2008, or around 5% of courier, express and parcel turnover across Europe.



For wholesaling firms, the development of IT has allowed for rationalization. It is estimated that two thirds of **business-to-business** firms saw their online sales growing faster than offline, with online customers having higher order values. The development of online selling creates an opportunity to enhance cross-border sales, although certain obstacles still remain such as costs of compliance, regulatory barriers, risks of fraud and non-payment, language differences, lack of trust in 'foreign' providers, different tax regulations, the higher costs of dispute resolution and restrictions by suppliers.

In terms of supply, the digital economy is having an impact on distribution schemes, driving innovations, such as home delivery and click-and-collect, as well as on retail stores, altering the demand for retail and wholesale property of particular types and in particular locations.

The growth of the digital economy also has significant implications for employment, both in terms of the total numbers employed in the retail and wholesale sectors, as well as the changing skills mix of that employment. It is suggested that there were **some 2.3 million jobs associated with e-commerce in 2013**.

Online consumer behaviour is key to understanding the ways in which the European digital economy will evolve. The average annual European **retail spending online** in 2014 is forecast to be **€296 per capita**, concealing some important variations between European countries, especially where consumers still encounter some reticence buying online.

The Internet influences consumer decision-making processes, including price transparency, as they can now research online and subsequently purchase offline, or research offline and purchase online. This is a major challenge for retailers. For example, **social media networks** play an increasingly critical role for retailers in **informing and targeting consumers**. As with any other social change, retailers and wholesalers are at the forefront of meeting the changing needs of a **highly dynamic marketplace**.

In conclusion

This report shows that retail and wholesale are very significant and dynamic contributors to the European economy and are going through profound transformation. Both sectors offer great potential for future job and wealth creation, as well as major benefits for consumers. This report aims to provide a better understanding that will contribute to public policy decision-making to provide an environment in which retailers and wholesalers can continue to thrive, compete, and innovate for the benefit of European citizens.

CHAPTER 1

1 Towards a better understanding of the retail and wholesale sectors

This chapter defines commerce, retail, and wholesale for the purposes of this report, and explains the underlying complexity of this dynamic marketplace. This report focuses on the economic contribution of the retail and wholesale sectors, while recognising that these sectors also play an important wider role in meeting the environmental and social challenges of today and tomorrow.

1.1 Commerce, retail, wholesale and distributive trades

The activity of **commerce**¹ consists of an exchange of products and services, usually for money. The origins of the term in English are from Com- (meaning together), and -merx, (from the Latin, meaning merchandise)². So critical is this concept of exchange that, more broadly, it has come to underlie the whole environment for business and provide the basis on which an economy is built.

The narrower, and more familiar, interpretation of commerce involves those elements of the value chain for goods and services that conclude with a customer or the end consumer, directly through a retailer or indirectly through another type of business, such as a restaurant or hotel. Historically, two broad sets of intermediary organisations have been responsible for such activities: wholesalers and retailers.

Wholesalers³ sell goods in large quantities to businesses, including hotels, caterers and others, as well as to **retailers**⁴ who sell to the public in relatively small quantities for use or consumption.

In practice, retail and wholesale cover all of the activities, functions, organisations, and institutions involved in trading goods and services starting from the producer, through a variety of stages, to the consumer. Lying behind both sectors is a large and very complex set of businesses, increasingly relying on global supply chains and requiring sophisticated transport and logistics solutions to operate successfully.

The European Commission views both retailing and wholesaling as key sectors: *“The retail and wholesale sectors have an essential role to play in stimulating growth and job creation [...] they*

*are among the key sectors that can drive the transition to both a more sustainable economy and consumption patterns.”*⁵

The **business models** of both retailers and wholesalers vary greatly, reflecting the wide variety of consumer and customer needs. There cannot be a single model for retail and wholesale development within a diverse marketplace such as the European Union. Moreover, in any market, retailers and wholesalers must also take account of the relevant political, social, and cultural aspects of that market. No single retailer or wholesaler can satisfy all consumer and customer requirements for products, locations, prices, offers, services, opening hours, and so on. Hence, there is a wide variety of ways for retailers and wholesalers to set up and trade.

Some firms will focus their **product assortment** on high value, niche markets, offering a wide choice of products within a defined range. Other firms will focus on low value, high volume markets and will often try to offer a limited choice of products (good, better, best) that cover a broad range of low and high value price-quality trade-offs. Similarly, a wide variety of forms of **ownership and management** successfully exists in the retail and wholesale sector. They can vary from independent family stores and wholesale outlets, to large public shareholder based multi-national corporations, employee partnerships, customer co-operatives, groups of independent retailers, venture capitalist buy-outs, and franchises. A range of **formats** also serves differing consumer and customer needs from large out-of-town stores and wholesale outlets, traditional High Street operations, small, local, convenience stores, as well as home delivery channels, through phone catalogues or online. Finally, pricing and service levels also constitute a way to vary the response to what the market wants. All these business models are viable in certain situations, although very different. We discuss the distinctive innovation that this represents in more detail later in this report.

1.1.1 Retail⁶

Retailing is one of any economy's most visible activities. Retailing refers to the sale of goods or services from companies to individual end-consumers.

In its Retail Market Monitoring Report, the Commission takes the following approach: “Retail services encompass a wide variety of forms (shops, electronic commerce, open markets, etc.), formats (from small shops to hypermar-

¹ Within the European Commission's industry standard classification system (NACE), commerce is classified statistically as Section G - distributive trades: Division G45 covers wholesaling and retailing of motor vehicles and motorcycles; Division G46 covers all other wholesale trade; Division G47 covers all other retail trade. This report focuses on the characteristics of the wholesale and retail trade (Divisions G46 & G47), but excludes motor vehicle sale and repair.

² *Oxford English Dictionary*. (2014) Oxford: Oxford University Press.

³ *Oxford English Dictionary*. (2014) Oxford: Oxford University Press.

⁴ *Oxford English Dictionary*. (2014) Oxford: Oxford University Press.

⁵ European Commission (2013) COM (2013) 36 final: *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Setting up a European Retail Action Plan*, Brussels, p. 3. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0036:FIN:EN:PDF>

⁶ NACE Division G47.

kets), products (food, non-food, prescription and over-the-counter drugs, etc.), legal structures (independent stores, groups of independent retailers, franchises, integrated groups, etc.), locations (urban/rural, city centre/suburbs, etc.).”⁷ Retail trading takes place in many different forms: from the very many small and independently-owned shops to multiple chain supermarkets, from large department stores to shopping centres, in markets, at consumers’ homes through direct or distant selling via mail.

Statistically, retailing is classified into the following categories; retail sales in non-specialised stores (mass grocery and general merchandise), retail sales in specialised stores (such as textiles, food, audio & video, books), retail sales of second-hand goods in stores, retail sales via stalls and markets, retail sales not in stores, stalls or markets, and retail sales via mail order houses or via Internet. **A retailer’s competitive capabilities derive from their ability to procure the range of goods that consumers will want to buy, and offer them in the right way, in the right location and at the right price.** Retailers usually buy their products in larger quantities from manufacturers or wholesalers and sell them in smaller quantities to their customers.

The competitive nature of retail makes it possible for different business models to co-exist from vertically integrated chains, to groups of independents, franchises, pure e-commerce players, independent shops, and purchasing alliances.

1.1.2 Wholesale⁸

Wholesalers act in their own right, or through brokers or agents, in **conducting the sale of merchandise to retailers or other professional businesses.** Wholesalers’ activities centre on the procurement and distribution of raw materials, finished products and goods of all kinds. They can buy and sell their merchandise on local markets or can import and export goods. Internationalising wholesalers moreover work to reduce the difficulty for smaller European firms in reaching less accessible markets.

Unlike retail, wholesale is less visible to the end consumer, but does therefore not lose its significance and importance within the economy. Wholesalers position themselves as intermediaries between producers and retailers or between producers and producers. The extent of this positioning and their role in the commerce sector has however varied through time as **wholesale has constantly adapted to a changing environment within the supply chain.**

More recently, upstream and downstream consolidation in the supply chain has put pressure on wholesalers by forcing them to reinvent

themselves in order to survive economically. Their role has varied from simple intermediaries between players of the supply chain, consisting of storage, procurement and physical distribution of products, to real “exchange facilitators between the producer and the customer”, by identifying their needs and by offering solutions⁹.

Increasingly, wholesalers also provide integrated business-to-business services (such as account management, sales and after-sale services, technical assistance, category management, logistics, and financial services) to their customers and may even be vertically integrated, owning or franchising a downstream retail network. Wholesalers seem to have grown from a ‘buying culture’ to a ‘selling culture’¹⁰. They draw their success from the co-creation of value with their business partners.

Kotler and Armstrong, state that “the only reason for [wholesalers] existence comes from adding value by increasing the efficiency and effectiveness of the entire marketing channel.”¹¹

Example

“Li & Fung adapted from a commercial agent role for the textile industry to a coordination role between supply networks of European and North-American clothing retailers. Li & Fung also integrates all the logistics processes, the supply of raw materials and the dispatching of production activities in the diverse factories, as well as the control of production operations, logistic bulking, settlement of customs duties and developing local delivery solutions.”¹²

1.2 Interactions between retail and wholesale firms

The retail and wholesale sector in Europe today is the result of many significant developments that have driven economic growth. With each step change in development the mass consumer has become more influential. The information technology revolution enables retailers, wholesalers, and manufacturers to become

⁷ European Commission (2010) COM (2010) 355 final: Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Retail market monitoring report “Towards more efficient and fairer retail services in the internal market for 2020”, Brussels, p. 2. http://ec.europa.eu/internal_market/retail/docs/monitoring_report_en.pdf

⁸ NACE Division G46.

⁹ Giraud, L. and Pardo, C. (2012) *Les fonctions commerciales au cœur de l'évolution des intermédiaires du BtoB? Une étude exploratoire.* Management & Avenir, 51 (1), Cormelles-le-Royal: Management Prospective Ed., p. 180. (EuroCommerce informal translation)

¹⁰ Giraud, L. and Pardo, C. (2012) *Les fonctions commerciales au cœur de l'évolution des intermédiaires du BtoB? Une étude exploratoire.* Management & Avenir, 51 (1), Cormelles-le-Royal: Management Prospective Ed., p. 171. (EuroCommerce informal translation)

¹¹ Kotler, P. and Armstrong, G. (2010) *Principles of Marketing.* 13th ed., New Jersey: Pearson Education, p. 417.

¹² Gadde L. (2012) *La dynamique des réseaux de distribution: implications pour les intermédiaires.* Management & Avenir, 51 (1), Cormelles-le-Royal: Management Prospective Ed., p. 149-150.

more integrated at a scale that offers consumers greater access to even more new products, even cheaper products, and through even more channels and formats.

Through these developments, the modern retail and wholesale sectors have been able to drive efficiencies through economies of scale and integration while staying focused on local consumers, and so contribute to the overall European economy.

As mentioned above, retailers and wholesalers play a specific role in the supply chain in which they operate. Each of their services adds value to the process. The nature of the relationship between retailers and wholesalers has however evolved over time. The success of the distribution chain depends on good collaboration and the co-ordination of activities between producer, wholesaler and retailer, each one of them being dependent on each other's services and added value. It is about joint value creation.

The continuous adjustment to developing consumer needs, coupled with a drive for efficiency gains and the need for differentiation, means that over time, **the distinction between wholesale, retail, as well as the relationship with manufacturing firms has become increasingly blurred**¹³.

Retailers may integrate wholesale activities, even if only bringing them in house for the benefit of their own organisation. Most major retailers will carry out their own group buying activities, and centrally co-ordinate the distribution to their stores. Some organisations even have separate retail and wholesale arms working under one corporate concern.

Some retailers also integrate the manufacturing process. For example, the fashion retailer Zara will design, manufacture, and distribute their own products to their stores, while other retailers, such as IKEA, may design and distribute their own products, while the manufacture is mainly outsourced. Today, many grocery retailers will source their own private label products and offer them to the consumer alongside manufacturer branded products¹⁴.

Example

Twenty years ago, Apple derived most of its revenue from designing and manufacturing electronic devices, particularly computers. Today, Apple drives most of its revenue from retailing apps, music, and other digital content through its iTunes digital store. The manufactured products, particularly the iPhone and iPad, provide the channel for the retailing activity. Manufacturing design is still at the core of Apple's success

but retail is providing the added value and profitability.

In the other direction, manufacturers may extend their activities¹⁵ to include wholesale and retail activities.

Example

Among the many examples on the High Street today are the mobile telecom product companies, such as Nokia, who have opened stores alongside independent mobile telecom retailers, such as Carphone Warehouse. Similarly, food manufacturer Nestlé has opened Nespresso stores to distribute their coffee and accessories.

As well as differences in the degree of vertical integration, individual retail and wholesale firms are also different in the extent of their horizontal integration. For example, independent retailers that are part of a group remain in competition with one another.

1.3 Wider benefits for society

While this report does not look at the contribution of the retail and wholesale sectors from the perspective of environmental and social challenges, it is worth noting that many retailers and wholesalers are carrying out a lot of work in the areas of climate change, including through commitments on reducing energy, waste, and water consumption. Retailers and wholesalers also focus on areas such as fair pay, community, health, animal welfare, and charity. Such concerns are quite naturally embedded in this consumer-facing, locally-based sector.

On the one hand, many of these issues have a direct benefit for the retail business that can be passed on to the consumer through lower prices in this highly competitive market. For example, this is achieved through cutting costs by saving energy, reducing waste, and conserving water.

On the other hand, it is a requirement of any retailer or wholesaler to be socially responsible in terms of building consumer trust in the brand. The sector is working both at the local level, for example through sponsoring community activities, supporting local charities, or prompting health initiatives, as well as at a global level, working on climate change initiatives, and building global partnerships to develop social, welfare and labour standards. Retailers and wholesalers are so embedded and connected to society that they cannot ignore the demands of both consumers and electors.

¹³ Creusen, H. et al. (2008) *Static efficiency in Dutch supermarket chain*. The Hague: CPB Netherlands Bureau for Economic Policy Analysis.

¹⁴ Kumar, N. and Steenkamp, J.B.E.M. (2007) *Private label strategy: how to meet the store brand challenge*. Harvard Business Press.

¹⁵ Nielsen, J. (2000) *Wholesale Trade Services*. Paris: OECD.



Key findings

- Commerce consists of an exchange of products and services, usually for money. Wholesalers sell goods in large quantities to businesses, including hotels, caterers and others, as well as to retailers who sell to the public in relatively small quantities for use or consumption.
- The business models of both retailers and wholesalers vary greatly, reflecting the wide variety of consumer and customer needs.
- A retailer's competitive capabilities derive from its superior ability to procure the range of goods that consumers will want to buy, and offer them in the right way, at the right location, at the right price.
- Wholesalers act in their own right, or through brokers or agents, in conducting the sale of merchandise to retailers and other professional businesses.
- Over time, the distinction between wholesale, retail, as well as the relationship with manufacturing firms is increasingly blurred.
- Commerce increasingly relies on global supply chains requiring sophisticated transport and logistics solutions to operate successfully.
- Players of the supply chain must ensure good collaboration and coordination of activities between producer, wholesaler and retailer, each one of them being dependent on each other's services and added value.
- Retailers and wholesalers must be aware of all consumer requirements, including meeting environmental and social concerns.

CHAPTER 2

2 The contribution and rich diversity of commerce in Europe

This chapter explains the rich diversity of the retail and wholesale sectors. Across a vast number of firms, there is great variation in size, turnover, and specialism.

2.1 Number of enterprises

Retail and wholesale enterprises are hugely important in the European economy, accounting in 2011 for 5.4 million businesses, of which two thirds operate in retail (3.6 million businesses) and one third in wholesale (1.8 million businesses), overall comprising over 22% of all active non-financial business enterprises¹⁶.

The number of active enterprises in retail and wholesale is twice that in manufacturing, three times that in hotels and restaurants and 1.5 times that in construction¹⁷. While it is difficult to directly compare the number of farming enterprises in the EU due to the different method of data collection, the number of retail and wholesale businesses is about half of that of working farms (estimated 12 million); however, half of those farms are below 2 hectares and reflect a part-time activity.^{18,19}

2.2 Size of enterprises

The vast majority of retail and wholesale businesses are Small and Medium sized Enterprises (SMEs)²⁰, representing as many as 30% of all European SMEs across all sectors. Most of these (94% of all retail and wholesale enterprises) are micro businesses, employing an average of just 2 people.

Retailing in particular is essentially a local business and barriers to entry for small shops are comparatively low. Hence, more than 95% of retail businesses are micro businesses, employing less than 10 people. The comparable figure for wholesale micro firms is 90%. There is a relatively larger proportion of SMEs (10-249 employed) in **wholesale** (10.1% of wholesale companies versus 4.8% of retail firms). SMEs potentially provide a rich source of innovation (see Chapter 6 and 7 for more details), as they may have more flexibility to respond to the local market based on more knowledge about local customer needs and desires. They can also play a major role in differentiating city centres by providing that local difference.

Active enterprises in selected economic sectors, 2010

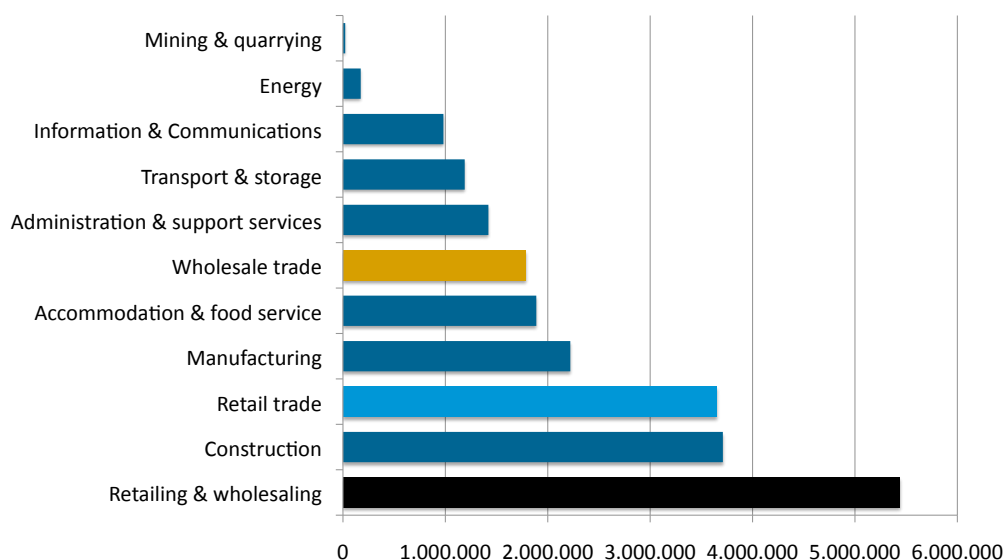


Figure 1
Active enterprises in selected economic sectors, EU27, 2010.
Source: Eurostat, 2013.

¹⁶ The non-financial business economy includes the sectors of industry, construction and distributive trades and services and refers to economic activities covered by Sections B to J and L to N including S95 of NACE Rev. 2, Eurostat.

¹⁷ Eurostat, Structural Business Statistics (2010).

¹⁸ Eurostat, Structural Business Statistics (2010).

¹⁹ Note that there are 6.2 million farms above 2 hectares and 6 million farms of less than 2 hectares, two-thirds of which are in one country (Romania), Eurostat (2010).

²⁰ Small and Medium sized Enterprises employ less than 250 people.

Despite the perception that retail in particular is characterised by large businesses, in fact, only a small percentage (0.1%) of all European retail and wholesale enterprises are large. There are approximately 4,000 large retail firms, employing 250 or more persons within the EU27, and almost 3,000 large wholesale firms, including some of the largest companies in Europe. Large retail firms employ an average of almost 2,000 people, with a few employing over 200,000. Large wholesale firms employ an average of almost 700 people, with a few employing over 10,000 people.

2.3 Sales turnover

Within the EU, the retail and wholesale sectors combined had a turnover of €8.3 trillion in 2011. Commerce generated 20% more sales than in manufacturing, three times more than the construction sector and more than seven times that in the information and communications sector.

Turnover in the EU27 **retail** sector was valued at €2.6 trillion in 2011. **Wholesale** trade turnover was €5.7 trillion. By the very nature of retailing and wholesaling as resellers of other firms' goods as well as of their own goods and services, every firm produces a relatively high level of turnover for its size compared to firms in other sectors. This is particularly true of wholesaling due to the nature of the business with its focus on aggregate buying. 72% of the turnover in wholesale is achieved by SMEs and 53% of the turnover in retail is achieved by SMEs.²²

	Retail	Wholesale	Total	%
Micro	3,467.6	1,606.8	5,074.4	93.4%
Small/ medium-sized	174.0	180.4	354.4	6.5%
Large	4.0	2.9*	6.9	0.1%
Total	3,645.7	1,790.1	5,435.7	100%

Figure 2
Number of firms (thousands) within the EU by size of firm²¹
Source: Eurostat 2011, EU27.
*derived from Eurostat 2010.

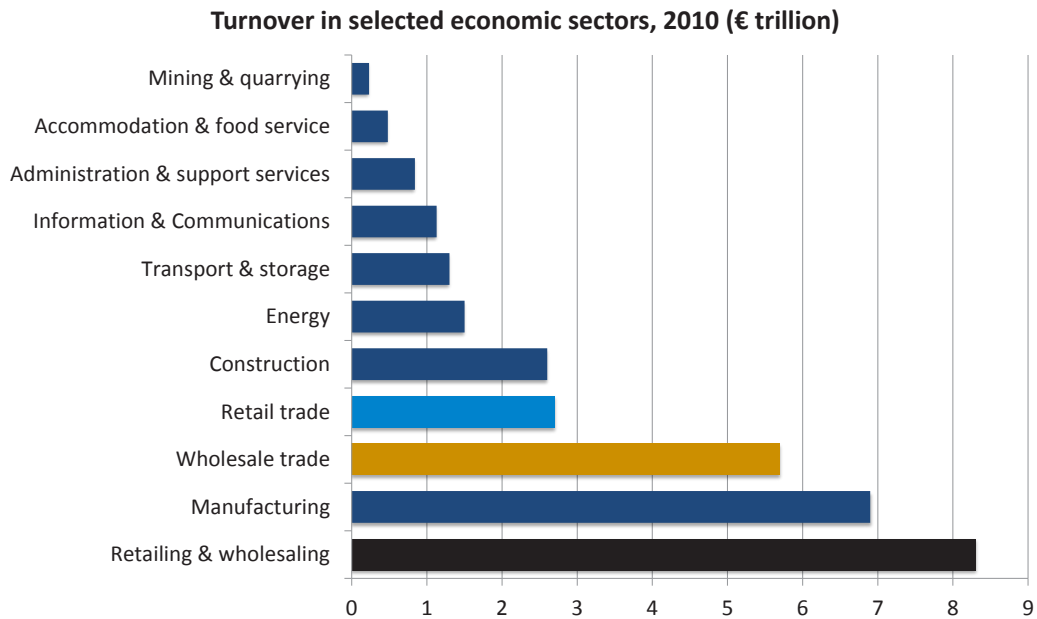


Figure 3
Turnover in selected economic sectors, EU27. Source: Eurostat, 2011.

²¹ Eurostat definitions of size of firms are as follows: Micro (0-9 persons employed); Small (10-49); Medium (50-249); Large (250+).

²² Eurostat (2010).

Figure 4 shows that growth in the retail and wholesale sector largely reflects activity within the wider economy. Retail and wholesale trades in total are more robust when it comes to economic challenges in the wider economy, and are not as susceptible to economic downturn as the other distributive trade of motor vehicles and motor cycles.²³ This is due to the different nature of different products. It is not only possible to put off large purchases, such as a new car, but such purchases also have the most impact on the consumers. At the other extreme, a consumer must eat, and food does not cost so much. It should also be noted that there are variations across Member States based on cultural habits and priorities.

The analysis of 23 EU Member States, (excluding Greece, Luxembourg, Malta, Croatia and Finland), shows that **general in-store retailing** through hypermarkets, supermarkets, convenience, and department stores, generated 41% of turnover in the retail sector, while all other stores, known as **specialised store-based retailing, generated 54%, and non-store retailing, including online and catalogues, accounted for the remaining 5%**²⁴. With the development of multichannel retailing, this type of analysis offers less and less insight as new offerings, such as 'click and collect', cut across channels and cannot be attributed solely to store or non-store channels²⁵.

There are however different mixes of generalist and specialist stores²⁶ across European countries, reflecting different consumer and electoral choices. The turnover share in specialised store-based retailing was highest in Austria, the Netherlands and Bulgaria at almost 66%, whilst the turnover share of retail generalists was highest in Croatia at 57%, Finland at 55%, and the UK at just over 53% of sales.

These differences are partly attributable to consumer preferences, but also to other external issues, such as planning policies, transport access to town centres, geographical constraints, and population densities. This split between retail generalists and specialists demonstrates that neither generalists nor specialists are dominant in any market, even though variations exist. Moreover, both generalists and specialists range from small family operations, such as a convenience store or boutique fashion retailer, to large global brands, such as a hypermarket or department store operator.

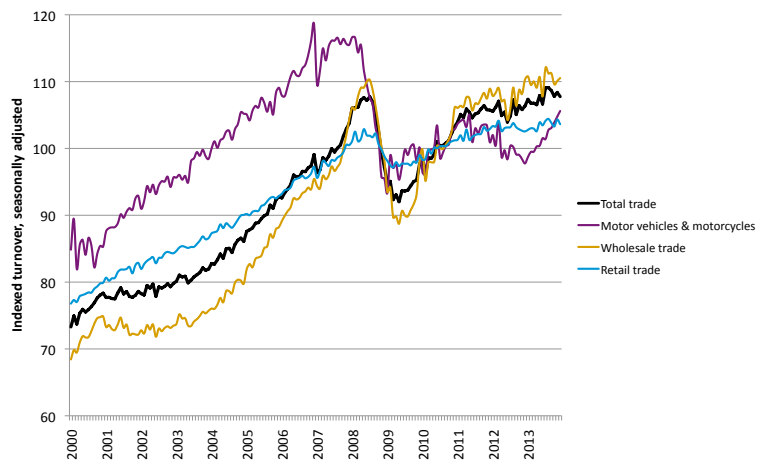


Figure 4
Retail and wholesale trade turnover since 2000, Eurostat, 2013.



Figure 5
The role of retail generalists versus specialists in European countries (selected countries), Eurostat, 2011. (Note: excludes sales through market stalls and non-store retailing)

²³ Eurostat (2013) *Retail trade volume index overview*. http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Retail_trade_volume_index_overview

²⁴ Eurostat (2010).

²⁵ For more details see Chapter 7.

²⁶ Specialist stores focus on one main category of products. For example, a bookstore or pharmacy. Generalist stores offer many different product categories, such as department stores, supermarkets, and variety stores.



Key findings

- The retail and wholesale sectors are a huge sector in the European economy: 5.5 million enterprises generating a combined turnover of €8.3 trillion.
- The retail and wholesale sectors are dominated by Small and Medium sized Enterprises. Retail sales turnover is mainly split between large firms and micro firms, reflecting the twin challenges of efficiency through scale and meeting local demand. Wholesalers have a higher proportion of sales through small and medium sized firms.
- By the very nature of retailing and wholesaling, every firm produces a relatively high level of turnover for its size compared to firms in other sectors.
- There are wide differences across countries in terms of the retail mix between generalist stores and specialist stores. These are attributable to consumer preferences, and other external issues, such as planning policies, transport access to town centres, geographical constraints, and population densities.

CHAPTER 3

3 Employment in the European retail and wholesale sectors

This chapter will cover the number of people employed in the retail and wholesale sectors, as well as comparisons to other sectors. The diversity of employment is highlighted, by size of firm, demographics, type of employment, wages, and skills.

3.1 Level of employment

In 2011, 29 million Europeans were employed in retailing and wholesaling, making a substantial contribution comprising 13% of the European labour force.

Retailing and wholesaling are not only important in terms of the absolute size of the workforce employed, but also in the wide variety of jobs provided, in terms of functions, skill levels, employment status and career opportunities.

The list of typical professions employed by commerce firms ranges from - in retailing - less skilled service workers, such as general shop assistants, clerks or delivery drivers, to more professional occupations in craft trade, food technology, buying and merchandising or in the supply chain. Employees may work in a local store or a global distribution centre. In wholesaling, they may be account or sales managers, procurement professionals, employed in warehouses or distribution centres. They may be specialists working in supply chain, quality assurance or network analysis. They may be temporary or part-time workers or directors of a retail or wholesale microbusiness.

Retail and wholesale companies employ people with no qualifications to PhDs, from the very young, perhaps even in advance of leaving school, to more mature workers, who wish to re-join the labour market after maternity leave, raising a family, or completing a career elsewhere. Opportunities for advancement are high with new entrants at all levels of an organisation.

More recently, both the wholesale and retail sectors have sought to employ an increasing number of employees in e-business occupations as they restructure their operations to reflect the changing demands of the digital economy: ranging from web developers to social media specialists and from digital marketing to new business development managers.

3.2 Comparison to other sectors

Retailing is Europe's largest sub-sector of economic activity in employment terms, providing 18.6 million jobs in Europe, equivalent to 8.4% of the total European workforce. **Wholesaling** provides 10.5 million jobs, accounting for 4.6% of the total European workforce.²⁷

When combined, the jobs provided by the two sectors are almost equivalent to the total number of jobs in the European manufacturing sector.

At 13% of all employment across Europe, the 29 million people who work in both sectors provide twelve times as many jobs as in automotive manufacturing, six times as many as in the food industry, five times as many as in the financial services sector, four times the IT sector, two and a half times as many people as formally employed in agriculture²⁸, and more than all the people employed in health and social services combined within Europe.

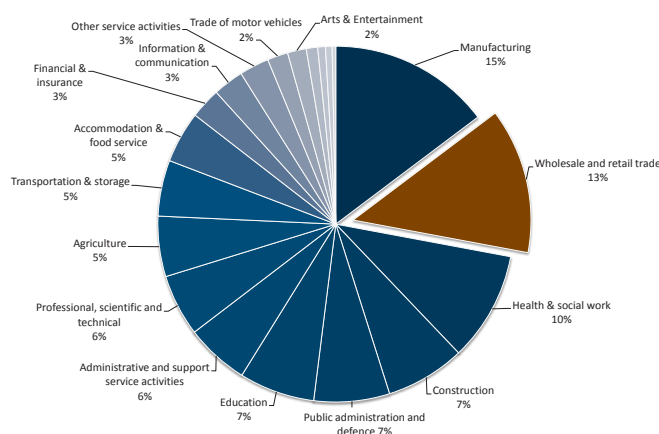


Figure 6
Employment in European retailing & wholesaling by comparison with other sectors, 2011.
Source: Eurostat national accounts, EU27.

²⁸ This comparison is based on Eurostat's estimate of those formally employed in agriculture (12.1 million), which severely underestimates those engaged in farm work. As in retailing, employment in agriculture is difficult to calculate precisely, given the significant number of family members as well as of temporary and seasonal workers who are engaged in farm work. The Farm Structure Survey estimates that 25 million persons were 'regularly engaged' in farm work in EU27 in 2010. However, this is estimated to be equivalent to some 9.8 million FTE (full-time equivalent) jobs. Family members represented 77% of this total. http://ec.europa.eu/agriculture/rural-area-economics/briefs/pdf/08_en.pdf. Treating full-time and part-time employment in retailing, wholesaling and motor vehicle sales on the same basis (even excluding the 5 million people reporting self-employment) generates 24.5 million FTE jobs in 2012, some 2.5 times the FTE equivalent in agriculture.

There are wide variations in the percentage of national workforces employed within the retail and wholesale sector by country, from just over 10% in Finland to over 18% in Greece. These largely reflect the relative importance of other sectors for each country's economic activity, including for example the degree of efficiency of various sectors, cultural differences and competitive advantages.

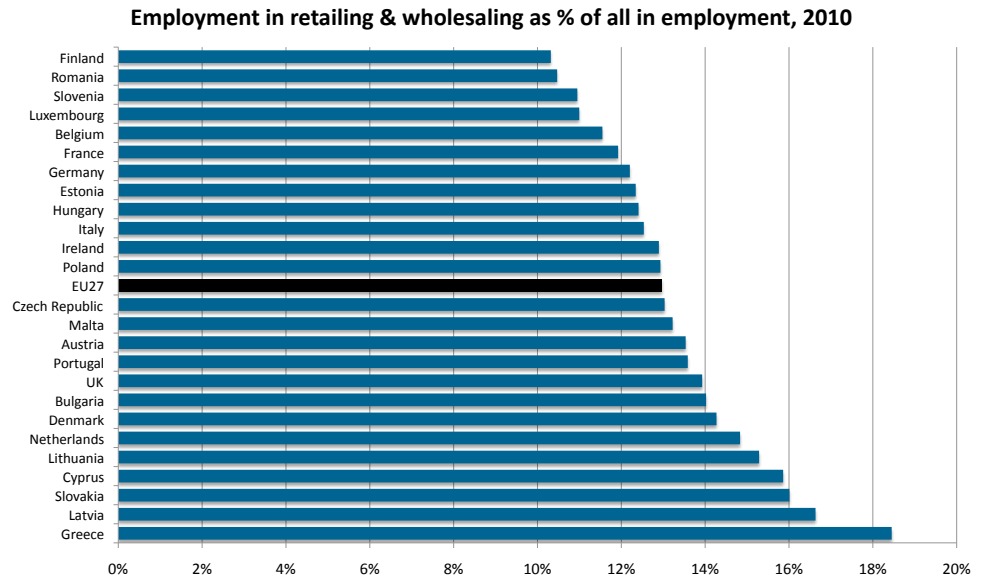


Figure 7
Total employment in retailing & wholesaling as % of all employees (selected countries), 2010.
Source: Eurostat national accounts, 2010.

3.3 Employment by size of firm

Almost two thirds of retail and wholesale employees work in organisations classified as SMEs; 63% of these are in retail SMEs and 81% in wholesale SMEs.

For **retailing**, figure 8 shows that large retail firms (employing 250 or more persons) employ 37% of the retail workforce, although this varies from 69% in the UK to 9% in Bulgaria. These figures show that besides the importance of the multiple supermarket brands, there is also room for diverse forms of commerce and, in particular, SMEs and micro businesses (38% of retail employment).

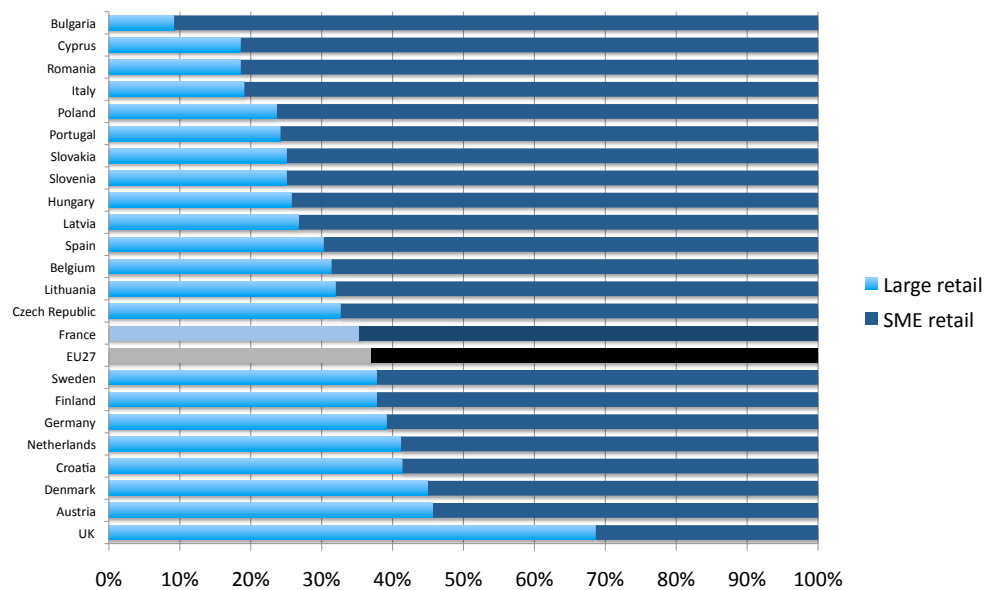


Figure 8
Employment in the retail sector, by company size (selected countries).
Source: Eurostat, 2010. Note: SME defined as fewer than 250 employees.

For **wholesaling**, figure 9 shows that on average large firms in the EU27 employ a smaller 19% of the workforce, although this varies from 33% in the UK to 4% in Latvia. However, this distribution conceals the greater proportion than in retailing of small and medium-sized wholesale firms that employ between 10 and 249 employees - with 49.5% of employment in wholesale as against 24.7% in retail.

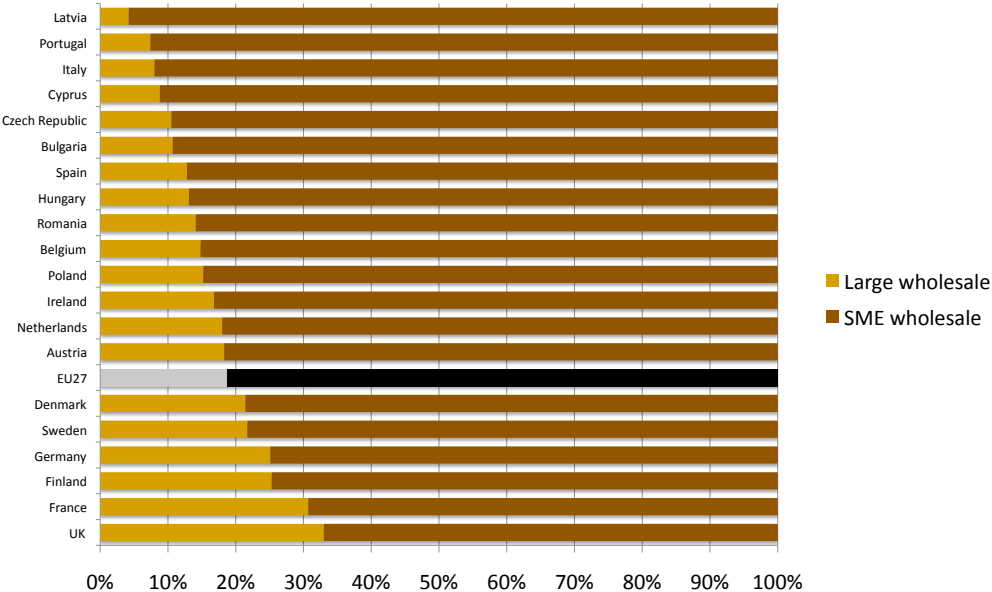


Figure 9
 Employment in the wholesale sector, by company size (selected countries). Source: Eurostat, 2010.
 Note: SME defined as fewer than 250 employees.

3.4 Diversity of employment across demographics

Retailing and wholesaling offer greater diversity in employment in terms of gender, age and profile than the European economy as a whole.

Whilst the commerce sector overall was evenly balanced in its **employment of men and women** in 2012, it employs proportionally more women than the European economy average. Retail and wholesale do not show the same trends as two in three retail employees are women, as against one in three employees in wholesaling. This is partly due to the more flexible employment opportunities offered by retailers through part-time employment, allowing for other non-professional responsibilities to be incorporated in a day.²⁹

Firms in the commerce sector, but particularly retail firms, are often 'gateway' employers in that they employ many **younger people**, often those entering the labour market for the first time. In 2012, 17% of the 15 to 24 years olds employed in the European economy (18.7 million) worked for retailers and 3% for wholesalers. 15 to 24 year-olds represent 16% of retail employment and 7% of wholesale employment, against a 9% EU average.

The proportion of young people employed in retailing and wholesaling however varies across Member States. Figures show a relatively high proportion of young people employed in retailing with 48% in Denmark and 44% Netherlands in 2012.³⁰ As a result, the retailing sector has a much younger profile overall than for employment as a whole across the EU27.

Retailing also offers opportunities for people in **older age groups, providing a mechanism for bringing people back into the workplace.**³¹ The high service levels required in many parts of the sector is an attractive fit for those with greater experience and social skills. The proportion of older workers within the European retail sector grew from 19.3% in 2001 to 20.9% in 2010 overall, mainly due to an increase among older women employed (from 18.3% in 2001 to 20.7% in 2010). However, it is difficult to generalise as the share of workers aged over 50 years in the retail sector varies widely across EU countries.

Wholesale displays a slightly different profile with a majority of workers between 35 and 49 years old (45%), whilst older workers are slightly under-represented (21%) compared to EU average of 26%.³²

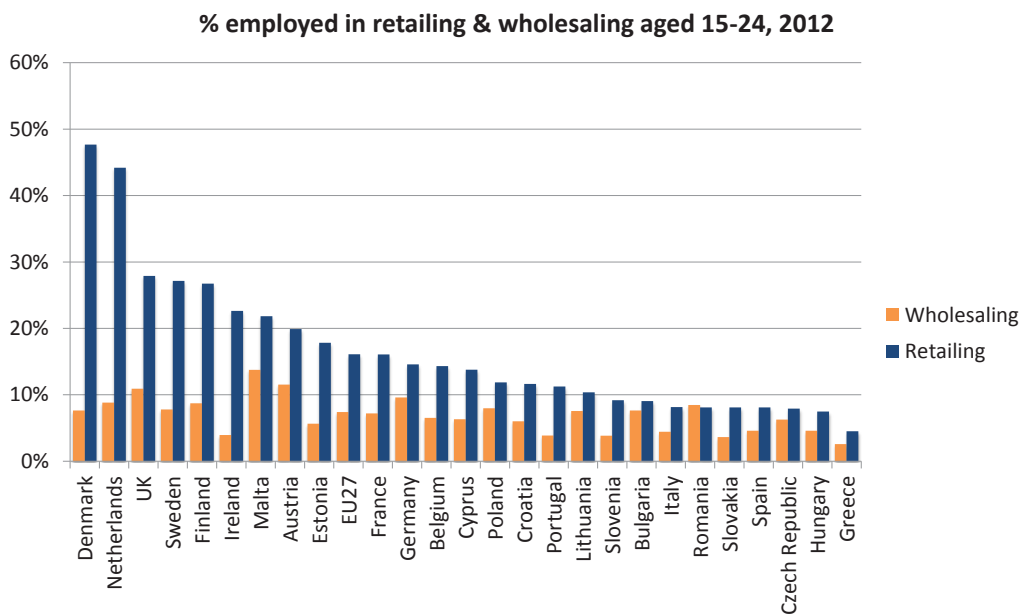


Figure 10
15-24 year-olds employed in retailing and wholesaling as % of all employees (selected countries), 2012.
Source: Eurostat, Labour Force Survey, 2012.
Note: Netherlands data for 2011; 15-24 year-olds as a % of 15-64 year-olds.

²⁹ European Foundation for the Improvement of Living and Working Conditions (2012).

³⁰ Denmark: Eurostat (2012). The Netherlands: Eurostat (2011).

³¹ European Foundation for the Improvement of Living and Working Conditions (2012).

³² European Foundation for the Improvement of Living and Working Conditions (2014) *Wholesale sector: Working conditions and job quality*. EuroFound Working Conditions Survey, Dublin.

3.5 Diverse forms of employment

Retailing and wholesaling provide an extraordinary variety of employment opportunities in terms of engagement: part-time, full-time; temporary, permanent and self-employed. The vast majority (77%) of retail and wholesale employees are full-time, broadly comparable to levels in the economy as a whole. The figure below however hides wide differences between the retail and the wholesale sector.

With the European average for **part-time** staff working in commerce³³ at only 23%, this form of employment is nevertheless an important contributor to flexible European labour markets. Such jobs may suit particular lifestyles that require more adaptable working conditions, such as students, and parents with children or other caring responsibilities, and the sectors offer many such opportunities.

According to Eurofound's working conditions survey,³⁴ nearly 26% of retail workers are working part-time,³⁵ which is above EU 28 average. 40% of these are women and 17% are men compared to an EU average of 38% and 12% respectively for women and men. On the other hand, part-time work is less prevalent in the wholesale sector (12%) as compared to the EU 28 average. 26% of wholesale part-time workers are women and 6% of them are men.

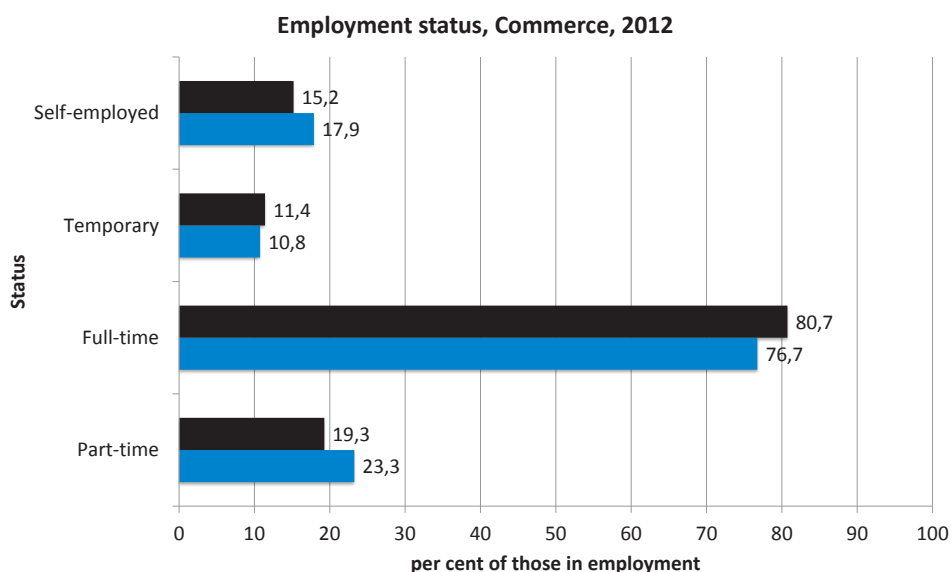


Figure 11

Employment status in commerce by comparison with the European economy, 2012.

Source: Eurostat, European Labour Force Survey, 2012. Note: NACE G

³³ including sales and repair of motor vehicles as well as retailing and wholesaling

³⁴ on working conditions and job quality in the retail sector

³⁵ working 34 hours or less compared

Distributive trades: employment status by country, 2012

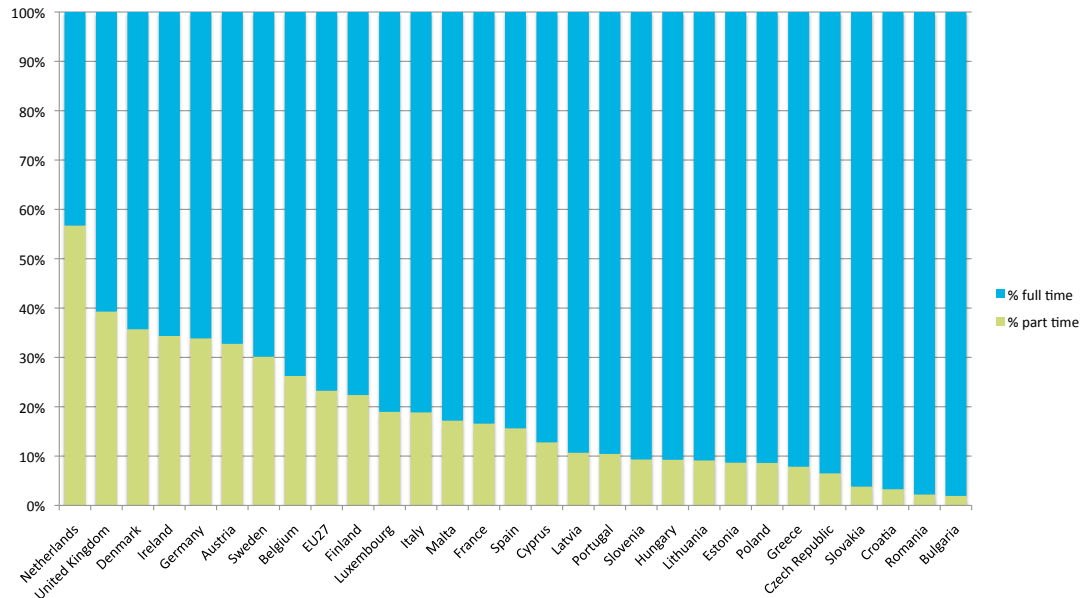


Figure 12

Distributive trades (NACE G): employment status by country.

Source: Eurostat. European Labour Force Survey, 2012.

(Data for employment in wholesale and retail trade; repair of motor vehicles and motorcycles.)

There are differences between countries in respect of employment status. **Part-time working** across the distributive trades is higher than 50% in the Netherlands and above 30% in five other EU countries. By contrast, the highest proportions of full-time workers are found in Bulgaria, Romania, Croatia and Slovakia. An explanation for the latter, it is suggested, lies in the difficulty that commerce firms in these countries have in securing skilled labour, forcing them to reduce the share of part-time work.³⁶ These differences reflect both structural and cultural differences in those countries, together with regulatory variations in employment legislation that sometimes make full-time or part-time employment more operationally attractive to firms, regardless of lifestyle preferences. For example, the retail employment mix differs substantially between France and the UK, reflecting the regulation of French employment conditions, which operationally favour full-time employment, or 'extended' part-time hours. Within the UK, 84% of part-time workers in retail combine their jobs with other commitments, such as studying or caring, or are enabled to remain in the labour force despite illness or disability.³⁷

There is considerable debate about the ability of part-time workers in all sectors to move into full-time or more permanent roles. Although there is no Europe-wide data on this issue, some Member States ensure through law and collective bargaining that employers, including those in commerce, must give preference to existing part-time workers when recruiting to full-time posts.³⁸

Part-time working appears to be a choice, allowing for a better equilibrium between private and professional life. 82% of part-time employees in

French retailing were satisfied with their working hours.³⁹ This figure of 82% has increased by 8% since 2009. The survey also reveals that two thirds of those part-time employees do not desire an increase of their working hours.

Temporary workers comprised 10.8% of those engaged in European retailing and wholesaling in 2012. This was less than the 11.4% engaged in the overall European economy in 2012. Fixed term and temporary agency contracts are at least as, or more, prevalent in retail (13% and 1.5% respectively) than the EU average (11% and 1.5% respectively) as a whole, and within retail among women. The wholesale sector shows a different profile with a lower prevalence of fixed term contracts (7%) but a slightly higher level of temporary agency contracts (1.8%) than EU average.⁴⁰

Some temporary employment in the retail sector is seasonal, given the high concentration of sales in the fourth quarter of the year. For example, in the US retail employers typically take on between 600-750,000 temporary employees in the period between Thanksgiving and Christmas. However, this is still less than 4% of all employees. There are no equivalent estimates for Europe. But judicious balance between temporary and part-time workers more generally improves efficiency and productivity allowing businesses to adapt to short-term changes in demand.⁴¹ There are several benefits for employees to working on a tempo-

³⁶ European Foundation for the Improvement of Living and Working Conditions (2012).

³⁷ British Retail Consortium (2011).

³⁸ European Foundation for the Improvement of Living and Working Conditions (2012).

³⁹ Fédération des Entreprises du Commerce et de la Distribution (2014) *Le temps partiel dans la grande distribution*. 20 January <http://www.fcd-leblog.fr/le-temps-partiel-dans-la-grande-distribution>

⁴⁰ European Foundation for the Improvement of Living and Working Conditions (2014) Retail sector: Working conditions and job quality. EuroFound Working Conditions Survey, Dublin.

⁴¹ Jany-Catrice, F. and Lehndorff, S. (2005) Work organisation and the importance of labour markets in the European retail trade. In: *Working in the service sector – a tale from different worlds*. London: Routledge, pp. 211-236. And Cerruti, G. (2010) *Lavorare al tempo del cliente nel post-fordismo [Working at the customer's pace in post-Fordism]*. Milan: Angeli.

rary basis in either sector: it may genuinely reflect workers' preferences for a more flexible working regime in the context of their other commitments; provide an easier means to enter the labour market whilst gaining work experience; and allow both parties to evaluate their potential for and interest in more permanent employment.

The commerce sector is also an important source of **self-employment**, comprising 5 million individuals, or 17.9% of those employed in 2012, compared with 15.2% in the European economy as a whole and 26.8% in construction where self-employment is highest. Self-employment is relatively prevalent in retail with 7% being self-employed with employees (EU average 4%) and 15% self-employed without employees (EU average 11%). Self-employment without employees is less prevalent in wholesale (8%).⁴² In Greece, Spain and Italy, the proportion of self-employed of all those employed in commerce is higher than 20%.

3.6 Wages and salaries

Retailing in the EU27 had a relatively low average cost of labour of €19,400 per employee compared to wholesaling of €36,000 in 2010.

Compared with other sectors, the retail and wholesale sector generally pays more per hour than accommodation and food services, as well as administrative and support services.

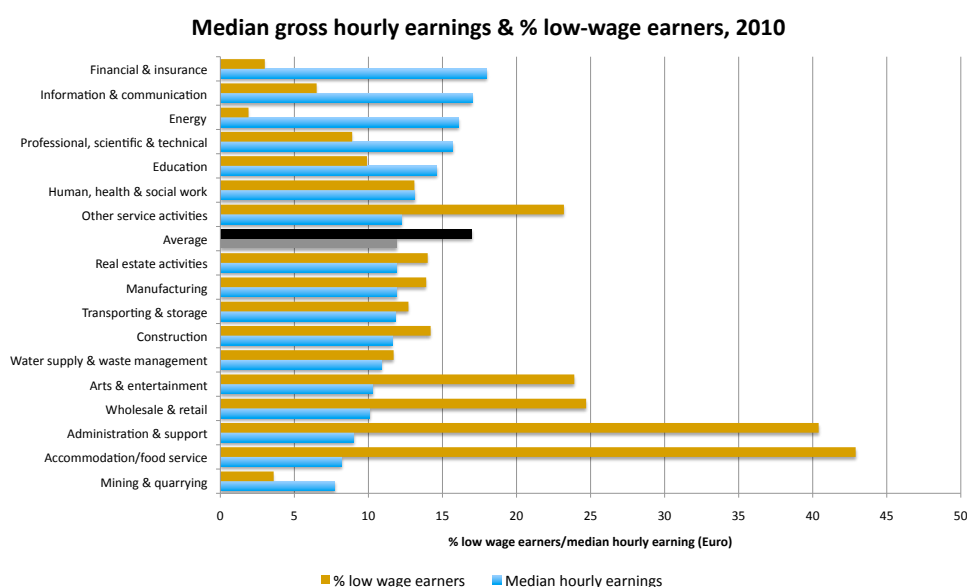


Figure 13

EU median gross hourly earnings (Euro) and proportion of low-wage earners (%), by economic activity, 2010. Source: Eurostat, 2010.

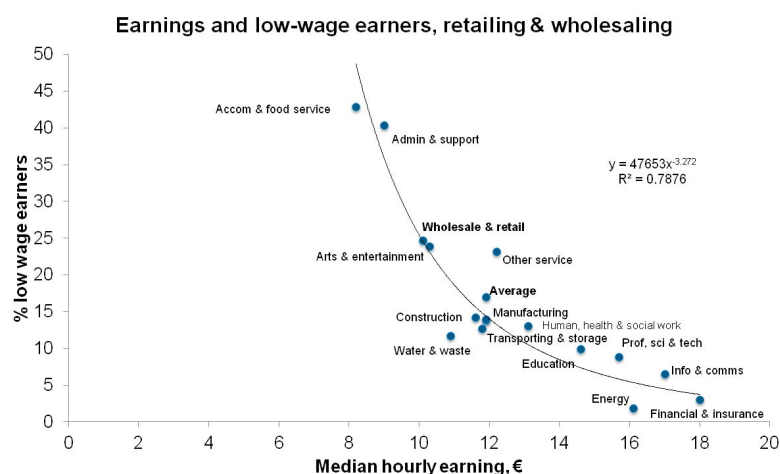


Figure 14

The relationship between median earnings and the proportion of low wage earners. Source: Eurostat, 2010. (Excluding mining and quarrying, as an outlier).

42 European Foundation for the Improvement of Living and Working Conditions (2014) Wholesale sector: Working conditions and job quality. EuroFound Working Conditions Survey, Dublin.

However, these absolute figures are deceptive, as the nature of the work in different sectors is more or less labour intensive. In the service sector, there is a greater need for a large number of employees carrying out lower skilled work activities. Such employees are less well paid across all sectors. Data developed by Eurofound confirms that earnings in retail may be slightly below EU average but when adjusted to the structural characteristics of the sector (age, skills, etc.), the difference with the EU average is less significant. Workers in wholesale on the other hand have slightly higher earnings than the EU 28 average.⁴³

When taking account of the proportion of low-wage earners within the sector, it becomes clear that the retail and wholesale sector fits the expected relationship curve for all sectors – and actually pays slightly above the expected median hourly wage on this basis.

3.7 Skills, trainings and career progression

The professionalisation of both retail and wholesale enterprises over the last thirty years has accompanied a growing recognition of the importance of more extensive and better-targeted recruitment mechanisms and the clearer identification of skills gaps. The European Commission observed in 2006 that *“the share of low educated workers (in retailing and wholesaling) is decreasing and the trend of up-skilling will continue in the coming years.”*⁴⁴

Eurofound⁴⁵ research shows that retail performs relatively well compared to other sectors in terms of skills mismatch, with 8% of workers considering they are underskilled, 56% of workers considering their skills match their task requirements, and 36% of workers considering they are overskilled for the job they perform. For wholesale, this equates to 10% underskilled workers, 58% of skills match, and 32% over-skilled workers. The pattern is more or less the same across different age groups, but across all sectors younger workers are slightly more likely to report being under-skilled.

While comprehensive European data is unavailable, data from the UK National Employer Skills Survey (NESS) 2009,⁴⁶ shows that retail and wholesale was the third largest sector in terms of absolute spending on training, behind business services as well as health and social work, accounting for 12% of the total training expenditure in the UK. On an individual basis, the retail sector spent £1,275 per employee on training.

That is slightly more than the manufacturing sector, which spent £1,200 per employee and slightly less than the electricity, gas, and water supply sector, which spent £1,375 per employee. At the European level, the European Skills Council coordinates research on improving the level and quality of education, skills and employment in the retail and wholesale sectors and on anticipating the future skills needs and labour shortages.

The range of skills used in the wholesale and retail sectors has varied and generally increased in level as the nature of the sector and its environment changed over time, particularly with the increasing influence of digital technologies. In wholesaling, “traditional skills are for instance skills in managing inventories for both supplier and use, negotiating and handling orders, managing buying and selling relationships with many users and suppliers, provide credit to users and finance to suppliers, as well as skills in logistics. New technological resources may also appear such as skills in designing products and production methods.”⁴⁷ As the nature of wholesale evolved, a need for new skills emerged, such as after-sales service skills, expertise and information skills or marketing skills.⁴⁸

The range of skills required in both retail and wholesale is highly impacted by competitive pressures to introduce ever more innovations and remain competitive. Whilst the development of an e-commerce based operation may look simple, in reality, it requires a number of specific skills: both directly related to the new technologies, such as software development and web design, as well as indirectly, such a multi-channel management and marketing. SMEs will need tailored support. A survey carried out in France makes recommendations on how to tackle the challenge of increasing needs to match the specific skills needs in a rapidly growing sector.⁴⁹

Management hierarchies within both sectors are generally much flatter than in other economic sectors and, consequently, training plays an important role in developing new entrants in more senior positions. 63% of commerce firms undertake vocational training, compared to 66% in the economy as a whole. Figure 15 shows that on a national basis the extent of vocational training undertaken in retailing and wholesaling firms is broadly in line, though slightly below, other firms.

⁴³ European Foundation for the Improvement of Living and Working Conditions (2014) *Wholesale sector: Working conditions and job quality*. EuroFound Working Conditions Survey, Dublin.

⁴⁴ Van der Giessen, A. et al. (2009) *Investing in the future of jobs and skills. Scenarios, implications and options in anticipation of future skills and knowledge needs*. European Commission Directorate-General Employment, Social Affairs and Equal Opportunities. <http://www.eurofound.europa.eu/pubdocs/2009/63/en/2/EF0963EN.pdf>
And also see the policy summary: <http://ec.europa.eu/social/BlobServlet?docId=3277&langId=en>

⁴⁵ Eurofound Working Conditions Survey, 2013.

⁴⁶ Shury, J. et al. (2010) *National Employer Skills Survey for England 2009: Main report*. Evidence Report, 23, London: UK Commission for Employment and Skills. <http://www.ukces.org.uk/reports/national-employer-skills-survey-for-england-2009-main-report-evidence-report-23>

⁴⁷ Pardo, C. (2011) *Wholesaling : Exploiting Activity Links and Resource Ties with Suppliers and Customers*. Ecully: EMLYON Business School, p. 9.

⁴⁸ Giraud, L. and Pardo, C. (2012) *Les fonctions commerciales au cœur de l'évolution des intermédiaires du BtoB? Une étude exploratoire*. Management & Avenir, 51 (1), Cormelles-le-Royal: Management Prospective Ed., p. 176. (EuroCommerce informal translation)

⁴⁹ Observatoire prospectif du commerce (2013) *Contact d'étude prospective des métiers du e-commerce*. http://www.geste.com/IMG/pdf/Synthese_CEP_e_commerce.pdf

According to Eurofound, wholesale has higher levels of employer paid training than retail. Training in the wholesale sector is often provided by the supplier of the traded goods, with the aim to ensure that resellers dispose of enough product information to pass on to retailers. Thus, wholesalers are also involved in the education and training of retailers. This win-win situation is to the advantage of the supplier in terms of product promotion and to the advantage of the wholesaler and retailer in terms of product sales.

The diversity of employment opportunities in retailing and wholesaling is matched by the significant potential for upward mobility within the sectors, particularly within larger firms. New routes to graduate entry complement internal routes providing 'stepping stones' to advancement via apprenticeships and vocational training. Many larger retailing and wholesaling groups now have well developed graduate recruitment programmes that offer rapid progression potential to management roles for new entrants.

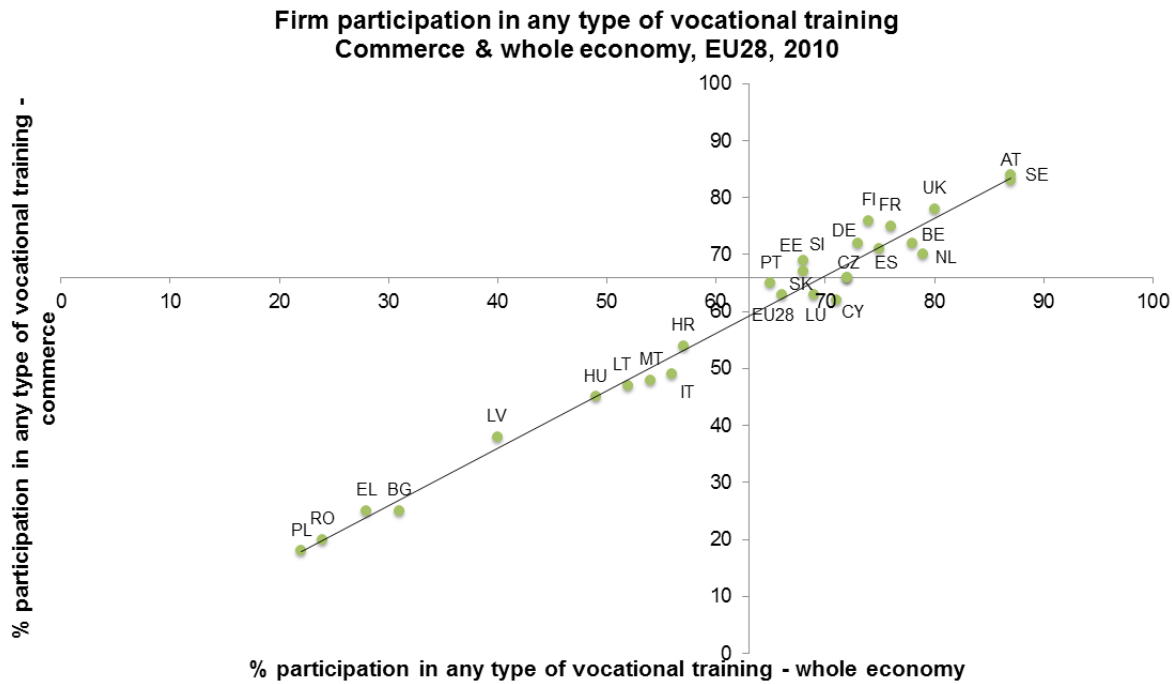


Figure 15
Firm participation in any type of vocational training (selected countries)
Source: Eurostat [trng_cvts01], 2013.



Key findings

- The retail and wholesale sectors combined represent the second largest employer in the EU, after manufacturing, contributing 13% of the European labour force.
- Almost two thirds of retail and wholesale employees work in organisations classified as SMEs.
- The retail and wholesale sectors provide significant and diverse employment for all types of people: young and old, male and female, permanent and temporary, employees and self-employed.
- Nearly 26% of retail workers and 12% of wholesale workers are working part-time, compared to the EU average of 23%.
- Skills in the retail and wholesale sectors must evolve to reflect the changing consumer environment. In particular, information technology has had a significant impact on skills.
- Retail and wholesale firms generally perform close to the EU average in terms of training.

CHAPTER 4

4 Added value of the retail and wholesale sectors to the European economy

This chapter identifies the added value of the retail and wholesale sectors to the European economy. This includes discussion of the direct value added, as well as the indirect value added. The indirect value added comprises the sale of other firms' products and also the expenditure on other products and services, such as IT and real estate. Further additional contribution is reflected through the consideration of multiplier effects, the important role of retailers and wholesalers in the collection and payment of taxes, as well as the international contribution of the retail and wholesale sectors.

4.1 The direct added value of European retailers and wholesalers

Gross value added (GVA) measures how much value is created by a firm or sector directly through its activities. It is the value, before any added taxes, of the output of goods and services, less the real cost of all inputs and raw materials, excluding any subsidies.⁵⁰ Thus, GVA reflects the real added value of a sector. At the national level, the combined GVA of all sectors can be converted to Gross Domestic Product (GDP) by adding in taxes and subtracting any subsidies. GVA usually accounts for more than 90% of GDP, so they are closely related.

In 2011, the EU27 retail and wholesale sector generated over €1 trillion of GVA with retail adding €453 billion, and wholesaling adding €593 billion.⁵¹

In 2011, wholesale and retail trade together, comprised 9.6% of GVA within the EU. This compares to 19.2% for public administration, defence, education, human health and social work activities, 15.5% for manufacturing, 10.9% for real estate activities, 10.1% for professional, scientific and technical activities; administrative and support service activities, 6.1% for construction, 5.6% for financial and insurance activities, 4.7% for information and communication, and 2.9% for accommodation and food service activities.⁵²

Retail and wholesale are focused on serving the population of consumers, so it is no surprise

that the five EU States with the largest populations also generated the most value added, with Germany generating the highest level of value added through retailing and wholesaling in Europe of nearly €200 billion in 2011.⁵⁵

The most retail focused EU State is Cyprus, where 10.3% of added value in the non-financial business economy results from retailing. Other EU States with high proportions of non-financial added value generated through retailing include Slovakia (10.0%), Spain (9.0%), and Portugal (8.9%). The least retail focused EU States, in non-financial value added terms, are the Czech Republic, Bulgaria and Hungary, with contributions all less than 6.0%.⁵³

Within Europe, the Netherlands has the most focus on adding value through wholesaling, with 13.7% of non-financial added value. Finland and the UK have the least focus on adding value through wholesaling, with around 7.5% of non-financial added value.⁵⁵

When looking at the distribution of value added within retail, within the EU27, retail sales in general stores and supermarkets contributed more than one third, 34.8% of the value added by retailers, while specialised stores accounted for 60.2% and sales through non-store retail channels the remaining 5.1%.⁵⁴

Large retail firms (employing 250 or more persons) contribute approximately 45% of added value in the sector, with small/medium-sized and micro enterprises (employing fewer than 250 persons) contributing almost 55% of added value, reflecting their importance.⁵⁶ In particular, micro firms (employing less than 10 people) represent a third of retail employment and almost a third of retail value added, reflecting the bi-polar tendency of the sector to focus on economies of scale or local convenience.

Large firms provided 67% of the retail sector's added value in the UK in 2010, and more than half of the value added in Austria, Lithuania and Slovenia, reflecting the high level of retail concentration within those markets.⁵⁵ On a national basis, the lowest added value in retailing by large firms appeared in Bulgaria at 9.8% and Cyprus at 19.9%. In both these markets, micro firms accounted for more than 40% of the added value in retailing, along with Spain and Italy, reflecting the fragmented nature of the retail market in these countries.⁵⁵ Medium-sized firms (employing 50 to 249 persons) achieved their highest share at 23.6% of total value added in Latvia.⁵⁵

In contrast, the value created by wholesale firms is spread much more evenly across micro (22%), small/medium-sized firms (53%), and large (25%) firms, reflecting the existence for all types of wholesalers, from niche players to mass operations.

50 Eurostat calculates gross value added at factor cost as the total sum of items to be added (+) or subtracted (-):

- turnover (+);
- capitalized production (+);
- other operating income (+);
- increases (+) or decreases (-) of stocks;
- purchases of goods and services (-);
- other taxes on products which are linked to turnover but not deductible (-);
- duties and taxes linked to production (-).

51 Eurostat (2010).

52 Eurostat (2011).

53 Eurostat (2010).

54 Eurostat (2009).

On average (see figure below), large retail and wholesale firms create €50 million of added value per firm to the EU economy each year (whereby each retail firm represents multiple shops). Micro retail firms generate on average €40 thousand of added value per enterprise.⁵⁵ In total micro firms add a significant €265 billion of value to the EU economy, while large firms contribute €349 billion.⁵⁵

	Retail	Wholesale
Micro	0.04	0.08
Small	0.47	1.07
Medium	2.70	5.94
Large	50.71	48.61

Figure 16
Average value added per firm (€ million per annum) within the EU, by size of firm.
Source: Eurostat 2010.

	Retail	Wholesale	Total	
Micro	132.6	132.7	265.2	25.4
Small/ medium-sized	117.9*	313.3	431.2	41.2
Large	202.8	146.6	349.5	33.4
Total	453.3	592.6	1,045.9	100

Figure 17
Total value added (€ billions per annum) within the EU, by size of firm.
Source: Eurostat 2011, EU27.
*derived from Eurostat 2010.

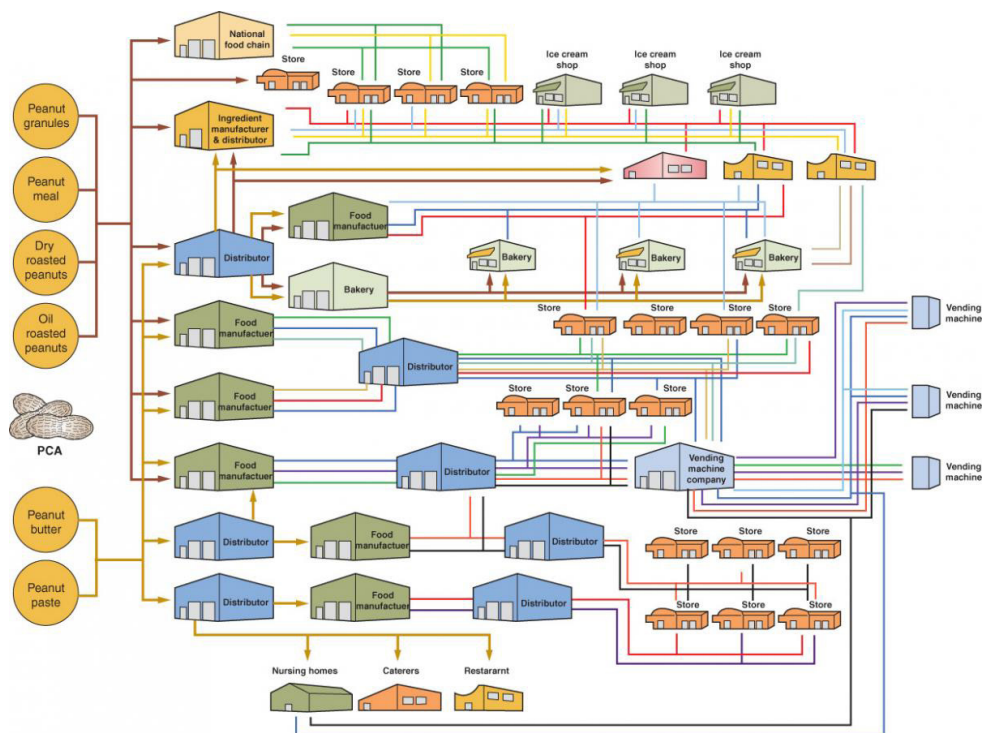


Figure 18
Illustration of complexity in the food supply chain.
Source: ICT in Agriculture Sourcebook, World Bank, 2011.

4.2 The indirect contribution of and beyond products for resale

In addition to their direct added value and beyond the estimated €6 trillion spent on products for resale,⁵⁶ European wholesalers and retailers buy products and services from other sectors of the economy. In 2008, the two sectors created between them an additional €871 billion of demand for other sectors' products and services expressed in terms of value added. Key beneficiary sectors of the activity of retail and wholesale include agriculture, manufacturing, construction, transport & communications, the financial sector and business services.

4.2.1 Indirect contribution through products for resale

Throughout the supply chain, numerous operations take place between the primary production of goods and the sale of end products on the shelf. Various stages include sourcing products, sorting, transport, storage, quality control, packaging, palletising, preparing orders for clients and selling in retail stores. Each of these stages adds a value and contributes to the overall cost of the product.

As an example, the European Commission counted that in 2008 the entire food supply chain including retail, was made up of 16 million businesses, provided employment to 48 million Europeans and generated some €750 billion of

Value Added.⁵⁷ The following diagram illustrates the complexity in this market for competing products, channels, and formats.

⁵⁶ Note: this includes some double counting as wholesalers supply retailers with products for resale.

⁵⁷ Eurostat (2011) Food: from farm to fork statistics. http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/K5-32-11-743/EN/K5-32-11-743-EN.PDF

4.2.2 Indirect contribution beyond products for resale

Retailers and wholesalers are clearly closely economically interlinked and retailers themselves are at the end of the value chain that concludes with the consumer. But as well as creating its own contribution in terms of value added, the activity of any business sector has two kinds of effects on other sectors in the economy. These are often hidden economic multiplier effects and can occur both upstream and downstream within the value chain. And so beyond the cost of products bought for resale by wholesalers and retailers, both retail and wholesale sectors create additional value for the European economy through their purchases of goods and services from other sectors to allow them to maintain and grow their businesses. This might be in the form of construction materials or real estate services, refrigeration equipment, delivery vehicles, logistics & distribution services, or IT and financial services.

The wholesale sector is mainly upstream oriented, while being in a central position within the production network. As the final stage of distribution from production to consumption, it has important links with business services of various kinds - such as IT and financial services - as well as real estate and construction.

Such spending is very significant, with the value added that results amounting to €871 billion in 2008 for retail and wholesale together.⁵⁸

European retailers alone generated €336 billion of demand for other sectors' products and services in 2008, whilst wholesalers were responsible for €535 billion of demand. Both sectors sourced the majority of their intermediate inputs from business and financial services, with manufacturers accounting for 19% in both cases.

The main difference between retailers and wholesalers, apart from the total amounts spent, was the higher proportion of demand for transport and logistics services generated by wholesalers and a greater demand for real estate services by retailers, of over €60 billion. These differences reflect the different nature of the businesses in each sector. For wholesalers, demand for land transport services alone accounted for 10% of intermediate demand (€54 billion). Particularly significant also is the €14 billion spent by retailers on advertising and market research and the €8 billion on consulting and computer services firms.

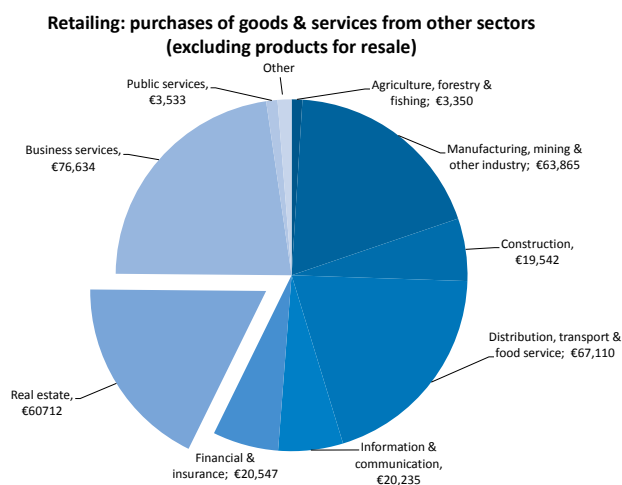


Figure 19
Retailing: Intermediate demand from other sectors, EU27, 2008. € million.
Source: Eurostat Input-Output tables, 2010.
(Excludes product purchases for resale.)

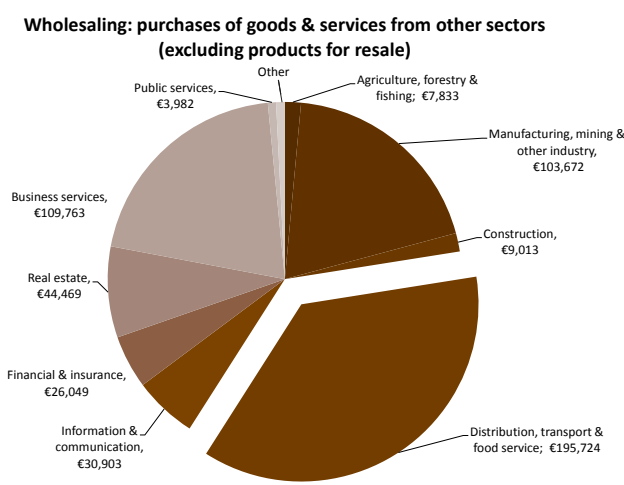


Figure 20
Wholesaling: Intermediate demand from other sectors, EU27, 2008. € million.
Source: Eurostat Input-Output tables, 2010.
(Excludes product purchases for resale.)

⁵⁸ The most recent year for which this data is available at the European level.

4.2.2.1 The example of real estate

European retail property investment activity reached over €34 billion in 2012. Although this is well below the peaks in retail property investment of the previous decade and some investors remain risk averse, Europe as a whole is considered to be short of the particular kinds of retail real estate in which investors are interested⁵⁹ - even though the overall requirement for retail property may be declining.

Demand is particularly high for some Western European markets, and for prime downtown retail sites and purpose-built shopping centres. Germany and the UK are significantly ahead of the rest of Europe in terms of both size and liquidity of retail property transactions and, between them, make up half of European investment activity both in terms of value as well as of deals.

The development of multichannel retailing has seen a growth in investment in a much wider variety of retail- and wholesale-related property across Europe, but particularly in countries where online retailing is achieving high penetration levels, whether through the growth of 'dark' stores or "drives", distribution centres for e-commerce only and multi-channel retailers, or customer collection hubs.

In France, for example, in 2012, there were nearly 600 standalone 'drive' grocery pickup points and shared outlet warehouses, together with 1,200 conventional stores offering click and collect from in-store picking units;⁶⁰ in 2013, there were altogether nearly 3,000 collection points.⁶¹ The development of online retailing has been responsible for 60% of leasing activity in the Dutch logistics-related real estate market and as much as 40% in Germany, Spain, Russia and the UK.⁶²

One consequence of this, in combination with the long-run effects of the economic crisis on retail firm viability and optimum network size for the largest firms, has been the reduced requirement for some more traditional types of physical retail real estate in some European countries. Vacancy rates amongst all retail units, for all types of retail property, across selected countries in Europe varied from 6% to as much as 15% in 2012. Rates were at their highest in Spain (15%), the UK (14%) and Belgium (10%). However, in Luxembourg, France and Italy, rates were less than half this level. The retail vacancy rate in the Netherlands was 6.4%⁶³ in 2013, which corresponds to 14,000 point of sales, and is estimated to rise to 9% to 10% in future years. It is worth noting that there is probably a difference between centre and periphery, where vacancy rates are higher.

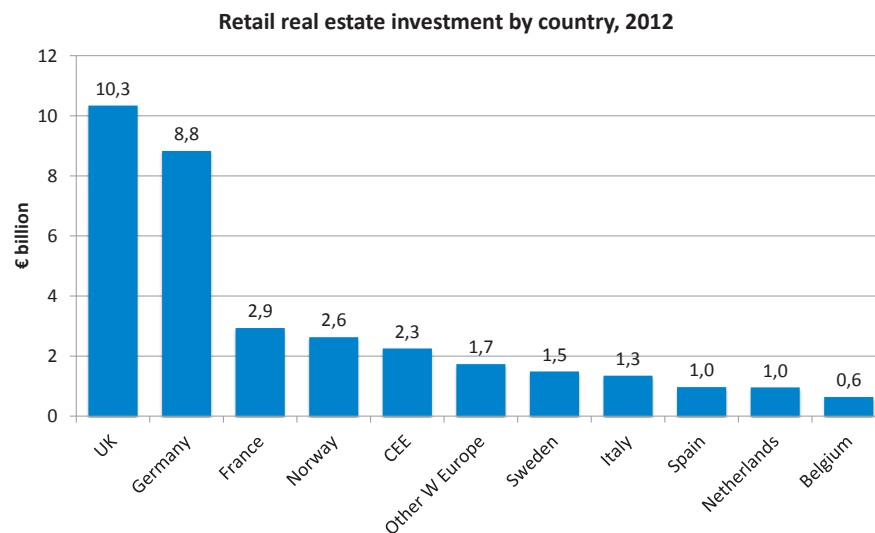


Figure 21
Retail real estate investment by country, 2012.
Source: CBRE, 2013. (Central and Eastern Europe is defined by CBRE as Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia and Ukraine).

⁶⁰ Planet Retail (2013) *Drive Format 2013. A drive into the unknown.*

⁶¹ Puget, Y. (2013) *Exclusif LSA Expert: La France passe le cap des 3000 drives.* LSA, 1 April. <http://www.lsa-conso.fr/exclusif-lsa-expert-la-france-passe-le-cap-des-3000-drives,168445>

⁶² Holberton, R. (2012), *Online Retailing: impacts, challenges and opportunities for European logistics markets.* CBRE EMEA ViewPoint, December.

⁶³ Detailhandel Nederland and Stedennetwerk G32 (2014) *Winkelgebied van de toekomst. Bouwstenen voor publiek-private samenwerking.* Den Haag: Platform 31, p. 41. http://detailhandel.nl/images/pdf/Winkelgebied_vd_toekomst_volledig_lowres_website_2.pdf

Example

There is particular concern about retail vacancy rates in the central urban areas of the UK. This is partly the result of retail companies optimising their physical networks of stores (or in some cases, closing them altogether). For example, the number of clothing stores in the UK has fallen by 5% over just two years. There have also been significant losses in sub-sectors particularly vulnerable to the processes of digitalisation (booksellers, CD & entertainment retailers and consumer electronic firms, for example). But many of the true effects of real estate transformation have been hidden through the substitution of tertiary retail uses (such as charity and second-hand shops) into previously prime and secondary retail pitches.

As European retailing moves to a new economic and multichannel equilibrium, retail real estate requirements will continue to evolve and, along the way, generate important implications for policymakers in the areas of urban planning.

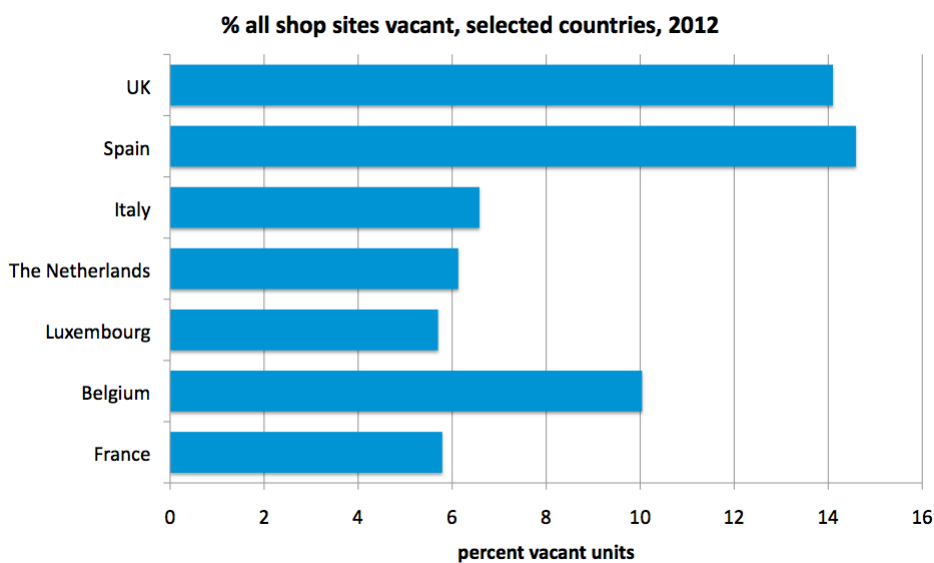


Figure 22

% vacant retail units, selected countries, 2012.

Source: Local Data Company (UK); Codata (others), 2012. UK data for 2013

4.2.2.2 The example of technology

One of the biggest growth areas for investment by both wholesalers and retailers has been in technology, not just as a result of the Internet. The internationalisation of markets and supply chains requires increasingly efficient management and systems of both retail and wholesale firms, especially the largest. The combined spend of retail and wholesale sectors on IT was equivalent to 16% of spending by all sectors in Western Europe in 2012. Despite the economic crisis and the fact that spending by firms overall remains under pressure, the western European retail sector is estimated to have spent €23.6 billion on information technology in 2012,⁶⁴ of which 45% was on IT services. For retailers, spending on hardware and software has been overshadowed by spending on IT services, in part because of the fall in cost of hardware, but also because the expenditure that is required to operate as multichannel businesses and invest in customer-facing services such as e-commerce and e-marketing capabilities, including Customer Relationship Management systems, has increased.

By contrast, with some €11 billion, the western European wholesaling sector spent less than half as much. Much of the difference comes from the €10.7 billion that retailers spent on IT services.

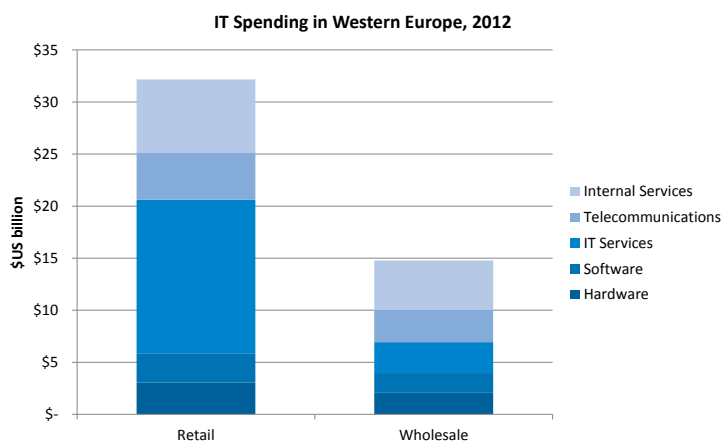


Figure 23
IT spending in western Europe. Source: Gartner, 2010.

4.3 Multiplier effects

A multiplier effect is an attempt at measuring the effect of an increase in spending in one sector on other sectors. As well as measures based on money, there are also measures based on employment. *“The employment multiplier [...] is designed to yield an estimate of the total employment attributable to the stimulus per job or man-year of employment directly created.”*⁶⁵

There are also many different ways to consider the multiplier effects of any sector within the economy, and each method can look both backwards through the linkages in the supply chain and forward through the linkages in the distribution chain. All views are debateable as it is always unclear as to who owns the multiplier effect. A manufacturer with no access to the market has no multiplier effect - in the same way that a retailer or wholesaler with no products to sell also has little value. The economic interdependence of different links in the supply chain is clear and works in both directions.

There is a difference in visibility between an essentially centralised economic system, for example built around a factory, and the distributed economic systems of retailers and wholesalers, where the benefits in production, income, and employment are more evenly spread across a larger geography. Hence, it is easier to perceive the impact of a centralised economic system, such as manufacturing, versus a distributed economic system, which occurs in retailing and wholesaling.

A detailed study⁶⁶ of Denmark on the multiplier effects across all European sectors identified the key multiplier sectors as construction, wholesale, retail, telecommunications, public administration and defence, education, health and social work, and recreation, cultural, and sporting services.

These results may be expected to vary across Europe as Denmark is strong in some sectors and weaker in others. These key sectors create multiplying effects in both directions, backwards to suppliers and forwards in creating demand for services. Interestingly, manufacturing was strong in creating backward multiplier effects for suppliers but less strong in creating forward effects due to the fewer people involved. Thus, while retailing and wholesaling created high multipliers both forwards and backwards, food production created similar multipliers backwards but was much weaker in creating further demand.

In the US, the National Retail Federation calculated that whilst the retail sector directly employs 28.1 million Americans, overall, it supports a total of 41.6 million workers in both retail other sectors, representing 24.1% of total U.S. employment or almost one in every four jobs in the nation.⁶⁷

⁶⁵ Davis, Craig H. (1990) *Regional Economic Impact Analysis and Project Evaluation*. Vancouver: UBC Press, p.37.

⁶⁶ Amores, Antonio F. and Rueda-Cantuche, J. M. (2009) *The identification of key sectors by means of Data Envelopment Analysis (DEA): the case of EU-27*. 17th International Input-Output conference, Sao Paulo, Brazil, 13-17 July.

⁶⁷ National Retail Federation (2011) *Retail powers the U.S. economy*, p. 2 <http://www.retailmeansjobs.com/RetailValue>

4.4 The collection of value through taxation

Wholesalers and retailers are significant contributors to government revenues in their own right, as well as acting as tax collectors on behalf of national authorities, in respect of sales and value added taxes and payments collected on behalf of employees.

Total estimated tax take, 2010
€ billion

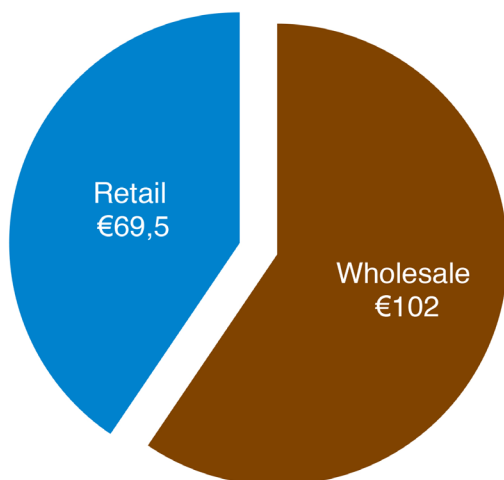


Figure 24

Retail and wholesale total tax collection across the European Union.

68 Using gross operating surplus in 2010 as the proxy for commercial profit and using national averages from the World Bank/PwC study in the same year generates a tax take figure of around €102 billion (wholesale) and €69.5 billion (retail) for EU27 in 2010. (Just over €1 trillion for the EU business economy as a whole, or 41% of gross operating surplus).

69 Total tax rate: The Total Tax Rate is designed to provide a comprehensive measure of the cost of all the taxes a business bears. It differs from the statutory tax rate, which merely provides the factor to be applied to the tax base. In computing the Total Tax Rate, the actual tax payable is divided by commercial profit. The taxes included can be divided into five categories: profit or corporate income tax, mandatory contributions and labour taxes paid by the employer (in respect of which all mandatory contributions are included, even if paid to a private entity such as a required pension fund), property taxes, turnover taxes and other taxes (such as municipal fees and vehicle taxes). The taxes withheld (such as personal income tax) or collected by the company and remitted to the tax authorities (such as value added tax, sales tax or goods and service tax) but not borne by the company are excluded.

70 PwC and World Bank (2014) *Paying Taxes 2014*, 8th edition. <http://www.pwc.com/gx/en/paying-taxes/assets/regions/eu-efra.pdf>

71 PwC (2013) *The contribution of retailers to the UK public finances*. <http://pdf.pwc.co.uk/total-tax-contribution-may13.pdf>

72 These firms paid €3.9 billion in taxes out of around €6.9 billion of their UK pre-tax profits in 2012 (56%). The 2010 equivalents are €3.3 billion and €6.7 billion respectively (49%). These UK firms represent around 1/3 of UK pre-VAT retail sales & slightly more of pre-tax profits in 2010. In turn, UK retail sales represent around 14% of EU pre-VAT retail sales of €2.6 trillion and a gross operating surplus of €160 billion in 2010. This would equate to a European retail tax take of some €83 billion in 2010, or some 52% of gross operating surplus.

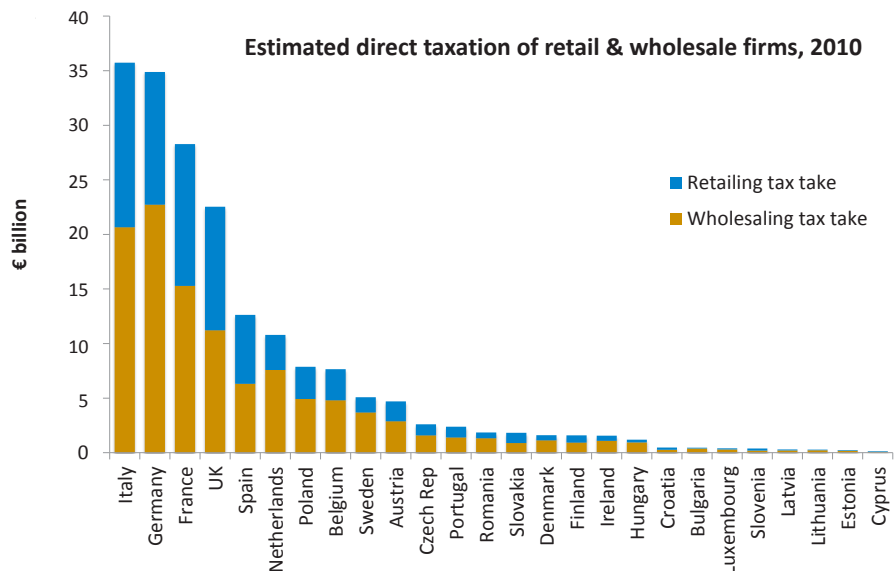


Figure 25
 Estimated direct taxation of European retail & wholesale firms (selected countries), 2010. Sources: World Bank/pwc, 2013 (total tax rates); Eurostat 2010 (gross operating surplus); OXIRM estimates, 2013. (© PricewaterhouseCoopers. All Rights Reserved. Extract from "Paying Taxes 2014" publication available on www.pwc.com/payingtaxes.)

Wholesalers and particularly retailers also act as tax collectors on behalf of national authorities. Such taxes withheld include sales, value added and employee taxes. Given the employment and turnover contribution of both retailing and wholesaling, this is a significant role.

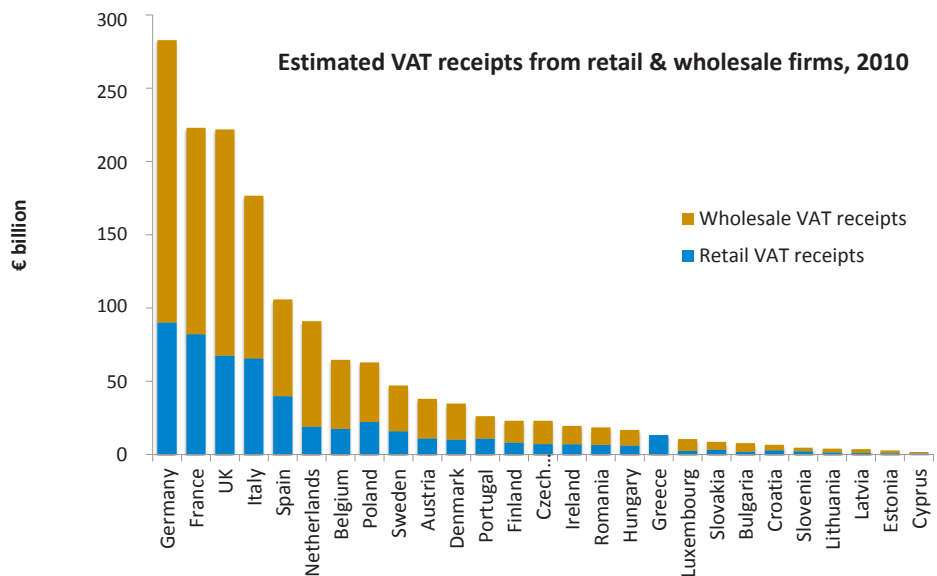


Figure 26
 Estimated VAT⁷³ receipts from European retail & wholesale firms, 2010. (Excludes Malta, Greek wholesaling.) Source: Eurostat (turnover), European Commission (VAT tax rates)

⁷³ Value Added Tax is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is charged as a percentage of price, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is collected fractionally, via a system of partial payments whereby taxable persons (i.e., VAT-registered businesses) deduct from the VAT they have collected the amount of tax they have paid to other taxable persons on purchases for their business activities. It is paid to the revenue authorities by the seller of the goods, who is the "taxable person", but it is actually paid by the buyer to the seller as part of the price. It is thus an indirect tax. http://ec.europa.eu/taxation_customs/taxation/vat/how_vat_works/index_en.htm

The retail sector raised an estimated €518 billion in VAT on turnover on behalf of European governments in 2010.⁷⁴ The wholesale sector raised an estimated €1,023 billion.

It is not possible to calculate comparable levels of other taxes, such as employee taxes or social charges withheld on behalf of employees by retail and wholesale firms for Europe as a whole because of different methods used by individual national statistical offices.

4.5 The international contribution of retailers and wholesalers

Retail and wholesale sectors are contributors to economic growth across the world. The largest European retail firms are more likely than those in any other region of the world to be international businesses, operating in more than twice as many countries on average than top US retail firms, because EU national markets are smaller and because of the longer term growth opportunities that these markets present.

Internationalisation brings clear benefits to the firm and to its country and region of origin inter alia through the repatriation of ideas and know-how, new sources of products and services and efficiencies of scale and scope, as well as revenues and profitability.

These benefits arise from the search for new sourcing opportunities or the extension of the supply chain into new geographical areas, such as new EU Member States, as well as into developing countries. The entry of a retailer or wholesaler into new markets allows not only the direct selling of goods and services, but also provides the basis for procuring new products and services to be distributed within the existing network, a source of new skills, expertise or insight, perhaps improving the effectiveness and variety of the firm's offer in the originating market. Retail Foreign Direct Investment (FDI) in the late 1990s has also typically served to speed up any existing retail modernisation processes at work in the target market.⁷⁵ Indirect exchanges occur as local competitors learn from and emulate the strategies of inward retail or wholesale investors. More broadly, internationalising wholesalers also work to reduce the difficulty for smaller European retail firms in reaching less accessible markets.⁷⁶

Example

The investment of UK wholesale business Booker Group in India has sought to support the work of local, family run, small stores (known as kirana stores) through the export of expertise as well as of physical infrastructure (6 business centres in India) and formats (nearly 200 stores trading under the 'Happy Shopper' fascia).

Furthermore, European retailers have been at the heart of this international development. The nature of European geography means that European retailers are more likely, other things being equal, to become cross-border businesses earlier than retailers elsewhere – for example, in the US. Over 38% of retail revenue generated by the European retailers amongst the world's top 250 retailers was generated from outside their country of origin.⁷⁷ The equivalent figure for US retailers is just over 15%. The size of the US domestic market means that US retailers either need to grow to an appreciable size before moving outside their domestic markets, or have to make a strategic decision to do so.

Similarly, the search for growth opportunities outside the slow-growing European economy has stimulated not just cross-border investment within Europe, but also cross-regional investment by European retail firms, which operate in more than twice the average number of countries than internationalising North American businesses.

At the global level, retail sales turnover in 2012 amounted to over €10.4 trillion and retailing in the EU27 represented 23% of the total – equivalent to the whole of North America (US, Canada, Mexico). Retailers in the EU27 also made a significant contribution to this, which recognises their role on the world stage through international expansion.

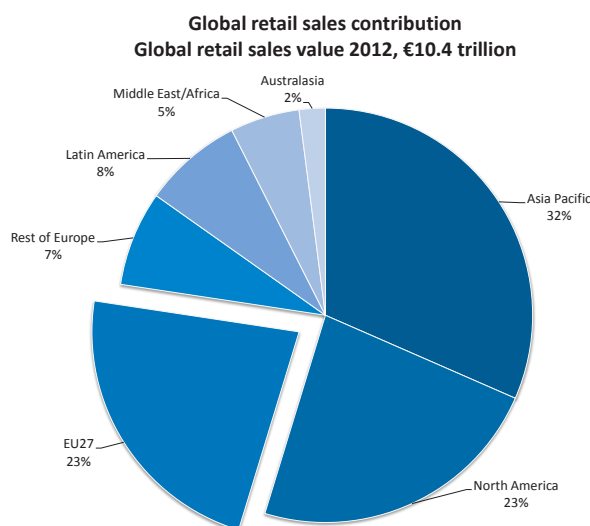


Figure 27
The contribution of European retailing to global sales.
Source: Euromonitor, 2013

⁷⁴ This is an estimate based on summing the application of 2010 standard rates of VAT by country to sectoral turnover by country. The estimate does not take into account any reduced rates of VAT levied on certain categories of product or service, or other restrictions applied in certain countries.

⁷⁵ Wrigley, N. and Lowe, M. (2010) *The Globalization of Trade in Retail Services, Report commissioned by the OECD Trade Policy Linkages and Services Division for the OECD Experts Meeting on Distribution Services, Paris.* <http://www.oecd.org/tad/services-trade/46329746.pdf>

⁷⁶ Crozet, M., Lalanne, G. and Poncet, S. (2013) *Wholesalers in International Trade.* European Economic Review, 58, pp. 1-17.

⁷⁷ Deloitte (2013) *Global powers of retailing 2013.*

Five of the top 10 retail businesses in the world are European. Together, these 5 European companies made up 38% of the turnover of the top 10 in 2011.

	No. Companies	Average retail revenue (US\$ million)	% revenue from foreign operations	Average number of countries	% single country operators
Top 250	250	17,085	23.8	9.0	38.0
Europe	88	18,685	38.2	15.0	19.3
Africa/Middle East	7	6,474	26.9	10.3	0.0
Latin America	11	8,518	17.8	2.0	54.5
North America	86	21,504	15.3	6.2	48.8
Asia Pacific	58	11,009	11.6	5.0	51.7

Figure 28

Leading European retailers' foreign revenues, 2011. (Source: Deloitte, 2013)
 (Note: 'Average number of countries' includes franchised, licensed and JV operations.)

Top 250 rank		Name	Country of Origin	Retail revenue 2011 (€ million)
	1	Walmart	US	333,968
	2	Carrefour	France	84,583
	3	Tesco	UK	75,898
	4	Metro	Germany	69,420
	5	Kroger	US	67,529
	6	Costco	US	67,186
	7	Schwarz	Germany	65,636
	8	Aldi	Germany	54,827
	9	Walgreen	US	53,937
	10	Home Depot	US	52,600
Top 10				925,584
European share of Top 10				37,85%

Figure 29

Top Ten Retailers Worldwide, 2011. Source: Deloitte, 2013.



Key findings

- Retailers and wholesalers create €1 trillion of value added (€453 billion for retail and €593 billion for wholesale) across the European Union, representing 9.6% of total EU gross value added.
- In addition to their direct value, European wholesalers and retailers buy products and services from other sectors of the economy. Beyond products for resale, retailers and wholesalers create an additional €871 billion of demand for other sectors' products and services (€336 billion for retail and €535 billion for wholesale).
- European retailers and wholesalers are significant contributors to government revenues in their own right, as well as acting as tax collectors on behalf of national authorities. Together retail and wholesale paid an estimated €171.5 billion in labour, profit and other direct taxes in 2010 (€69.5 billion for retail and €102 billion for wholesale). This figure does not include the Value Added Tax collected by wholesale (€1,023 billion) and retail (€518 billion) on behalf of national authorities.
- European retail and wholesale firms are contributors to economic growth around the world. The nature of European geography entails that European retailers are more likely than operators in other regions to become cross-border businesses. Over 38% of revenue generated by European retailers amongst the world top 250 retailers was generated from outside their country of origin.

CHAPTER 5

5 Competitiveness of European retailers and wholesalers

This chapter will consider the impact of consolidation on the competitiveness of the sector through various angles. First, we look at market dynamism, consolidation, price comparison and dispersion across Europe, then moving on to measures of competitiveness including profit margins, concentration, the impact of regulation, and labour productivity.

5.1 Market dynamism

It is clear that there are many small retail and wholesale firms, and that all sizes of firms can succeed. However, there is always huge pressure on businesses focused on consumer needs and desires, as these change continuously. If commercial businesses do not quickly adapt to such changes then the market will leave them behind and they will fail. Hence, no commercial business, large or small, is guaranteed success. Over the past decade, there have been many examples of this evolutionary process.

Although numbers of both wholesale and retail enterprises have remained relatively stable across Europe in the past five years, this conceals different enterprise life cycles (births and deaths) across Europe as well as – more extensively – between different European countries.

Over a third of a million new retail firms were created across Europe in 2010 and 180,000 new wholesale firms. This means that 9.6% of retail and wholesale enterprises existing by the end of 2010 were newly created and the equivalent of 10.2% had ceased trading. The proportion of deaths was slightly higher than in the business economy as a whole. This was largely due to the higher 10.9% death rate in retailing (equivalent to 415,000 firms) as against the 9.7% birth rate of retail enterprises (equivalent to 370,000 firms) in 2010. The balance in wholesaling was much closer, with births exceeding deaths by 0.4 percentage points, equivalent to just 8,000 firms.

Looking across Europe, however, country differences in retailing births and deaths were also much more pronounced than in wholesaling. Some countries remain exceptionally dynamic in terms of new retail firm formation: Latvia, Poland, France and Slovakia all demonstrate well above average retail firm creation rates. Other countries exhibit enterprise death rates that are well above average: including Romania, Slovakia, Portugal, Finland and the Czech Republic. But it is also important to look at the relationship between the two. We can distinguish between 'high net destruction' countries (where high levels of firm deaths exceed high levels of firm births) including Ireland, Romania, Portugal, Finland and the Czech Republic; and 'high net creation' countries (where births exceed deaths) including France, Latvia and Slovenia.

High levels of births and deaths of retail and wholesale firms reflect the **dynamism** and competitive nature of these markets, as well as the pressure to constantly adapt to ever changing market conditions.

5.2 Increasing efficiency through consolidation

Profitable retailers and wholesalers are successful, first and foremost, because of their superior ability to deliver the right mix of products and categories at the right price to consumers and customers, who naturally expect a choice of products.

Consolidation has been a general trend in almost all economic sectors as a consequence of mergers and acquisitions and the move towards increased efficiency. **Retail consolidation** is reflected by an increasing degree of concentration in the retail market and has brought numerous benefits to retailers and consumers alike. In its Retail Market Monitoring report, the Commission acknowledges that "the modernization of the retail sector since the 1960s, with the dawn of retail groups, has contributed significantly to combating inflation. It has offered consumers, including during periods of economic downturn, greater choice at competitive prices allowing them to reallocate a growing share of their income, traditionally used for satisfying basic daily needs, to the consumption of an ever broader range of goods and services, which in turn, has stimulated innovation and economic growth."⁷⁸

In the **wholesale sector**, **consolidation** has been less visible, although not in-existent. As outlined in chapter 2, the sector remains dominated by small and medium sized enterprises and the average size of wholesale firms remains relatively small compared to the size of manufacturers or large retailers.⁷⁹ Besides mergers and acquisitions, consolidation in the wholesale sector has also taken place through external growth and the development of networks of independent wholesalers.⁸⁰ Service has become a key element of differentiation and therefore driver of competition in wholesale.

⁷⁸ European Commission (2010) COM (2010) 355 final: Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Retail market monitoring report "Towards more efficient and fairer retail services in the internal market for 2020", Brussels, p. 3.

⁷⁹ Michel, S. and Pardo, C. (2012) La spécificité du commerce BtoB : Quelques repères historiques. Management & Avenir, 51 (1), Cormelles-le-Royal: Management Prospective Ed., p. 164 (EuroCommerce informal translation)

⁸⁰ Ibid.

5.3 Consumer price comparisons

The price of goods and services is a key concern for consumers across Europe, particularly as a result of the economic crisis, increasing energy and raw material costs. For 65% of Europeans in 2012, price was the most important concern in their purchasing overall⁸¹ before other factors, such as quality, service, and product features. Consumers also take action to address their concerns: 50% of European consumers claimed to have switched to cheaper grocery brands in 2013.^{82,83} Price competition is more visible than ever due to increased availability of online comparison tools empowering the consumer to make better informed choices.

Retailers are “the main interface between producers of consumer goods and consumers, with around half of private consumption accounted for by retail trade. The “value added” of this intermediation service can be substantial as this accounts for, on average, about 25% of consumer prices.”⁸⁴

In practice, it is difficult to directly compare overall differences in price between countries due to variations in the mix of product categories in final consumption, but we can draw some conclusions based upon standardised indices, which take account of purchasing power and, where applicable, exchange rate differences.

Average consumer prices in the EU27 are lower than in a number of countries such as Norway, Switzerland and Japan. US price levels are not significantly different from those of the EU27 as a whole, once purchasing power is taken into account, despite a generally lower taxation regime in the US. This suggests that consolidation and efficiency gains, also in EU retailing and wholesaling generate the equivalent of a “Wal-mart effect”,⁸⁵ and contributes to keeping price inflation down. “*Within a larger and increasingly integrated European Single Market,*” suggested a recent European Commission report, “*consolidation can lead to efficiency gains and put a downward pressure on prices.*”⁸⁶

However, there are wide variations in price levels between European countries⁸⁷, especially between “older” members (EU17) and newer members of the enlarged, post-2004 Union (EU27). These range from price levels that are 42% higher than the European average in Denmark, to Bulgaria, where the price level index is less than half that of the EU27.⁸⁸

These differences reflect the broader cost of living differences and differing consumption patterns between European countries as well as underlying regulatory, labour costs, infrastructural, tax differences, and territorial supply constraints⁸⁹ which continue to affect wholesale and retail firms in different Member States, despite the ambitions for a single market in goods and services.

81 Nielsen (2013) *New Wealth, New World*. Q3. <http://www.nielsen.com/content/dam/corporate/us/en/reports-downloads/2013%20Reports/New-Wealth-New-World%20July%202013.pdf>

82 Nielsen (2013) *Consumer Confidence: Concerns and Spending Intentions Around the World*. Q2.

83 The importance of pricing in consumer purchasing decision is however mitigated by a number of other factors such as the shopping mission. Shopping missions refer to the reason for going to a particular shop and shape how customers view value for money. For instance, a customer buying a weekly shop may be more price conscious, while a customer needing something specific or just a few things may choose proximity and convenience over price.

84 European Central Bank (2011) *Structural features of distributive trades and their impact on prices in the Euro area*. Occasional Paper Series, 128, September, Frankfurt am Main: Taskforce of the Monetary Policy Committee of the European System of Central Banks, p. 7.

85 The ‘Wal-Mart effect’ is the term coined to describe the effects of Wal-Mart’s business activities, particularly in the US. In the context of this discussion, these effects are suggested to include local price reduction activity, a downward pressure on inflation – given the company’s scale – and a relentless focus on cost reduction within the business to permit it to trade from smaller profit margins. See: Fishman, C. (2006) *The Wal-mart Effect*, Penguin Group.

86 Bukeviciute, L et al. (2009) *The functioning of the food supply chain and its effects on food prices in the European Union*. European Economy Occasional Papers, 47, May, Brussels: European Commission Directorate-General for Economic and Financial Affairs Publications, p. 21. http://ec.europa.eu/economy_finance/publications/publication15234_en.pdf

87 When measured in terms of price level indices, which take account of purchasing power within individual countries and exchange rates between them.

88 European Central Bank (2011) *Structural features of distributive trades and their impact on prices in the Euro area*. Occasional Paper Series, 128, September, Frankfurt am Main: Taskforce of the Monetary Policy Committee of the European System of Central Banks.

89 Territorial supply constraints refer to practices of multinational suppliers who “impede retailers from sourcing identical goods cross-border in a central location and distributing them to other Member States.” See Commission Green Paper on unfair trading practices in the business-to-business food and non-food supply chain in Europe, COM(2013)037.

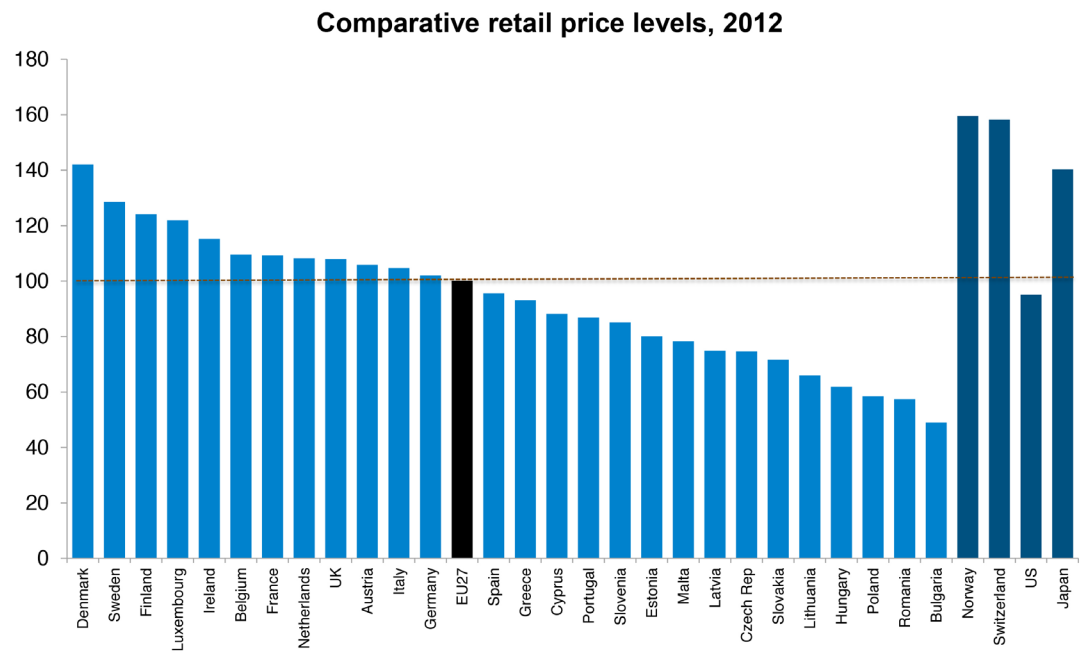


Figure 30
Comparative price levels, selected countries. Source Eurostat 2013
Note: Price level indices relate purchasing power parities to exchange rates to ensure comparability. Food price comparisons

These variations can also be observed in price comparisons by category. Following high commodity price volatility and resulting increases in food prices in 2008 and 2009, the European Commission has dedicated specific attention to assuring a competitive food supply chain in the region.⁹⁰ **Food price levels** across the EU27, even in those countries more expensive than the European average - such as the three Nordic markets - are significantly beneath non-EU countries such as Norway or Switzerland. Whilst lower on average than in many non-EU markets, changes in food prices across European countries exhibit noticeable structural differences. These reflect the extent to which particular economies are reliant upon exports, as well as national regulatory and fiscal impacts, especially on certain products such as alcohol and tobacco.

⁹⁰ European Commission (2009) *COM (2009) 591 final: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: A better functioning food supply chain in Europe*. Brussels.
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0591:FIN:EN:PDF>

Comparative food price levels, 2012

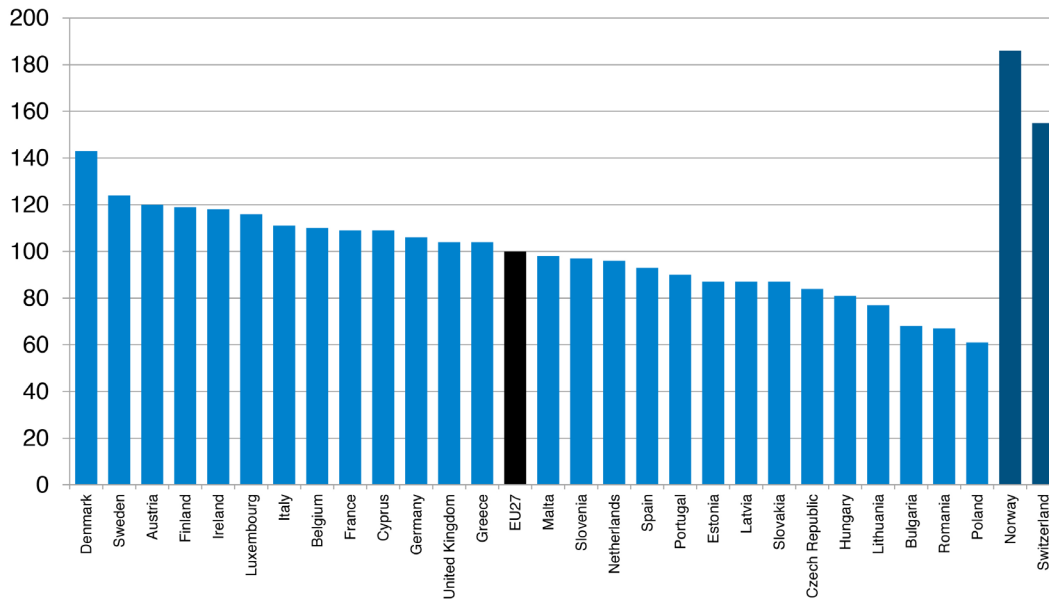


Figure 31

Comparative food, alcohol & tobacco price levels, selected countries. Source Eurostat 2013
 Note: Price level indices relate purchasing power parities to exchange rates to ensure comparability.

5.4 Supply issues

Over time, in developed economies, the share of food expenditure as a proportion of the consumer basket tends to decrease as purchasing power increases. Today, food consumption represents only 12% of the average consumer basket in Europe.⁹¹ The drive for efficiency in retail combined with a high degree of competition has supported this process.

Although average global food prices in 2013 have drawn back from their all-time high in 2012, price volatility and future uncertainties continue to affect markets, as a result of both structural and temporary factors, something which the World Bank refers to as the 'new normal.'⁹² Longer-term structural factors include global population growth, higher incomes in emerging economies and increased production costs. The short-term impact of weather conditions, trading restrictions and exchange rate volatility has added to this uncertainty. Europe has not been immune from these influences. This is particularly the case in new Member States, where food prices are more sensitive to the increases in commodity prices because of the greater share of production costs in the price of food items.⁹³ Europe's wholesalers and retailers must work hard individ-

ually to remain competitive in an uncertain pricing environment.

Food prices have also grown differentially by country over time. Within the EU, the highest relative growth in food prices over the past six years was observed in Hungary and Estonia, while the lowest change was in Ireland and Portugal. Many of these country differences have to do with the extent to which particular economies are becoming more or less reliant upon exports and the extent to which individual retail markets are consolidating through the use, for example, of larger food store formats, networks of wholesaler franchised outlets, and limited line discounters. The share of food discounters has increased substantially in nearly all EU Member States, for example, exerting a downward pressure on prices. Central and Eastern European markets are also catching up with the EU as a whole, a process in which wage and price inflation has also played a part. However, outside Europe, food price rises in some individual markets have been much more significant. In Russia, Turkey, South Africa and China, for example, average food prices have increased between 1.7 to 2.0 times their 2005 levels. By contrast, the average change in EU27 food prices is broadly similar to that in other developed markets. Price growth in major developed markets, such as Canada and the US, are comparable to those in EU27.

⁹¹ Eurostat (2011).

⁹² World Bank (2012) World Bank warns against complacency amid high food prices and hunger, 29 November.

⁹³ Bukeviciute, L et al. (2009) *The functioning of the food supply chain and its effects on food prices in the European Union*. European Economy Occasional Papers, 47, May, Brussels: European Commission Directorate-General for Economic and Financial Affairs Publications.
http://ec.europa.eu/economy_finance/publications/publication15234_en.pdf

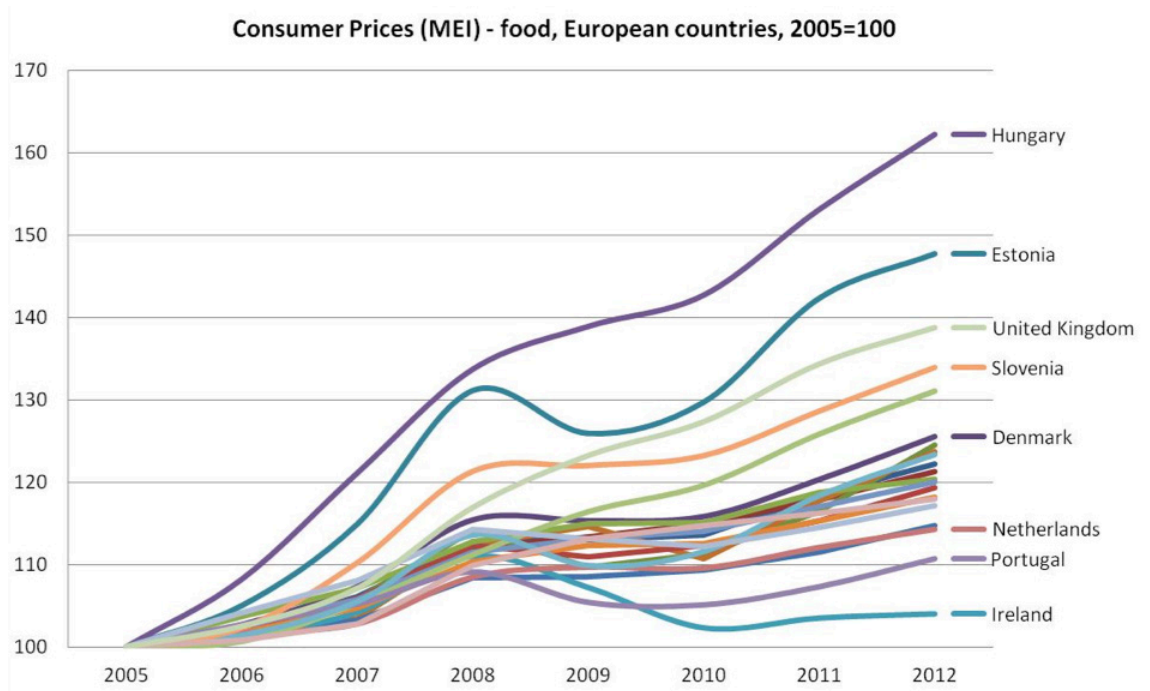


Figure 32
 Index of consumer prices, food, EU, Source OECD 2013
 Note: Each country is benchmarked at 2005=100.

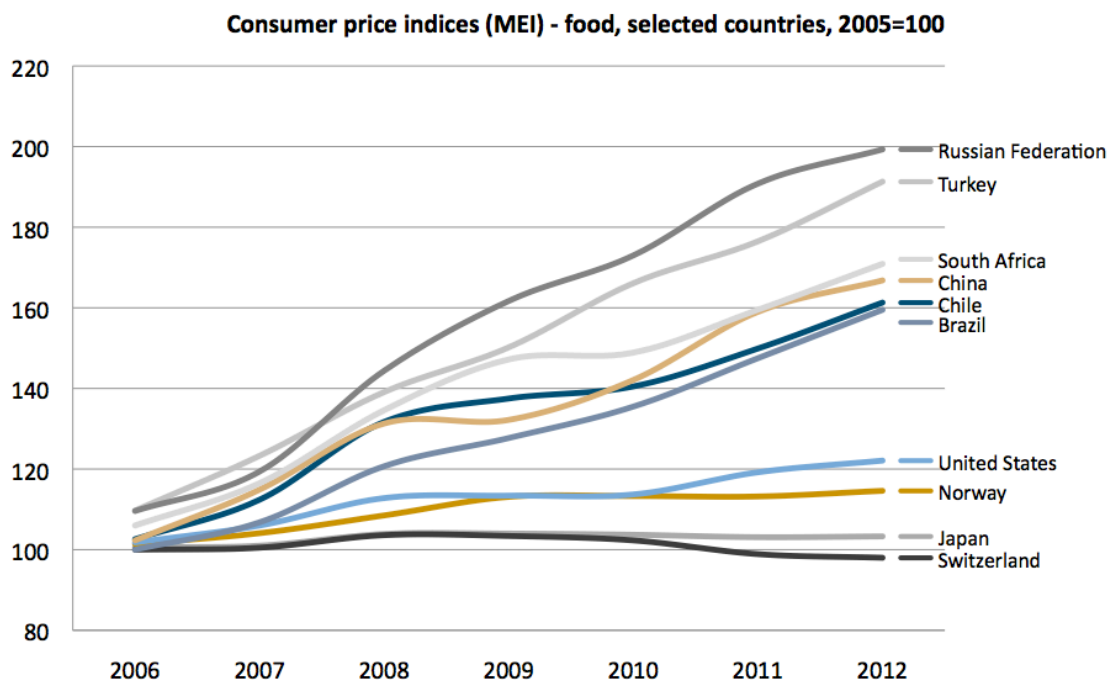


Figure 33
 Index of consumer prices, food, selected countries.
 Source: OECD, 2013.
 Note: Each country is benchmarked at 2005=100.

5.5 The nature of competition and profit margins

With retailers so close to their consumers and wholesalers so close to their customers, retailers and wholesalers receive feedback every day on how well they and the overall market are performing. This is an intensely competitive value chain, driven by the pull of changing consumer demands, the pressure of economic conditions and the transformational potential of technology. Those unable to adapt successfully to market conditions do not survive. Those who can adapt successfully can continue to grow. Apart from market forces, retailers and wholesalers are also subject to regulatory intervention, which can affect their ability to compete optimally.

Whilst promoting competition lies at the centre of the European Union's aims, the European retail and wholesale sectors are characterised by uneven levels not only of maturity but also of regulation within different national markets.

As outlined by the European Central Bank, “an appropriate degree of regulation is a necessary feature of a market economy; however, excessive or badly designed regulation can hinder competition and favour incumbents.”⁹⁴ In their analysis of the structural features of the retail sector in Europe, the European Central Bank identifies that large areas of activities within retail are subject to specific regulation with notable cross-country and even cross-regional differences. Of these regulations, planning regulation is identified as playing an important role in creating barriers to entry or expansion in retail.

For example, it is generally agreed within Europe that there should be some rules relating to the building of new stores. This has to be set against the fact that the European Commission 2012 country specific recommendations have stressed the need to eliminate restrictions in the retail sector, particularly in Belgium, France, Hungary and Spain, which has already initiated some reforms in this area.

Elsewhere, some Member States, especially Romania, Austria, Greece, the Netherlands, Hungary, as well as parts of Germany and Spain still require retail businesses to meet an “economic needs test”⁹⁵ as a pre-condition for developing new stores. These tests leave room for “arbitrary decisions, unjustified restrictions and generate significant costs for business”⁹⁶ and are prohibited under the Services Directive.

A report from the Cologne Institute for Economic Research showed that “the implementation of the Services Directive obligations by Member States is particularly low for business services, where the share for abolished restrictions tend to be lowest.”⁹⁷ The report shows that both small and large retail shops still suffer from a significant share of restrictions.

For any business to be sustainable in the long term, it must be **profitable**. On the other hand, large profits over the long term suggest a market that is uncompetitive. Profitability in retailing and wholesaling is relatively low. Most retail and wholesale businesses need to be very efficient due to the competitive nature of the market.

One measure of profitability adopted by Eurostat calculates the gross operating rate, which is the ratio between the gross operating surplus (value added less personnel costs) and turnover (excluding VAT). In the EU27, the gross operating rate for retail and wholesale firms is 5.0%, with the retail sector at 6.2%, and the wholesale sector at 4.5%.⁹⁸ As shown in the next figure, these are very low levels of profitability compared to other sectors, reflecting the generally high level of competition within the retail and wholesale sector. As a consequence, this can lead to difficulties in accessing finance, particularly for small retail and wholesale businesses. This low level of profitability is particularly acute in generalist stores (non-specialised stores) where recorded gross operating rates are an average rate of 4.3%.⁹⁹

Levels of profitability for the retail and wholesale sectors, as measured by the gross operating rate, vary depending upon the market but are always low compared to other sectors. In the retail sector, the rate ranges from less than 2% in Hungary to just under 8% in the UK, to almost 12% in Slovakia. The gross operating rate of the wholesale sector ranges from 2.6% in Luxembourg and 3.2% in France and Estonia, to almost 7% in Slovakia and Ireland. The reasons behind such variations are complex as they relate to individual firm strategies at a particular point in time. Further research is required to explore these complexities and their implications for markets. What is clear is that over the long term, the competitive nature of the retail and wholesale sector keeps the pressure on low profitability, as long as there is at least one other choice.

⁹⁴ European Central Bank (2011) *Structural features of distributive trades and their impact on prices in the Euro area*. Occasional Paper Series, 128, September, Frankfurt am Main: Taskforce of the Monetary Policy Committee of the European System of Central Banks, p. 8.

⁹⁵ These are tests that make the granting of an authorisation subject to (1) proof of the existence of an economic need or market demand, (2) an assessment of the potential or current economic effects of the activity (for example on established providers), or (3) an assessment of the appropriateness of the activity in relation to the planning objectives set by the competent authority. See Services Directive 2006/123/EC.

⁹⁶ European Commission (2012) *COM(2012) 752 final Report from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: State of the Single Market Integration 2013 – Contribution to the Annual Growth Survey 2013*. Brussels, p. 11.

⁹⁷ Institut der deutschen Wirtschaft Köln Consult GmbH (2013) *Industry as a growth engine in the global economy*. Cologne: IW Consult GmbH, p. 141.

⁹⁸ Eurostat (2010).

⁹⁹ Eurostat (2010).

Gross operating rate in selected economic sectors, 2010 (%)

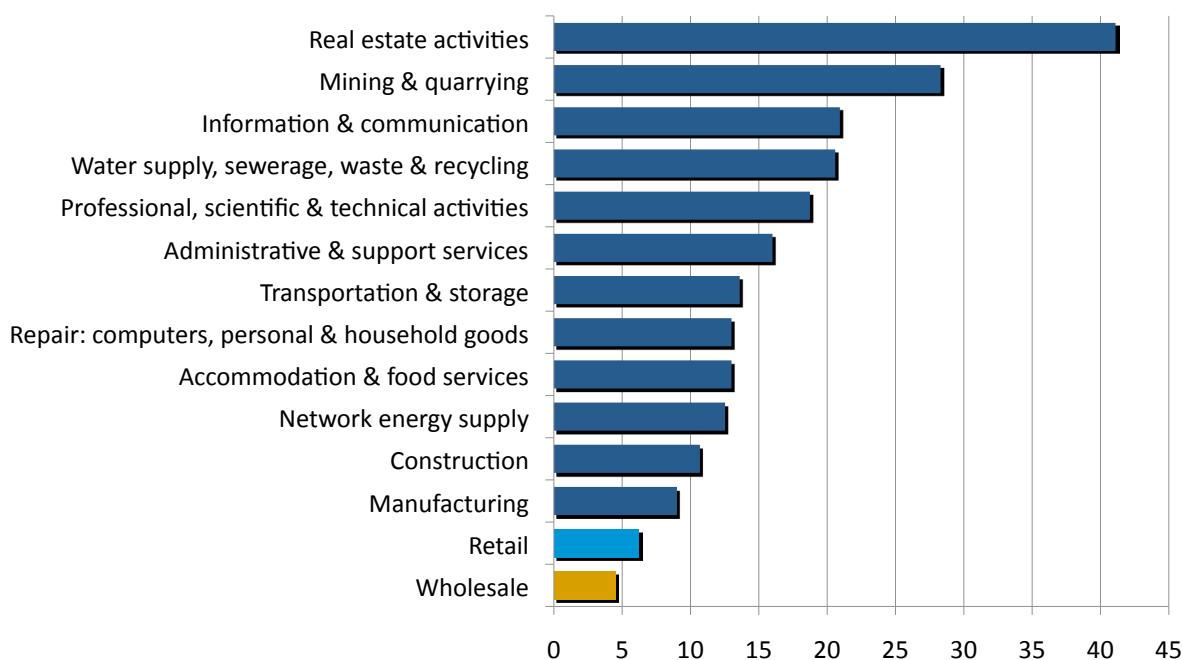


Figure 34
Gross Operating Rate in selected economic sectors, EU27.
Source: Eurostat, 2010.

5.6 Market concentration

This section explores retail and wholesale concentration at different market levels, firstly at the global level, then national, then local. Market concentration is often used as an indicator of competition in any given market. However, in reality, a market with low concentration is not necessarily more competitive than a market with a higher concentration. This is due to the fact that other factors need to be taken into account when measuring competition, including efficiency gains, economies of scale, more efficient distribution systems, population density, and geographic constraints.

There are no dominant retail or wholesale companies on a global or a European scale, unlike other sectors, such as energy, finance, and manufacturing, including within specific product categories. At their heart, even the largest retail and wholesale firms remain made up of businesses that serve the local customer, while leveraging scale efficiencies through an integrated network.

For example, although Walmart, with 2013 revenues of €346 billion, is one of the world's largest companies and the world's largest retailer, Walmart's market share of global retailing is just 3.7%. In comparison, Cadbury/Kraft and Mars each have just below 15% of the global confectionary market.¹⁰⁰ As an even more extreme ex-

ample, Android achieved an 80% market share in the second quarter of 2013.¹⁰¹

At the European level, no single retailer or wholesaler dominates the market. For example, the largest retail firm in Europe is Carrefour. Carrefour has an estimated 2.4% share of the Western European grocery market.¹⁰²

Measures of concentration, such as the Herfindahl-Hirschman Index (HHI¹⁰³), are relatively low at the European level, showing that retail and wholesale are among the least concentrated sectors within the European market.¹⁰⁴

Whilst the degree of concentration may vary across sub-categories within the sectors, the retail and wholesale sectors are also among the least concentrated sectors at a national level, as

¹⁰¹ Mawston, N. (2014) *Android Captures 79 Percent Share of Global Smartphone Shipments in 2013*. Strategy Analytics: Wireless Smartphone Strategies.

¹⁰² Euromonitor International (2013).

¹⁰³ The HHI is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers. The HHI number can range from near zero to 10,000. HHI of more than 1,800 are considered concentrated. Generally, the Commission is "unlikely to identify competition concerns" following a merger or acquisition when the resultant HHI is < 1,000.

¹⁰⁴ European Commission (2011) *Responsible Lending: Barriers to Competition*. Brussels: Directorate-General for Internal Policies. [http://www.europarl.europa.eu/RegData/etudes/etudes/join/2011/464417/IPOL-ECON_ET\(2011\)464417_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2011/464417/IPOL-ECON_ET(2011)464417_EN.pdf)

the following figures from the UK demonstrate.¹⁰⁵ The equivalent concentration ratio (CR) for retail distribution in 2004 was 20%. The wholesale sector was particularly fragmented, with a CR5 ratio of 6% in the UK.

UK industries with the highest five-firm concentration ratios (CR5)	UK industries with the lowest five-firm concentration ratios (CR5)
Sugar: 99%	Metal forging, pressing etc.: 4%
Tobacco products: 99%	Plastic products: 4%
Gas distribution: 82%	Furniture: 5%
Oils and fats: 88%	Construction: 5%
Confectionery: 81%	Structural metal products: 6%
Grocery retailing: 80.7%	Wholesale distribution: 6%
Man-made fibres: 79%	General purpose machinery: 8%
Coal extraction: 79%	Wood and wood products: 9%
Weapons and ammunition: 77%	
Soft drinks and mineral waters: 75%	
Pesticides: 75%	

Figure 35
Highest and lowest five-firm concentration ratios
in the UK in 2004. Source: ONS, 2006.

However, retail and wholesale are not uniform sectors, and activities for a specific sub-sector should be considered rather than figures for the sector as a whole. On average, the most concentrated sub-sectors tend to be electronics and the groceries markets.¹⁰⁶ However, the definition of retail markets is much less clear than with manufacturing sectors as the market is more difficult to identify. For example, the five-firm concentration ratios above for confectionery is clear as this is based on all confectionery products sold in the UK. However, the concentration ratio for grocery retailing only considers large grocery retailers; it does not include other non-grocery retailers that sell grocery products. Hence, any retail concentration figure should be taken as a maximum estimate rather than an overall estimate. This situation is becoming more confused as the development of digital retailing breaks down market barriers and blurs market boundaries even further.

In considering national differences in grocery retailing concentration across Europe, CR5 ratios varied from 32% in Romania to over 90% in Finland, which places the sub-sector at the higher end of concentration levels and amongst some of its major suppliers, such as soft drinks, confectionery and tobacco products.

¹⁰⁵ Mahajan, S. (2006) *Concentration ratios for businesses by industry in 2004*. Economic Trends, 635, October, Office for National Statistics.

¹⁰⁶ European Central Bank (2011) *Structural features of distributive trades and their impact on prices in the Euro area*. Occasional Paper Series, 128, September, Frankfurt am Main: Taskforce of the Monetary Policy Committee of the European System of Central Banks.

Concentration ratio, top 5 grocery retailers, 2012

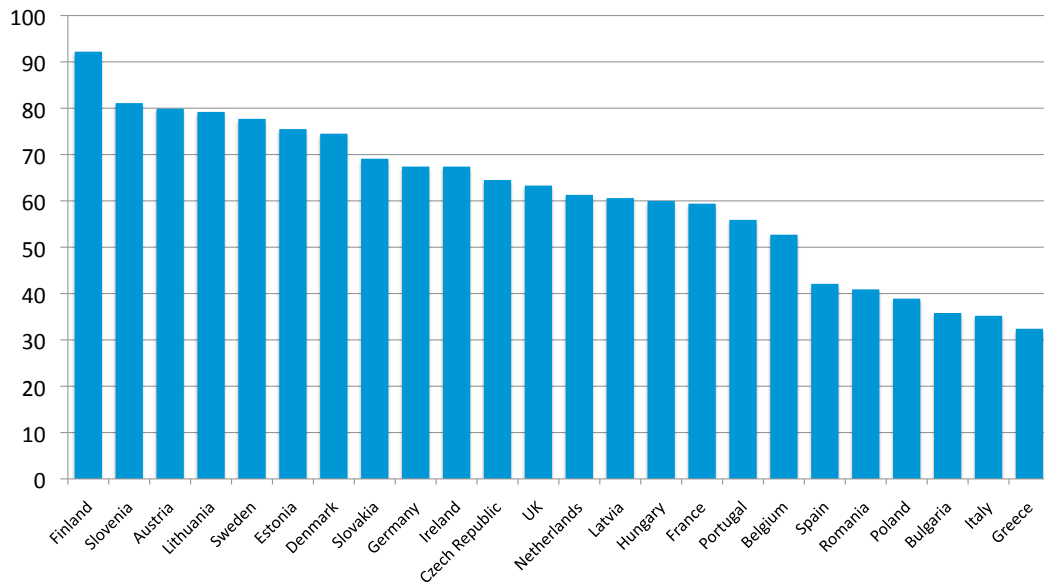


Figure 36

Concentration ratios (CR5) for grocery retailing, selected countries, 2012. Source: Euromonitor, 2013
(Note: company shares by global brand owner, retail value excluding sales tax)

It is important to note that concentration at the national level is just one measure of competition. As previously stated, a low degree of concentration may reflect a highly fragmented market and a highly concentrated market may reflect a higher degree of efficiency. For example, many Nordic retailers and wholesalers appear to have relatively high levels of concentration without which it would not be possible to provide national coverage over a large geographic area with a sparse population.

As stated in a report by the European Central Bank, “Overall, given the different country rankings provided by the various concentration measures (depending on whether the focus is on a reference market (local, regional or national) or on downstream or upstream market power (store, parent company or buying group level) and the fact that these different aspects can be important in various contexts, one should rely not on a single indicator but on a more holistic view and understanding of individual markets.”¹⁰⁷

Retailing and wholesaling is predominantly a very local activity and therefore needs to be considered on a local basis based on realistic assumptions around potential demand and return on investment.

It is this local element of retail activity that means it is always focused on the local community. For example, it is possible to move a factory outside Europe without customers even realising. However, the location of a retail store or wholesaler warehouse selling physical goods cannot be moved without an obvious impact on customers.

It is worth noting that this can change when digital products replace their physical predecessors. For example, the consumer music market has wit-

nessed a huge move towards concentration through digital retailing, with one company alone, Apple iTunes, accounting for 63% of the US digital music market. Digital music is now more than half of music sales in the US. While no European markets have quite the same concentration, they are moving towards this figure. For example, Sweden now sells more digital music by value than physical products.¹⁰⁸

5.7 Labour productivity

Labour productivity is considered as another potential measure of the competitiveness of an economic sector. By its nature, retailing is labour-intensive. High service levels in many specialised and smaller stores outweigh many of the scale economies in the use of labour practiced by larger, more integrated firms. Wholesaling, being less labour-intensive, shows higher levels of labour productivity.

The wage-adjusted labour productivity ratio¹⁰⁹ for retailing in Europe was 125.7%, and 149% for wholesaling in 2010. In other words, each average employee, when taking account of differing types of employment and corresponding wage levels, generated value equivalent to 1.26 times their costs of employment for retailing and 1.5 times for wholesaling. However, both figures were significantly less than either knowledge-intensive service sectors such as real estate, or high intensity manufacturing industry such as pharmaceuticals or consumer electronics.

¹⁰⁷ European Central Bank (2011) *Structural features of distributive trades and their impact on prices in the Euro area*. Occasional Paper Series, 128, September, Frankfurt am Main: Taskforce of the Monetary Policy Committee of the European System of Central Banks, p. 55.

¹⁰⁸ IFPI (2013) *IFPI Digital Music Report 2013 – Engine of a digital world*.

¹⁰⁹ Any calculation of labour productivity must take account of the propensity of a firm to employ part-time labour, and not just rely on headcount figures. Apparent labour productivity is measured as value added per employee. A wage-adjusted labour productivity ratio reduces the impact of the extent of part-time work, and is expressed in value added as a multiple of average personnel costs. Both metrics are used in this section of the report.

Wage-adjusted productivity ratio

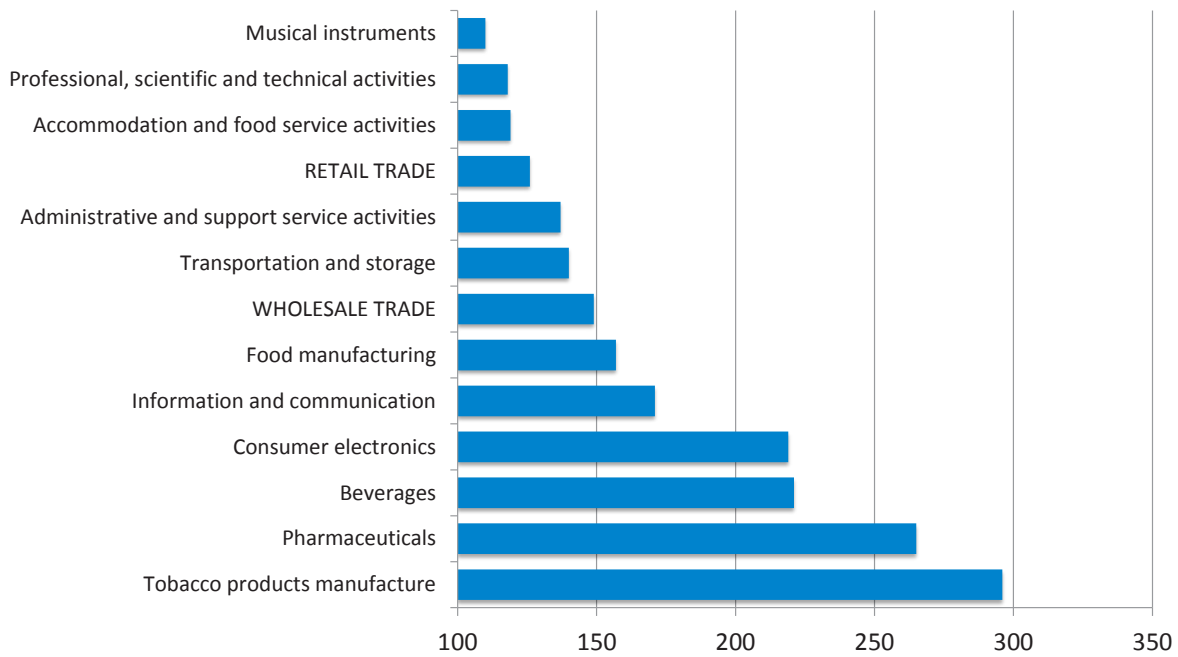


Figure 37
Wage-adjusted labour productivity ratio, selected sectors. Source: Eurostat, 2010.

Wage-adjusted labour productivity ratio, retail & wholesale, 2010

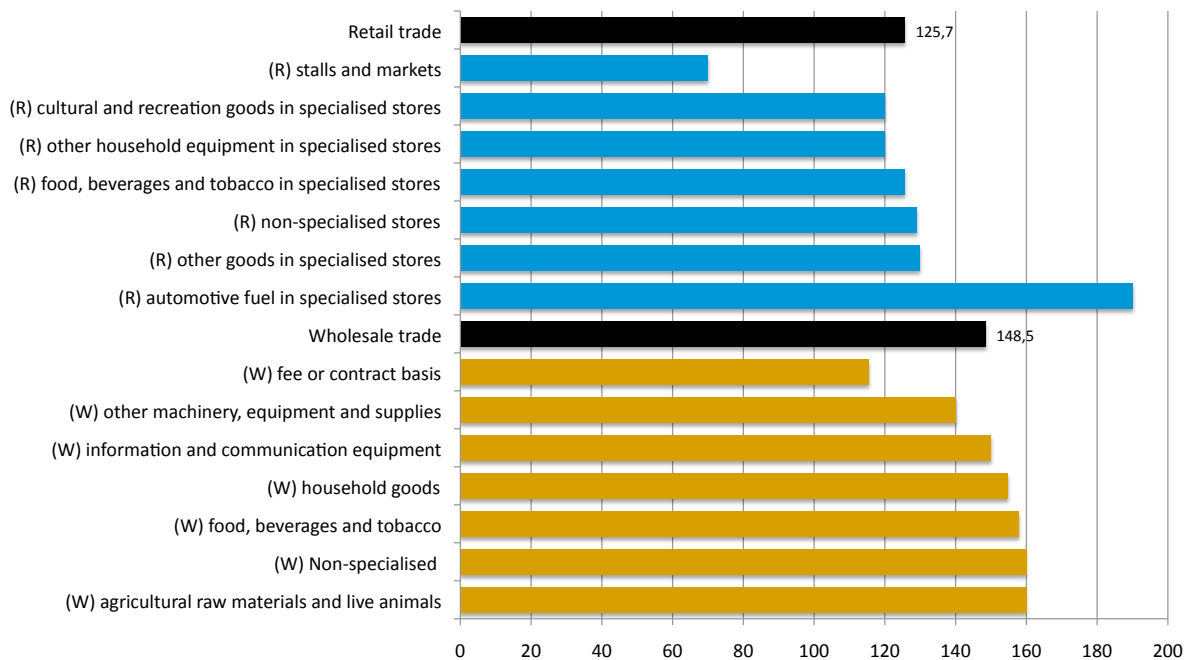


Figure 38
Wage-adjusted labour productivity ratio, retailing & wholesaling.
Source: Eurostat, 2010.

Retailing and wholesaling are complementary. So, in general, a low level of productivity in one sector may be balanced by a higher level of productivity in the other. For example, Bulgaria recorded one of the lowest retail wage-adjusted labour productivity ratios of 102.4%, but has among the highest wage-adjusted labour productivity ratios for wholesale trade of 253.8%. Due to blurring boundaries between retailing and wholesaling activities, clear conclusions are however hard to reach.

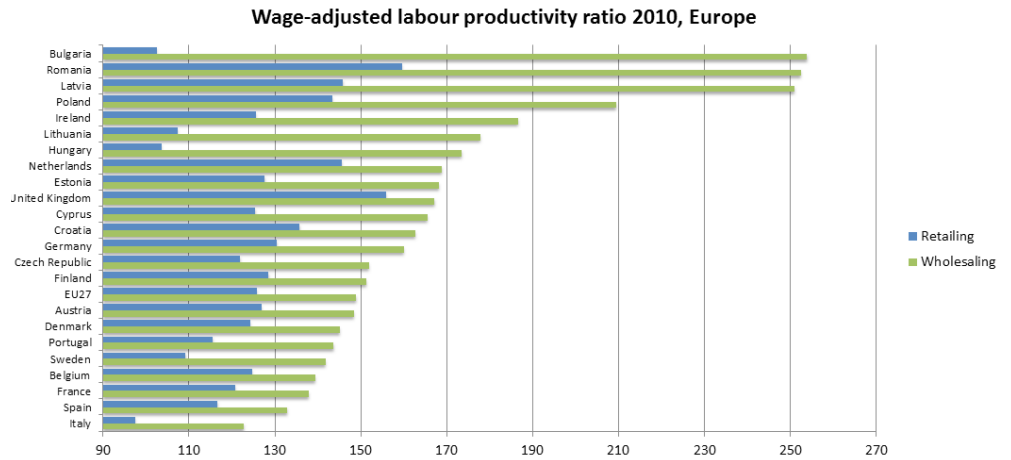


Figure 39
Wage-adjusted labour productivity ratio, retailing & wholesaling (selected countries)
Source: Eurostat, 2010.

Retailing and wholesaling firms seek to achieve economies of scale and service as they grow in size and so there are wide variations in productivity - measured in terms of gross value added per person employed - by size of firm. These range from **micro retail firms** at €18,800 per person employed, to **large wholesale firms** at €71,700 per person employed. By contrast a small percentage (less than 0.15%) of large retail firms employ an average of almost 2,000 people, with a few employing over 200,000, and on average a large retail enterprise generates an added value of €50 million, compared to the overall average for the retail sector of €0.12 million. Large wholesale firms employ an average of almost 700 people, with a few employing over 10,000, and generate on average an added value of €50 million. However, measures of productivity alone can be misleading. Firms generating retail sales via stalls and markets might have recorded the lowest wage-adjusted labour productivity ratio of just 70%, but also recorded the highest gross operating rate of 15.9% due to very low fixed costs.¹¹⁰

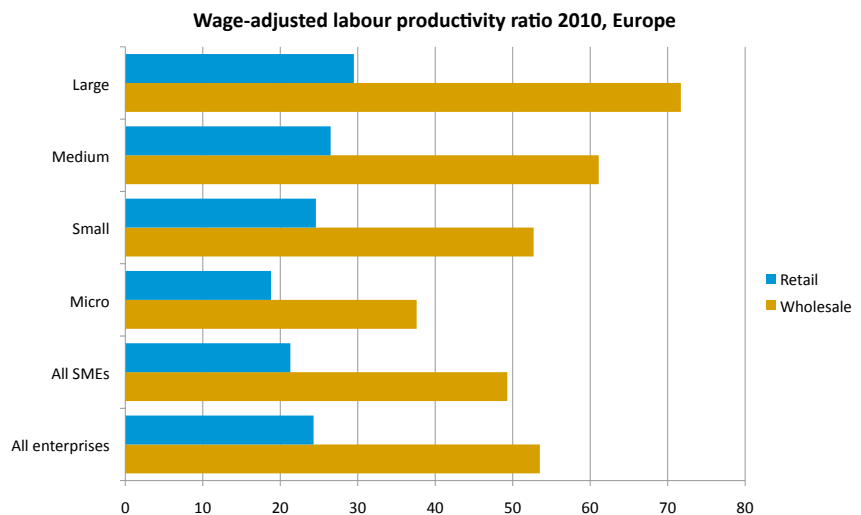


Figure 40
Apparent labour productivity, retailing & wholesaling, EU27 countries, 2010.
Source: Eurostat, 2013

It is often suggested that the productivity 'growth gap' between the US and Europe can be attributed to the poorer productivity experienced in European market services such as wholesaling and retailing.¹¹¹ Most recently, Europe has been seen in parts to be slower to adjust to more challenging economic conditions.¹¹²

Oxford research found that it was unwise to draw definitive conclusions from aggregate international economic analyses of labour productivity in the retailing sector without understanding the context.

There are significant underlying differences in the structure, operating and regulatory environment for retailing across Europe, which impose costs on retailers that are not necessarily incurred in other countries.¹¹³ European regulations creating entry barriers, limiting price competition and restricting shop opening hours have been found to account for a considerable share of the gap between Europe and the US in terms of retail labour productivity growth.¹¹⁴ Differential property and labour costs, planning and zoning regulations, economies of scale arising from larger scale operations and societal preferences for different types of retailing in Europe compared to the US, as well as the lack of a European single market, also currently contribute to an explanation of higher US retail labour productivity. For example, McKinsey argues that planning regulations in Europe still tend to favour less productive small-format stores, deterring private investment in larger formats to the extent seen in the US.¹¹⁵

111 Van Ark, B., O'Mahony, M. and Timmer, M. (2008) *The Productivity Gap between Europe and the U.S.: Trends and Causes*. Journal of Economic Perspectives, Vol. 22 (1), p. 25-44.

112 Van Ark, B. et al. (2013) *Recent Changes in Europe's Competitive Landscape and Medium-Term Perspectives: How the Sources of Demand and Supply Are Shaping Up*. European Economy Economic Papers 485, April. http://ec.europa.eu/economy_finance/publications/economic_paper/2013/pdf/ecp485_en.pdf

113 Reynolds, J. et al. (2004) *Assessing the Productivity of the UK Retail Sector*, Templeton College, Oxford.

114 Roxburgh, C. et al. (2012) *Investing in Growth: Europe's next Challenge*, McKinsey Global Institute. file:///C:/Users/melanie/Downloads/MGI_Europe_Investing_Full_report_Dec2012.pdf

115 Roxburgh, C. et al. (2012) *Investing in Growth: Europe's next Challenge*, McKinsey Global Institute. file:///C:/Users/melanie/Downloads/MGI_Europe_Investing_Full_report_Dec2012.pdf



Key findings

- Competition in the retail sector occurs in many different ways, through a wide choice of products, formats, channels, service levels and prices, together with great variety in terms of ownership structures, business models, size of firms and supply chains.
- Over the years, European retailing and wholesaling firms have been generally successful in keeping price inflation down.
- European consumer price levels compare favourably with other markets. Price dispersion across Member States however still remains and reflects broader cost of living differences as well as underlying differences in regulations, taxation, infrastructure, labour and other costs.
- Retailers and wholesalers have low levels of profitability compared to other sectors, reflecting the generally high levels of competition within and between these sectors.
- Retail and wholesale firms continuously adapt to changes in their environment. Although total numbers of both wholesale and retail enterprises have remained relatively stable across Europe in the past five years, this conceals the constantly active dynamics where new businesses are created and old ones disappear.
- Retail and wholesale thrive on fierce competition through diversity. Unlike other sectors, there are no dominant retail or wholesale companies on a global scale, even within specific product categories. At the European level, no single retailer or wholesaler dominates the European market.
- Labour productivity is often lower in European market services, such as retailing and wholesaling, than in the US. This gap appears to arise due to structural, operating and regulatory differences in both regions. Productivity measures alone do not take account of different quality measures based on the market, sustainability, nor overall profitability.

CHAPTER 6

6 Innovation in the European retail and wholesale sectors

As mentioned in the previous chapter, competitiveness of the European retail and wholesale sectors depends on various factors, ranging from consolidation and market concentration to profitability, the impact of regulation, market dynamism, and labour productivity. Innovation constitutes another key element in competitiveness.

Being so close to the consumer, retailers and wholesalers receive feedback every day on how well they, and the overall market, are performing. As a result, they can incrementally adapt their services and value propositions through continual innovation.

However, conventional ways of thinking about and measuring innovation are inadequate for judging the performance of the retail and wholesale sectors. This is because retailers and wholesalers innovate differently. In practice, the inherently greater transparency and the highly competitive nature of the retail and wholesale sectors mean that firms are more likely to engage in open, collaborative innovation and place as much - if not more - emphasis on less tangible forms of innovation such as marketing, the store experience, as well as in terms of business organisation. Most traditional measures of innovation tend to under-represent the efforts of the commercial sector. This is especially the case for retail firms, where innovation is often more incremental in nature. However, increasingly, retailers and wholesalers also engage in the development of new products or packaging, which corresponds to more visible kinds of innovation. The wholesale sector, in particular, has become adept at devising the integration and co-ordination of previously fragmented networks of firms.

This chapter explores the real drivers and context of retail and wholesale innovation, including technology, products, and process innovation.

6.1 Retailing and wholesaling firms innovate differently

Oxford research suggests that, contrary to the available statistics, retail and wholesale firms are prolific innovators. They need to be. A combination of drivers mean that firms must continually strive with each other to better align themselves to customers' evolving needs and expectations of value, in order to retain their business and generate sustainable competitive advantages. For retailers, for example, "innovation is part of the daily work and business environment rather than a dedicated activity."¹¹⁶

For this reason, most official measures of innovation largely designed to capture R&D spending or more conventional forms of innovation tend to significantly under-represent the efforts of the

sectors. For example, in the EU's R&D Investment Scoreboard - which ranks the EU's top 1,000 companies in terms of their R&D investment - only 10 food & drink retailers were to be found in the top 1,000 and only 16 general retailers - just 2.7% of the total. The Scoreboard does not even recognise wholesaling as a separate category of business. Other European level surveys, such as the European Commission's Community Innovation Survey, are largely designed to capture more conventional forms of innovation and, since 2006, the retail sector has only been an optional sector.¹¹⁷ As a result, in 2010 for example, only 7 countries submitted retail data. Because the last most comprehensive analysis was published in 2005, it is difficult to build up a contemporary picture of innovation in the fast-moving retail sector.

In fact, retailers and wholesalers are more likely to engage in open, collaborative, innovation than many other sectors. They will also place as much of an emphasis on non-technological as technological innovation, especially in relation to the store experience and organisation-related activities, than firms in other sectors.¹¹⁸ 29% of European wholesale firms that engaged in innovation and 28% of retail firms did so co-operatively rather than in isolation.¹¹⁹

Innovations in retailing in particular are much more visible and capable of emulation than elsewhere in the economy (as in, for example, car manufacturing or pharmaceuticals). The lack of secrecy in a highly competitive market means that firms often prefer to innovate incrementally or start small, before rapidly scaling up previously hidden innovative activities. The costs of store-oriented innovation in retailing, for example - particularly amongst larger chains - are the reverse of conventional R&D, since financial and organisational costs of network rollout will generally exceed the cost of prototyping. Many of the kinds of innovations, in which retail and wholesale firms engage, such as new business models or processes, are incapable of being fully protected in terms of intellectual property legislation or European patent law. They will therefore not be reflected in the traditional indicators of innovation used within Europe.

Finally, the innovation practiced by some retailers and wholesalers can have hybrid characteristics: combining service innovation and product innovation. According to the Commission, for example, "more than half of the innovative companies in retail and wholesale have introduced organisational innovations, once more underlining the importance of process and service innovations."¹¹⁹

In other words, retailers engage in innovations that are characteristic of both production and

¹¹⁶ Giesecke, S. et al. (2011) *Sectoral Innovation Watch – Retail and Wholesale Trade Sector – Final Sector Report*. Europe INNOVA Sectoral Innovation Watch, p. 87.

¹¹⁷ In 2010 only 7 countries submitted retail data. The last most comprehensive analysis was published in 2005.

¹¹⁸ Oxford Institute of Retail Management (2007) *Innovation in the UK retail sector*, NESTA.

¹¹⁹ Giesecke, S. et al. (2011) *Sectoral Innovation Watch – Retail and Wholesale Trade Sector – Final Sector Report*. Europe INNOVA Sectoral Innovation Watch.

services sectors, but also engage in technological and non-technological innovation. Efforts can be aimed at developing more efficient supply chains – through, for example, more efficient and more sustainable logistics, self-check outs, etc. The development of own brands is another means of differentiation from competitors and a great source of innovation in many market segments, such as ready-made meals, product reformulations, ethical or organic products, etc. We discuss this aspect of innovation in more detail, below.

Whilst the commerce sector's potential capability to innovate is high, there are barriers within Europe to successful exploitation of innovation. For example, the European Commission's expert group on retail sector innovation recently identified a number of significant barriers to innovation for retailing across Europe: a lack of **visibility** of the retail sector's contribution to economy and society amongst policymakers; a lack of **awareness** amongst retailers of the potential of existing EU innovation initiatives; the difficulty of **costs** in terms of securing the finance required to support radical innovation projects, given the tight margins within the sector; the poor availability of appropriately **skilled labour**; the perceived **business risk** of radical innovation (particularly amongst retail SMEs) and, importantly, a number of **regulatory** constraints – not least, those that presently hinder the completion of the Single Market for Services, notably in relation to e-commerce.¹²⁰ A recent survey of European retailers suggested that over a quarter thought that they could increase sales if they could sell more effectively online and cross-border in Europe.¹²¹ The position of SME retail firms illustrates these barriers particularly well. Low barriers to entry mean that these retailers can be important contributors to European entrepreneurship. Nevertheless, the retail expert group commented: "the high costs of conventional innovation, when combined with low margins and fewer resources for training than for larger firms, may make it difficult for entrepreneurial retail SMEs to participate in conversations about innovation, or to engage with Commission initiatives."¹²⁰

In reality, SMEs in retail and wholesale potentially provide a rich source of innovation, as they often have more flexibility to respond to the local market based on more knowledge about local customer needs and desires. They can also play a major role in differentiating city centres by providing that local difference.

6.2 Consumer and customer-centric innovation

Profitable retailers and wholesalers are successful, first and foremost, because of their superior ability to deliver the right mix of products and categories at the right price to consumers and customers.

Consumers and customers are different across geographies in terms of their business characteristics (for wholesalers), demographics, attitudes, income, occupations (for retailers) and – ultimately, for both sectors – needs and wants. They are looking for choice across many dimensions, such as price, quality and range, convenience and location, specialisation and the availability of expert knowledge. Retail and wholesale firms aim to fulfil all of these different requirements. As times and environments change, so does the mix of requirements.

A series of changes that are affecting consumer purchasing behaviour across Europe will, in turn, generate opportunities for product and process innovation for firms and for the evolution of innovative business models across the retail and wholesale sectors. An **ageing population** means that older cohorts of consumers will increasingly dominate the buying environment, affecting the kinds of products being sought and the nature of the associated services required for their effective provision. Smaller and more urban households will influence the scale and locational requirements of purchasing. Technological changes mean that consumers will have a greater capability to exercise their interest in comparing prices and reducing the potential for paying more than might be considered necessary. Technology will also facilitate the desire to seek out greater convenience, whether by means of online stores, 24-hour availability or click and collect services. Greater information transparency also enables consumer engagement with issues of social responsibility and cohesion and provides the ability for customers to more easily identify and patronise those commerce firms that share their values, thereby creating another opportunity for innovation.

Retail and wholesale businesses must anticipate and respond to these changes in order to succeed. It is worth noting that such changes do not necessarily favour one particular form of organisation or supply chain over another. Large retailers and wholesalers may find it easier to deliver economies of scale, while small retailers and wholesalers may find it easier to deliver convenience and flexibility. Large retailers may use small wholesalers to deliver specialist goods, while small retailers may use large wholesalers to deliver economies of scale.

¹²⁰ European Commission (2013) *Report of the Expert Group on Retail Sector Innovation*. Brussels: Directorate-General for Research and Innovation.
http://ec.europa.eu/research/innovation-union/pdf/Report_from_EG_on_Retail_Sector_Innovation_A4_FINAL_2.pdf#view=fit&pagemode=none

¹²¹ Accenture (2012) *European Cross-border E-commerce: The Challenge of Achieving Profitable Growth*. European Retail Round Table.

6.3 Delivering the right range of products to the customer

Delivering the right mix of products is a critical competitive advantage and creates a dynamic and responsive environment for customers and consumers.

Overall, 62% of European consumers suggest that they like the introduction of new product options by manufacturers,¹²² but attitudes to new products also vary by country and region. Less than one quarter of Europeans (23%) regard themselves as early adopters of new products and only 28% are likely to want to pay a price premium - a far smaller proportion of consumers than in any other region of the world,¹²³ meaning that European retailers must work hard on appropriate product sourcing, innovation and pricing. For example, according to GfK analysis, in Germany - out of 1 million products on the market - retailers introduce some 120,000 new articles annually. And 90% to 95% of newly introduced products are changed within the first one or two years to refresh the assortment.

New products are constantly emerging, not only because of newly expressed consumer demand, but also because of the effects of new technologies, which allow consumers to perform existing tasks better or to undertake wholly new activities with their purchases.

For example, in the consumer electronics category, technical innovation has led to sustained demand for upgraded products ranging from phones to games consoles and from televisions to video cameras. Technical convergence is increasingly leading to integrated devices, which generate product obsolescence in the category.

Retailers' role in innovative product design is increasingly important in helping them meet customers' needs. For example, home furnishing retailer IKEA focuses on working with suppliers to produce well-designed and functional product solutions at low prices in order to make them affordable to customers with limited means.

Requirements for improving health and safety, the development of ethical standards, or changing economic conditions also affect the nature of demand and characteristics of new products.

Changes in product assortment can generate changes in the whole supply chain - from the retail format through which the product is offered, to the retail and wholesale supply chain. Most radically, the digitalisation of products has removed some products from the physical supply chain altogether and pure play and multichannel retailers have had to adapt their ranges and distribution strategies accordingly. Similarly, the demand for more fair trade or ethically produced clothing has resulted in changing supplier networks as well as changes in production conditions.

¹²² Nielsen (2013) *Every breakthrough product needs an audience*, p. 8. <http://es.nielsen.com/news/NielsenGlobalNewProductsReport.pdf>

¹²³ Nielsen (2013) *Every breakthrough product needs an audience*, p. 7. <http://es.nielsen.com/news/NielsenGlobalNewProductsReport.pdf>

6.4 Private labels

Although not always recognised as a source of product innovation, many larger retailers and wholesalers have themselves developed authoritative and highly successful private label brands in collaboration with suppliers. Markets with a higher efficiency display a richer private label environment.

Innovation in private label has important and positive consequences for the value chain. Recent research concluded that a growing private label share in food retailing is far from detrimental to innovation in the market overall.¹²⁴ Rather, investment in private label brings benefits in terms of additional employment in the R&D and marketing departments of retailers and wholesalers and in their supplier companies. It demonstrates retailers' and wholesalers' capability for open innovation as well as an additional dimension on which to compete for the consumer's business. Such open innovation has been good at creating new routes to market for small suppliers in particular. Some brand suppliers also suggest that private label growth gives them an incentive to innovate more. Private label supplier specialists are emerging and growing professionalism amongst these firms will, through closer working with retailers and wholesalers, further drive growth in innovative private label products, which may ultimately lead to consolidation of such firms to improve their cost advantage and economies of scale.¹²⁵

Bain & Company estimates that private label products accounted for nearly all of the growth in packaged food, beauty care and home care categories during the first decade of the 21st century in Western Europe.¹²⁶ Private label presently accounts for over 30% of food retail sales volume across Western Europe, with Switzerland, Spain and the UK leading the European market. Private label growth is closely linked to the level of market share amongst each country's leading retailers, as firms reach the scale required for investment in insight and analysis of likely demand and, perhaps more importantly, can also achieve economically viable production levels. As a result of increased market efficiency, private label penetration grew substantially in Germany, Poland and Turkey, and continued to grow in other Central and Eastern European countries.¹²⁷ The economic crisis has further stimulated growth in consumers' interest in private label brands, particularly in value ranges, with 60% of European consumers in 2010 reporting that they bought more private label during the downturn (especially in Spain, Greece, Portugal and Ireland) and 92%

¹²⁴ Bunte, F. et al. (2011) *The Impact of Private Labels on the Competitiveness of the European Food Supply Chain*. The Hague: LEI Wageningen University & Research Center. European Commission.

¹²⁵ Schreijen, S. (2010) *Private Label vs. Brands: an inseparable Combination*. Rabobank. http://www.rabobank.de/uploads/media/Rabobank_Private_Label_vs_Brands_Schreijen_01.pdf

¹²⁶ Gruver, K. et al. (2011) *Deciding to fight or play in the private-label arena*. Bain & Company

¹²⁷ Private Label Manufacturers Association (2012) *International Private Label Yearbook*
And Schreijen, S. (2010) *Private Label vs. Brands: an inseparable Combination*. Rabobank. http://www.rabobank.de/uploads/media/Rabobank_Private_Label_vs_Brands_Schreijen_01.pdf

saying that they will continue to do so as they retain a 'value mindset'.¹²⁸

The consumer's involvement with private label brands now extends beyond price and economic conditions, as segmentation also plays an important role. Such products originally started out as cheap alternatives to branded products, but increasingly offered consumers easier choices around niche requirements concerning ethically sourced ingredients, particular dietary requirements, or lifestyle choices such as preference for organic products, as well as delivering ranges cutting across several product categories, such as baby, sustainable, or premium products.¹²⁹

As private label brands have extended their reach into non-basic ranges through a segmentation approach, consumers and customers are also making judgments about quality. 47% of European consumers in 2010 felt that private labels were a 'good alternative to named brands', whilst 66% felt that private labels were of as good as, or of a higher quality, than named brands.¹³⁰

6.5 Retailer and wholesaler process innovations

European **retailers** make significant investments in innovative technology systems, such as self-scanning, loyalty marketing systems, mobile web platforms or new payment methods, which continue to transform the customer's experience and the efficiency of retail businesses. However, non-technological innovations in the customer's experience, or business organisation innovations are potentially even more transformational. These include the introduction of new in-store merchandising techniques, new customer service approaches or new business models and formats. It may involve recruiting locally because consumers value this about the stores in which they shop.

New trading formats provide an especially powerful way for retailers to differentiate their value proposition for their customers. Successful leading adopters of such formats can see their efforts generate transformational effects across the sector. Formats such as hypermarkets, convenience stores, discounters and deep category speciality non-food operations all have their origins in the creativity and innovative practice of individual firms, and are good contemporary illustrations of the ways in which specific organisational innovations can generate sector-wide effects.

Research, development and innovation in **wholesale** trade activities are mainly focused on process innovations across the supply chain, and on developing new services that add value to the business-to-business customer. The role of wholesalers is no longer limited to the simple functions of manual handling and storage of finished products. According to the last Community Innovation Survey, nearly 20% of wholesalers had introduced new or significantly improved supporting activities. In particular larger companies dedicate their R&D efforts to developing new processes and technologies related to, for example, more efficient supply chain management, product tracking and tracing, pricing devices on shelves, and electronic commerce. By innovating in these ways, wholesalers reduce transaction costs between producers and buyers and improve the value chain's ability to process market information quickly. More and more, wholesale intermediaries also get involved in the development of marketing and organisational solutions for their commercial partners.¹³¹ This evolution may extend from new category management services on behalf of smaller businesses, the provision of risk management or financing services or even supporting the co-ordination and consolidation of previously fragmented small businesses.¹³²

¹²⁸ Nielsen (2011) *The Rise of the Value-conscious Shopper: A Nielsen Global Private Label Report*. <http://hk.nielsen.com/documents/PrivateLabelGlobalReport.pdf>

¹²⁹ Kumar, N. and Steenkamp, J.B.E.M. (2007) *Private label strategy: how to meet the store brand challenge*. Harvard Business Press.

¹³⁰ Nielsen (2011) *The Rise of the Value-conscious Shopper: A Nielsen Global Private Label Report*. <http://hk.nielsen.com/documents/PrivateLabelGlobalReport.pdf>

¹³¹ EuroCommerce (2013) Wholesale. Job engine at the centre of Europe's economy. http://www.eurocommerce.eu/media/78569/EUROCOMMERCE_Brochure_Wholesales_PAGES.pdf

¹³² Gadde, L.-E., (2012), La dynamique des réseaux de distribution: implications pour les intermédiaires, *Revue Management et Avenir*, 50 and Pardo, C. & Giraud, L., (2012), Les fonctions commerciales au cœur de l'évolution des intermédiaires du BtoB ? : Une étude exploratoire', *Management et Avenir*, 51(1), pp. 167-185.

The example of convenience

Convenience and forecourt stores have achieved a 7.8% compound annual growth rate in sales between 2007 and 2012 worldwide, which makes them the fastest growing retail channel other than online.¹³³ Within Europe, although rates of growth are slower than the 13.3% seen in Asia Pacific, only discount stores have grown faster. In Western Europe, convenience stores sales grew by 3.4% during this period and those in Central and Eastern Europe by 6.4%. Within Europe, this growth has not simply come from the growth of independent convenience stores. Chain retailers are recognising the limits to growth in their large store formats, not least in hypermarkets and large-scale non-food category specialists, and are developing innovative small store formats in a variety of European markets and are experiencing comparatively stronger sales performance from these stores than from larger formats. Increased convenience for consumers is provided through operational aspects at the store level, online, and via the phone, such as different payment options, self-service kiosks, and enhanced product and service information. The convenience store business model is developing in different national markets across Europe, reflecting the variety of cultural possibilities available.

Convenience stores have been successful in Central and Eastern Europe, where relatively lower incomes have for some time been translated into small basket sizes. Wholesalers are contributing to this successful growth by expanding their own downstream retail networks, often using franchising to achieve rapid penetration of markets such as Poland and the Czech Republic. In other European markets, such as Germany, the already strong presence of food discounters in the market, together with trading hours legislation that reduces the operational advantages of convenience stores, has meant that the business model has so far been less successful. Whilst in Sweden, the innovation taking place within larger grocery stores has seemingly been sufficient for many consumers seeking convenience and this, combined with more frequent trips to such stores, means that fewer smaller format stores have so far been developed.

Technology is facilitating convenience, not just through online channels, but through multichannel, hybrid solutions such as click and collect across a range of existing and new formats. There is significant experimentation underway in designing appropriate, convenient solutions for consumers: from warehouse pick up, to new “dark stores” or “drives”, to lockers or “collection points” at local shopping centres. In France, for example, where lower population densities and different shopper preferences make home delivery less attractive, there were already over 2,000 ‘drive’ outlets generating more than €2 billion in turnover in 2012 (and nearly 3,000 in 2013). 20% of French online shoppers claimed to have used drive & collect in 2012.¹³⁴ French retailers’ co-operative Système U forecasts that its projected 1,000 drive outlets alone will by 2015 have generated €1 billion in sales.¹³⁵ Such innovations are becoming widespread outside France: in the Netherlands and the UK in particular, but also appearing in Spain and Italy.

¹³³ Planet Retail (2013) *Convenience Stores 2013*. Global overview and trends.

¹³⁴ Keyneosoftware (2013) *Drive & Picking, un modèle en plein essor*, 22 March. <http://www.keyneosoftware.com/infographie-drive-picking>

¹³⁵ Planet Retail (2013) *Drive Format 2013*. A drive into the unknown.



Key findings

- Retailers and wholesalers innovate differently. Their activities are not reflected adequately in the traditional and conventional measures of innovation.
- Everyday innovation provides variety in product, price, format, channel and experience. The best businesses innovate to deliver the right mix of products at the right price to customers and must constantly strive to better meet the final consumers' evolving needs.
- Retailers and wholesalers are more likely to engage in open, collaborative innovation than many other sectors and will place as much emphasis on non-technological as technological innovation, and also combine both service and product innovation.
- The lack of privacy available in a highly competitive public market, such as retail and wholesale, means that firms often prefer to innovate incrementally or start small, before rapidly scaling up hitherto unseen innovative activities.
- Many larger retailers and wholesalers have developed authoritative and highly successful private label brands in collaboration with suppliers. Private labels increasingly offer consumers easier choices around niche requirements, such as ethically sourced ingredients, special dietary requirements, lifestyle choices, cross-cutting ranging propositions such as baby products.
- Barriers to the successful exploitation of innovation in Europe include inter alia a lack of visibility and awareness from both policymakers and retailers' perspective, costs and business risks associated with radical innovation projects, skills, and a number of regulatory constraints.

CHAPTER 7

7 The digital economy and the European retail and wholesale sectors

The digital economy is driving a major transformation of the European retail and wholesale sectors. So often portrayed simply as a threat to traditional forms of commerce, the scale and nature of innovation being generated by a combination of online, store-based and multichannel **retailers** is in fact making a significant contribution both to the competitiveness of the European economy as well as to the welfare of its consumers. **Wholesalers** have significant skills in using technology both to rapidly process market information as well as to optimise the value chain, especially for smaller customer organisations and professional clients. Wholesalers' expertise in logistics, a central function of the sector, is a critical component in delivering the digital economy. To this end, they are defining for themselves a new intermediary role in the supply chain.

The digital economy has two kinds of impact. On the one hand, for retail and wholesale firms and for business management – whether online or multichannel – the digital economy brings opportunities for greater efficiency, transforms management, stimulates new business models and trading formats, and creates new jobs with new skill requirements. On the other hand, consumers and customers are seeing more competitive prices, greater convenience and new opportunities for cross-border purchasing. Naturally, change of such a scale brings with it challenge for existing firms. Addressing the combined challenges successfully and comprehensively will lead to the development of a new and exciting competitive equilibrium in European commerce.

This chapter explores in more detail the direct and indirect impact of the digital economy on retail and wholesale and how it is adapting to and shaping changing consumer behaviours.

7.1 The digital agenda in Europe

The European Commission's Digital Agenda for Europe provides the political context to this transformation. With targets for the Digital Single Market (DSM) including 50% of population buying online and 20% buying cross-border by 2015, retailing and wholesaling firms are key contributing sectors to a minimum increase of 4% in European GDP arising from the DSM. The doubling of the share of electronic commerce in retail sales and of the internet sector in European GDP by 2015 provides an underlying goal for this agenda.¹³⁶

The effects of the digital economy on retail and wholesale and on consumers are both direct as well as indirect.

- The **direct effect** of the digital economy can be seen in terms of the immediate changes in the contribution of different retail and wholesale channels and the longer term consequences for optimising networks of physical stores, virtual stores and supply chains. It can also be seen in the rapid growth of new non-store channels, such as mobile or the increasing share of cross-border sales.
- The **indirect effect** of the digital economy may be even more profound. This can range from a transformation of jobs and skills in retail and wholesale firms, to effects on consumer's and customer's decision-making processes and the changing nature of their interaction with retail and wholesale firms. Such effects range from the impact on the pre-purchase search and evaluation stages surrounding the choice of retailer by the consumer, as well as the increasingly widespread display of electronic word-of-mouth effects by means of social networking.

This is a fast-moving area of the economy, which makes it more difficult to achieve reliable and timely statistical estimates. Such distinctions are in any case increasingly difficult to sustain as, for example, more and more store-based retailers adopt more fully integrated multi-channel strategies, and it becomes more difficult to distinguish and accurately attribute data on sales by channel.

It is clear, as the Commission's Digital Agenda recognises, that barriers still exist to achieving Digital Single Market goals. These include: the uneven distribution of digital infrastructure across the region (notably availability of broadband connectivity), low levels of consumer trust and an inconsistent experience in shopping online, particularly across borders, and a fragmented marketplace for firms in respect of a variety of issues ranging from electronic payment and physical distribution systems to uneven tax regimes across Member States. The complexity of doing business electronically across borders still acts as a disincentive for action by both consumers and firms.

The growth of online retailers is serving as a stimulus to the whole European market. The new competitive equilibrium encompasses the innovative practices of purely online businesses, as well as increasingly hybrid and integrated traditional retail firms.

¹³⁶ See: <http://ec.europa.eu/dgs/connect/en/content/digital-single-market>.

The starting points for these targets are a share of e-commerce in retail sales at 3.4% and of the Internet sector in European GDP of 4%.

7.2 Retail and wholesale firms and the digital economy

7.2.1 Direct effects

The benefits of appropriate and successful investment in technology can be significant, leading to lower transaction costs, higher productivity, and the enhanced capability for innovation and revenue growth for firms. However, obtaining these benefits is not always straightforward. For example, it is not always the largest firms that gain most from these investments:

“We know that much new e-business activity has historically been concentrated amongst start-ups and what were once initially small and medium-sized organisations... Indeed, the apparent success of some Internet start-ups has been one of the defining characteristics of e-business development. What we can say is that younger firms are generally more flexible and more willing to adopt and implement e-business technologies, which in turn permits them to undertake more experimentation. Adopting e-business technologies may therefore allow small firms to redress some of the imbalance that can normally be found as a result of economies of scale.” (Reynolds, 2010).

European retailers and wholesalers of all sizes are increasingly engaged in developing e-commerce strategies. European retailers make a significant and growing contribution to global online retailing. At €150 billion, it is estimated that European **Internet retailing sales** will make up 27% of all global Internet retailing sales in 2014,¹³⁷ representing an increase of 13% over 2013 and creating a market second only in size to the US. Early estimates shows that the US will account for €179 billion (31%) and China for €106 billion (19%) of global Internet retailing sales in 2014. Within Europe, the region's three largest consumer markets – the UK, Germany and France – dominate European online retail sales.

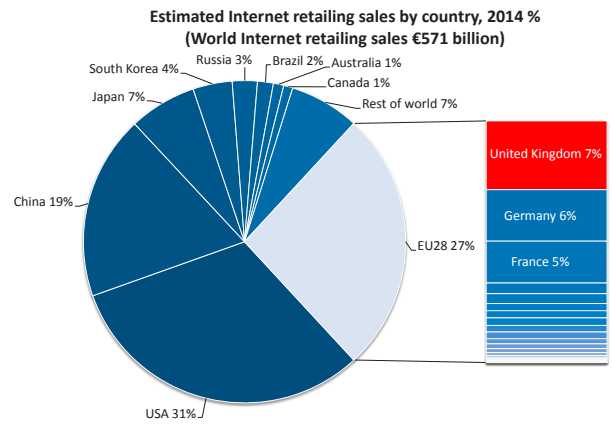


Figure 41
Internet retail sales by selected countries.
Source: Euromonitor estimates, 2014.
Note: Retail sales value, excluding sales tax at current prices.

This has accompanied a growth in the penetration of Internet retailing sales as a percentage of total retail sales across all European countries. Whilst the European average for 2014 is estimated to be 6.2%, this is likely to vary from as much as 11.1% of sales in the UK to less than 1% in Bulgaria. However, penetration levels are growing across all countries, with faster growing smaller markets such as Belgium, Poland and Italy outstripping growth rates in markets where penetration is already high, catching up with markets such as the Netherlands, Sweden and the UK.

Internet retailing sales in individual product groups in national markets have grown at different rates. For example, Internet-based food retailing is of much greater importance in the UK than in Germany; whilst online apparel retailing is significantly larger in absolute terms in Germany than in France. These differences reflect historic channel consumption preferences and structural dissimilarities in the composition of sectors in different markets – such as the historic dominance of mail order catalogue retailing in Germany, for example. Figures 44 and 45 show this distribution of retail sales by product category for the three largest online markets in Europe.

In the **wholesale** sector, it is suggested that for firms and their “activities connected to the information flow, the development of IT has allowed an incomparable rationalization.”¹³⁸ Another report has identified that two-thirds of business-to-business firms saw their online sales growing faster than offline, with online customers having higher order values.¹³⁹ However, little data on the scale and characteristics of wholesaling e-commerce is presently available at the regional level, to match that in existence for the retail sector – with evidence coming instead from partial survey data rather than national or regional statistics.

More than half (51%) of all European retail firms claim to have used Internet channels for sales in 2012, an increase of a quarter over 2011. In seven EU countries, **Internet utilisation** now includes the majority of retail firms, although the extent of utilisation varies from 71% of retail firms in

¹³⁷ Euromonitor International (2014). This definition includes sales generated through pure e-commerce web sites and through sites operated by store-based retailers. Sales data is attributed to the country where the consumer is based, rather than where the retailer is based. Includes m-commerce. Excludes sales of: (a) Products generated over consumer-to-consumer sales sites, such as eBay. B2C proportion of sites such as eBay will be captured. (b) Sales of motor vehicles, motorcycles and vehicle parts; (c) Tickets for events (sports, music concerts etc) and travel; (d) Sales of travel and holiday packages; (e) Revenue generated by online gambling sites; (f) Quick delivery services of food, magazines, household goods and DVD rentals. Alternative estimates exist. The European Multi-channel and Online Trade Association (EMOTA) suggests that, using a broader definition that includes online travel, digital travel and event tickets, business-to-consumer e-commerce sales in Europe will have reached €350 billion in 2013.

¹³⁸ Pardo, C. (2011) *Wholesaling: Exploiting Activity Links and Resource Ties with suppliers and customers*. Ecully: EMLYON Business School, p. 6.

¹³⁹ Forrester Consulting (2013) *Online and Mobile are Transforming B2B Commerce*. White Paper commissioned by Hybris, October.

the Netherlands to 27% in Romania.¹⁴⁰ Intensive online participation in particular by European retail SMEs provides what Boston Consulting Group calls an 'Internet advantage'. This allows them to grow faster without requiring significant investment in infrastructure. Such growth is achieved through an increased potential for geographical expansion, and access to better quality and more affordable customer insights and interactions.¹⁴¹

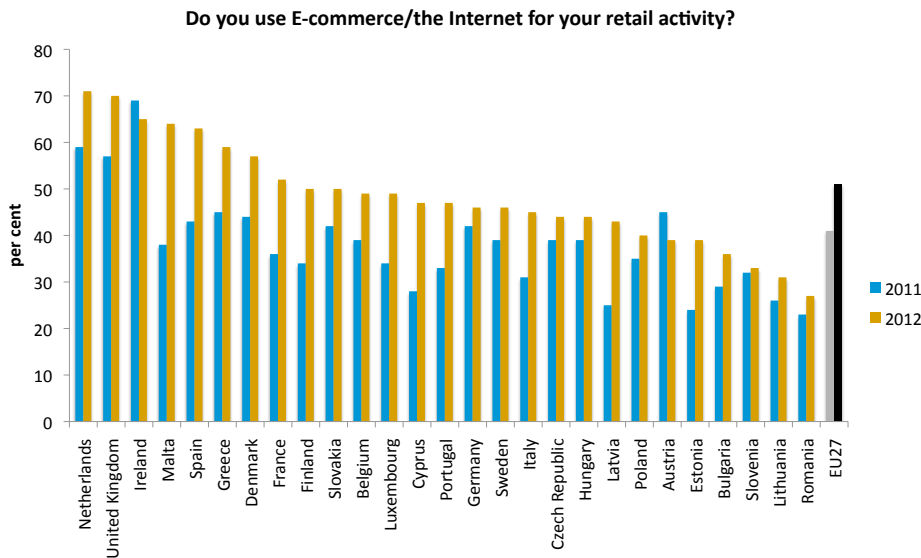


Figure 42
E-commerce activity by retailers.
Source: Eurostat Flash EB 359, 2013.¹⁴²

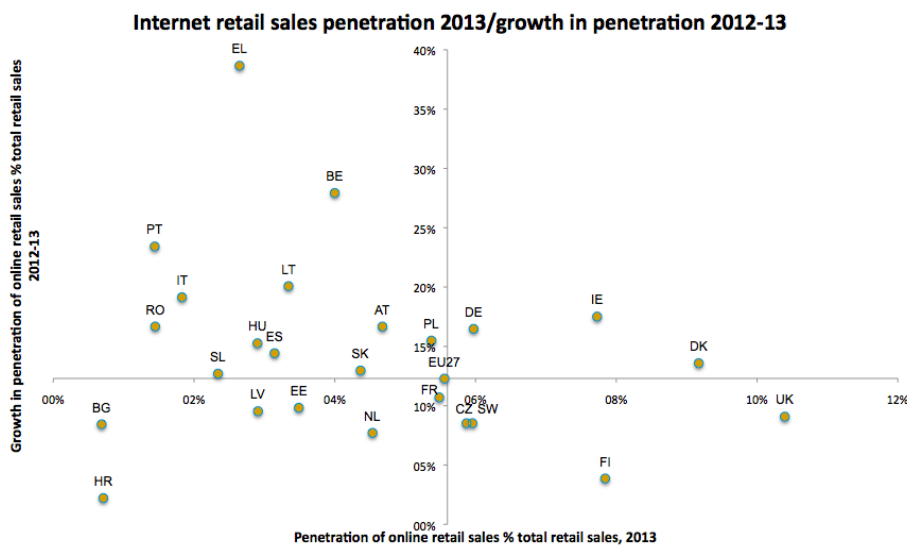


Figure 43
Internet retail sales penetration 2013/growth in penetration 2012-2013 (selected countries)
Source: Euromonitor, 2013.

¹⁴⁰ European Commission (2013) *Retailers' attitudes towards cross-border trade and consumer protection*. Flash Barometer 359. Directorate-General for Health and Consumers. http://ec.europa.eu/public_opinion/flash/fl_359_en.pdf

¹⁴¹ Boston Consulting Group (2012) *The Internet Economy in the G-20. The \$4.2 trillion growth opportunity*. https://www.bcgperspectives.com/content/articles/media_entertainment_strategic_planning_4_2_trillion_opportunity_internet_economy_g20?chapter=3

¹⁴² European Commission (2013) *Retailers' attitudes towards cross-border trade and consumer protection*. Flash Barometer 359. Directorate-General for Health and Consumers. http://ec.europa.eu/public_opinion/flash/fl_359_en.pdf

Internet retailing sales by product category (%), 2012

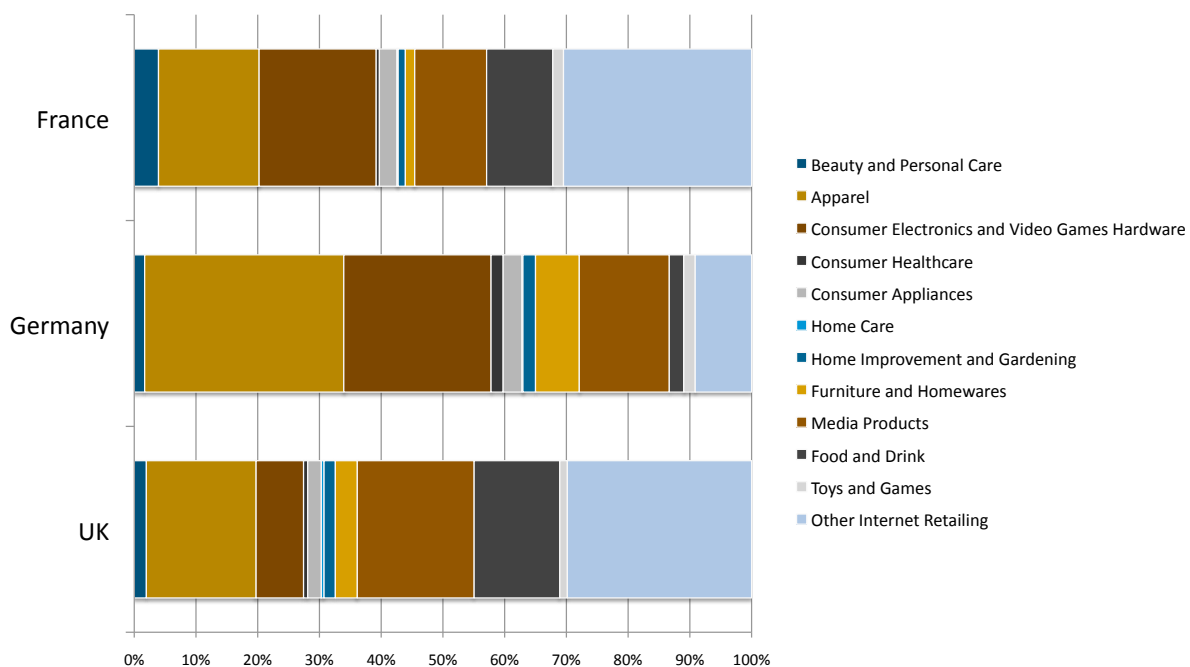


Figure 44
Split by product category, absolute sales € million and % sales (selected countries).
Source: Euromonitor, 2013.

Internet retailing sales by product category, 2012

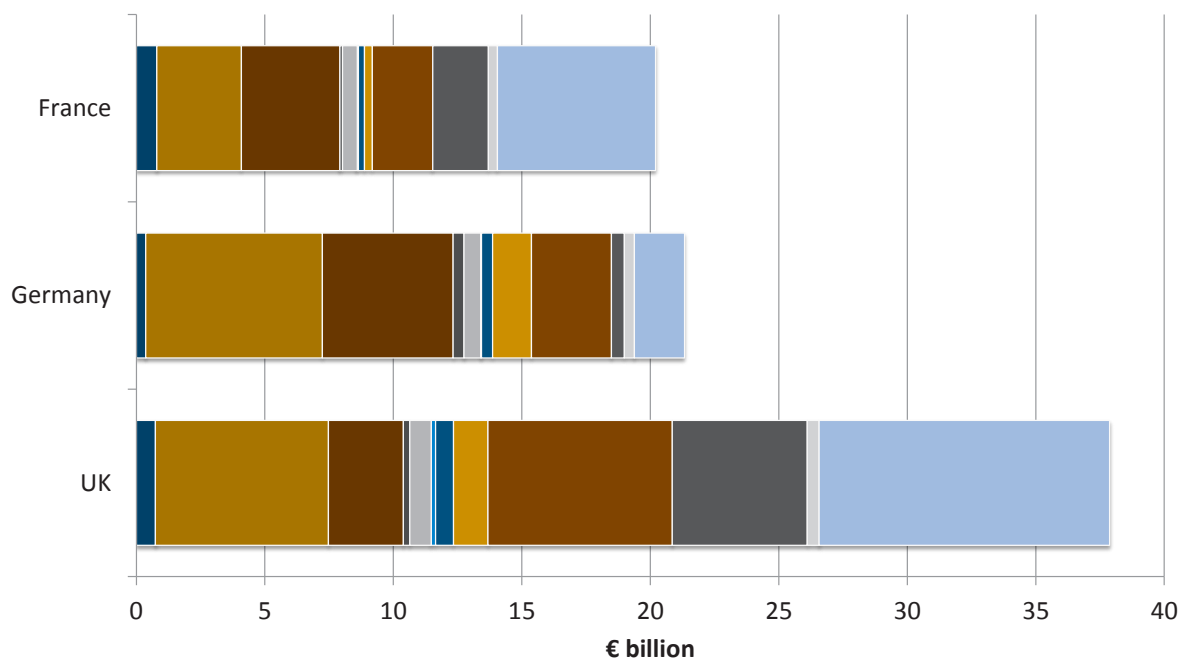


Figure 45
Internet sales by product category, 2012. Source: Euromonitor, 2013.

The development of online retailing creates an opportunity for **cross-border sales**.¹⁴³ Whilst domestic online retail sales are growing, non-store cross-border sales by retailers appear to have slightly fallen between 2011 and 2012 from 27% to 25% of retailers selling to consumers online in at least one other EU country; one out of ten sells to 4 or more EU countries; 7% sell to one other EU country only.¹⁴⁴ The most significant reported obstacles to cross-border growth are reported to be the additional costs of compliance with different consumer protection rules and contract law, together with the high risks of fraud and non-payment. However, more than a third of retailers also consider different tax regulations, higher costs of dispute resolution and restrictions imposed by suppliers on selling outside the domestic market to be disincentives to growth. There is no equivalent data collected for the wholesale sector at present.

The rapid potential for growth of new non-store channels such as **mobile** has captured the imagination of practitioners and policymakers alike across Europe. It is important to put this into context. A great deal of public and media attention has been paid to the consequences arising from the real growth in the penetration of smartphones (from 45% at the end of 2011 to 57% at the end of 2012 in the EU5¹⁴⁵). However, the amount of commerce conducted on smartphones and other mobile devices, known as m-commerce, still remains relatively small, at least at the European level.

European m-commerce sales were estimated at €14 billion in 2013, or less than 0.6% of total European retail sales, and 11% of online retail sales.¹⁴⁶ Other estimates put this figure as low as €2.7 billion, or just 1% of European online retail sales - although this estimate only includes retail sales through smartphones. Some of the most active individual multichannel retailers have reported their own firm-level figures on the proportion of mobile commerce transactions, which range anecdotally from 6% to 15% of their online retail sales. Across Europe, the penetration of mobile sales of all online sales varies from around 20% in the UK and Ireland, to less than 1% in Romania and Slovenia. Even in the UK, where e-commerce sales penetration is the highest across Europe, m-commerce sales are estimated to have accounted for some €7 to 8 billion in sales in 2013 and 15 to 20% of all e-commerce sales, equivalent to only 2% of all retail sales. For Europe as a whole, most striking is the rapid growth in sales via tablet, which contributed an estimated 8% of all e-commerce sales in 2013.¹⁴⁷ A critical driver of this behaviour is the ability of retailers to customise their web experience for the mobile user. One third of the top 50 UK retailers claim to have developed tablet applications and nearly two-thirds iPhone applications for the end user in 2013.¹⁴⁸ One-third of eBay's UK sales are now made by mobile.¹⁴⁹

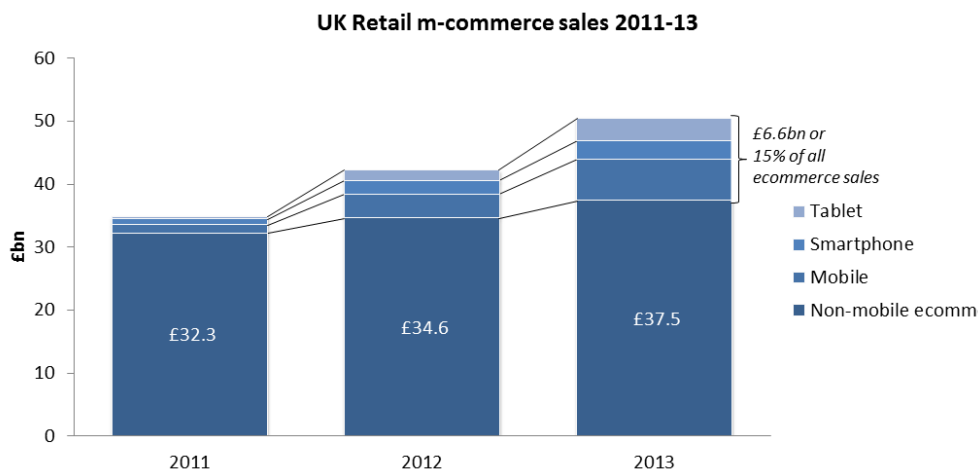


Figure 46
Channel breakdown, including mobile, UK 2011-13. Source: eMarketer, 2013.

143 A cross-border sale is a sale to a final consumer resident in a different EU Member State from that of the seller, through e-commerce/internet, mail order (by post), telesales/call center, representatives visiting consumers at their homes. See European Commission (2013) *Retailers' attitudes towards cross-border trade and consumer protection*. Flash Barometer, 359. Directorate-General for Health and Consumers, p. 21. http://ec.europa.eu/public_opinion/flash/fl_359_en.pdf

144 European Commission (2013) *Retailers' attitudes towards cross-border trade and consumer protection*. Flash Barometer, 359. Directorate-General for Health and Consumers, p. 21. http://ec.europa.eu/public_opinion/flash/fl_359_en.pdf

145 EU5 defined as France, Germany, Italy, Spain, UK.

146 Euromonitor International (2013).

147 Euromonitor International (2014).

148 e-Marketer (2013) *Mobile's Share of UK Digital Retail Sales Doubles*, 11 September. <http://www.emarketer.com/Article/Mobiles-Share-of-UK-Digital-Retail-Sales-Doubles/1010204>

149 Armitstead, L. (2013) Monday Interview: eBay's Europe boss Clare Gilmartin. *The Telegraph*, 23 May. <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/10137939/Monday-Interview-eBays-Europe-boss-Clare-Gilmartin.html>

Given the dynamic nature of the market, sectoral measurement of electronic retail sales by mobile channel across Europe – by smartphone, tablet or other device – and its relationship to non-mobile sales growth, is at a very rudimentary stage. All commentators are in agreement, however, that mobile commerce will grow over the next five years. Technology and market research company Forrester is expecting 15% of all European online sales by 2017 to be generated via smartphone, and Ecommerce Europe saw mobile as a whole “set to explode in 2013”.

One additional significant direct consequence of the digital economy is growing attention to the distribution of **supply side** assets across European retailing. This report has already drawn attention to two areas of adaptation in response to digital economy investments. Firstly, the growth of innovative distribution schemes by means of home delivery or click-and-collect - accounting for over 40% of online purchases for some multi-channel retailers¹⁵⁰ - in addition to investment in new warehousing and logistics space by both online and multi-channel retailers. Secondly, there is considerable pressure being felt by firms in markets where online sales penetration is high to optimise their retail store networks, reducing the demand for retail property of particular types and in particular kinds of location. In the UK, for example, there was a 5% fall in the number of non-food outlets managed by large firms in urban centres between 2011 and 2013.¹⁵¹

7.2.2 Indirect effects

One of the most critical indirect effects of the digital economy is that upon **employment**. The retail and wholesale sectors are regarded as important European employment generators, as Chapter 3 has discussed. Any change in this contribution must be carefully understood and the implications of the digital economy appreciated by policymakers. This is not straightforward. Jobs may be created in new e-commerce or multichannel firms but lost in traditional retail outlets. However, some jobs created may be at a higher skill level than those jobs lost. As the retail sector across Europe becomes more fully integrated across channels, it becomes more difficult to identify and disentangle the net employment effects and the implications for the evolutionary mix of employment and skills in the retail and wholesale sectors.

For example, Ecommerce Europe calculates that 2 million jobs can already be directly or indirectly attributed to the business-to-consumer e-commerce sector. It is not clear whether this impact is net or gross (in other words, whether jobs created have displaced others), or over what period these jobs have been generated.¹⁵² Nevertheless, this number has received widespread attention and a calculation by the European trade association EMOTA also suggests that there were some 2.3 million jobs associated with e-commerce in 2013 and that this could grow by a further 1.5

million by 2018¹⁵³. By way of contrast, US firms employed 1.3 million people in a narrower category of predominantly web-based retail occupations in 2012 alone, an increase of 146% from the 529,000 persons employed in that category in 2003.

In addition, e-commerce occupations are not well-defined and are often hidden in other categories. Retail employers are not asked to separately identify other kinds of jobs created as a result of their e-commerce operations from those in other areas of the business. National statistics do not measure e-retail and wholesale start-ups or legacy within-firm job creation of this kind. Employers are also more likely to announce jobs being created than those being reduced. Finally, digital economy employment effects may be hidden by other changes affecting employment levels such as economic pressures.

Surveys in individual countries report strong growth in e-commerce jobs. In France, for example, nearly 10,000 new jobs were created in 2012 amongst pure play and multichannel businesses, primarily in web developer and product/community management roles. This represented an increase of 13% by comparison with 2011, bringing the total number of jobs in the sector to 75,000.¹⁵⁴

New retail business models and trading formats have become increasingly viable and profitable thanks to the digital economy. For example, **consumer-to-consumer (C2C) trading platforms** provide additional channels through which consumers can engage in e-commerce directly with each other. eBay's turnover in 2007 within 12 European countries was €18.7 billion, and in 2012 it attracted 60 million unique users a month across Europe,¹⁵⁵ although marketplace (C2C) transactions only comprised 49% of eBay's increasingly diversified business turnover in 2013.¹⁵⁶ As a consequence, the value to logistics firms of deliveries arising from the C2C market in Europe was estimated at €2.1 billion in 2008, or around 5% of courier, express and parcel turnover across Europe.¹⁵⁷

These revenues are relatively small by comparison with some other markets. Some developing markets have moved directly to C2C online operations, bypassing conventional retailers altogether. For example, in China some 70% of the e-retail

¹⁵⁰ John Lewis (2013) *How we shop, live and look*. The John Lewis Retail Report 2013.

¹⁵¹ Reynolds, J. (2013) Diversity in the UK's High Streets. *Oxford Institute of Retail Management*, 19 July. <http://oxford-institute.sbsblogs.co.uk/2013/07/19/diversity-and-the-uks-high-streets/>

¹⁵² Ecommerce Europe (2013) *Europe B2C Ecommerce Report 2013*, p. 8. <http://www.ecommerce-europe.eu>

¹⁵³ Devenuto, W. (2013) Update on Ecommerce in Europe. In: *The 5th Annual European Ecommerce Conference*, Brussels, 15 October. https://eu-ems.com/event_images/Downloads/Presentation%20E-Commerce%20Conference%202013%20-%20Walter%20Devenuto%20EMOTA%2015-10-2013.pdf

¹⁵⁴ FEVAD and CCM Benchmark (2013) *Les effectifs du e-commerce ont progressé de 13% en 2012 et devraient continuer de croître en 2013*. 20 June. <http://www.fevad.fr/espace-presse/les-effectifs-du-e-commerce-ont-progresse-de-13-en-2012-et-devraient-continuer-de-croitre-en-2013>

¹⁵⁵ Armitstead, L. (2013) Monday Interview: eBay's Europe boss Clare Gilmartin. *The Telegraph*, 23 May. <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/10137939/Monday-Interview-eBays-Europe-boss-Clare-Gilmartin.html>

¹⁵⁶ eBay Inc. (2014) *Unaudited Summary of Consolidated Net Revenues by Type*. http://investor.ebayinc.com/common/download/download.cfm?companyId=ebay&fileid=160233&filekey=C643954A-A271-4706-BC74-EE63615A1B64&filename=eBay_Revenue.pdf

¹⁵⁷ Meschi, M., Irving, T. and Gillespie, M. (2011) Intra-Community cross-border parcel delivery. A study for the European Commission. London: FTI Consulting, p. 90. http://ec.europa.eu/internal_market/post/doc/studies/2011-parcel-delivery-study_en.pdf

and wholesale market is C2C thanks to the dominance of individuals trading through microbusinesses. Chinese marketplaces alone generated €81 billion turnover in 2011.¹⁵⁸

Amongst wholesalers, 57% of Europe, Middle East and Africa (EMEA) business-to-business firms agreed that online buying had fundamentally changed the way their customers interacted with them, with (similar to business-to-consumer) their customers increasingly undertaking both product research and purchasing online. Customers are also emulating business-to-consumer shoppers in moving their attention to mobile platforms, at the expense of physical catalogues, and to 'self-service'.

leaving aside the underlying cultural differences that affect the characteristics of consumers' behaviour within particular countries. For example, online payment systems – a prerequisite of widespread and convenient online retailing – have tended to be adopted more slowly by German consumers until recently.¹⁶²

7.3 Consumers and the digital economy

7.3.1 Direct effects

The increase in online retail sales penetration for retail firms reflects the rapid growth of consumer activity online across Europe. Understanding the motivations of consumers and the emerging trends in **online consumer behaviour** is key to understanding the ways in which the European digital economy will evolve. For example, multichannel consumers spend more than single channel consumers.¹⁵⁹ Yet whilst more than half (53%) of all European consumers and 59% of Internet users made at least one online purchase in 2012,¹⁶⁰ there are clear barriers to cross-border buying which may work to prevent the development of a digital single market being fully realised.¹⁶¹

Average annual European **retail spending online** of €296 per capita, forecast for 2014, is still lower than the €562 per capita per annum likely to be generated in the US. However, this conceals some very significant variations between European countries. Denmark's forecast average of €719 and the UK's of €666 per capita for 2014 are the world's highest, whilst the Netherlands is nearer the European average at €263 and Portugal is €61 per capita.

What accounts for these differences within Europe, particularly amongst markets of similar size? Oxford analysis suggests that in the UK there has been a particular combination of circumstances: the investment of a few, large, retail firms in multichannel retailing; the early targeting of the UK for inward investment by US pure play start-ups; greatly improved fulfilment and distribution services; and, amongst consumers, a greater comfort with credit card and online payment systems, combined with cumulative effects of experience and word-of-mouth. Not all these conditions prevail in every European market,

158 Calculated from Dobbs, R. et al. (2013) China's e-tail revolution : Online shopping as a catalyst for growth. McKinsey Global Institute, p. 15. file:///C:/Users/melanie/Downloads/MGI_China_e-tailing_Full_report_March_2013.pdf

159 Accenture (2012) *European Cross-border E-commerce: The Challenge of Achieving Profitable Growth*. European Retail Round Table.

160 Eurostat, Information Society statistics (2013).

161 Charlton, S. et al. (2013) *Discrimination of Consumers in the Digital Single Market*. European Commission Directorate-General for Internal Policies. [http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/507456/IPOL-IMCO_ET\(2013\)507456_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/507456/IPOL-IMCO_ET(2013)507456_EN.pdf)

162 Deutsche Bundesbank (2012) *Payment behaviour in Germany in 2011. An empirical study of the utilisation of cash and cashless payment instruments*. https://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Bulletins_and_surveys/payment_behaviour_in_germany_in_2011.pdf?__blob=publicationFile

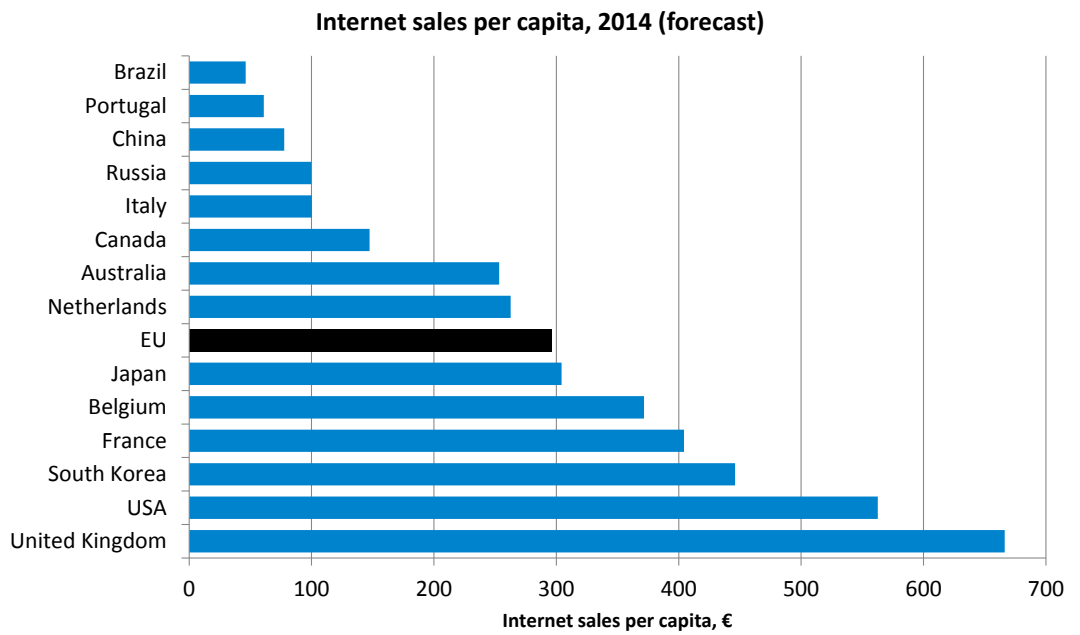


Figure 47
Internet sales per capita by selected countries. Source: Euromonitor estimates. 2014.

Consumers in a cluster of six EU countries, plus Norway, make up a ‘leading’ group of e-commerce-active markets. These include: Netherlands, Sweden, Denmark, Finland, Germany and the UK. This is because there is a strong association between access to broadband at home and likelihood of making a purchase over the Internet for Internet users in most European countries. However, half of European Member States still fall below the 50% target for consumers reporting buying online in the past twelve months (Figure 48).

Demographic and gender barriers also persist. Across Europe, men are still more likely than women to purchase goods and services online (whether domestically or across borders), which may be due to the type of products bought. The age group with the highest propensity to shop online are 25-39 year-olds, followed by 15-24 year-olds. Only one third of Europeans aged over 55 reported that they had shopped online in the past year.

Europeans increasingly use a mix of digital channels to access Internet services. But whilst over 23 million in the EU5 countries had access to a tablet as well as a smartphone in 2012, not all of them use their devices to access retail services to the same extent.¹⁶³

¹⁶³ Comscore (2013) Europe Digital Future in Focus 2013. http://www.comscore.com/Insights/Presentations_and_Whitepapers/2013/2013_Europe_Digital_Future_in_Focus
EU5 defined as UK, Germany, France, Spain and Italy.

Broadband access at home x Internet purchase in last 12 months, 2012

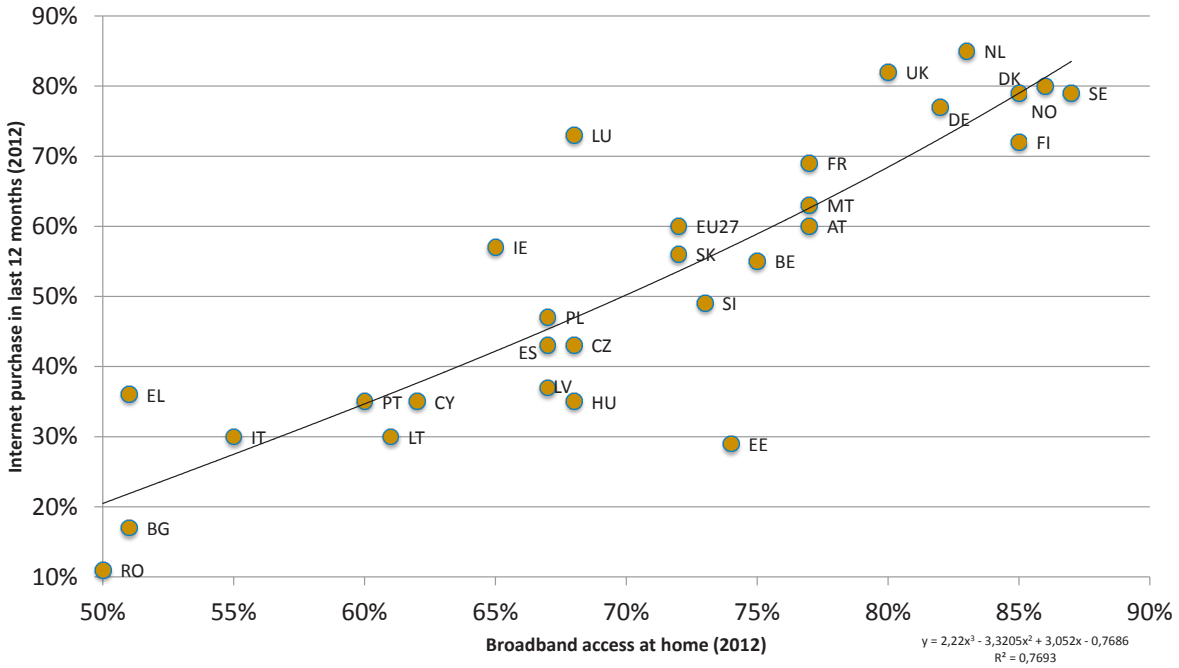


Figure 48

Broadband access relationship to propensity to purchase online.

Source: Eurostat Information Society statistics isoc_bde15b_h, 2012; isoc_bdek_smi, 2012.

Internet purchasing of goods or services, 2012

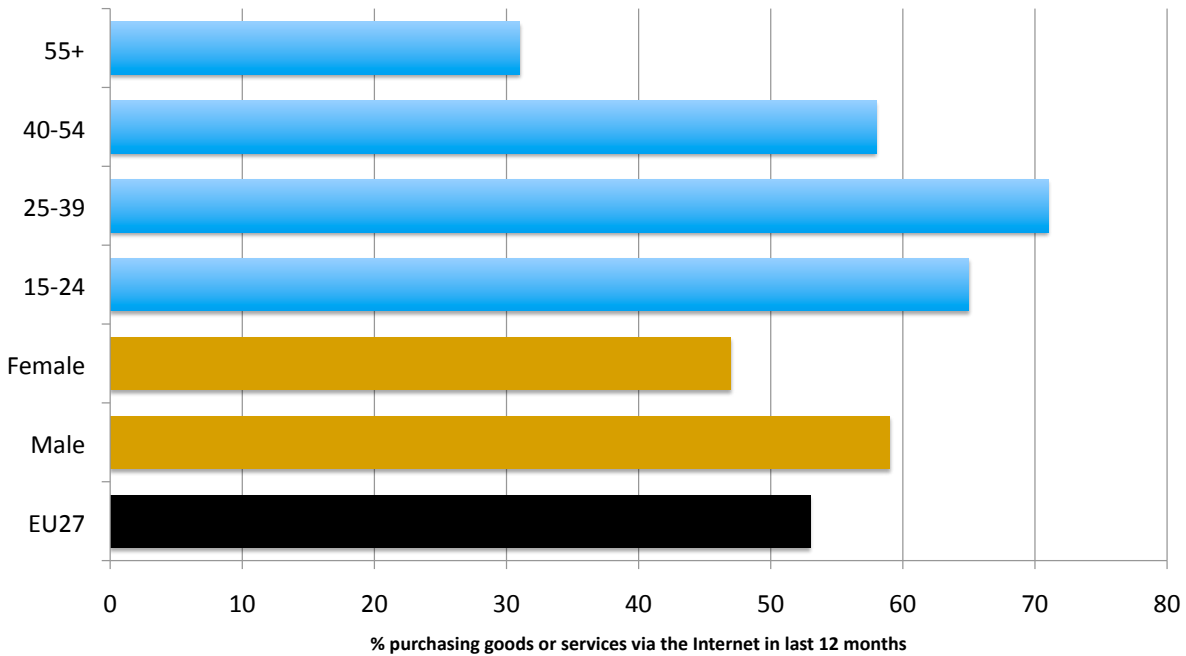


Figure 49

Internet purchasing by age & gender. Source: Eurostat Flash EB 358, 2013.

Digital usage share by platform, Europe, 2012

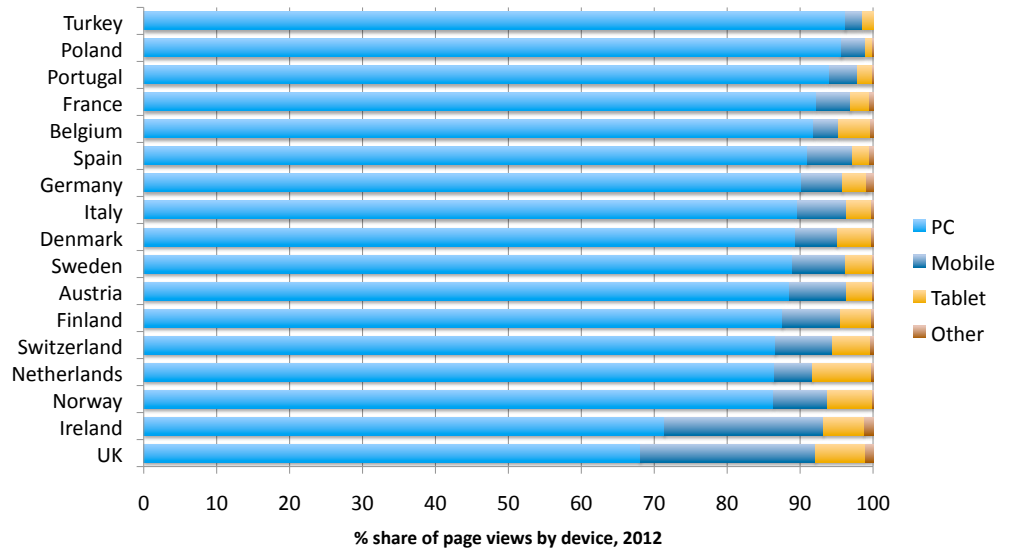


Figure 50

Device share of page views across countries in Europe, December 2012. Source: ComScore Inc., 2013.

Only 15% of European consumers claim to have shopped electronically in another EU country in 2012, whether from home or not. Their main reasons for doing so were to benefit from cheaper prices and to have access to a wider product range. Although this proportion has increased by 50% since 2011, and despite some smaller domestic markets such as Ireland and Malta showing higher levels of penetration, the low average figure reflects the fact that only one third of European consumers feel confident about **buying across borders** over the Internet. Indeed, a majority of consumers in eight European countries say that they would not be confident in buying products or services online in another EU country, including respondents in Germany (59%), Portugal (61%) and Hungary (61%). Prior experience improves likelihood of purchase but significant obstacles include a lack of information, a lack of language skills - and a lack of interest. Shoppers wishing to shop cross-border often report frustration and disappointment in not being allowed to buy products in other Member States, or to be charged more for them.¹⁶⁴

% consumers making cross border purchases of goods or services in another EU country via the Internet in 2012

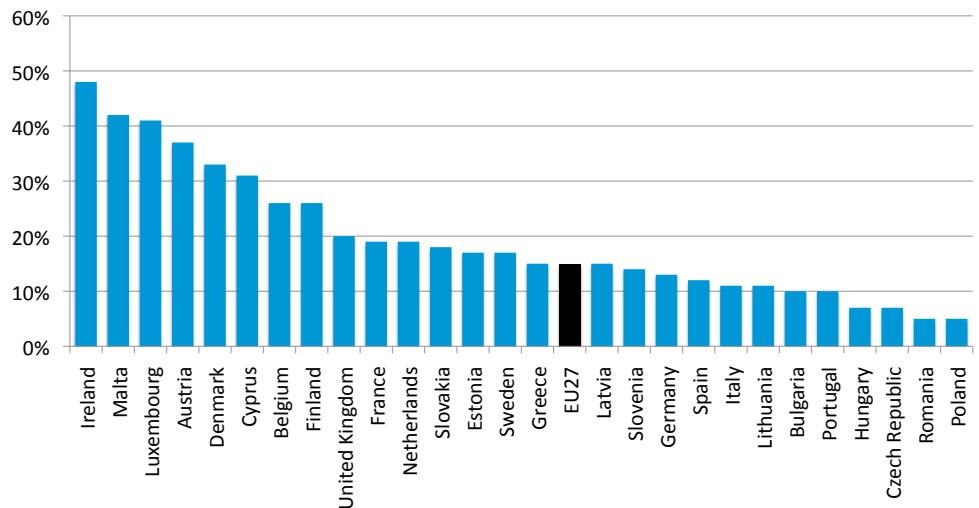


Figure 51

Source: Eurostat Flash EB 358, 2013.

¹⁶⁴ Charlton, S. et al. (2013) *Discrimination of Consumers in the Digital Single Market*. European Commission Directorate-General for Internal Policies. [http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/507456/IPOL-IMCO_ET\(2013\)507456_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/507456/IPOL-IMCO_ET(2013)507456_EN.pdf)

7.3.2 Indirect effects

The Internet influences European consumers' decision-making processes in ways that go far beyond what is shown by the extent of online sales. Consumers increasingly use a combination of online and offline resources to research products and services and make their purchases. They can research online and subsequently purchase offline (also called ROPO sales), or research offline and purchase online - and both have become important new kinds of behaviours for the retail sector to accommodate.

Researching offline to buy online (also called "showrooming"), is reported anecdotally as a serious challenge for retail stores. For example, 18% of European consumers claimed to compare prices with their mobile phone.¹⁶⁵ This behaviour is especially pronounced in countries with significant penetration of smartphones and a high proportion of consumers accustomed to online buying. This is the case in the UK, where for example 69% of smartphone or tablet users reportedly claim that they have used their devices to compare prices whilst in store.¹⁶⁶ Of these consumers, half claimed that they generally made their final purchase online as a result, although other surveys suggest that this proportion is, in practice, much smaller. Consumers with smartphones also share their discoveries with friends and family. In the UK this included: taking a picture of a product (42% of smartphone owners reporting having done this), texting or calling their friends about a product (37%) and sending a picture (22%).¹⁶⁷



Figure 52
Research and purchasing channel options¹⁶⁸

The figure below shows that for three of the four European countries, offline sales influenced by online research (ROPO sales) were higher than online sales alone in 2010. For all four countries shown on the graph, ROPO sales contribute between 0.9 and 2.9 times the amount of sales generated by online retail alone. In Germany alone, this amounted to €65 billion (\$88 billion) of offline sales that were potentially influenced by online research. The ratio is significantly higher in Germany, France and Italy than in the UK because of an apparent relative reluctance to complete the sale online as against in store in these countries.¹⁶⁹ However, Internet-influenced sales are a good indication of latent demand that could be converted online, as behaviours in those markets change.

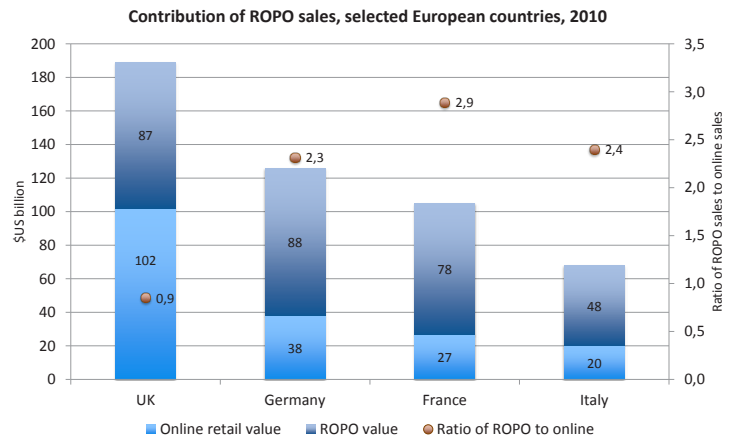


Figure 53
Research online, purchase offline. Source: BCG, 2012.

¹⁶⁵ Nielsen (2013) *The mobile consumer: a global snapshot*. <http://www.nielsen.com/content/dam/corporate/uk/en/documents/Mobile-Consumer-Report-2013.pdf>

¹⁶⁶ Accenture (2012) *Survey results: Today's shopper preferences: Channels, Social Media, Privacy and the Personalized Experience*. p. 12. <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Interactive-Exec-Summary-Survey-Results-Nov-2012-2.pdf>

¹⁶⁷ comScore Data Mine (2012) *44 Percent of UK smartphone owners use their phone for a shopping activity in store*. 21 December. <http://www.comscore.com/2012/12/44-percent-of-uk-smartphone-owners-use-their-phone-for-a-shopping-activity-in-store/>

¹⁶⁸ ROPO stands for Research Online, Purchase Offline.

¹⁶⁹ Boston Consulting Group (2012) *The Internet Economy in the G-20. The \$4.2 trillion growth opportunity*. https://www.bcgperspectives.com/content/articles/media_entertainment_strategic_planning_4_2_trillion_opportunity_internet_economy_g20/?chapter=3

Social media networks play an increasingly critical role in informing and targeting consumers. Engaging in such activity has great potential for European retailers, although commercial outcomes are sometimes hard to measure and achieve as the sector is still learning. All regions of the world have experienced significant growth in social media activity, particularly in respect of the two major networks: Facebook and Twitter. Europe is no exception as it now has more Facebook users than North America and has greater potential for growth, with a lower penetration rate of 30.5%. There were 251 million Facebook users¹⁷⁰ in Europe in December 2012 - a 12.5% increase over the previous year - of which 192 million users in the EU27. Europeans spend 6.7 hours per month on social networking sites or blogs,¹⁷¹ and have been shown to be more engaged (measured in terms of total minutes spent) than other regions of the world.¹⁷² Denmark, Sweden, Malta and the UK have Facebook penetration figures greater than 50%, compared with Germany at 31%. However, both North America and Europe have been eclipsed by the 278 million Facebook users based in Asia.¹⁷³

The benefits of engagement with social media networks for European retail firms are to generate customer insight and acquire new customers, as well as to drive sales from existing customers and generate customer loyalty. Case study evidence suggests that retailers can influence propensity to purchase through paid media on Facebook. For example, 92% of UK online shoppers indicated that they were more likely to purchase from a company that used social media.¹⁷⁴

There are no existing sectoral estimates of overall European retail penetration of Facebook or Twitter. Estimates suggest that some 86% of the top 100 European online retailers already have their own Facebook fan page.¹⁷⁵ It is moreover possible to measure their popularity through Facebook tools measuring the level of engagement, like a page's 'People Talking About This' (PTAT) score¹⁷⁶ or the numbers of likes.

The conventional European retailer with the largest community of followers on Facebook is less than half the size of Walmart. Nor does this presence necessarily equate to company size: some smaller retail businesses punch significantly above their weight on these networks. For example, H&M generates the equivalent of more than 40% of Walmart's social media reach measured in terms of 'likes' and a higher PTAT score, despite being less than 5% of Walmart's size when measured by sales. The data also shows that multinational European retail firms use their Facebook sites not just for local fans, but to echo and reinforce their physical presence in international markets through their social media footprint. Comparing 'like' data for two European-based retail firms shows the extent to which their 'local' fans are in practice outweighed by fans from elsewhere in the world.

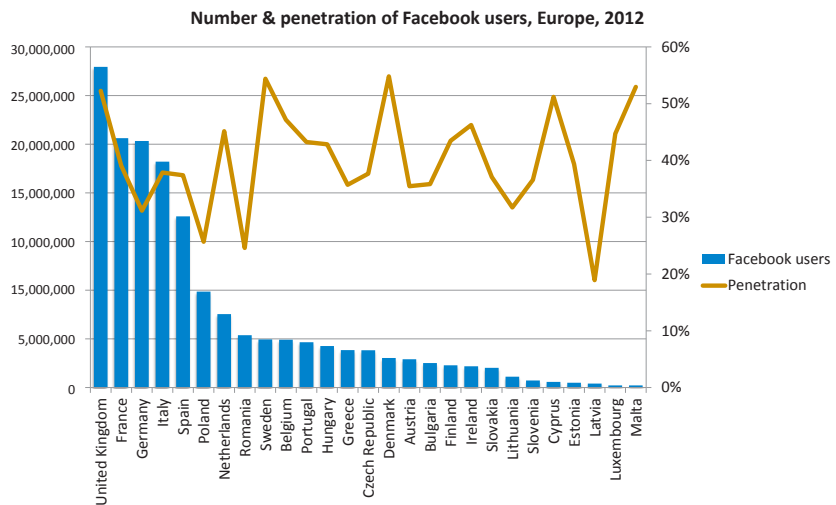


Figure 54
Source: Internet World Statistics, Socialbakers, 2013.

170 Defined as 'monthly active users'
See *Socialbakers (2013) 10 Fastest Growing Countries on Facebook in 2012*, 23 January. <http://www.socialbakers.com/blog/1290-10-fastest-growing-countries-on-facebook-in-2012>

171 Comscore (2013) *Europe Digital Future in Focus 2013*. http://www.comscore.com/Insights/Presentations_and_Whitepapers/2013/2013_Europe_Digital_Future_in_Focus

172 ComScore and Facebook (2012) *The Power of Like Europe: How Social Marketing Works for Retail Brands*. <http://www.slideshare.net/MEL1971/the-power-of-like-europe-how-social-marketing-works-for-retail-brands-july-18-2012>

173 According to <http://www.internetworldstats.com/> and <http://www.socialbakers.com/facebook-statistics/>

174 Accenture (2012) *Survey results: Today's shopper preferences: Channels, Social Media, Privacy and the Personalized Experience*. p. 5. <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Interactive-Exec-Summary-Survey-Results-Nov-2012-2.pdf>

175 ComScore and Facebook (2012) *The Power of Like Europe: How Social Marketing Works for Retail Brands*. <http://www.slideshare.net/MEL1971/the-power-of-like-europe-how-social-marketing-works-for-retail-brands-july-18-2012>

176 The 'People Talking About This' (PTAT) metric was introduced in 2011 by Facebook. It measures a range of forms of engagement with a page (e.g. liking, mentioning a page, checking in at place). The PTAT metric measures the previous seven-day period, making it a more dynamic attribute than simply numbers of 'likes'.

Retailer	Country of Origin	Likes	People Talking About This	Likes as % Walmart
Walmart	USA	34,013,587	218,560	100.0%
Amazon.com	USA	21,183,099	196,346	62.3%
H&M	Sweden	14,890,056	224,413	43.8%
ebay	USA	6,672,355	55,310	19.6%
Top Shop	UK	3,562,258	20,496	10.5%
Privalia	Spain	2,901,342	59,985	8.5%
New Look	UK	2,727,347	17,498	8.0%
Decathlon Espana	Spain	1,681,713	27,375	4.9%
Lidl	Germany	1,674,782	9,254	4.9%
Kiabi	France	1,579,580	265,828	4.6%
Calzedonia	Italy	1,499,075	19,919	4.4%
Marks & Spencer	UK	1,468,523	20,948	4.3%
El Corte Ingles	Spain	1,430,371	25,174	4.2%
dm Drogerie	Germany	1,313,777	5,597	3.9%
Tesco	UK	1,311,270	29,681	3.9%
Next	UK	1,283,581	8,776	3.8%
Media Markt	Germany	1,271,368	34,614	3.7%
Saturn	Germany	1,229,753	32,104	3.6%

Figure 55
Comparative retail popularity on Facebook, selected firms, 2013.
Source: Facebook, Socialbakers, 2013.

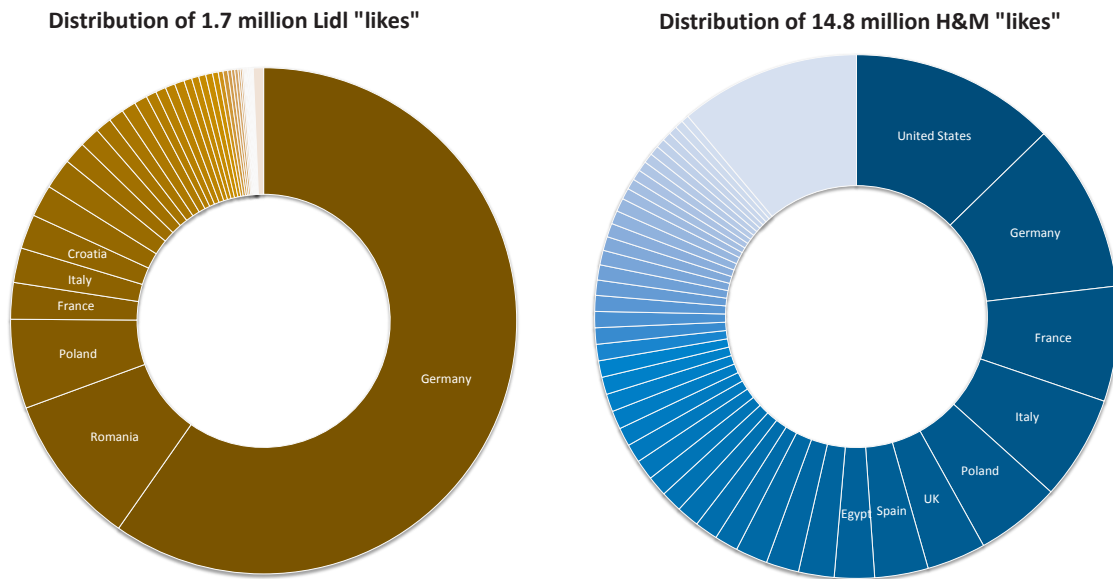


Figure 56
Comparative multinational retail popularity on Facebook, selected firms, 2013.
Source: Facebook, Socialbakers, 2013.



Key findings

- The digital economy is driving a major transformation of European retail and wholesale sectors. The scale and nature of the innovation generated by this trend is contributing both to the competitiveness of the European economy as well as to the benefit of consumers.
- For retail and wholesale firms the digital economy brings opportunities for greater efficiency, transforms management, stimulates new business models and trading formats, and creates new jobs with new skill requirements.
- Consumers and customers are seeing more competitive prices, greater convenience, greater visibility of prices and range, and new opportunities for cross-border purchasing.
- Barriers to achieving the Digital Single Market goals include the uneven distribution of digital infrastructure, consumer trust, electronic payment, physical distribution systems, and tax regimes across Member States.
- European retailers and wholesalers are increasingly engaged in developing e-commerce strategies. Online retail and wholesale sales have grown significantly, although sales through mobile channels have yet to match popular expectation at least at the European level.
- The development of e-commerce strategies by wholesalers and retailers has significant implications for the development of new supply side assets.
- The growth of the digital economy has significant implications for employment, both in terms of total numbers employed in the commerce sectors, as well as the changing skills mix of that employment.
- Consumer behaviour has been transformed in terms of pre-purchase decision-making and evaluation stages. Social media networks play an increasingly critical role in informing and targeting consumers. Engaging in such activity has great potential for European retailers.

