

INTERNATIONAL EXPANSION

Retail Week's latest country report assesses the expansion potential of Germany for retailers

A RETAIL POWER

Germany has long been the economic stalwart of the eurozone with a cluster of global top-tier cities and a population of 80 million. Combine that with ever-increasing consumer confidence and it is little surprise that, despite current headlines about an economic slowdown, it is among the most attractive global markets for retail expansion.

Germany is also a nation renowned for its retailing prowess. It is home to three of the world's 10 largest retailers – Aldi, Lidl and Metro – but until recently, the number of international players to enter the country has been relatively limited. That is changing.

The retail headlines from this year indicate how much boardroom attention is focused on this corner of Europe.

In September this year, electricals retailer Ao.com launched its German website. In the same month, Notonthehighstreet.com chose Germany for its first international foray.

In March, French Connection said it was to target Germany with its first international website.

And last year SuperGroup boss Julian Dunkerton told *Retail Week* that the group's Superdry brand could be as big in Germany as in the UK. It is plotting expansion in all of the country's major cities.

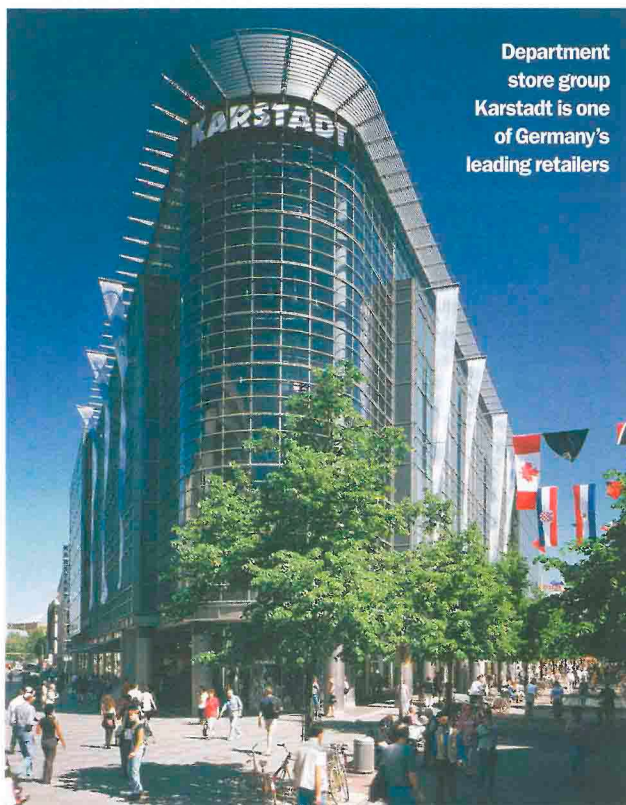
But international expansion is never straightforward. After all, Germany is also the land of one of the most noted retail expansion failures. Walmart finally admitted defeat there in 2006 after nine years of trading and sold its 85 stores to German rival Metro.

A nuanced market

Many believe Germany is particularly similar to the UK market in terms of demographic and weather.

The country's consumer and retail market is evolving in a way that will benefit brands seeking to tap into the spend of its consumers. The rise of social media and influx of fashion retailers such as Primark and Inditex are creating a more style-conscious nation.

As with any retail market, Germany has its nuances. It has one of the lowest birth rates in the world and therefore a rapidly ageing population. Germans buy all their basics from low-priced



Department store group
Karstadt is one of Germany's leading retailers

“Compared with many markets, Germany offers a relatively straightforward route to expansion”

retailers. It is traditionally a cash culture, but credit card use is steadily increasing.

Tourism is booming as visitors flock to take advantage of low-priced luxury goods. The proportion of single households is likely to reach 40% by 2030. Social media penetration is on the low side compared with other countries in Western Europe, but the impact of social media on purchase decisions is higher.

The list of idiosyncrasies goes on, but each provides an opportunity for UK retailers who research the market and adapt their expansion strategy accordingly.

Investment opportunity

Compared with many markets, Germany offers a relatively straightforward route to expansion. It ranks 21 on the World Bank's Ease of Doing Business Index, out of 189 countries. Its outstanding economic conditions, superior infrastructure, modern finance system and huge customer base offer enormous potential for investment. It is, however, burdened with regulation.

While there have been efforts to address this – for instance by relaxing restrictions on opening hours – it is likely to be some time before there are any major improvements.

At present, Germany's retail market is highly concentrated. Nearly 40% of

all retail turnover is accounted for by just five businesses: Edeka, Rewe Group, Aldi, Metro and Schwarz Group. However, the market promises to become increasingly diverse and vibrant.

The traditional department store looks likely to struggle as more fashion brands continue to enter the market via standalone stores. In terms of specific sectors, online retailing will be the fastest-growing channel over the next five years. It is estimated that it will have a share of 8.1% of overall retail sales in 2018. Convenience, too, will become a hotly contested battleground.

In 2013, Germany registered the highest retail sales of the top five European economies (the UK, France, Germany, Russia, and Italy), comprising 23% of the combined total sales of all five countries.

International expansion remains a focus for UK retailers and there has never been a better time to assess whether this market should be the next on the expansion trail.

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**5.1%**

One of the lowest
unemployment
rates in Europe

€505bn (€397bn)
The total value of retail sales by 2018



Third-largest exporter
in the world



22.4% of Germans will
be aged over
65 by 2018



57% of the population purchased
via a mobile in 2013

