Total Retail 2017
Stores Strike Back!

May 2017



"A deep dive into the Netherlands' retail market"

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Total Retail 2017
Stores Strike Back!

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Online shopping in a hectic life



Shana Laurie de Hernandez
R&C Industry Leader
the Netherlands

Balancing my career with raising two children is a constant juggling act and for me, time is at a premium. So, when my daughter recently asked me to buy her a new pencil case for school, I thought to myself: "When am I going to fit that in?" Of course, it wasn't just any pencil case she wanted; she had something specific in mind. Children notoriously have the best timing, and she happened to make this request just as we were boarding an aeroplane. Once we were both seated and while waiting for the plane to take off, I pulled out my mobile phone, opened a browser and quickly scanned the web. I searched the usual Dutch pure play sites, but they didn't have the specific design she was looking for. I then made my search more specific trying to describe the pencil case as clearly as I could… multi-coloured, multiple compartments and zippers, etc. As luck would have it, I found a pencil case closely matching what she was looking for on an *American website*. I was disappointed to see that the delivery and customs costs exceeded the price of the pencil case! The purser came onto the intercom and was making the pre-flight announcement. Time was running out. I quickly did a search for the Dutch translation of "zippered pencil case", expecting to get more hits from Dutch based e-shops. Bingo! I quickly completed the sale and paid for it through my mobile banking app, just as the plane started to taxi down the runway.

Most likely you have a similar story, which just goes to show how online shopping has evolved. It is now mainstream and is being done on the go increasingly from mobile devices, rather than from tablets and desktops. The breadth of product options, the quality of user interfaces, the variety of payment options and increases in service levels have all dramatically improved over the last few years. As a result, online sales continue to rise, cannibalizing store-based sales, and we expect this growth to continue. As stores disappear and complete retail chains vanish, our streets are now getting clogged up with delivery vans carrying the millions of parcels containing goods that we have ordered online. So, where does this all end? Your guess is as good as mine.

But we can predict trends by going to the source and asking customers what they want and expect. To shed some light on the preferences and behaviours of consumers, PwC surveys thousands of shoppers worldwide every year and presents the findings in our Total Retail report. This year, we decided to take things a step further, with a deep dive into the Netherlands' market. Our findings from surveying 2,000 Dutch shoppers are presented in this report. Through a separate report, which focuses specifically on the Netherlands, we aim to provide insights and preliminary views on the Dutch retail market and to highlight how it is different, or similar, to other countries. I believe you will find some findings intriguing, and I hope they will inspire you to further explore retail opportunities in the Netherlands.

About the research

In February, we published our global report on Total Retail (*www.pwc.com/gx/en/industries/retail-consumer/total-retail.html*). This report outlines ten investment recommendations for retailers, based on a survey of 24,000 shoppers in 29 countries. Now we publish a deep dive into the Netherlands' retail market. This report is based on a survey of 2,000 respondents in the Netherlands, conducted in November 2016. We asked them about their shopping behaviour and preferences. The survey aims to understand buying preferences and behaviours of Dutch shoppers. We used many questions from the global survey, and from our previous Total Retail survey in the Netherlands (2014, data from 2013). This allows us to contrast the responses from Dutch shoppers to global averages and those from specific countries in Europe. It also allows a longitudinal analysis of the evolution of Dutch shoppers since 2013.




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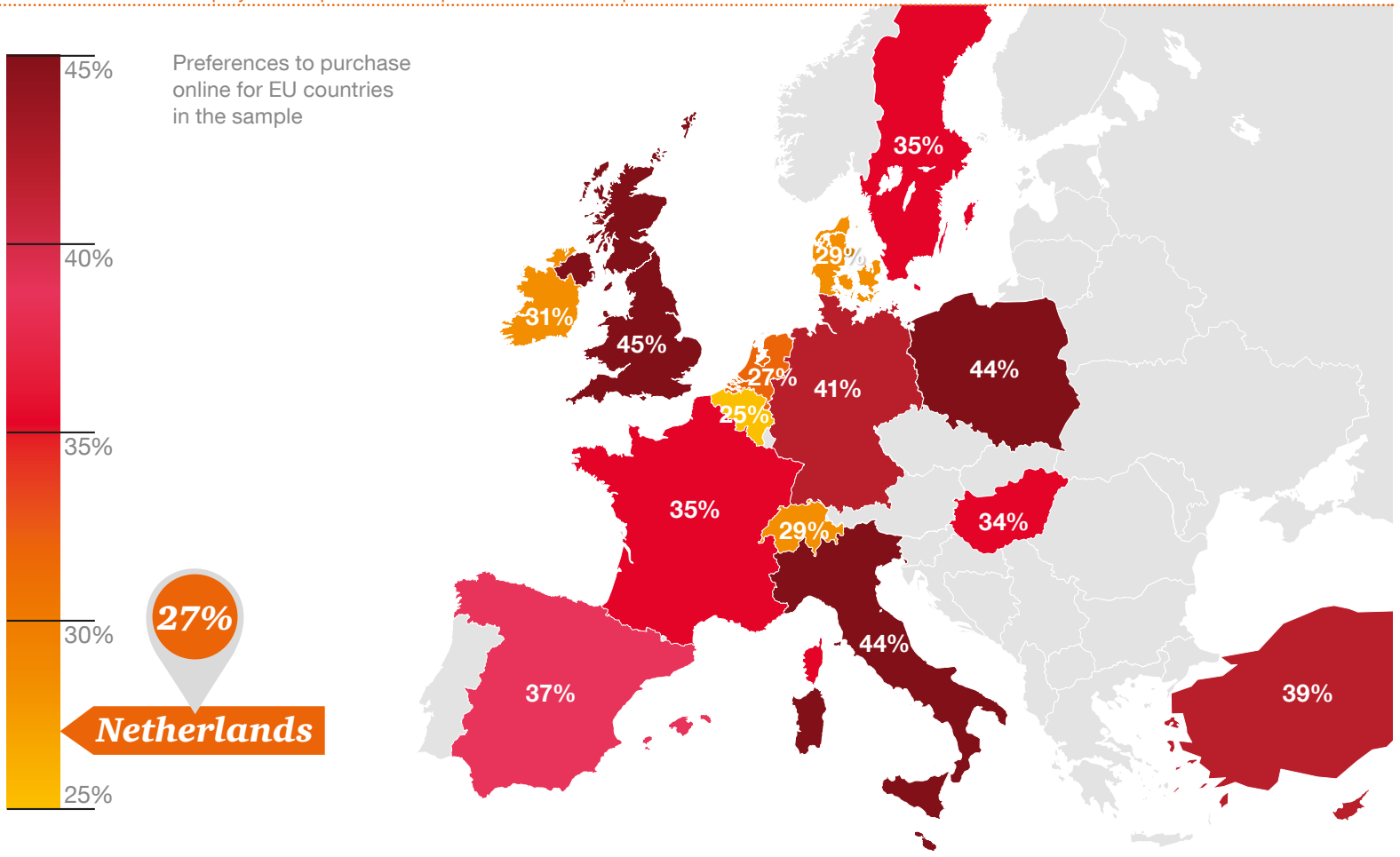


Chapter 1

The Netherlands is lagging behind in its desire to buy online

The Netherlands ranks in the tail of Europe when it comes to preferences to shop online.
We see the Netherlands at the bottom of the list of European countries that participated in our Total Retail survey, both for preference to research products online, as well as preference to buy online. The survey reflects consumer preferences of 2,000 Dutch shoppers.

Figure 1 NL consumers display a lower preference to purchase online compared to consumers from EU countries

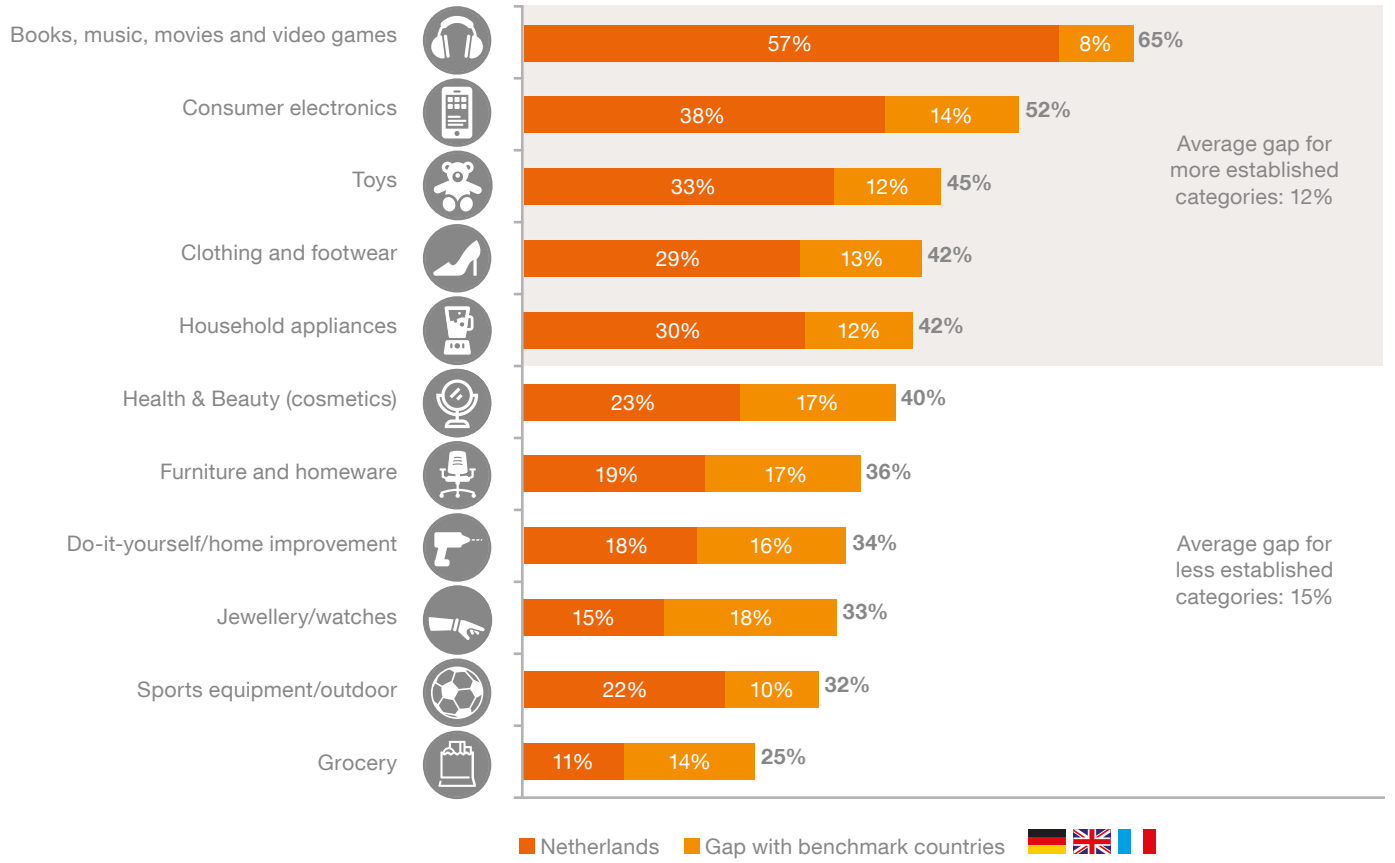


Source: PwC, Total Retail NL 2017

"The gap between the Netherlands and benchmark countries is larger for the less established online product categories."

The gap in preference to buy online appears across a broad set of product categories, but is particularly prevalent in product categories where online sales have picked up more recently, such as health and beauty, do-it-yourself, home furnishings, jewellery and outdoor equipment.

Figure 2 Preference to **Purchase** online NL versus benchmark countries

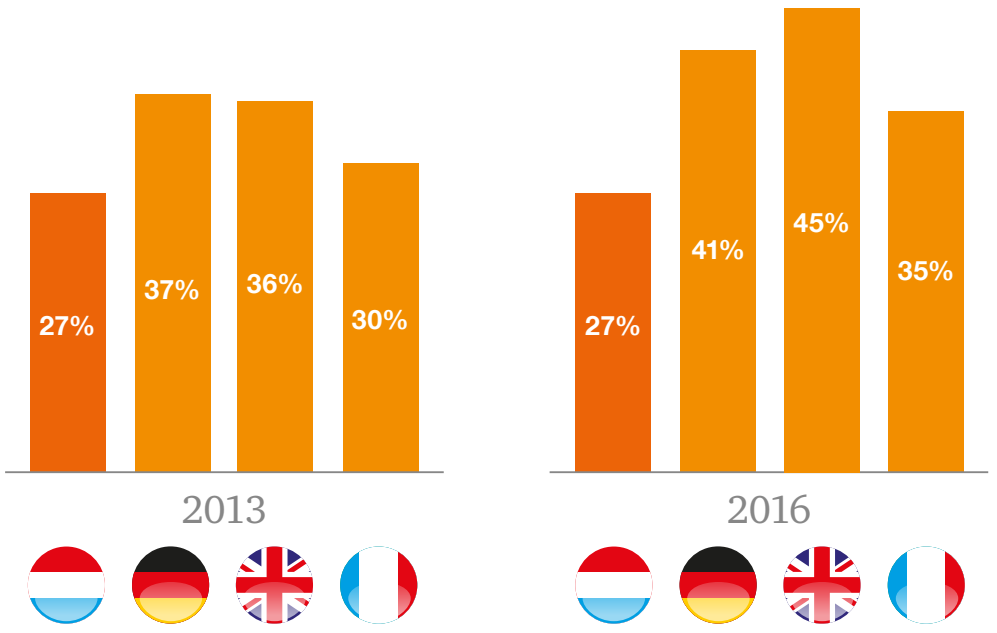


Source: PwC, Total Retail NL 2017

"Between 2013 and 2016 the gap between the Netherlands and other western European countries has increased further."

This gap is not new. In 2013 we also saw the Netherlands lagging behind other European countries in terms of shoppers' preference for online. However, the gap has widened since then. Where online preferences hardly increased in the Netherlands, they grew significantly in other countries.

Figure 3 Online as preferred way of purchasing, NL vs. benchmark countries in 2013 and 2016



% of respondents who prefer 'online' above store

Source: PwC, Total Retail NL 2017

The lagging position of the Netherlands extends to other shopping trends too. Compared to other European countries in the survey, shoppers in the Netherlands use their mobile phone less for shopping. This is especially the case for researching products and checking reviews of products and/or stores online. Where we see a trend in other countries that people shop 'mobile in hand' in the store, using their smartphone as a research tool for shopping, this seems to be less the case for Dutch shoppers.

Figure 4 Online shopping behaviour on smartphone, Dutch consumers versus benchmark countries



Source: PwC, Total Retail NL 2017


NADIA HOTEL



Chapter 2

What explains the relatively high preference of Dutch shoppers to buy in-store versus online?

One would expect that this is the case if, in the Netherlands, the relative benefits of shopping online vs in-store are smaller compared to other countries.

One such benefit is the *convenience* of shopping online, whenever and wherever, and with the option of having products delivered at home (which may or may not outweigh the consequential downside of having to be at home during the expected time of delivery). Shopping online saves time and effort (but typically costs money in the form of a delivery fee). We would expect proximity of stores to lower the preference for online shopping, since it takes less time and effort when sufficient stores are nearby. Indeed, across European countries store density seems to influence the preference to buy online, with the Netherlands having one of the highest store densities in Europe. Our survey results provide additional evidence that supports a similar line of reasoning. We see that people living in rural areas shop online more, compared to people living in urban areas. This would also support the thesis that in regions with more stores nearby (like the Netherlands in comparison to other European countries), people have a lower preference to shop online. Our survey further points out that Dutch shoppers attach more-than-average value to having the possibility of interacting with a sales associate in the store for advice or to help choose products.

In an attempt to understand the relative preference of the Dutch for store-based shopping, one should also consider the relative level of service standards provided by web shops. Perhaps web shops don't provide the theoretical benefits of online versus in-store shopping. In the industry, Amazon is generally seen as the best-in-class benchmark for web shops, which is reflected in Amazon's online market share of 42 percent in their home market the United States (source: Statista). Amazon is expanding in Europe and online sales typically get a boost with the arrival of Amazon in a market. Amazon recently opened its virtual doors in the Netherlands, but initially with a very limited product assortment focused on books, media and entertainment. Despite the absence of Amazon, we would argue that the standard for web shops in the Netherlands is pretty high, driven by online pure players like bol.com, Coolblue, Zalando and Wehkamp. These companies adopted parts of the proposition and service standards of Amazon, such as same-day delivery, free delivery on most standard orders and a marketplace for third-party sellers. These high service standards result in an increased preference for buying online. Research by PwC's Strategy& *(www.pwc.nl/blogs/onlineconsument)* pointed out that the service standard for delivery of online purchases in the Netherlands is amongst the best in Europe. The small size of the country and good logistics infrastructure create the possibility of next-day delivery (and even same-day delivery depending on order time) in pretty much the entire country. This is quite different in 'leading' online countries such as the UK and France. However, that same research pointed out that, generally, Dutch online shoppers do not really need faster and more flexible delivery. They tend to be satisfied with the level of standard currently provided (which is delivery within one to three days in the majority of cases).

Another indication that the 'quality' of web shops does not necessarily drive online purchasing preferences, is the survey result that shows Belgium and the Netherlands are at similar levels. Where the Dutch web shops have pushed the quality of their value propositions, following Amazon's lead and driven by



competition from and amongst the dominant pure players, web shops in Belgium are less advanced, offering a less differentiated and unique value proposition. This is reflected by the fact that more than 70 percent of online shopping in Belgium happens on foreign websites (source: BeShopping).

In sum, there is little insight that points to an issue on the 'supply side', that is, the overall value proposition of shopping online. This seems to be on par with other European countries, and generally on a higher level compared to Belgium which has similar shopping preferences for stores versus online. Granted that store density is higher in both countries compared to the other European countries in the survey. But we don't believe that this fact alone explains the gap with countries like Germany and the UK. What we are left with is an intermediary conclusion that the explanation lies on the 'demand side', with the innate shopping needs and preferences of Dutch citizens. Dutch people have a stronger-than-average preference for shopping in-store. As such, these conclusions present a positive prospect for otherwise distressed store-based retailers of which many are struggling to survive and move back to sustainable profit levels. In 2013 PwC's Strategy& predicted that about one in six stores would become obsolete by 2020 *(www.strategyand.pwc.com/reports/footprint-2020)*. We still support that statement, witnessing many retail chains closing down unprofitable stores. However, the insights from this year's Total Retail study indicate the relevance and importance of stores.



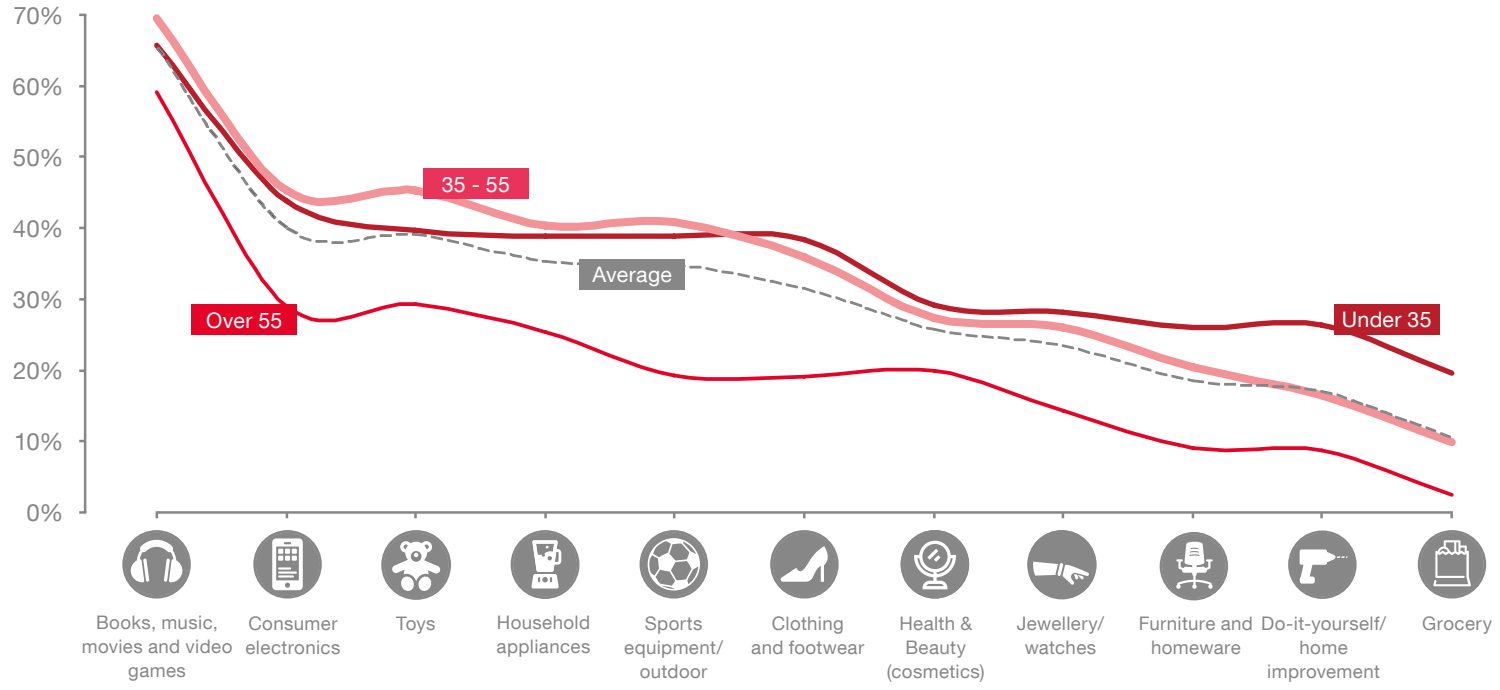


Chapter 3

Channel preferences across demographic segments

How do preferences to buy online differ across product categories, and age groups? The figure suggests a general rule that products that have been available for online purchase for a longer time, boast a higher preference: books, music, video games, consumer electronics, and toys have been established online product categories for a long time and have the highest online preferences. For most categories, the preference to buy online is similar for the age groups under 35 and between 35-55. The only exceptions are relatively new online categories, such as furniture, do-it-yourself, and groceries, where the group under 35 has a clearly higher preference than older age groups. The group of respondents aged 55 and above have a lower preference to buy online than the younger age groups, across all product categories.

Figure 5 Preference to purchase online, NL, by product category and age group, *in % of respondents*



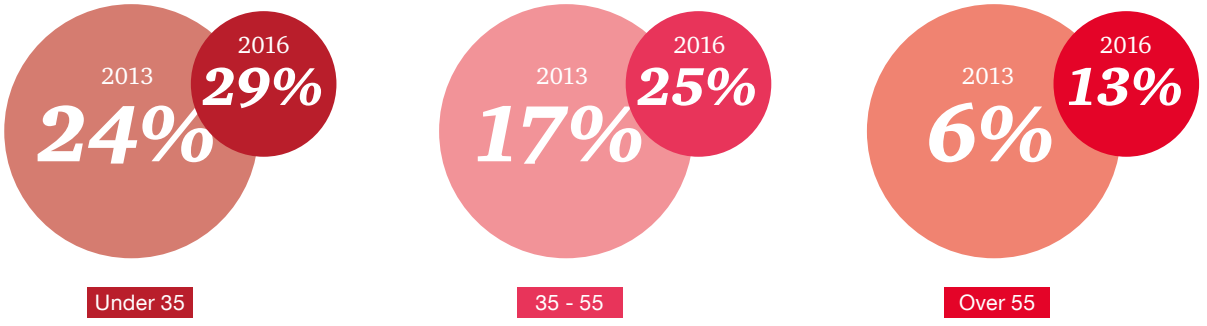
Source: PwC, Total Retail NL 2017

"In established categories, preference for online does not differ for youngsters and adults; a gap exists for other products."

Even though preferences to buy online have not significantly changed overall, respondents to our survey indicate that they buy online more frequently. Almost 3 in 10 (29 percent people under 35 buy online at least once a week. People between the age of 35 and 55 only make online purchases slightly less frequently, with 25 percent indicating to buy online at least weekly. The age group 55 and above somewhat lags behind, with 13 percent indicating to buy online at least weekly. Yet, compared with our survey in 2013, older age groups are catching up with younger age groups. In just three years, the 35-55 age group progressed to the level of people under 35 in 2013.

The smartphone continues to grow as a shopping device at a very fast pace. The number of shoppers regularly buying (at least once a month) a product using a smartphone has grown from 11 percent in 2013 to 20 percent in 2016. More than half (57 percent) of regular smartphone shoppers are under 35, and this group uses the smartphone more often than a tablet to buy products online. At the current growth rate, we estimate that by 2020 more people under 35 will regularly order products using a smartphone than by using a laptop or desktop PC.

Figure 6 % of respondents buying at least weekly online, segmented by age

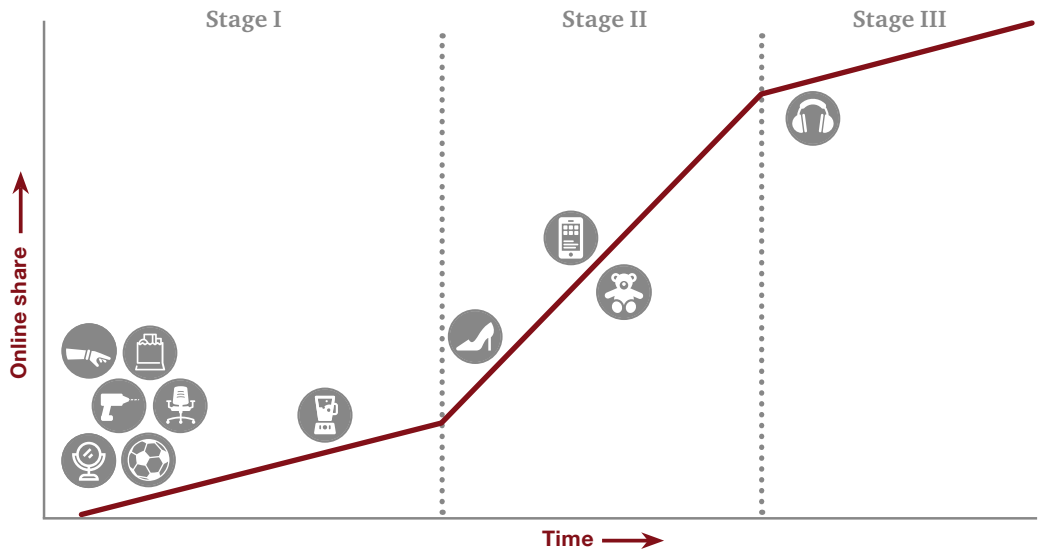


Source: PwC, Total Retail NL 2017

The state of online adoption across product categories

In a separate study, PwC's Strategy& analysed the state of adoption of online shopping across a range of product categories. They mapped product categories on a conceptual S-shaped curve, and classified them based on their stage of development. Stage I represents product categories where online sales share is still small (less than five percent of total category sales) or online sales is growing at a gradual, modest pace. This includes categories like jewellery/watches, do-it-yourself/home improvement, grocery, sports equipment/outdoor, furniture and homeware, health & beauty (cosmetics) and household appliances. Stage II represents categories where online adoption has reached a tipping point, and online sales growth accelerates (in Stage II online gains share from stores at a rate roughly two percent points higher than in Stage I). Stage II categories include clothing and footwear, toys and consumer electronics. Finally, Stage III represents categories where online sales growth decelerates and plateaus. In the Netherlands, among the set of analysed product categories, books, music, movies and video games are the only product category in Stage III. *(Figure 7)*

Figure 7 Category Progress on Online Adoption Curve



Note: The order in which we expect the stage I categories to reach the take-off point and the progress of stage III categories is based on the growth rates in the last 3 years of these categories

Source: Euromonitor, Strategy& analysis




LIMITED TIME ONLY
BUY ONE
GET ONE
50% OFF*



Chapter 4

Leveraging the store as an asset

"Local heroes dominate the physical retail market as well as the online market – in mobile there is work to do."

Location, location, location. This has long been the classic motto in retail, signifying what is (or perhaps: was) most important to have as a retailer: prime real estate. In the past, the essence of retailing was to get a prime spot on the high street, placing a 'we are open' sign outside of the store entrance, and waiting for customers to come in. This obviously is a grotesque oversimplification, but the truth is that retailing has become a whole lot more complicated. Previously, customers would know the way to your store, and unfamiliar shoppers would have a chance to 'bump' into the sign outside and be persuaded to have a look inside. Shopping around multiple stores across the city to find the best deals was a hassle, so once the offering in the store was reasonably attractive, it would convert into a sale. Today, as a significant amount of shopping happens online, it is more difficult to attract and retain people in your online store. How can you make people 'bump into' your store when they are browsing the Net? Perhaps Google search qualifies as the modern day equivalent of the 'we are open for business' sign on the high street.

We looked at store visit and purchase incidence rates for a set of major retailers across a broad range of product categories such as personal care, home improvement, fashion, and electronics. Survey results echo the continued importance of real estate; store-based drugstores and general merchandise retailers with large numbers of stores have the highest penetration numbers. The top 5 retailers reach at least half the population. *(Figure 8)*

Contrasting this with the reach of web shops, we see that only bol.com can compete on reach, with 60 percent of online shoppers. The rest of the 'big-4' in online retailing in the Netherlands, Coolblue, Zalando and Wehkamp, have a more modest reach in the range of 20 to 23 percent. Web shops of multi-channel retailers lag behind the online pure players.

These statistics give rise to an interesting theorem and paradox. Store-based retailers in the Netherlands struggle for survival. Some became insolvent and filed for bankruptcy or re-assumed business operations in a slimmed-down form. Others started taking Bold Moves (*www.strategyand.pwc.com/nl/boldmoves*) to restore profit levels and create a more resilient organisation that can adapt to changing shopping behaviours, channel shifts and more complicated customer engagement models. All-in-all, probably only a few multichannel retail organisations would say that they have had a fruitful last decade. For traditional retail organisations the shift to online was a double-edged sword that created problems on two fronts. First of all, retailers are faced with an expensive and lethargic store network which quickly turned from an asset to a liability. As sales moved online and out of the store, further exacerbated by economic crises which increased shoppers' price sensitivity, retailers struggled to cover store operating costs with store-based income. Long-term lease contracts and stringent labor laws, made it difficult to scale back rapidly to adjust store costs to a systematically lower (and declining) income from store sales. Depending on product category and size of the total store network, we estimate that 20 to 40 percent of stores are loss-making. Secondly, retailers had to figure out how to sell online. This required a different value proposition, a new business model, and new capabilities and skills. The required investments in technology and people was too much for companies facing cash flow problems, creating a vicious cycle of declining store sales, no investment ability to compensate with online sales, leading to more cash flow problems, and so on. The cost and liability of a (large) store network is a major cause of many of today's problems for 'traditional' retailers.

Figure 8 Most popular retailers, top 20 for Physical, Tablet/PC and Mobile



Purchases in physical stores		
Retailer	#	%
Kruidvat	1,749	87%
Action	1,438	72%
Hema	1,364	68%
Blokker	1,185	59%
Etos	1,065	53%
Ikea	890	45%
Xenos	832	42%
Zeeman	762	38%
Gamma	718	36%
Praxis	702	35%
Media Markt	693	35%
C&A	582	29%
H&M	526	26%
Primark	519	26%
Big Bazar	516	26%
Karwei	497	25%
Wibra	493	25%
Trekpleister	491	25%
DA drogist	426	21%
Van Haren	420	21%

- Purchases in **physical stores** mostly with “local heroes”, such as Kruidvat, Action, Hema and Blokker



Purchases Online: Tablet/PC		
Retailer	#	%
Bol.com	1,206	60%
Wehkamp	468	23%
Zalando	435	22%
Coolblue	408	20%
Hema	337	17%
Media Markt	306	15%
H&M	262	13%
Kruidvat	243	12%
Blokker	239	12%
Amazon	194	10%
Intertoys	183	9%
Bart Smit	167	8%
De Bijenkorf	155	8%
Van Haren	152	8%
Ikea	148	7%
Otto	143	7%
C&A	139	7%
Douglas	131	7%
Ici Paris XL	120	6%
Hunkemöller	109	5%

- Online with **tablet/PC** also often with “local” players
- Online with **tablet/PC** is dominated by Bol.com, with Wehkamp, Zalando and Coolblue as distant runner-ups



Purchases Online: Mobile		
Retailer	#	%
Bol.com	189	9%
H&M	87	4%
Wehkamp	85	4%
Zalando	82	4%
Coolblue	60	3%
Media Markt	60	3%
Hema	55	3%
Amazon	54	3%
Intertoys	52	3%
Kruidvat	47	2%
De Bijenkorf	47	2%
Hunkemöller	46	2%
Blokker	43	2%
Zara	43	2%
Ikea	42	2%
Leenbakker	41	2%
Bart Smit	41	2%
DIO drogist	40	2%
Beter Bed	40	2%
Ici Paris XL	39	2%

- For **Mobile**, significantly lower share of purchases, with international players such as H&M, Zalando, Mediamarkt and Amazon in the top 10

Number of store visits **%** of respondents that purchased in the last year

Source: Total Retail 2017

Ironically, it turns out that stores are (still) the primary instrument for reaching the masses. Considering reach across all channels, only online pure player bol.com can compete with the top-5 physical stores. For reference, Amazon generally reaches around 80 percent of all people in the markets where they operate under a local domain name (for example, amazon.de in Germany). This suggests that Dutch web shops have significant room to grow their reach. And an interesting question is, if and how store-based retailers can leverage their reach through their physical real estate to give a boost to the reach and value of their 'virtual real estate'.

The gap to the 'big-4' pure players is not huge and with the right approach, multichannel retailers should be able to overtake some of them over time. A key requirement, however, is for multichannel retailers to transform their cost structure, especially costs associated with a store network. Once the problem of 'the store as a liability' is resolved, retailers can turn to the opportunity of leveraging the store as an asset to boost online sales.

Amazon in NL: what to expect?

Where present with a local website, Amazon dominates (online) retail. In the US, Amazon accounts for 43 percent of online sales (including its marketplace platform). Amazon has 81 percent online user reach in the US, 78 percent in Germany and 82 percent in the UK (source: Statista). These figures trump the reach of all of the leading online retailers in the Netherlands: Coolblue, Wehkamp and Zalando. Only bol.com comes close with a 60 percent reach. *(Figure 8)*

The global e-commerce behemoth still seems prudent when it comes to launching big in the Netherlands. In November 2014 Amazon launched an e-bookstore in the Netherlands, with a limited range. Since August 2016 Amazon offers Dutch consumers access to the full suite of their German website… in Dutch and with Dutch customer support. Dutch consumers now have an unparalleled choice of 150 million products from 20,000 vendors, free shipping through an Amazon Prime subscription, and Dash buttons that enable auto-ordering.

At the time of publishing this report Amazon hasn't broadly publicised this. Despite this, roughly twenty percent of respondents have made a purchase from a foreign Amazon website in the last twelve months. It's hard to predict when Amazon's Dutch site will go mainstream. But when it does, we expect its impact on the Dutch retail landscape to be profound. To share some numbers from the global Total Retail study: a global average of 28 percent of respondents said they shop less at other retailers because of Amazon. In the US (Amazon's home market) this number is 37 percent. Online shoppers in the US use Amazon as the primary search medium (instead of Google) to research product specifications and read user and expert reviews. Price comparisons are rare – it is simply *assumed* that Amazon offers the lowest price, or suggests a third party supplier with the lowest price.







Chapter 5

Vision: What does all of this mean?

Online sales are expected to grow further across all product categories, at the cost of store-based sales. In fact, in the past years the online channel accounted for more than 100 percent of total retail sales growth (meaning that store-based sales are declining). It's still mainly online pure players that benefit from the growth of online retail, with most pure players still reporting double-digit growth rates. But this year's Total Retail deep dive into the Netherlands suggests that store-based retailers hold a trump card in their hands, possibly without even knowing it. So, how should store-based retailers play their hand?

1. A first and necessary condition is the ability to invest. Retailers need to be *Fit for Growth (www.strategyand.pwc.com/fitforgrowth)* and may need to take *Bold Moves (www.strategyand.pwc.com/nl/boldmoves)* to free up funds and resources. Our experience suggests that retailers could (and should) lower operating expenses and overhead costs by as much as twenty percent.

2. Retailers should invest in store personnel – quality, not quantity. Stores are still important for shoppers, and a unique asset that pure players cannot copy. Dutch shoppers attach above-average value to having the option to speak to a sales associate. In our conversations with pure players they acknowledge a significant demand for online shoppers to pick up their products at a store or service point. A key reason is the ability to speak with sales or technical support staff about product comparisons, technical installation or usage support, or simply to justify and confirm their product choice by getting an expert opinion (even if this conversation happens at the moment of pick-up, after the product was bought). We believe a proactive approach to servicing shoppers is required, which calls for retailers to train store personnel and free up their time for customer interaction, instead of store operations.

3. Store-focused retailers need to invest in a good website (with equally good mobile and desktop versions), where connecting and eventually integrating online and offline selling and servicing processes is most important. Engagement with a customer that started in the store – whether it is through a conversation with a sales associate, navigating the store and shelves, arousing the customer's interest for a product, or an actual sale – needs to continue online, and vice versa. It needs to continue across channels and devices, and will range from human interaction to chatbot interaction. 'Getting to know' customers is key and their likes and dislikes need to be reflected in all their interactions with your brand. A customer's experience online, and offline with your brand or store should be indistinguishable.

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