MARKET TRACKER JUNE 2016

Europe's retail sector in 2030 – consolidation is coming

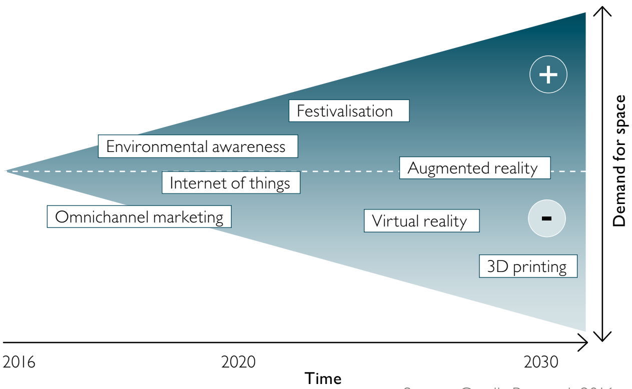
A never-ending stream of technological innovations is giving digitalisation an increasingly prominent position in our everyday lives. The need for change in high-street trading can already be identified. At the same time, there is a lot of talk about reurbanisation, and we can see reality and virtuality starting to spread in a new way. These changes pose new questions about the role and patterns of consumption. One set of related topics is particularly salient: what kind of retail stores will we need in the future, how much space will they require, and how will they be structured? Part of the answer is already clear: we won't need shops as we know them, for the most part, today.

Retail: rapid change over time

Triggered by innovative products, logistical changes (globalised goods flows, same-day delivery, etc.) or consumer shifts, sales outlets have already undergone a number of structural changes which the discipline of business studies groups together in the form of a "wheel of retail". These structural changes alter retailers' location requirements. This, in turn, means that new or altered concepts must constantly be provided.

E-commerce sales have seen double-digit annual growth, while conventional retailers have seen only a modest increase in their figures. The current decade has introduced new opportunities, so far realised by only a few – cue "big data" – to make professional use of consumer data to adress the target audience.

FIG. I: FUTURE TRENDS IN RETAIL AND POINT OF MARKET ENTRY



Source: Catella Research 2016

Innovations and trends on the horizon

Can we assume that the sustained growth of digitally organised (mail-order)-retail is going to render Europe's shops obsolete in the medium term? It is undeniable that digitalisation and demographic changes will transform patterns of demand and result in a reduction in total shop floorspace.

63% of internet users in the EU-28 regularly buy online. Particularly in sectors with high per-capita levels of retail space, the market's response includes signs of an increasingly aggressive predatory competition. Ironically, "classic" e-commerce is already yesterday's news. Coming technological innovations and the societal impact of digital natives will radically alter the definition of shopping between now and 2030. Customer focus, transparency, festivalisation and "walk-by shopping" will form the focal issues. The first of these is something that e-commerce retailers can also deliver: highly digitalised logistics with flexible and innovative offerings make home deliveries efficient and convenient. If required, orders can even be placed automatically thanks to M2M (machine-to-machine) technology, something the internet of things and big data make possible.

Festivalisation will be the future USP of shop-based retailers. In tandem with the multimedia conversation, celebrating the brand and the act of buying will acquire equal standing with the actual product itself. This way, shop visitors will be presented with added value through an omnichannel approach to addressing customers (i.e. marketing) by means of technological innovations (think IoT, augmented reality (AR), etc.) and a highly developed network of internal systems and external devices. The growing number of flagship stores in conjunction with the access to customers made possible by

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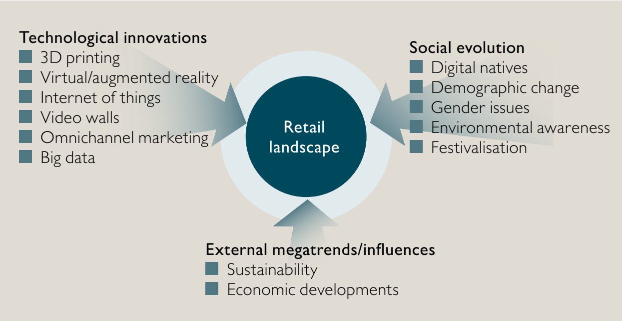
FIG. 2: STRUCTURAL TRENDS IN THE RETAIL SECTOR



Source: Catella Research 2016

apps is a first indication of this development. Another hallmark of festivalisation and the accelerated transformation of retail outlets takes the form of the temporary instalment of pop-up shops.

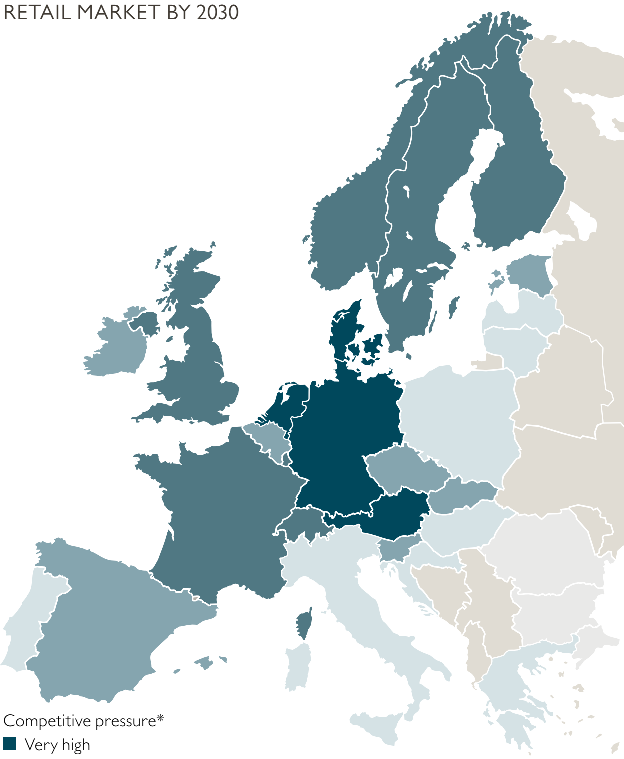
3D printers have the potential for manufacturing a large number of products on-site at low cost. They could, in the long term, give rise to an entirely new market for blueprints, i.e. people could print at home instead of trekking around shops. As things currently stand, however. There are no signs of a breakout into mass popularity between now and 2030.

One fundamental question is whether or not the future concept of retail space will be identical to what we are familiar with today. While the situation is currently still clear, the spread of AR (augmented reality) technology will permit retailers to use interactive video walls and connected devices to transform city centres' pedestrianised zones into large areas for communication and, by extension, into retail spaces, giving retailers the chance to approach customers in an individualised way.

Structural transformation is coming – less retail space in 2030

At present, there is some 590 million m² of retail space across the EU-28. Distribution is, however, unequal. Highly developed markets with considerable per-capita levels of retail space and relatively low productivity are at a comparatively high risk of experiencing contraction. Such markets include Germany (1.46 m²), the Netherlands (1.62 m²) and Austria (1.74 m²). Less-developed markets will, in contrast, tend towards lower figures in terms of space. Depending on macroeconomic developments and the speed at which European retailers adapt, we predict that they will have some 510–550 million m² of retail space in 2030. The centres of shop-based consumption will retain their basic function, but their appearance will change. The spread of digitalisation and interconnectedness will not replace the need for face-to-face social contact but instead complement it and make it more necessary than ever. The centres' role will therefore change from being marketplaces to sites where urban living takes place, with shopping functioning as just one element among many. Retailers will thrive in the long term only if they succeed in attracting consumers amid this broad mix and if they adapt to technological innovations in the field of digitalisation.

FIG. 3: COMPETITIVE PRESSURE ON THE EUROPEAN RETAIL MARKET BY 2030



Competitive pressure*
- Very high
- High
- Average
- Low
- Very low

* Retail space per capita & percentage of online shoppers

Source: Catella Research 2016

FIG. 4: ANALYSIS OF RETAIL SPACE IN 2030

Shop type/location	Changes if approx. 550 million m²	Changes if approx. 510 million m²
Shopping centres		
Retail park/power center		
Factory outlets		
Discount stores		
Consumer-/hyper-/supermarkets		
Pop-up shops		
A locations		
B locations		
Rural areas		

- No change or slight increase
- Slight decrease
- Substantial decrease

Source: Catella Research 2016