



# Retail sector to enjoy dynamic sales growth, courtesy of digitisation

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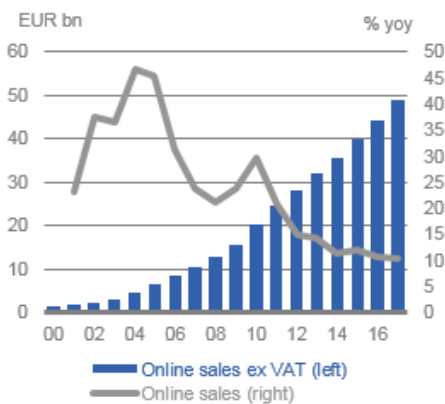
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The German retail sector has visibly lifted its sales forecast for 2017, up from 2% to 3%. The key driver is online retail, along with the currently very consumer-friendly economic environment in Germany, which strengthens consumers' purchasing power. The digitisation of the retail sector has in many respects become a challenge for the established stationary stores. But at the same time, it creates new opportunities for retailers to respond to changing consumer demands. The supermarket is, per se, not necessarily the loser, as is illustrated by the current success of multi-channel retail, which allows greater flexibility for the customers, thereby creating an entirely new shopping experience.

## German online sales on the rise



Sources: Federal Statistical Office, German Retail Federation

Nothing is as characteristic of the German retail sector as the change it constantly experiences and the adaptability of the retailers themselves, who to date always managed to reinvent and restructure their concepts, in reaction to the writing on the wall. Over the past two decades, in particular, the challenges were immense, and the future outlook of the established retailers was, at least, uncertain, as the following two examples show. 20 years ago, the penetration of a large US retail chain was frequently seen as the end of traditional German retailers. And 10 years ago, the retail sector was expected to be the outright loser, given weak consumer demand and a gloomy demographic outlook.

Both assumptions have meanwhile moved to the back burner. In view of unexpectedly intense competition and low margins in German retail business, the US withdrew from the German market. And the demographic challenge is no longer receiving as much attention – not least due to the recent wave of refugees and expectations of sharply higher consumer spending by the silver generation.

The major challenge persists – digitisation. Initially, online retail was exclusively seen as a threat to established retail patterns. But – as is common with retailers – the learning curve was clearly to the upside, and the learning process is still in full swing. Meanwhile, the dividing lines between the individual retail segments are becoming relatively blurred. Therefore, both sides will make positive contributions to the favourable 2017 sales prospects, which we share. Likely shouldering 30% of the sales increase, aggressive online retail remains the key driver. In 2017, the online share of total retail sales already amounts to 10% (up from just 1.5% in 2005). Also thanks to higher online sales, the second pillar, however, is multi-channel retail, which emerged from originally stationary stores.



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According to the German Retail Federation, 55% of the multis expect sales to rise, whereas “only” 8% reckon with a decline.

Looking ahead to the medium term, the digital transformation and its implications will continue to leave their mark on the retail sector. Having said that, future developments might also create opportunities for the established retailers and /or advantages for the consumers.

- At present and probably until the end of the decade, the digital potential of retailers ought to depend on their size. Courtesy of their greater investment strength, large enterprises already benefit more than relatively small ones.
- In recent years, the German franchise market has also been expanding in the retail sector. For smaller franchise companies in the shopping malls, in particular, digitisation can turn into a pitfall, if the frequency of shopper visits at the centres declines due to digitisation, or if a consumption / product trend surprisingly turns out to be only a short-lived hype (such as smoothies or bubble tea). But outdated business models are juxtaposed against new ideas and franchise systems, as investment is usually limited and not much prior knowledge is required.

Going forward, however, the use of consumer data that the buyers disclose (directly or indirectly) through their search behaviour (e.g. in the internet) and /or their preferred payment method (e.g. card, net) will probably play an even greater role for the success of online retailers.

Meanwhile, traditional retailers have also acknowledged the value of consumer data. The range of technical devices that are conducive to the collection, analysis and use of information is constantly expanding. Even though the majority of Germans are still in favour of banning tracking technology in the shopping centres, it is likely to come, at first perhaps abroad. Younger groups of buyers are much more open to information and technology systems than today's decision makers. The balance of probabilities hence suggests that the smart shopping market of the future will use a vast range of technologies to identify consumer needs and, in the end, generate sales.

In future, consumers will be accompanied by smart cameras on their shopping tours and, at the selected shelf, personalised ads will be displayed. Shortly, smart shelves and product labels that can communicate are likely to support what is already common practice at normal petrol stations, namely new forms of dynamic pricing. In the morning, bargain buyers will be lured into the shops, and shortly before they close, fresh food is sold at “dumping prices”. And while the regular customer is strolling through the store, he is treated to personalised ads, as his previous shopping behaviour enabled the retailer to construct the necessary algorithms.

In the years ahead, online retail will doubtlessly continue to outperform the other segments. Moreover, the outlook remains favourable for traditional retailers who develop and use up-to-date multi-channel systems and strategies for marketing / sales purposes. On the part of the consumers, the new technologies in the retail sector certainly require an antipole, at least a minimum degree of personal data protection. A point that is often overlooked though is that digitisation can also be of great help to many (groups) of consumers. Today,



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elderly customers can already make their purchases online, thus saving a lot of time, effort, and vitality. Caterers could in future also offer retail products. For consumers suffering from allergies, diabetics and other diseases, the supermarket of the future will supply intelligent support through additional product information (e.g. gluten-free, high sugar content).

Overall, the retail sector ought to remain subject to constant change in the years ahead. In the medium term, the demographic challenge will continue to be an effective growth barrier. Despite increasing digitisation, however, physical shopping experiences will also be in demand, as they, as well, are a source of life quality from the perspective of consumers. But unless our cities and their infrastructure are given a state-of-the-art upgrade, modern shopping palaces will only be erected in the periphery, and our urban centres will become (even more) desolate and deserted, if retailers are not located in their heart.

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