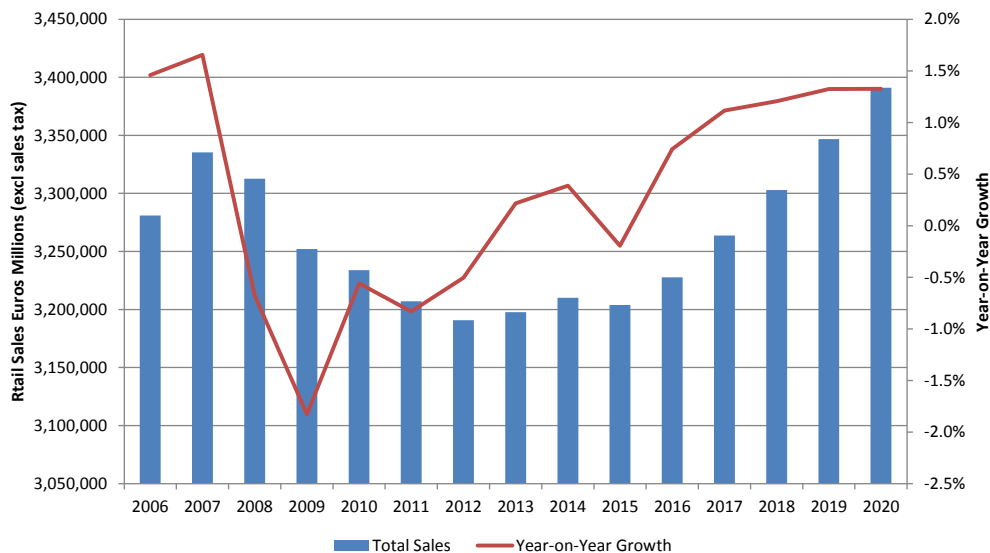


Promising Sales Forecast for the European Retail Sector

Despite a turbulent decade with many seismic economic and political shocks, not least the global financial crisis and, more recently, the ongoing conflict in Russia and Ukraine and post-Brexit uncertainty, there is no doubt that the European retail market remains an economic powerhouse, registering strong sales of over €3.2 trillion in 2015 (see Figure 1).

Figure 1: European Retail Sales



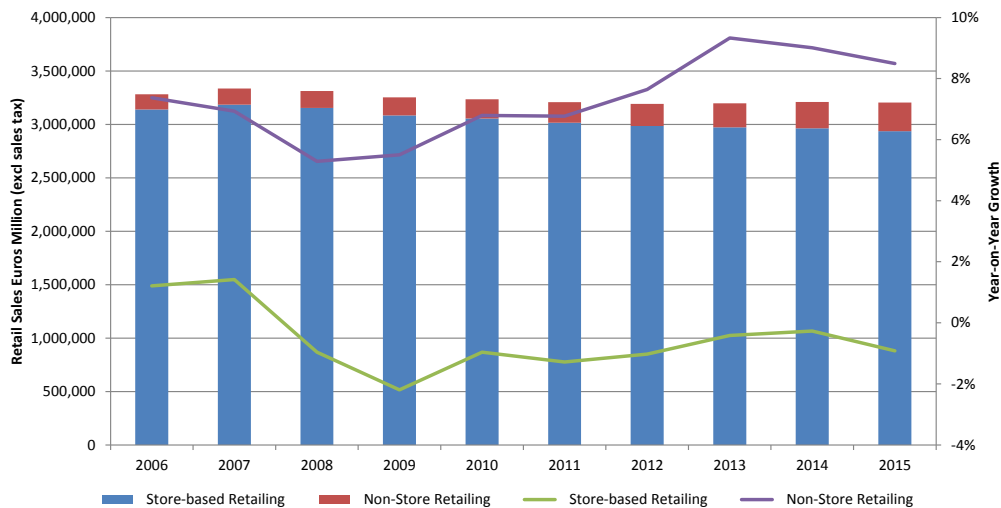
Source: Euromonitor

Whilst the outlook for the European retail sector as a whole is encouraging, with total turnover forecast to grow by 5.8% between 2015 and 2020, the retail real estate industry in particular has come under considerable media scrutiny with sensational headlines telling an apocalyptic tale that bricks-and-mortar is on a terminal downward trend and the Internet will eventually become the sole venue for commerce.

Store-Based Retailing Remains the Dominant Channel Despite Strong Growth in Non-Store Sales

Indeed, non-store sales continue to increase as a proportion of total retail sales and are growing at a rate that far exceeds that of store-based sales (see Figure 2); however, whilst growth rates are important, it is helpful to keep the overall levels in perspective and to be cautious when making comparisons between growth rates as non-store sales are calculated from a much smaller base. By euro volume, a small increase in store-based sales will dwarf a large increase in non-store sales.

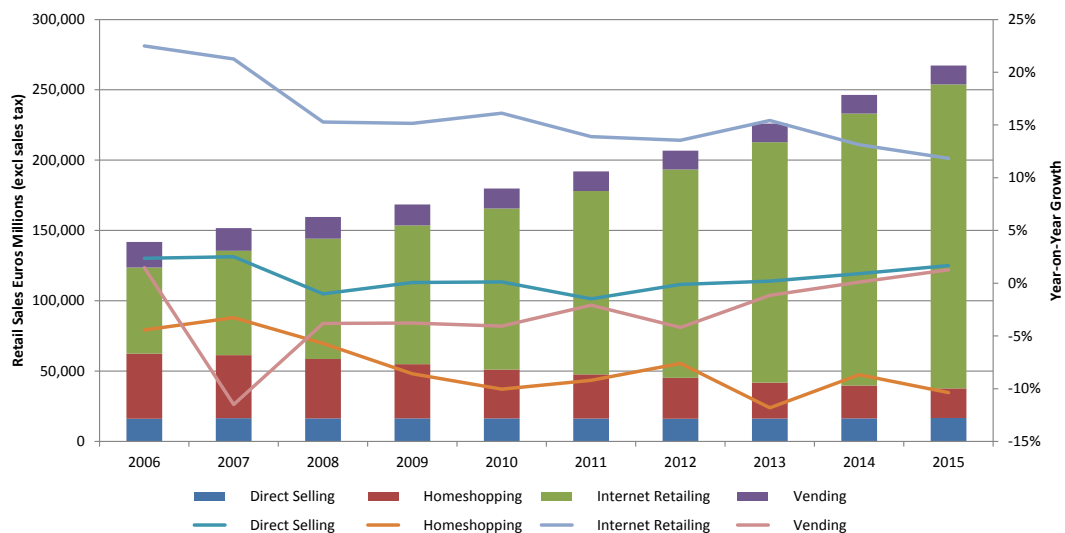
Figure 2: European Retail Sales – Store-Based & Non-Store-Based



Source: Euromonitor

Further analysis confirms that Internet retailing is indeed the dominant sales channel within the non-store segment, accounting for over 80% of all non-store retail sales in 2015, and is the driving force behind its rapid growth, with homeshopping on a continual downward trend and direct selling and vending seeing only marginal growth in recent years (see Figure 3). It should be noted, however, that the internet retailing component of non-store sales includes both pure-play and non-pure play retailers, which is discussed in further detail later on in the report.

Figure 3: European Non-Store Retail Sales



Source: Euromonitor

What is most important to acknowledge is that despite high levels of growth in Internet retailing, store-based retail remains the dominant channel for retail sales, accounting for 92% of total retail turnover in Europe in 2015, compared with 6.7% attributed to e-commerce. Furthermore, although Internet retailing continues to achieve double digit annual rates of growth, the pace of growth has consistently slowed over the past eight years, falling by 9.5 percentage points between 2007 and 2015 and currently standing at 11.8% y-o-y.

Omni-Channel Strategies Have Changed the Role of the Store

Whilst this is undoubtedly positive news for the retail real estate industry, in actual fact these statistics underplay the influence and contribution of bricks-and-mortar, with the impact of e-commerce on the retail real estate industry being habitually overstated and often misunderstood. The role of the store has fundamentally changed from driving sales in-store to also focusing on customer engagement, building brand image and driving revenue across all channels. The emphasis is no longer on where the transaction occurs, but on ensuring consumers have a seamless experience through the whole customer journey, pre-, during and post-purchase, as they research, compare, explore and review products and services.

The key narrative here is convergence and the increasingly blurred lines between the online and offline world. Ultimately a sale is a sale irrespective of channel and, importantly, the store remains the cornerstone of omni-channel strategies for the majority of retailers, which is further cemented by the acceleration of 'click & collect' purchase models, offering consumers greater autonomy and flexibility than home delivery. Although the transaction takes place online, the store plays a vital fulfilment role – the value of which is often overlooked. Likewise, 'showrooming', whereby customers examine merchandise in-store and subsequently shop online, 'webrooming', that is researching products online and then visiting a store to purchase, or even online sales that take place within the store, whether it be on a mobile phone or via a store assistant with a handheld digital device, all highlight the halo effect of the store and the importance of bricks-and-mortar as a key touchpoint within the consumer journey.

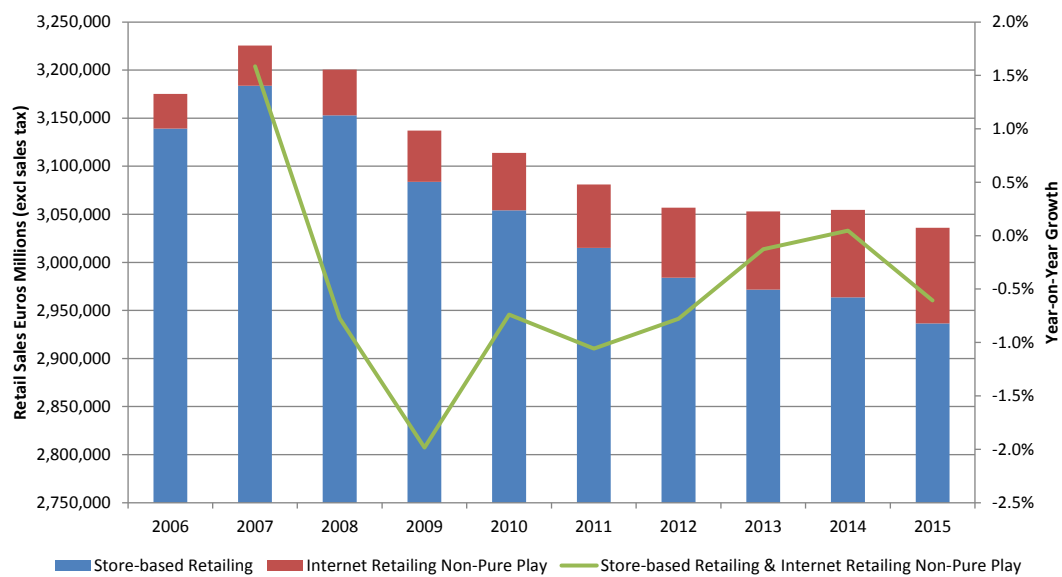


The value of physical interaction with goods and customer service staff and the opportunity to provide more flexible fulfilment options and returns has not gone unnoticed and a number of previously internet-only or 'pure play' retailers have taken space in high streets and shopping centres. Indeed, of Internet Retailer's 'Top 500 European E-Retailers 2015' only three of the top 10 are pure play retailers – Amazon.com, Zalando SE & Shop Direct. Even more telling is that, despite being an online stalwart, Amazon opened a physical bookstore in Seattle in 2015, with more locations planned in the coming months, and has recently announced that it is looking to further expand its brick-and-mortar presence with new grocery stores for Amazon Fresh subscribers.

Turnover Contribution of Bricks & Mortar Goes Beyond In-Store Sales

What is clear, therefore, is that in order to fully understand the value of physical stores, we must also consider the online contribution of retailers who have a physical store network. By challenging the top level e-commerce data and extracting the sales that are generated by bricks-and-mortar retailers via their online channels, Euromonitor data reveals that 46% of all European Internet retail sales in 2015 were attributed to non-pure play retailers, equating to €99.4 billion. When added to the sales that take place in-store, this means that over €3.036 trillion of retail turnover in 2015 is owed all or in part to physical retail real estate compared with only €116.8 billion in pure play e-commerce sales.

Figure 4: European Store-Based & Non-Pure-Play Retail Sales



Source: Euromonitor

Crucially, despite year-on-year growth of 13.9%, pure play sales accounted for only 3.6% of total retail sales in Europe in 2015, whereas 95% of European retail sales were carried out either in-store or online via a brick-and-mortar retailer.

Going forward, as physical retailers continue to invest in developing their omni-channel strategies, they will be a leading driver of e-commerce sales. As such, far from being a weakness, rising e-commerce sales testify to the strength of retail real estate and the enduring value of the store as an integral part of the consumer experience.



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