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EHI Retail Institute®

Executive Summary

CONSUMER MARKETS

Executive Summary of the KPMG Study "Trends in Retail 2020"

Trends in Retail 2020

Mark Sievers
Head of Consumer Markets

The retail industry faces immense challenges in the coming years. These challenges include demographic change, raw materials becoming more expensive, consumers changing their behaviour due to increasing digitalisation and e-commerce. These are only some of the major changes currently taking place in the retail industry. The "Trends in Retail 2020" study performed by KPMG in Germany and the EHI Retail Institute highlights factors which will have a significant impact on the future development of the German retail market.

Three of the most important factors which will shape the German retail environment in the coming years will be the mobile internet, multi-channel and demographic change. Beyond that, the dramatic spread of smartphones and tablets will continue to change the way consumers make their purchases and how retailers will need to communicate with customers. Consumers are now able to access vast amounts of information via mobile devices and have therefore never had as much transparency over products and their prices as they now have at their "finger tips". Mobile devices provide retailers with new ways to communicate with their customers.

Interviews with experts and a survey of consumers conducted exclusively for this study also reveal that while online retail continues to grow dramatically, brick and mortar stores will remain the most important point of contact between retailers and consumers for the foreseeable future. This is true for both gathering information as well as concluding the sale. However, the way consumers make their purchases will change. To remain successful, it is absolutely essential that the retail industry integrates mobile information technologies into this process. In addition, consumers are becoming more discerning and retailers will need to adjust their product range, improve how they present their goods and modernise retail formats.

We look forward to discussing the results of the study with you personally.

Sincerely

Mark Sievers
Head of Consumer Markets
KPMG in Germany

The full study and analysis of the results can be downloaded (in German) from our internet site
www.kpmg.de/consumermarkets

Background and scope of the study

The results of the joint study by KPMG and the EHI Retail Institute are complemented with market research data obtained from an exclusive survey performed by TNS Infratest. Initially, a workshop was held with retail experts. They identified the reasons for change in the German retail environment and also barriers potentially preventing further change. Based on this workshop, we then conducted a representative consumer survey with more than 1,000 participants throughout Germany between the ages of 16 and 60 who use the internet at least once a week. The study further provides an overview of the political, macroeconomic and demographic characteristics of the German market and summarises the profiles of the main retail segments.

Scope of action for the German retail industry

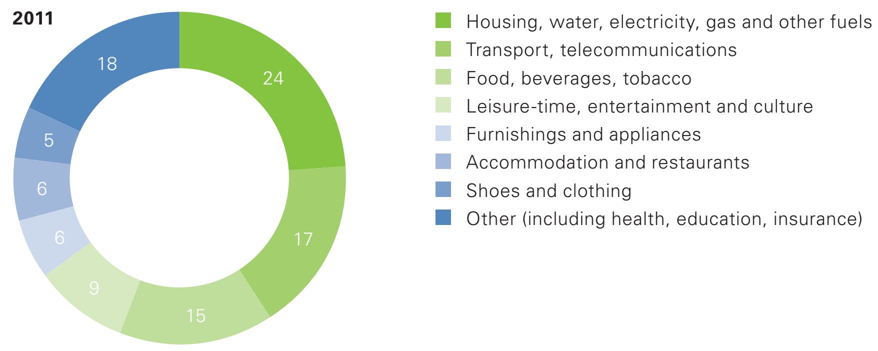
German consumers have returned to the spending habits they exhibited before the economic and financial crisis. In the world after the economic and financial crisis, domestic consumption has substantially contributed to the positive economic development. However, the challenges in the years to come are immense – even without the unresolved issues surrounding the Euro crisis.

Key Performance Indicator – Germany

	2011	2012
Population	80.2 million	80.4 million (forecast 2050: 69,4 million)
Economic growth (real GDP)	3.0 percent	0.7 percent
Consumer price inflation	2.3 percent	2.0 percent
Development of real wages	1.1 percent	0.5 percent
Consumer expenditure by private households	EUR 1,488 billion	EUR 1,522 billion
Portion of retail sales	27.9 percent	28.1 percent
Total German retail sales	EUR 414.4 billion	EUR 427.9 billion

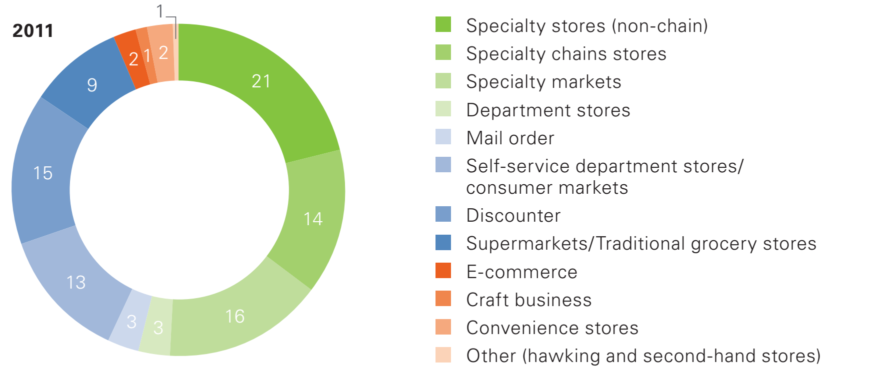
Sources: Deutsche Bundesbank; Handelsverband Deutschland – HDE e.V.; Statistisches Bundesamt

Consumer expenditure by private households in Germany
(in percent)



Source: Statistisches Bundesamt

Distribution channels in German retail
(in percent; excluding automobiles, fuel, pharmaceuticals)



Source: IFH Retail Consultants

Key results

Consumer survey

The results of the consumer survey show that future consumer needs will primarily be served by the use of mobile technologies.

Online information will become increasingly important for customers, however, the physical in-store shopping experience will remain the primary point of contact to obtain information and make purchases in the foreseeable future. Consumer electronics will remain the only exception – in this segment, the most important source of information for the consumer will be independent test reports.

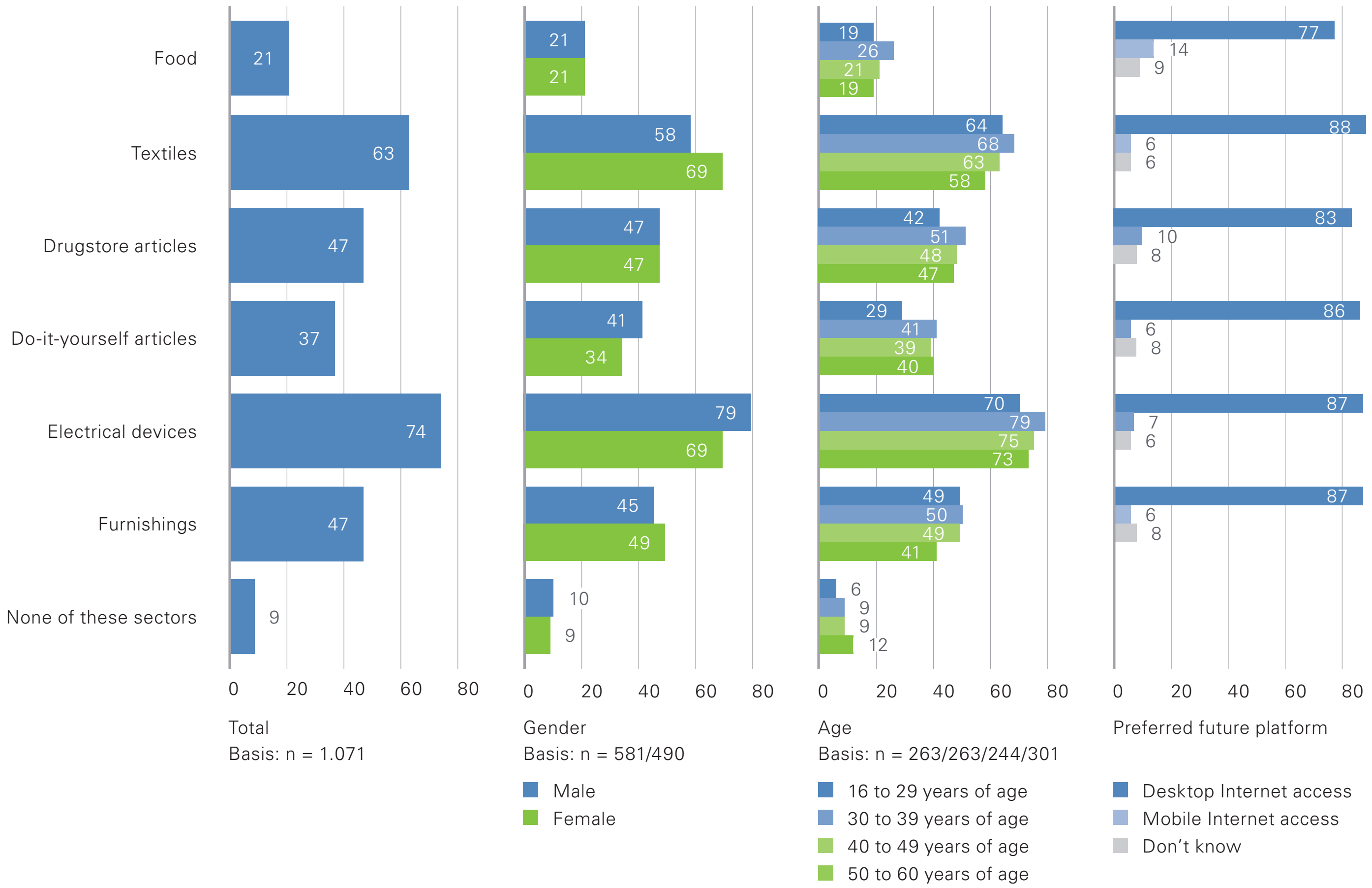
Mobile devices are continually becoming more important in the buying process – primarily for research and less so to actually make the purchase. Above all, the use of various applications and internet sites can provide helpful information such as prices and customer reviews prior to the purchase of high-value products. Nevertheless, customers are somewhat sceptical to use smartphones when paying for goods.

The products most frequently purchased online will remain textiles, media and electronic goods. Nevertheless, consumer interest in purchasing furniture, drugstore products and do-it-yourself (DIY) articles online is likely to increase in the future.

Spotlight – selected results of the consumer survey

Future attractiveness of online purchasing according to category
(in percent; multiple responses possible)

In which category would online shopping be attractive for you in the future?
Which form of access to the Internet would you prefer to use?



Source: KPMG

Further results from the market study

Our market study and expert workshops revealed that the trends, drivers and constraints impacting the development of the retail environment are extraordinarily dynamic and complex. The driver of this development is increasing digitalisation.

Customer influence on the development and design of products will increase. Their experience and opinions will have a greater impact on purchasing decisions in the future. This will primarily happen online. Three-quarters of all Germans regularly communicate via social networks and 31 percent even use social networks on a daily basis. Usage will continue to increase in the coming years.

New shopping concepts are viewed sceptically by German customers. They want to see immediately that such innovations make purchasing easier and faster. While pick-up stations for groceries generate considerable interest, those surveyed expressed less interest in receiving rebates once a minimum annual turnover has been achieved. German consumers are also not attracted to further extension of "rent instead of purchase" concepts for new goods, although many decision-makers are considering implementing such concepts.

Macroeconomic conditions

Growth in sales will be supported by a high employment rate. However, price increases will be the major contribution driver.

Securing raw materials will become an important factor in many sectors. To ensure that the quantities and quality of raw materials remain available at relatively stable prices, many companies are increasingly cooperating with companies in the supply chain.

Energy costs will continue to rise and result in considerable investments in store equipment which is more energy efficient, above all for lighting, cooling and air-conditioning as well as for logistics.

Sustainability aspects will become increasingly important for companies both as a consequence of legislation and directives as well as from pressure by stakeholders. The consumer goods sector more than any other industry seeks to obtain a better public image from promoting sustainability.

The lack of qualified personnel can already be observed in certain regions and roles. This issue may intensify in the future. The retail industry will need to expand its qualification programmes for personnel and improve its image in this area.

Market access barriers for retail remain low. New retailers and manufacturers from abroad are successfully entering the German market. The share of online sales as a proportion of the overall retail market continues to grow.

Mobile internet and digitalisation

Online retail continues to grow strongly. For the foreseeable future, brick and mortar retailers will remain the number one location for most product groups where consumers make their purchases. The substitution of brick and mortar retailers by online businesses varies substantially between the different retail sectors. In particular, in the area of consumer electronics, a further shift towards online sales is to be expected. Other products such as books, audio and video will continue to be replaced by digital offerings.

Multi-channel approaches will continue to grow. Brick and mortar retail will increasingly move online. Pure player businesses which have, to date, only operated online, will increasingly open brick and mortar stores.

Retail marketing is undergoing substantial change. Five years ago 70 percent of the marketing budget was spent on classic print advertising. In just a few years this portion will amount to less than half of the total budget.

Radio-frequency identification (RFID) technology is expected to expand rapidly, especially in the textile industry and in particular as a combination of retail security and identification of goods to manage merchandise flows.

Insights and outlook

The retail industry is known for its flexibility and adaptability. Nevertheless, the results of this study suggest lasting changes in the following areas:

Business models

New forms of business will be tailored to the particular needs of urban customers. The new approach will need to reflect the smaller size of the urban households, increasing urbanisation of the population and the dynamics of internet usage.

Sites will be selected more carefully by retailers in the future. Due to the decreasing population and ongoing urbanisation, the speed with which real estate can be scaled to reflect the local infrastructure, purchasing power and competitive situation will significantly impact how successful businesses are.

Renovation cycles in stationary retail will shorten further. On average, shops are currently refurbished every seven years; in 2003, the average was nine years.

Small and medium-sized businesses have developed in the food retailing sector. Independent shopkeepers organised in large cooperatives that operate several shops which generate annual sales of between 50 and 200 million euros will be the most successful businesses.

Technology

New technologies will play a paramount role in the retail sector going forward. An ever larger proportion of the population is acquiring smartphones and tablets and are therefore able to access the internet. This will beyond doubt change the way retailers have to sell their goods and the way consumers purchase them.

Multi-channel

Mobile devices enable companies to become multi-channel and link online and offline activities. Sales through the internet will continue to gain in importance. Sectors such as furniture and DIY are only now beginning to expand their online activities. Here too, technical developments will make shopping on the screen more comfortable.

Retail formats

The vast majority of the retail industry will not leave the high street until 2020 despite the enormous growth in e-commerce. Although the e-commerce sector has demonstrated annual double-digit growth it cannot be denied that the online business still accounts for only 6 percent of total retail sales. The retail industry is working hard on new formats for local retailers to meet the challenges resulting from changing consumer needs, the impact of demographic changes and increasing urbanisation.

Demographic development

The German population is decreasing and becoming older. This development not only impacts the choice of location but also the product ranges on offer. After all, a declining population not only means fewer potential customers but also fewer potential employees. Therefore, the retail industry has to become a more attractive employer.

Sustainability

Sustainability issues are increasingly becoming an area of focus. Social and ecological standards must be maintained along the entire supply chain. This will be challenging for the retail industry with its long supply chain and its growing dependence on increasingly scarce resources.

Companies have to navigate a new course to remain successful in the digital, mobile and linked “world of retail”.

Positioned to assist you

KPMG is a worldwide network of legally independent companies with more than 152,000 employees in 156 countries. In Germany, KPMG is one of the leading auditing and consulting companies and represented by 8,600 employees at 25 sites.

As a result of decades of auditing and consulting experience, KPMG has comprehensive national and international expertise in the retail and consumer goods industries. Our methods are clear, holistic and practical and take into account the widest range of business models and corporate sizes. With our interdisciplinary approach, we combine our deep-seated experience with wide-ranging specialised know-how from other KPMG member firms.

Worldwide, 1,000 KPMG partners and 13,000 KPMG experts are focussed on the consumer markets. In Germany, we are actively advising more than 1,000 clients in this area.

We would be happy to support your business. Please feel free to contact us to discuss how we can assist you.

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