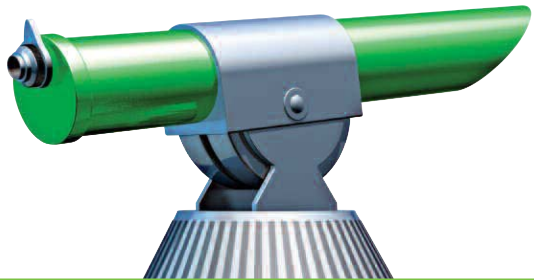
FOCUS
E-COMMERCE:
A NEW DIMENSION IN RETAL ESTATE

CB RICHARD ELLIS | FRANCE

FEBRUARY 2011



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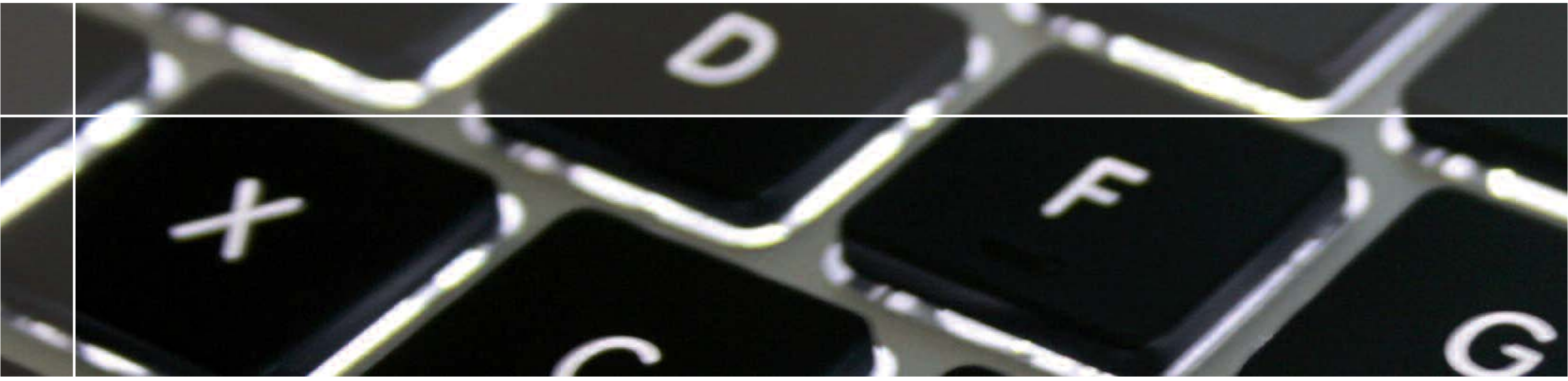


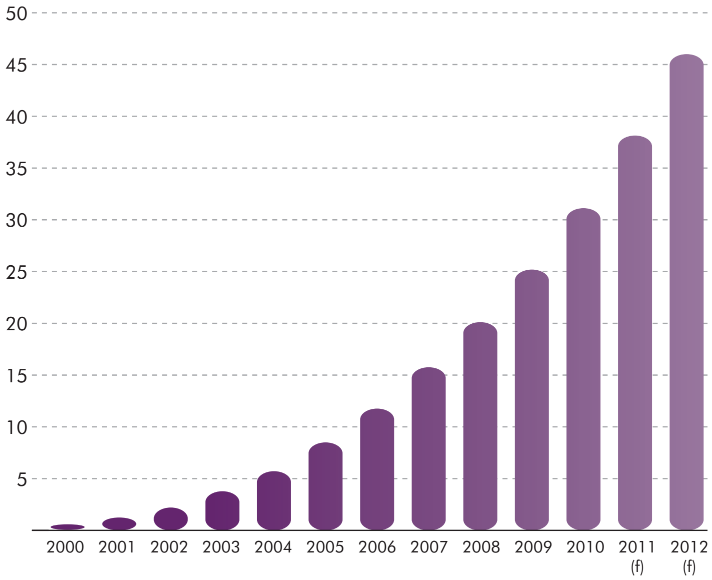
A well-established trend

Key facts for e-commerce in France at end 2010

- Turnover of €31 billion and forecast of €45 billion in 2012
- Average amount of a transaction: €91
- 81,900 active retail sites
- 38 million internet users
- 28 million e-buyers
- 98% of e-buyers satisfied with goods bought in last six months
- 24% of retail sales could take place over the internet by 2020 compared to less than 5% now

Trends in e-commerce turnover

(In billion €)



Sources: Fevad, Crédoc, Médiamétrie//NetRatings

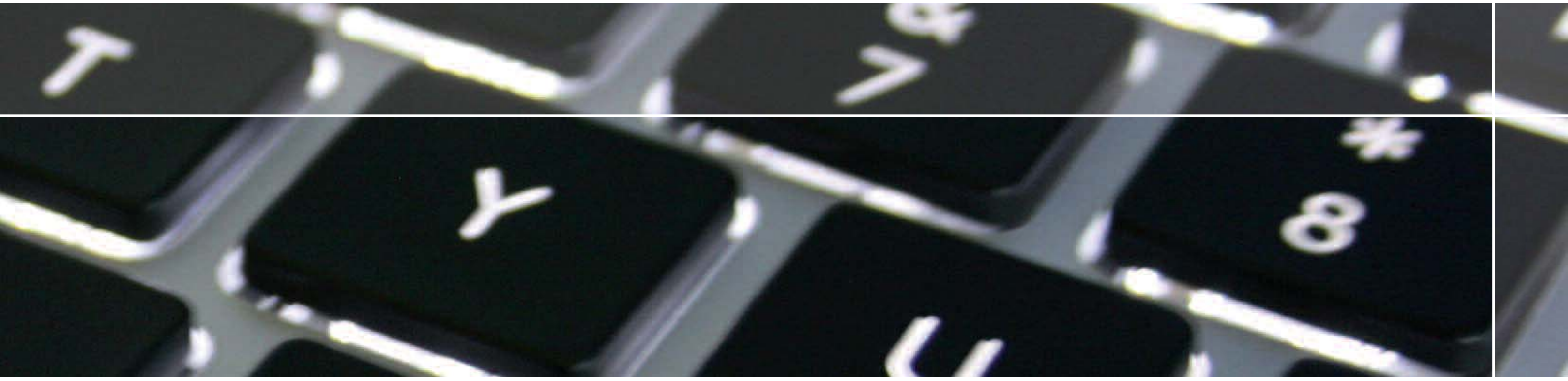
According to some specialists, in the domain of e-commerce France is perhaps one of the most active countries in Europe and in the world. A few recent figures illustrate this trend. In 2009, while retail sales stagnated showing zero growth, the e-commerce market rose by 26%, to reach a turnover of 25 billion euros. In addition, in 2010, on-line sales accelerated strongly by 24%, the number of on-line shoppers rising by 15% and 81,900 active retail sites were identified at the end of year compared to 14,500 in 2005.

Around half of e-commerce activity in France can be properly deemed the sale of products that directly competes with retailing in shops. The other half involved the purchase of services including travel, tourism, subscriptions to social networking sites, downloading and so on.

E-commerce exploded in France in the 2000s (cf. diagram). Initially on-line selling simply replaced other forms of mail-order methods (catalogues, telephone, Minitel etc.) but it overtook these traditional forms in 2005.

At the end of 2009, the market has still not yet reached maturity: only 45% of French people bought over the internet, compared to 66% in the United Kingdom and 56% in Germany. But the rise of e-commerce in France is an inevitable structural change in the medium term.

- At the start of 2010, only 63% of French households had access to the internet, a level that was below the European Union average. However this level of connection is rising each year; in 2007 it was only 49%.



• Approximately one third of the French population had never used the internet at the end of 2009. But the number of internet users is climbing constantly. In this respect, generational change plays a positive role. In 2010 about 99% of 12-17 year-olds had access to the internet, compared to just 20% of the over seventies. Moreover, in 2010, 99% of 8-18 year-olds surf the web regularly and 45% of them surf on a daily basis. Given these figures, it is quite legitimate to wonder what the weight of on-line commerce will be when the population of this age bracket become adult consumers.

• Senior citizens lag behind but are starting to catch up with their on-line shopping habits.

• Connections are getting faster, equipment is increasingly mobile (computers, laptops, Smartphones etc.) and internet users stay on line longer and connect more easily.

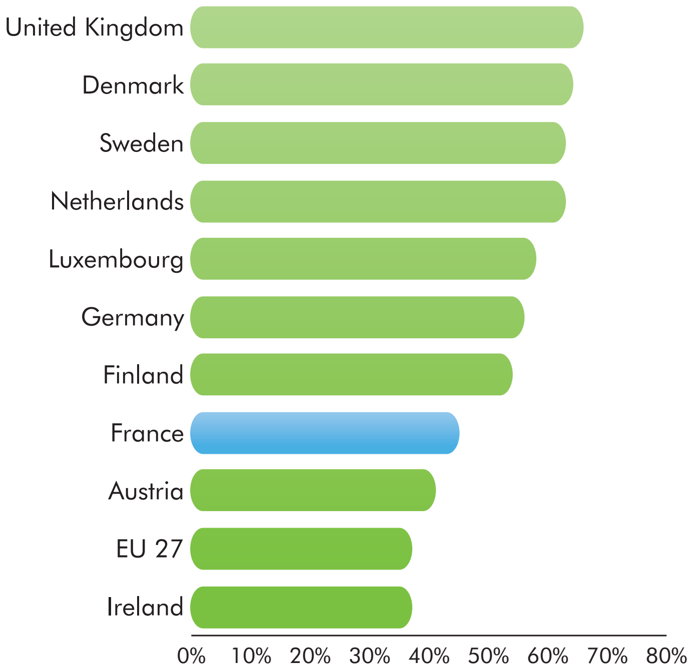
• The level of trust in on-line shopping rises continually. It stood at 65% at mid-2010.

• The quality and efficiency of retail sites have improved, which will facilitate the rise of their conversion rate (cf. definitions on page 10).

• Finally by the savings made on many overheads and other expenses (personnel, rents and so on), the internet often enables retailers to propose cheaper prices than shops, which reinforces consumers' support of the channel especially in times of economic crisis.

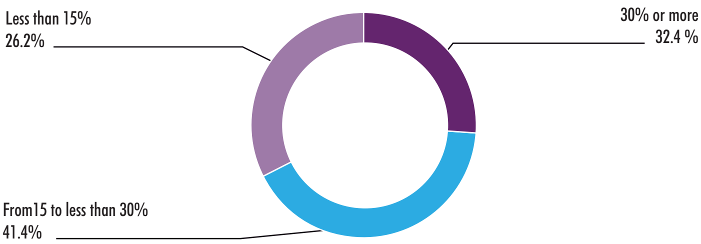
The Fédération du e-commerce et de la vente à distance (Fevad) expects the e-commerce market to rise from 31 billion euros in 2010 to 45 billion in 2012. And according to a survey of distributors, consultants and researchers carried out by Crédoc the share of e-commerce in total retail figures could reach 24% in 2020. The study also showed that new technologies will be the main challenge facing the retail industry in the years ahead. So shops will undoubtedly face stiffer competition from e-commerce and they will have no choice but to adapt to the new situation.

Proportion of the population buying over the internet in 2009



Source: Eurostat

What percentage of retail sales do you believe will take place over the internet in 10 years?



N.B. Survey of distribution specialists, consultants and teachers-researchers carried out between June and September 2010

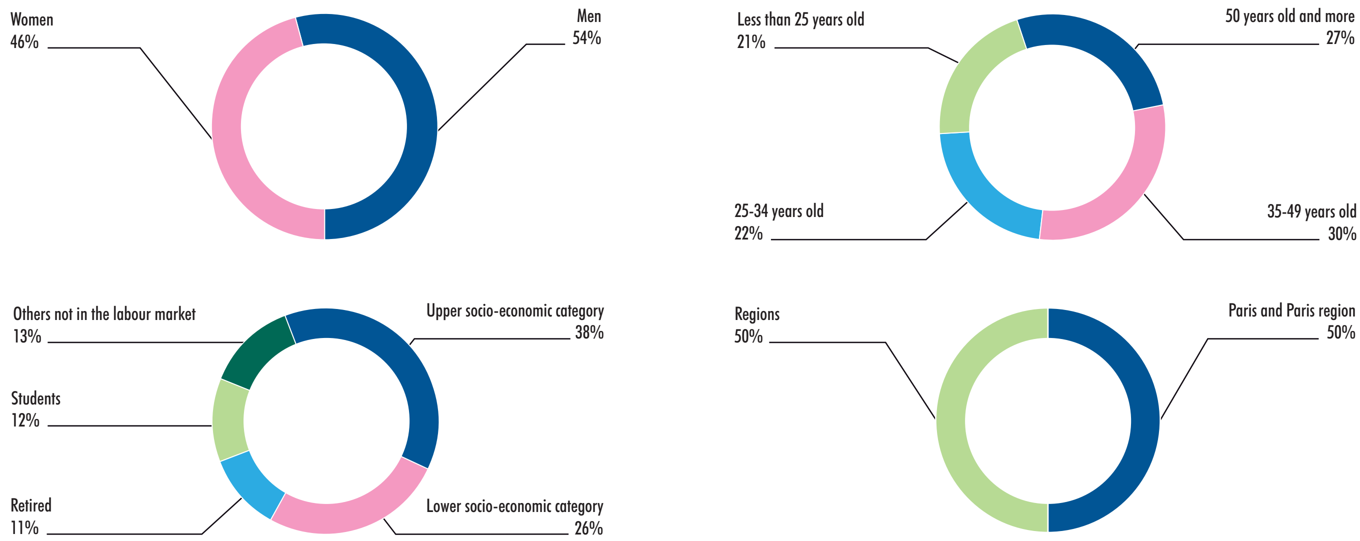
Source: Crédoc

A vast array of e-shoppers

Who are they?

At the start of 2011, 28 million French people buy on line. On-line shoppers have no typical profile, even if one does seem to emerge faintly from the mass: the working man in an upper socio-professional category. In 3rd quarter 2010, 54% of people shopping on-line were men. Overall people in the 25-49 age bracket, who make up a third of the French population, accounted for 52% of on-line shoppers. Youngsters and pensioners are under-represented among on-line shoppers for budgetary and equipment reasons respectively. But while these age-categories may lag behind in the on-line market, they are catching up noticeably. In 3rd quarter 2010, 74% of internet users in the 16 to 24 age bracket also buy on line, compared to 69% at the start of the year. During the same period, the percentage of pensioners buying on line rose from 63% to 68.5%.

Percentage of internet users who are also e-shoppers at 3rd quarter 2010* (In number)



* Geographic breakdown of e-buyers at 1st quarter 2009

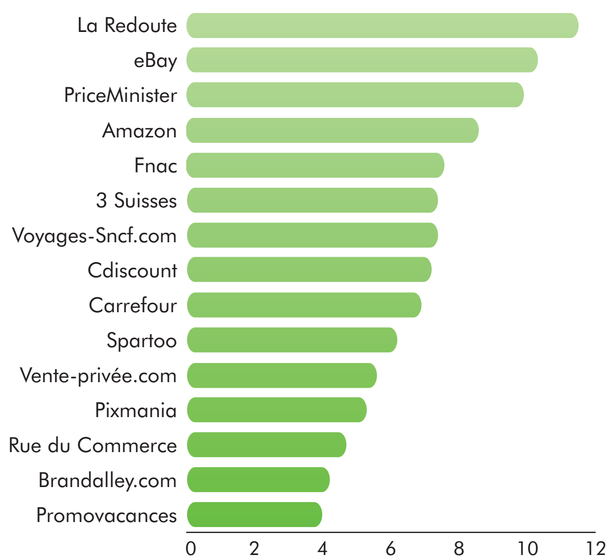
Source: Médiamétrie - Observatoire des Usages Internet

Where do they go?

Despite the rapid increase in the number of retail sites, the e-commerce sector is still very concentrated. About 68% of internet users only visit the 15 biggest sites. Halfway through 2010, only 4 out of the 100 largest retailer brands in France were ranked amongst these 15 major sites: La Redoute, 3 Suisses, Fnac and Carrefour. Also worth mentioning, is the Casino site cdiscount.com. The 15 leading retail sites in France are therefore largely dominated by "pure players" (cf. graph), which is very specific to the French market. Indeed when the internet bubble burst in 2001, many major retailers considerably reined in their on-line development, leaving the field open to new players.

The most visited e-commerce sites

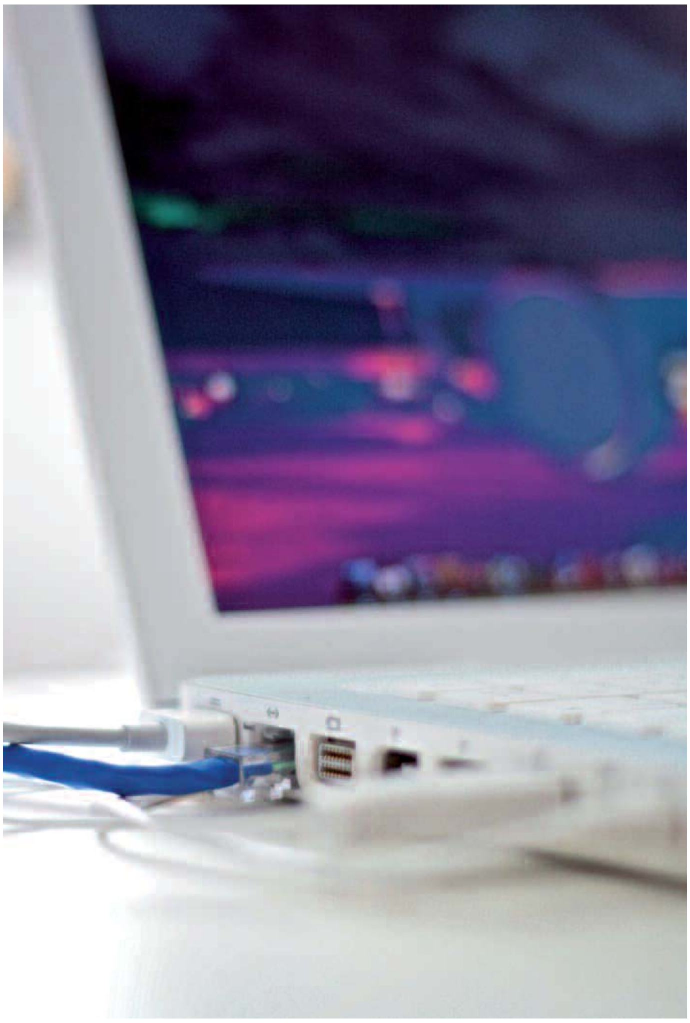
(Monthly average for 3rd quarter 2010, in millions of unique visits)



Source: Médiamétrie // NetRatings

Who will be the champion on-line retailers?

Traditional retailers are increasingly facing competition from e-commerce and the best way for them to compete with it is to expand their own on-line presence. In France, large high-street retailers have only recently drifted towards on-line sales, but it is a serious deep-rooted trend. Retailers now have to play a more important role on the web. According to a survey carried out by Crédoc, 47% of a panel composed of distributors, teacher-researchers and consultants believe that shop-based retailers will be the dominant e-commerce players in 10-years' time, while 25% believe the pure players will remain dominant.



Today, retailers, particularly in the ready-to-wear clothing sector, are on the look-out for growth relays and are expanding rapidly on the net. Camaïeu is one of France's principal clothes and accessories brands (with more than 300 sales outlets); in 2009 it opened an e-commerce site in France, as did the British brand New Look. Zara started operating its transactional website in 2010 as did Tati. While Lacoste launched a European e-commerce site.

Another recent trend can be noted; the arrival of luxury brands on the web. At the moment Gucci, Boucheron, Dior Couture, LVMH, Hermès and most recently Mauboussin have on-line shopping facilities. Cartier may open an on-line shop over the next two years.

The four main types of retail sites

Sites that mirror retailers' shops	These sites offer on-line ranges, prices and services that are close to those practiced in their shops. Sites of major retailers attract most sales and challenging retailers often have trouble emerging on line.
Pure players	Sites that may be specialist or not, nearly always discount prices, with efficient retail mechanics but fairly straightforward such as: Cdiscount, Rueducommerce, and Pixmania.
Sites with innovative retail models	For example iTunes, Venteprivée, Chronodrive and eBay: the spectacular success of these models that break away from the mould tend to mask their scarcity. At the moment internet has not generated that much creativity if measured by sales models.
Niche sites	There are tens of thousands of niche sites. Each is very specialist and their turnover albeit weak is not negligible.

Source: "Le commerce du futur" - Forecast report (Pôle interministériel de prospective et d'anticipation des mutations économiques - PIPAME)

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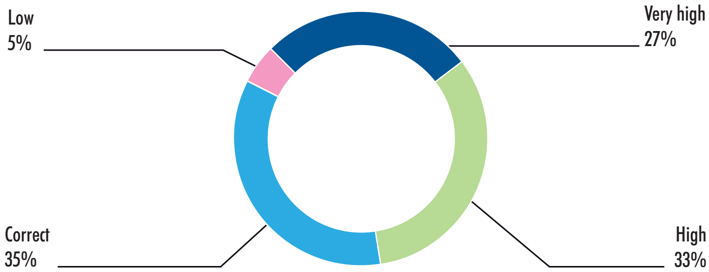
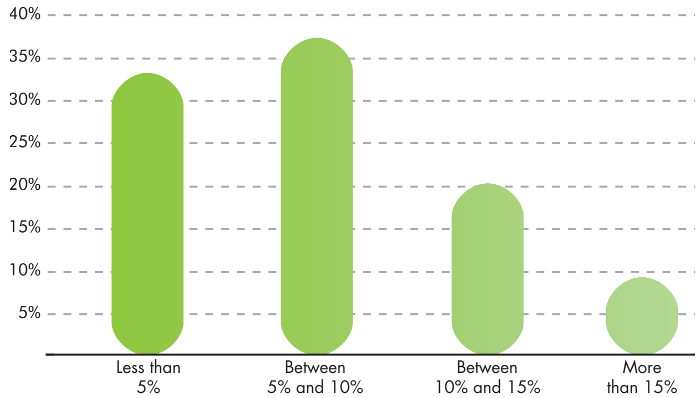
Towards a generalisation of multi-channel distribution

How do you judge the potential for e-commerce in France compared to other countries?



Source: CB Richard Ellis

5-year forecast penetration of e-commerce in your network's total sales



Source: CB Richard Ellis

This survey involved an on-line questionnaire followed by telephone calls. The respondents were real estate directors or business development managers. Approximately 70 French and international retailers were questioned. Included in the panel were several world leaders in their business sector. About 54% of those questioned have operations in more than 10 countries. Most respondents were in the mass market (66%) and high-end market (27%) segments. Few luxury and discount retailers responded to the questionnaire.

Virtually all retail sectors were present in our sample, although ready-to-wear clothing predominated. Some 51% of retailers expand via direct branches. Franchises only accounted for 14%. Retailers using both formats represent 35% of the panel.

As part of the 2010 Mapic trade show, CB Richard Ellis questioned in September a panel of approximately 70 major French and international retailers about the appeal of retailing in France. This survey was carried out over the telephone and with an on-line questionnaire. Included in the panel were several world leaders in their business sector.

Some 60% of respondents believed the potential of e-commerce in France to be high or very high compared to other countries. No category of retailer (when analysed by market position, nationality, or international presence) really stood out from the rest in this response compared to the original composition of the panel. About 35% of those questioned regarded France as having reasonable potential, while only 5% believed on-line shopping in France had only weak growth prospects.

70% of the panel believe that their web sales will not exceed 10% of their turnover in the five years ahead. Supermarkets and the sector composed of Department stores, Household Equipment, DIY and Gardening are the retailers predicting the lowest figures for the proportion of e-commerce sales out of total network sales. Interestingly, international retailers are by far the most positive when it comes to putting a figure on the penetration rate of e-commerce. Whatever the final figure, the question revealed that retailers see the internet above all as a complementary sales channel that will not undermine their opening policy for physical sales points. Indeed 82% of retailers believing that the proportion of on-line sales would exceed 10% within five years currently have plans to open shops in France.

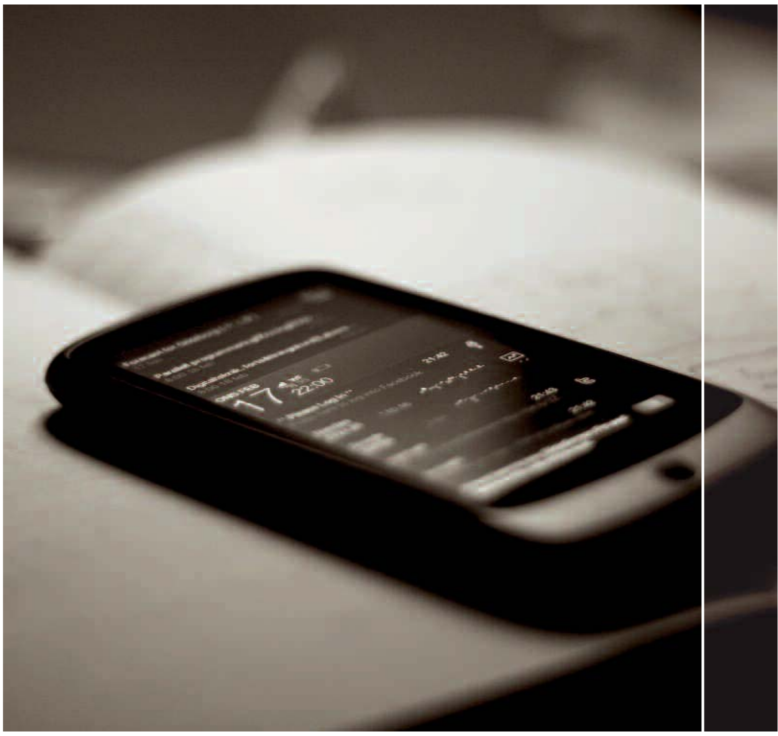
The results of our study would appear to confirm that internet will not replace actual shops; e-commerce sites do not just serve to place orders on line, but also to develop the efficiency of the network as a whole. According to a study carried out by the consumer behaviour watchdog Café du Commerce, 85% of internet users regularly consult sites as a way of preparing upcoming spending trips in shops. By contrast it is possible that for markets where there is high competition on the net (music, electrical goods etc.) retailers will be spurred into reinventing their shops (formats, services, merchandising mix etc.). But the complementary nature of the two forms of shopping, on-line and in shops, has not gone unnoticed by pure players: they are now opening shops.

Smartphones at the heart of multi-channel retailing

According to Fevad, 25% of people with internet connections have bought a product or a service on the web in the last six months. In 2009, 82% of French people own a mobile and according to a study by Crédoc, 13% of them use their phone to connect to the internet. This share has almost doubled compared to 2008.

The multitude of applications on smartphones enable the retailer to attract the client to a point of sale and give consumers access in real time to a mass of information, even guiding them to a specific product, the lowest prices and so on. Smartphones are also the heart of social networking sites. And to this end retail brands readily create their own profiles on such sites so they can communicate even more easily with their customers and build loyalty. As the use of smartphones spreads, the usefulness of more traditional forms of communication/marketing such as mail shots could be called into question, generating a boom in M-commerce.

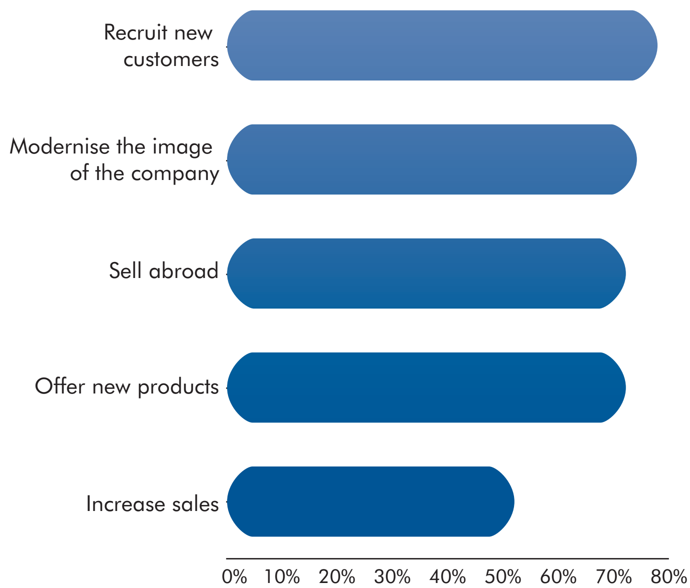
At the start of 2010, they were 7 million Smartphone users in France, i.e. an annual rise of 48%.



How can the internet be used by small businesses?

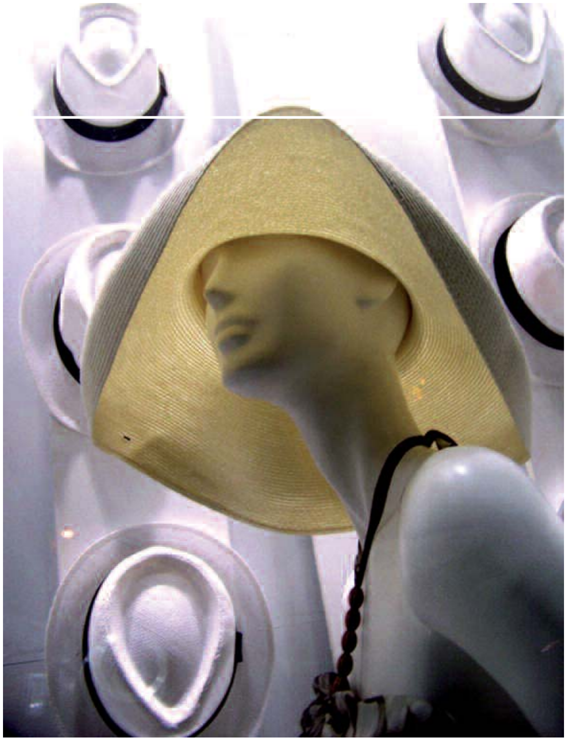
A study carried out by OpinionWay and published by PriceMinister and La Poste reported on small retailers' usage and plans for e-commerce. A third of retailers have already created a website. Retailers believe that the main advantages of e-commerce are the possibility of expanding their clientele, of modernising the business's image and of selling abroad. The study showed that 60% of retailers who have tried e-commerce saw their business improve. For small companies, there are however barriers to the launching of an e-commerce site: small businesses often have to rely on internal technical resources to deal with IT set-ups and on-line order systems that are seen as being complex to manage. Only 43% of businesses questioned believed that having a retail site was indispensable for developing business.

Small retailers' perception of the main benefits of the internet



Source: OpinionWay, June 2010

An adjustment of new development needed



In the 2000s shops hardly felt the effect of e-commerce on sales. Yet at the end of 2009, this channel accounted for 11% of sales of technical products, 7% of cultural products and 6% of clothes. These penetration rates will increase structurally in the coming years. In this context and because consumer consumption is not inexhaustible, future retail growth in France will very largely take place over the internet.

If the construction of retail space continues at its current rate, the rise in e-commerce will have a heavy impact on the level of sales turnover per square metre per annum of retail outlets. And this is a fundamental factor in retail real estate because it gives an indication of a retailer's capacity to cope with high rents.

Despite the laws becoming increasingly stringent in the nineties (the Doubin law of 1990, the Sapin law of 1991 and the Raffarin law of 1996), the stock of retail space in France expanded significantly between 1992 and 2006 (up 50%). During the period, the turnover in shops rose almost by the same proportion. Now, however, a fall in returns (turnover per square metre) seems inevitable in the medium term in France. The sales floor area in shops has risen more quickly than turnover figures and development plans in France for more retailing facilities are amongst the highest in Europe. The cannibalisation effect of on-line sales is now being felt: the average turnover per square metre in France's 100 largest retailers was virtually stable in 2008 but fell by 5.9% in 2009 (source: LSA). Precaution would advise a rapid adjustment of new construction starts if turnover ratios in shops are not to be sacrificed. But France may be heading in the opposite direction: the authorisation procedure for the creation of new retail space is to be relaxed in the medium term and various commissions (CDAC and CNAC) currently charged with approving new retail developments are to be dismantled.

This nationwide average trend obviously blurs differences from one sector or region to another. E-commerce is a worldwide phenomenon and retail turnover ratios in France are very attractive at the moment compared to other countries in Europe so it is likely retailers will always consider France a secure market.

E-commerce prospects for certain markets

Market	Commercial appeal	Attractiveness of economic model	Additional added value	Prospects
Food	High for dry goods and average for fresh produce	Low (preparing order and cost of scheduled deliveries)	Low	Limited potential for conventional on-line supermarkets; new potential via drive-through and delivery attached to a supermarket. A few niche markets such as wine and spirits
DIY	Low for finishing products, average for technical products	On the low side (many bulky or heavy products)	High (preparing the visit, DIY advice etc.)	Retail potential limited, but on-line information a crucial back-up to shops
Music	High	High	High (listen to music on line, buying pieces)	Very high potential growth, could replace shops
Furniture	Low	High (home delivery already common)	Low	Limited potential except for functional furniture (offices) and discount sites

Source: « Le commerce du futur » - Étude prospective (Pôle interministériel de prospective et d'anticipation des mutations économiques - PIPAME)

Optimal e-logistics

In e-commerce business the only as it were physical contact between supplier and customer takes place when the product is delivered. How the product is delivered will influence the consumer's satisfaction and the negative or positive knock-on effect for the retailer (cost, brand image etc.). How fast the product is delivered and what services are offered in the logistics process are effectively quality assurance. Internet shoppers need reassuring about the outcome of their purchase and pay close attention to the price, the availability of products in stock, delivery costs, rapidity, punctuality, the condition of the product on arrival and the quality of after sales services. These criteria of satisfaction are a key part of Business to Consumer transactions and generate different constraints to those of business to business logistics services:

- less stock;
- managing small, highly diverse orders;
- more manpower to pick out goods plus specific tools to reduce order preparation errors to a minimum;
- efficient information flow management so the client can find out the state of the order at any moment;
- home deliveries and/or delivery to "relay" points (local shops that hold the goods for the consumer);
- need for an efficient after-sales service.

Supply chain management for business to consumer deliveries also differs to B to B (Business to Business) supply chain management. E-commerce involves flow management: products ordered in small quantities transit through warehouses and are not stocked for a long time. This is why premises called cross-docking platforms, which are smaller than traditional warehouses, are used. Cross-docking facilities enable goods to be shifted rapidly from their arrival to sorting to consolidating then dispatching and shipping. Transport cost is also an issue to be considered. The aim is to reduce the cost of the final kilometre as this is usually high. According to Crédoc, 77% of French people believe that distance selling has good prices, but paying for delivery is a psychological barrier and is the single most important reason (51% of those surveyed) that on-line orders are abandoned (source: Benchmark Group). To be able to offer free delivery on-line retailers have to find a way of integrating transport costs into the final cost of the product and of minimising transport. To this end, relay points are a way of consolidating orders, thereby reducing transport and optimising related costs. The system also gives more flexibility to consumers by allowing them to avoid queues in post offices and leaves them the choice of the pick up point. Still, home delivery remains the most popular method. It can be seen that the dazzling growth of e-commerce, the stakes attached to getting the delivery right and environmental responsibility clearly require logistics bases close to consumer basins.

Several mail-order specialists have been dealing with the specific issues related to this form of retail and have developed the necessary logistics skills to cope. The logistics function is managed internally and is a key factor in the success of their business model. In contrast outsourcing part of the supply chain is becoming more and more popular with on-line retailers. A key feature of e-commerce is the seasonal nature of orders with peaks in activity (for example just before Christmas) and special-events sales. Moreover, many on-line retailers are small businesses that cannot cope with all logistical constraints. Outsourcing enables companies to focus on their core business (which is not necessarily mail order) and optimise their growth without having to invest in heavy logistics structures such as real estate, IT systems, or transport, which is the part of the chain that is usually pooled. Outsourcing transport helps reduce delivery costs because delivery lorries are filled and their frequency can be increased.

These constraints are increasingly left to specialists who have the necessary structure, resources and know-how. For a long time e-logistics in France has been the privileged domain of a few mail-order specialists and the Post Office as they were forced to integrate the function due to the absence of suppliers of such services. Over the last decade though the market has opened up considerably and there is much more competition.

Sources: "Les prestataires logistiques en France, quelles mutations de la chaîne logistique externalisée à l'horizon 2012?", Xerfi, June 2010, Alexandre Boulègue; "La logistique, pierre angulaire de l'e-commerce", E-commerce n°21, 01/02/2010, Véronique Méot

The environmental cost under examination

In 2009, a study carried out by Estia and Médiamétrie/NetRatings in partnership with ColiPoste and Kiala showed that e-commerce would enable a fourfold reduction in greenhouse gas emissions and a threefold reduction in the damage caused to ecosystems compared to classical distribution circuits, because e-commerce reduces the total distance travelled in getting goods to consumers.

The study compared the time taken to buy 5,400 products in a traditional manner with the time taken to buy and deliver the same products over the internet. The total distance covered by the e-commerce route was 53,000 km lower. According to Fevad, the savings made by on-line purchases in 2009 in France was 800,000 tons of carbon dioxide equivalent. In addition, the development of e-commerce could reduce the amount of new retail space that is needed. Shopping centres are big energy consumers (air conditioning, lights, escalators, lifts etc.) and use on average 400 to 800 Kwh/sq. m pa of primary energy. So it is possible that the development of e-commerce could reduce the environmental footprint of retail in France.

Key definitions for e-commerce

E-commerce: the buying or selling of products or services over the internet.

Multi-channel: describes the practice of using several sales channels simultaneously or successively for the sale of goods and/or expansion of the client base. Multi-channel retail enables the seller to adjust to customer preferences and behaviour patterns and increase sales per customer. It can also reduce contact and sales costs. Developing multi-channel sales involves several constraints:

- coordination of messages and sales policy from one channel to the next, keeping a record of contacts and centralising contacts from different channels;
- managing sales pressure and the complementary nature of channels
- choosing channels to suite consumers and training front office staff

M-commerce: using wireless technology, especially telephones, for trade

Augmented reality: computer generated system that makes it possible to superimpose a virtual 3D or 2D model to our own perception of reality in real time. The system can be used on images (when graphics are superimposed on real images) or for proprioceptive senses such as touching and hearing. In e-commerce using this technology improves transformation rates of retail sites because it enables the consumer to visualise and understand products better.

Social shopping: the aim of social shopping sites is to mimic over the internet the social interaction of consumers found in traditional shops and malls. Based on the concept of the wisdom of crowds, consumers communicate and aggregate information about products, prices, and recommendations. Several sites enable consumers to make shopping lists on activity-based themes and share the lists with friends.

Dropshipment: consists of a retailer selling a product bought from a wholesaler, or drop shipper, and having it delivered directly to the client without being involved in the logistics or delivery process.

Transformation rate of a retail site: the percentage of visitors buying in the total number of visitors to the site during a set period.

Sources: definitions-marketing.com, Wikipédia, drop-ship.fr, journaldunet

ALDO

Interview of Norman Jaskolka (vice-chairman) and of Todd Dean (multi-channel and e-commerce general manager)

ALDO is the leading international fashion brand that specializes in the creation of on-trend fashion footwear and accessories for stylish, young women and men. Since its inception in Montreal, Canada in 1972, The ALDO Group has become one of the leading fashion footwear & accessories companies in the world operating over 1500 stores in 60 countries across all continents.

Can you tell us about your e-commerce experience?

Aldo considers itself a life style brand. Ten years ago we saw that young consumers were more likely to use the internet and spend more time on it. As it happens, our customers are in the 18-30 age group. We followed the surfing patterns of these users and noticed that not only did they spend time on the internet, they were also buying more and more on line. Five years ago we launched our buy-on-line site and decided to go more deeply into the internet channel because the number of visitors was rising exponentially. We set up an organisation dedicated to e-commerce and an infrastructure to manage on-line shopping. We soon realised that our site users wanted to have regular updates about the brand and not just buy our products. We therefore changed our strategy so that we could keep constantly in touch with our shoppers by exploiting the brand's strength. Internet was also a tool for giving information about charity work and other projects Aldo was involved in.

The first countries to adopt the e-commerce were Canada, the United States and the United Kingdom, where we have many subsidary retail outlets. We decided that our web site would become a universal window for our products, a flagship targeting a young customer base.

Today the internet is part of a multi-channel sales strategy for the group and there is a strong, on-going link between our website, our shops and our customers. This approach means we can offer our customers a better service. They can buy on line as usual, but if they are not happy with their purchase, they can easily return the product to our extensive network of shops in Canada, the United States or the United Kingdom. If customers still don't find what they are looking for in our shops, we have special software that can scan stocks carried by outlets in the entire country and identify where the item can be found. This enables us to deliver the product at home within 48 hours.

What is your on-line strategy in France?

E-commerce will be an integral part of our strategy in France. We believe our network of shops and our on-line facility have to be developed together in order to create a strong brand image and connect French customers to our on-line activity. Don't forget that we make very effective use of specialist internet sites like www.zappos.com and www.amazon.com to sell our products. The advantage of this strategy is that these resellers already have a strong image in the e-commerce market and Aldo can benefit from it. We can look into this possibility of working with a French reseller. Exactly how we go about it will depend on the results of the research that we are carrying out. In Europe, our warehouses are in Italy and the United Kingdom, although a site in France is conceivable.

What impact will the internet have for shops?

The growth in e-commerce will lower the number of outlets for retail brands. Where outlets are located will be more strategic and considered. Before investing in a shop, retail chains will have to take into consideration the rapid growth of the internet and its potential consequences. We are convinced that the rapid development of e-commerce will eventually cause a reduction in the average size of shops. The stocks shops hold could also be reduced, because over the internet the choice of available colour and size is generally greater.

SOME SOURCES:

- Fédération du e-commerce et de la vente à distance (FEVAD)
- Association de l'économie numérique (ACSEL)
- e-commerce Magazine
- Mediametrie//NetRatings
- Autorité de régulation des communications électroniques et des postes (ARCEP)

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