



THE E-COMMERCE MARKET IN GERMANY

GREATEST E-COMMERCE CUSTOMER POTENTIAL WITHIN EUROPE

With more than 51 million (94 percent of internet users aged 14+) digital consumers in 2014, Germany enjoys the greatest e-commerce customer potential within Europe - making it the clear continental leader. Beyond Europe, only China, Japan and the USA record higher digital consumer numbers. The A.T. Kearney's Global Retail E-Commerce Index 2015 identified Germany as Europe's second largest online market, behind the UK - but with almost triple the UK's current growth potential. European online retail sales will reach EUR 234 billion by 2018; with a compound annual growth rate (CAGR) of 12 percent for the period 2013 to 2018. Just under half of all online retail sales across the EU-7 will be from online purchases made using a smartphone or tablet by 2018.

SIGNIFICANT MARKET VOLUME INCREASE

Together, German B2C multichannel online and mail order business generated total turnover of more than EUR 49 billion in 2014. Accounting for more than EUR 41 billion of this sum, e-commerce generated more than 85 percent of total industry turnover. Germany's e-commerce sector represented nine percent of the nation's total retail industry (EUR 457 billion) in 2014 with the tendency positive. The German E-Commerce and Distance Selling Trade Association (bevh) has forecast that the e-commerce volume will grow by 12 percent in 2015 to reach revenue of almost EUR 47 billion. According to the Association of the German Internet Industry (eco), more than half (53 percent) of German GDP generated in 2017 will be e-commerce related (compared to 37 percent in 2012). These numbers highlight the significant potential within the German B2C e-commerce market.

GERMAN ONLINE RETAILERS GOING INTERNATIONAL

Amazon is the leading online retailer in terms of number of online shoppers and e-commerce turnover in Germany. All-rounders - such as Otto, Tchibo and Conrad Electronics - have dominated the top 10 online shop

B2C Interactive Commerce and E-Commerce Turnover in Germany



rankings in Germany for years. However, companies that focus on one specific product category - such as Zalando, Cyberport, H&M, and Notebooksbilliger.de - are gaining more revenue and taking their places. Many German online retailers are already engaged in international business. Of the surveyed members of the bevh, almost 90 percent conduct online business beyond national borders. Twenty-eight German e-commerce companies are represented in the list of the Top 100 European E-Commerce Companies in 2014. Nearly half of those companies who do not currently generate business abroad are working on their international expansion.

► For more e-commerce information (including current statistics and sector trends) please visit our website: www.gtai.com/e-commerce



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E-COMMERCE TRENDS

The overall trend set to dominate industry development in the next year can be best described as a move towards personalization: the defining of a unique, emotional, yet flexible shopping experience. With the continuing development of technical solutions allowing for ever more interactive shopping models, e-commerce seems predestined to fulfill such expectations. Personalized marketing and customized approaches based on individual consumer requirements will gain in importance. E-retailers will make more and more use of the substantial consumer information streams available to them ("Big Data") to form set digital identities for their respective target groups.

TARGETING DIFFERENT SHOPPING BEHAVIORS: FEMALE COMMERCE

"Female Commerce" or "She-Commerce" refers to the lucrative women's market for e-commerce products and services. With the relative buying power of women higher than ever before, e-commerce companies who focus on individual female demands, shopping behaviors and decision-making processes will be more successful than those retailers who adopt a "one-approach-fits-all" solution. Subjective factors including anecdotal experience and emotional responses to products are as much an important source of information for women as hard product facts. Social media platforms (including YouTube, blogs, Instagram, and Twitter) therefore have a significant impact on female purchasing decisions. The more specific, individualized information an online retailer can provide to its female target group, e.g. through brand ambassadors, the higher the purchase likelihood.

SERVICE APPS - TIME SAVING AND CONVENIENCE

GoButler, Shopwings, Hello Fresh, Delivery Hero, John's Bell, ZipJet, Helpling, James,bitte – these are all successful start-ups mirroring a trend that can best be described as time-saving and convenience services. Time is a very valuable commodity. Those start-ups offering day-to-day services, e.g. cleaning, pick-up and deliveries, flight and travel bookings, restaurant reservations, event planning etc. have experienced huge demand and substantial growth in 2014. Other apps focus on convenience in terms of the online shopping experience, e.g. price comparison, mobile shopping lists including notification of price changes per selected item, and couponing.

FUTURE TREND OUTLOOK

Augmented reality, edutainment and serious games will become more important. Virtual fitting of clothes and accessories, virtual home furnishings visualizers, and video glasses will become widely implemented by 2016.

Researchers forecast that the average workload per person will have doubled by 2030, taking into account the demographic changes in Germany which will see one-in-three Germans being 65 years of age or older.

DIGITAL POINT-OF-SALE STRATEGIES

Consumers are increasingly demanding multichannel transactions including browsing, buying, and returns as well as pre- and post-sale services. They want to decide where, when and how to shop. In order to be successful in the retail industry, it becomes increasingly important to combine different sales and marketing channels to optimize overall digital presence. Enabling seamless cross-touchpoint experiences, customer journey mapping will be important to target the increasingly multi-touchpoint shopping behavior of customers. Many German retailers have not yet seen the need for this and have failed to adapt their presences accordingly. However, pure online players are increasingly turning to stationary shopping solutions next to their online presence. Rather than creating a competitive situation, both channels are taking advantage of the other for mutual benefit.

"Click and Collect" is one way to combine the worlds of offline and online shopping. Typically used for smaller items in the past, this model has recently made the leap into the home furnishings market (e.g. IKEA's pre-packed for in-store collection service for online orders). Collective Click and Collect stations are becoming more and more popular, e.g. shopping centers offering click and collect stations in their parking garages. Customer service and convenience plays a major role: fitting rooms, return service, free parking etc. These models are still at a very early stage in Germany.

ONLINE CONSUMER BEHAVIOR

BIGGEST ONLINE MARKET IN EUROPE

As the biggest market in Europe in terms of population, internet use and total purchasing power levels, Germany offers major opportunities for international companies looking to participate in the domestic market. With 56 million people (79 percent of the population aged 14 years of age or older) online on a regular basis, Germany boasts the most internet users in Europe.

MATURE AND AFFLUENT CONSUMER TREND

As expected, younger people are more likely to buy online than older people. Almost 100 percent of 15- to 29-year-olds are online and accordingly constitute the most active internet consumer group. However, people 55 years of age and older are becoming an increasingly important target group for the retail industry in general. They are more active and healthier than their parents' generation at the same age, and they form the group with the highest per capita purchasing power. The share of online buyers aged 65+ grew strongest in 2012 (27 percent increase compared to 2007 levels).

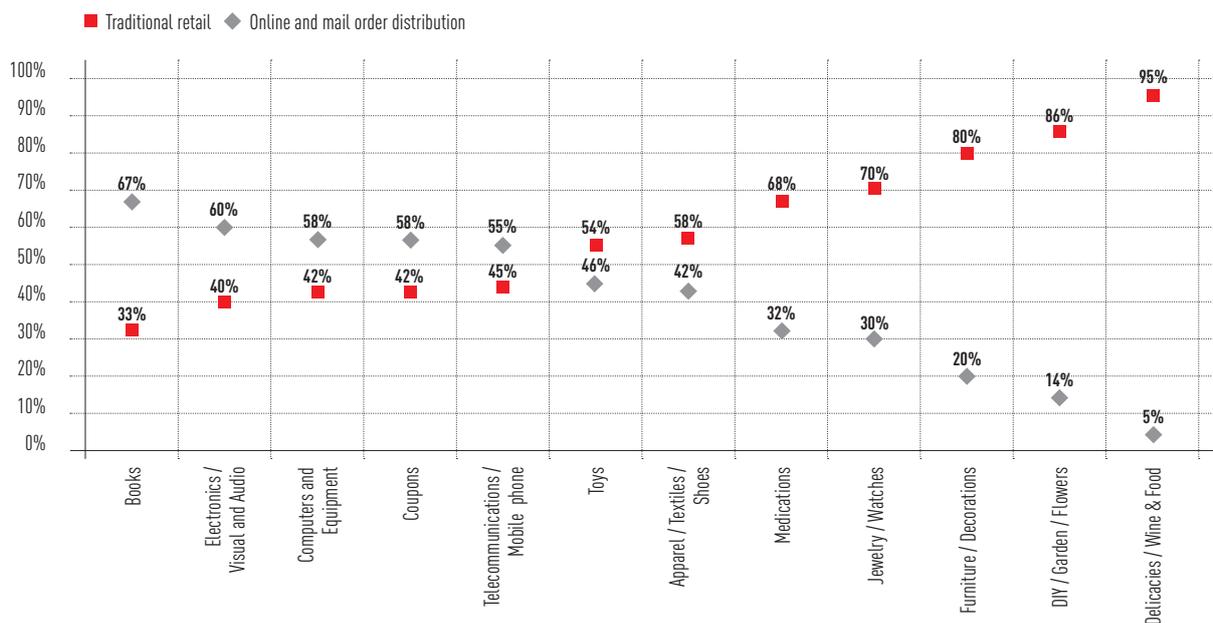
INCREASED ONLINE PURCHASE LEVELS

The International E-Commerce Study 2015 conducted by the Centre for Retail Research predicts that each German will make 19 online purchases on average this year. This is an increase compared to last year (17 purchases), and higher than the European (17.8 purchases) and US (15.8 purchases) averages. The study forecasts that German online shoppers will spend more than EUR 1,200 online in 2015, placing Germany second in Europe only after the UK in terms of online spending.

ONLINE EXPENDITURE BY SECTOR

According to a 2014 bevh study, the product categories "Jewelry and Watches," "Furniture and Decorations," "Apparel, Textiles and Shoes," and "DIY, Garden and Flowers" recorded the strongest growth rates over the period 2011 to 2014. In 2014, digital goods and services (e.g. travel packages and event tickets as well as downloads) generated the highest e-commerce turnover in the service sector with more than EUR 11 billion. The highest sales in e-commerce were generated in the apparel (EUR 11.9 billion), consumer electronics (EUR 5 billion) and books (EUR 4.1 billion) product categories. The furniture and decorations category generated revenue of EUR 2.5 billion and grew significantly from 2013 (EUR 1.6 billion).

Preferred Purchasing Channel in Different Product Groups



Source: bevh/Creditreform Boniversum 2014

INFRASTRUCTURE CHALLENGES

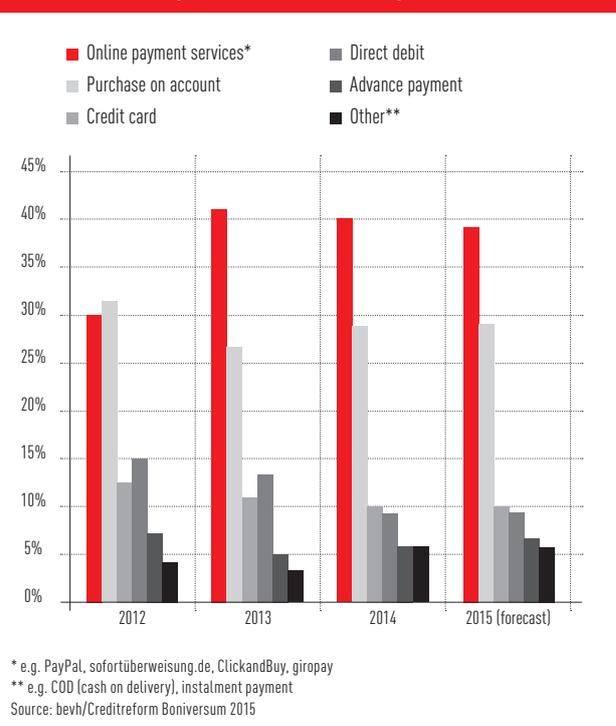
MARKET DRIVER MOBILE COMMERCE

Smartphones provide their users with market transparency and the possibility of anywhere, anytime interaction. This brings new challenges and opportunities for the retail industry and advertisers. Smartphones and tablets play a crucial role in both mobile commerce and in the e-commerce purchase decision-making process. A 2015 study conducted by the German Scientific Institute of Market Research (GfK) found that 26 percent of German shoppers compare prices using their mobile phone when visiting a store. This figure is relatively low compared to the average of 40 percent recorded among the 23 surveyed countries. According to a study by deals.com, the m-commerce market will grow by approximately 103 percent to EUR 14.6 billion this year, constituting the biggest growth in Europe after Poland (+130 percent). M-commerce will make up for almost 30 percent of the e-commerce turnover in 2015. One in four e-commerce euros will be generated via a mobile device this year, putting Germany second only after the UK. It is imperative for e-retailers to adapt their online shops for mobile devices in order to keep up with their competitors.

GROWING DEMAND FOR FLEXIBLE LOGISTIC SOLUTIONS

Parcel service providers are facing new challenges as a result of the e-commerce boom. They have to adapt more quickly in order to react to changing consumer demands: ranging from free and same-day delivery to pre-booked delivery time frames subject to consumer needs. Companies are already testing new solutions ranging from individual parcel boxes, click-and-collect offers, same-day delivery options, and even evening delivery services. The increased B2C traffic results in higher total shipment costs as deliveries become more decentralized with smaller delivery quantities per stop. Competition in the parcel market will further intensify and prices will rise as companies invest in their logistics networks and services. Sustainable and eco-friendly delivery models can also help positively position delivery providers within the set of market providers. International companies providing innovative solutions are highly valued partners for German e-commerce companies.

Preferred Online Payment Methods in Germany



E-PAYMENT SYSTEMS ON THE RISE

German online shoppers are typically regarded as risk-averse customers preferring full payment services with grace periods for invoiced amounts. This is true for high volume purchases generating high revenues per order. However, online payment services are more frequently used as a payment method. The use of online payment services providers (e.g. PayPal, ClickandBuy, and giropay) rose from a 2011 level of 26 percent to 40 percent in 2014. Purchases on account dropped from 40 percent to 29 percent during the same period. The industry is generally agreed that German consumers will develop greater trust in online payment method systems for high-priced items once return and refund incentives are implemented. A breakthrough in online payment for high-priced items is similarly expected as soon as providers make payment terms comparable to purchase-on-account conditions available. Significant opportunities exist for investors who develop and introduce such systems to the German market.

SOPHISTICATED BUSINESS ENVIRONMENT

RELIABLE LOGISTICS INFRASTRUCTURE

Germany's highly developed logistics infrastructure makes it easy for companies to offer their e-commerce services. A concentrated network of logistic centers also makes services like same-day delivery more profitable. With logistic turnover of EUR 230 billion in 2013, Germany continues to be Europe's leading logistics market, ahead of both France and the UK combined (Europe's second and third largest logistics markets). There are 3,500 courier companies in Germany and 60,000 logistics service providers. These include Deutsche Post World Net, DHL, Schenker, and Dachser as well as numerous small and medium-sized companies. Germany also provides access to a comprehensive infrastructure that integrates the most modern telematics, IT, and telecommunications systems.

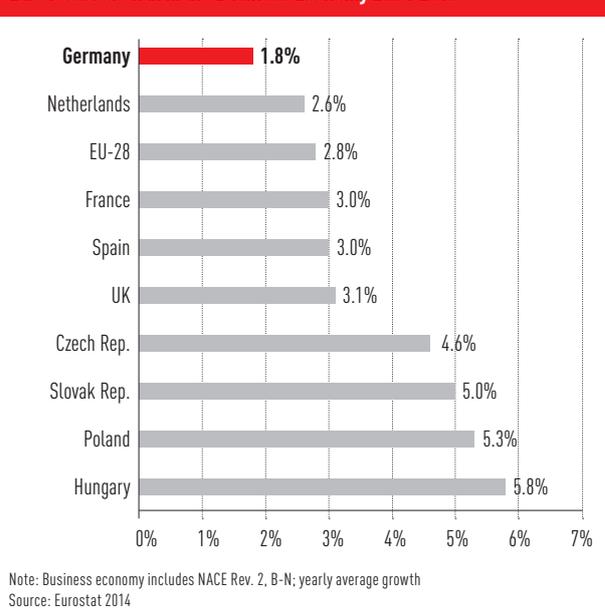
STABLE LABOR COSTS

High productivity rates and steady wage levels make Germany an extremely attractive investment location. Labor cost increase levels in the business economy have been the lowest in Europe in recent years. Since 2004, labor costs have risen in most European countries (EU-28). While some countries – particularly those in Eastern Europe – experienced a rise of more than five percent, Germany recorded the lowest labor cost growth (1.8 percent) in the business economy within the EU. Highly flexible working practices such as fixed-term contracts, shift systems, and 24/7 operating permits contribute to enhance Germany's international competitiveness as a suitable investment location for internationally active businesses.

EXCELLENT WORKFORCE

More than 80 percent of the German workforce is in possession of an academic degree or has received formal vocational training. The country's dual education system – unique in combining the benefits of classroom-based and on-the-job training over a period of two to three years – is specifically geared to meet business needs. Recruitment services are actively supported by government agencies. Germany's major metropolitan regions – Berlin, Hamburg, Munich, Cologne, Frankfurt (Main), and the Ruhr region – attract young and highly educated people from across Europe. The resulting multilingual labor pool makes Germany an attractive base for rolling out business to other European countries.

Labor Cost Growth in the Business Economy 2004-2013



OPEN AND TRANSPARENT MARKETS

German law generally makes no distinction between German and foreign nationals regarding investments, available incentives or the establishment of companies. The legal framework for foreign direct investment in Germany favors the principle of freedom of foreign trade and payment. There are no restrictions or barriers to capital transactions or currency transfers, real estate purchases, repatriation of profits, or access to foreign exchanges.

INTERNATIONALLY COMPETITIVE TAX CONDITIONS

Germany offers one of the most competitive tax systems of the big industrialized countries. The average overall tax burden for corporations is just below 30 percent. Significantly lower rates are available in certain German municipalities – up to eight percentage points less. The overall corporate tax burden can therefore be as low as 22.83 percent. Germany provides an extensive network of double taxation agreements (DTAs) ensuring that double taxation is ruled out when, for example, dividends are transferred from a German subsidiary company to the foreign parent company.

ABOUT US

Germany Trade & Invest is the foreign trade and inward investment agency of the Federal Republic of Germany. The organization advises and supports foreign companies planning to expand into the German market and assists German companies seeking to enter foreign markets.

INVESTMENT LOCATION GERMANY

Germany Trade & Invest provides close-to-market information to international companies looking to enter German markets. Our specialist industry teams prepare all of the relevant information essential to business success in Germany. Germany Trade & Invest's comprehensive range of information services includes:

- Market and industry reports
- Market entry analyses
- Business and tax law information
- Business and labor law information
- Funding and financing information

BUSINESS LOCATION SERVICES

Germany Trade & Invest supports international companies from market entry to business start-up in Germany. Expert project teams advise and assist in the business establishment phase. Germany Trade & Invest's range of services includes:

- Site location assistance
- Company formation information (legal)
- Tax information (national and international)
- Related key industry information

All investment-related services are provided entirely free of charge. Our specialist industry teams have hands-on experience in their respective industries and treat all investor enquiries with the utmost confidentiality.

IMPRINT

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PRINT

Asmuth Druck & Crossmedia GmbH & Co. KG, Köln

NOTES

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All market data provided is based on the most current market information available at the time of publication. Germany Trade & Invest accepts no liability for the actuality, accuracy, or completeness of the information provided.

ORDER NUMBER

18087

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by the German Bundestag