

RETAIL SALES DISAPPOINT OVER CHRISTMAS BUT ONLINE RETAILING GOES FROM STRENGTH TO STRENGTH

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OVERVIEW

As austerity measures kick in across Europe, consumers have become increasingly careful with their money, resulting in flat retail sales during the Christmas trading period. However, the picture is far from even with the Nordics and some CEE markets posting very solid sales growth. By far the biggest winner over the period was the online sector as lower prices, better delivery operations, and simply more retailers providing a transactional capability persuaded more shoppers to go online. New research by CB Richard Ellis shows that retailers have embraced the internet and now view it as key to optimising their turnover potential. The research also suggests that there is still substantial scope for further growth in the online sector, particularly in CEE.

INTRODUCTION

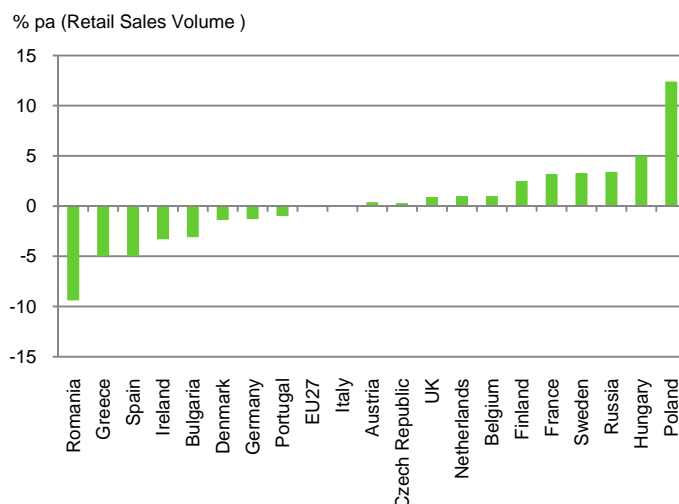
The Christmas trading period is the most important time of year for retailers in Europe. This year the odds seemed stacked against them, with austerity measures taking effect in many countries, severe weather disrupting spending in northern Europe, the prospects of higher sales taxes in some markets and rising prices everywhere. On the other hand, consumer confidence is high in many markets and online sales have been growing very strongly. So who were the winners and losers across Europe over Christmas?

CENTRAL EUROPE AND RUSSIA LEAD THE WAY

Overall, Christmas trading was flat across Europe, but there were significant differences between country.

Poland led the way, with retail sales rising by a huge 12%. In fact retail sales have been steaming ahead throughout the second half of 2010. To some extent this reflects a 'catch up' on lost sales from earlier in the year when severe floods and the death of many of the country's top officials in a plane crash hit confidence and spending, but it also reflects a buoyant and fast growing retail sector.

RETAIL SALES GROWTH DEC 2010 (y-on-y)



Source: Eurostat, National Statistical Offices

Other CEE countries also had a relatively strong Christmas. **Hungary** has had austerity measures in place for a number of years, and as such retail sales have fallen since 2007. But a bounce back is now underway with retail sales over the Christmas period expected to be 5% ahead of the same period last year, reaching 2008 levels. This upturn in spending is due in part to the introduction of a 16% flat rate income tax in January 2011, replacing the previous split rate of 17% and 34%. Consumers in Hungary have clearly been out spending in anticipation of the fall in income tax. In the **Czech Republic**, retail sales over the Christmas period were less strong, growing by just 0.5%, but as elsewhere in central Europe, predicted growth is strong. Oxford Economics is forecasting the Czech retail sector to grow by 5.3% pa between 2011 and 2015.

Retailers in **Russia** also had a relatively strong end to the year, with total retail sales growing by 3.4% in December y-on-y. Among the best performers in this period was Metro Cash&Carry (10-12% growth).

THE NORDICS AND FRANCE ALSO PERFORMED WELL

In northern Europe, **Sweden** saw retail sales grow by 3.4%, with all sectors performing well. Nevertheless, this was slightly down on expectations, as sales had been growing above 4% since September. A similar story was evident in Finland, with the December growth rate (2.5%) being somewhat lower than previous months. The prospects for both these Nordic markets are positive however, with Oxford Economics forecasting growth of around 4% pa in 2011-2015.

In **France**, expectations of a poor Christmas (53% initially planned to reduce their Christmas budget) did not materialise with retail sales rising by 3.2%. This was in spite of the poor weather, with snow disrupting spending on the lead up to Christmas, although it picked up between Christmas and the New Year. However, there were marked differences by sector with clothing sales falling by 2.2%, whilst household goods performed particularly well. The severe weather benefited town centres with department stores doing particularly well. Sales increased by 10% at Galerie Lafayette (17% in Haussmann and 8% in the other stores) and by 20% in the Printemps Haussmann store. But the biggest increase in sales was registered in the online sector, a 24% rise over the same period last year.

THE WEATHER IS BLAMED FOR LACKLUSTRE SALES

Severe weather also affected retail sales in The UK, Germany, Belgium and The Netherlands. Snow was blamed for lacklustre sales in **Belgium** and **The Netherlands** in December, although early indications suggest that the January sales in Belgium were much better, growing by 9%. In The Netherlands, retailer feedback points to a disappointing Christmas, but there is a renewed optimism among Dutch consumers which bodes well for 2011.

German retail sales fell slightly in December (-0.1% according to the German Retailers Association) due in part to a strong comparable in December 2009, but clearly the weather also played a part, producing slightly disappointing results by the standard of recent months (+3.4% in November). In general however, the retail climate is very positive with GfK suggesting that the German consumer is turning away from their traditional focus on value and discount goods and is increasingly interested in higher quality, branded goods.

Retail sales are forecast to grow by a relatively strong 2% pa in the period 2011-2015 (Oxford Economics), significantly ahead of the more or less flat growth rate witnessed over the previous decade.

In **Austria** retail sales grew marginally (0.4%) over Christmas, with shoe and sports retailers benefiting most from the cold weather.

The snow also had a major impact on retail sales in the **UK**, which grew by just 0.9% in December compared with the previous year. Overall retailers had a disappointing Christmas with many seeing a year-on-year fall in sales. However, there were success stories, most notably John Lewis where Christmas sales rose by 12.7% and online sales by 42%. A combination of a trusted brand, competitive prices, high levels of service and an extensive online capability tick all the boxes that consumers currently desire. House of Fraser, another major department store chain also performed well over Christmas. The British Retail Consortium has reported that retail sales bounced back in January, principally due to a strong sales period in the early part of the month. However, the general prospects for consumer spending look less rosy, with VAT rising in January, real incomes falling and concerns persisting over job security.

SPENDING IN SOUTHERN EUROPE IS STILL WEAK

Early indications in **Italy** suggest flat retail sales over Christmas. This is in line with the Italian Retailers Association figures which show that annual retail sales grew by just 0.3%. The Association also points to stronger than average growth in the electrical sector, on the back of strong tablet (ipad etc) sales. Conversely, the Association believes that clothing sales have fallen slightly as international retailers continue to take spending away from traditional shops. In terms of format, the combination of high quality brands and cheap prices seems to be irresistible, with factory outlet centres recording double digit growth over the Christmas period.

The retail sector in **Spain** remains tough. Footfall in shopping centres was down 6.9% compared with the previous December and overall retail sales were down 5% (Eurostat). While retailers have painted a slightly less gloomy picture, suggesting that turnover was flat, it is clear that a sustained recovery in the Spanish retail sector is some way off. **Portugal** saw a minor fall in retail sales, with several retailers starting to discount before Christmas. Consumers clearly remain cautious and did not appear to bring forward their spending to any great extent ahead of the VAT hike in early January, from 21% to 23%. Rising taxes and falling wages point to a tough year ahead for Portugal too.

So overall, the Christmas trading period in Europe could be considered disappointing. However there was one area of the retail which performed very well – online retail.

ONLINE RETAIL WAS THE STAR PERFORMER OVER CHRISTMAS

Direct comparisons between total sales and online sales are still difficult to obtain, but it is becoming easier, as more companies, industry bodies and national statistical offices make data available. This also reflects the growing importance that organisations attach to measuring the online world and the impact that it is having on the retail sector and indeed on national economies.

The table below highlights some of the very high growth rates seen in online retail. In the UK, where a direct comparison is possible, online retail sales rose by 25% in December compared with flat (0.9%) retail sales overall. Early commentary suggested that the heavy snow was benefitting online retailers as some shoppers were finding it difficult to access the shops in early December. However online businesses were also struggling to guarantee delivery of goods in the run up to Christmas and undoubtedly lost trade as well. This was mitigated to some extent as more shoppers bought online, to achieve better prices, but then collected the goods themselves. The huge increase in online sales therefore points to a continuing and more fundamental shift in shopping patterns. A similar story was evident in France where internet sales jumped by 24%, reaching €6.2 billion over the Christmas period.

ONLINE SALES VS TOTAL SALES GROWTH

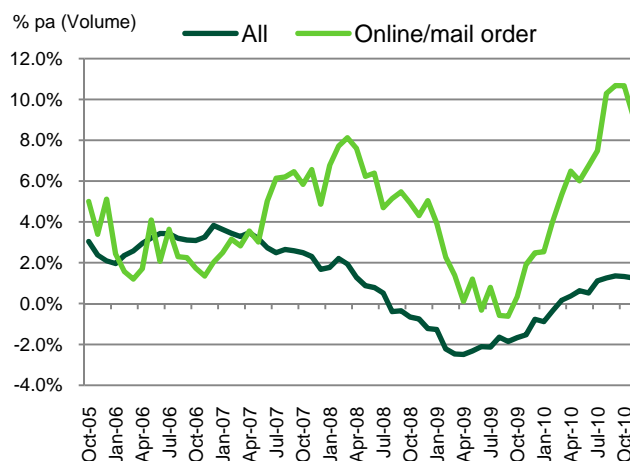
Country	Period	Total Sales Growth	Online Sales Growth
UK	Dec 2010 y-on-y	0.9%	25.0%
France	Dec 2010 y-on-y	3.2%	24.0%
Austria	Dec 2010 y-on-y	0.4%	17.0%
Germany	2010 y-on-y	NA	8.2%
The Netherlands	Nov-Dec 2010 y-on-y	NA	40.0%
Czech Rep	Nov 2010 y-on-y	NA	24.0%

Source: Eurostat, National Statistical Offices

Although direct comparisons are not yet available for other markets, it is clear that online retail sales have grown much faster than total retail sales across a range of markets. For example, online retail grew by 40% (Nov-Dec 2010 y-on-y) in The Netherlands by 17% in Austria (Dec 2010 y-on-y).

In fact, online sales have out-performed total sales across Europe since 2008 (See Graph 2), with the margin increasing substantially in Q3 2010.

RETAIL SALES AND ONLINE SALES/MAIL ORDER SALES – EU 27 2005-2010



Source: Eurostat

At the same time it is important to recognise that there is a clear north-south and east-west split in terms of the current level of online retailing, with the highest level of internet sales being in the more 'mature' markets of western and northern Europe. Conversely, online sales in central and eastern Europe still account for a very small share of the market. The X5Retail Group, one of Russia's largest retail groups, saw just 0.2% of the group's 2010 sales coming from online transactions, and for M.Video (a leader in the home appliance segment) internet sales made up just 1.8% of total sales.

But shopping patterns are changing in the region. In Poland, an online platform is now considered a 'must have' option by retailers and Poland is forecast by Centre of Retail Research in Nottingham to be the fastest growing online market in 2011. And in the Czech Republic retail sales via mail order and the internet rose by 24.0% in November 2010.

In the more mature German market, online sales for 2010 rose by 8.2% y-on-y, but this is a similar growth rate to the previous 5 years and follows a much faster period of growth in the early part of the decade. So even though online sales continue to outpace total retail sales by some margin, the rate of growth in online sales has now stabilised.

And just because the growth in retail sales is slowing in more mature markets it does not mean that the high street has survived unscathed. In Sweden, the growth in online shopping has slowed to 10% pa and online sales account for only 6-7% of the total retail sales, but book and music shops have all but disappeared from Stockholm.

IS CLOTHING THE FASTEST GROWING ONLINE SECTOR?

A key theme to emerge in 2010, according to a recent study by Capgemini/IMRG, is the growth in the online sales of clothing, footwear and accessories. The report revealed that, in the UK, this sector grew by 40% in December y-on-y. Given this is in the most 'mature' European online market, this is a staggering rate of growth. While some of this may be attributed to the weather conditions in December, it also reflects the increasing number of fashion retailers that have opened transactional websites in 2010, most notably H&M and Zara.

MOST RETAILERS HAVE AN ONLINE PRESENCE...

Recent research by CB Richard Ellis in its 'How Active are Retailers in Europe' report showed that almost one third of retailers were planning to increase the geographical coverage of their transactional capability in 2010 and 18% said they planned to increase the range of products sold online. More recently, CB Richard Ellis has undertaken new research to measure the online capability of just over 300 international retailers in a range of global markets. An extract from the research, covering one mature market (UK) and one less mature market (Poland) and looking at the three main fashion categories, reveals a number of key points:

Nearly all the fashion retailers in the survey have online catalogues that can be browsed. This is true for both markets, but particularly in the UK, where internet users can browse the products of all the Luxury & Business Fashion and Value & Denim retailers in the survey. This suggests fashion retailers believe it is important to have an online platform to promote their brand and products. This is a minimum requirement.

The majority of retailers in these sectors (50-70%) have a transactional website. Once again there is little difference by country but there is a notable difference by subsector. About half of the Mid Range fashion retailers have a transactional website (both countries). This rises to 56% (UK) and 62% (Poland) for Luxury & Business Fashion, but it is the Value & Denim retailers which are most likely to have a transactional website, around 70% in both countries.

The fact that most retailers in these sectors have a transactional website is evidence that multichannel retailing has become the norm for many international fashion retailers. However, there are still a good number of retailers that don't currently sell online, suggesting that the potential exists for further growth in the online sector.

A shopper may be able to view a transactional website, but may not be able to take delivery of a chosen item in their country. The survey shows a wide discrepancy by subsector and country in this respect. In the UK only 37% of the Mid Range fashion retailers in the survey deliver goods direct to the UK, but this rises to 49% for Luxury & Business Fashion and 63% for Value & Denim retailers. Perhaps surprisingly a similarly high 60% of the Value & Denim retailers also deliver to Poland. The value retailers clearly believe that their offer, perhaps with the added benefit of further discounts for buying online, is similarly appealing to the relatively well-off UK consumer and their less prosperous Polish counterparts.

Less surprising is that only 28% of Luxury & Business Fashion retailers deliver goods bought online to Poland, almost half the number that deliver to the UK. Whilst the UK, and London in particular, is one of the world's leading consumers of luxury fashion, the luxury market is still undeveloped in Poland, and it seems unlikely that luxury retailers will be in a hurry to develop their online business there any time soon. However, there should be considerable scope for more mid range fashion retailers to provide a full online service and deliver goods to Polish consumers. Currently, only 27% of retailers deliver to addresses in Poland. The same growth prospects apply to the UK, even though the figure is slightly higher (37%).

BUT THE SCOPE FOR FURTHER GROWTH IS SUBSTANTIAL

The analysis of retailers' online capabilities shows there is still significant scope for international retailers to increase their online capability, particularly in the emerging online markets of Central and Eastern Europe. This should translate into another bumper year for online sales growth in Europe.

But, in spite of the massive out performance of online sales over the Christmas period, and the apparent growth potential in the sector, it is also true that the growth rate in online retailing is slowing in some of the more mature markets such as the UK and Germany.

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