



THE E-COMMERCE MARKET IN GERMANY

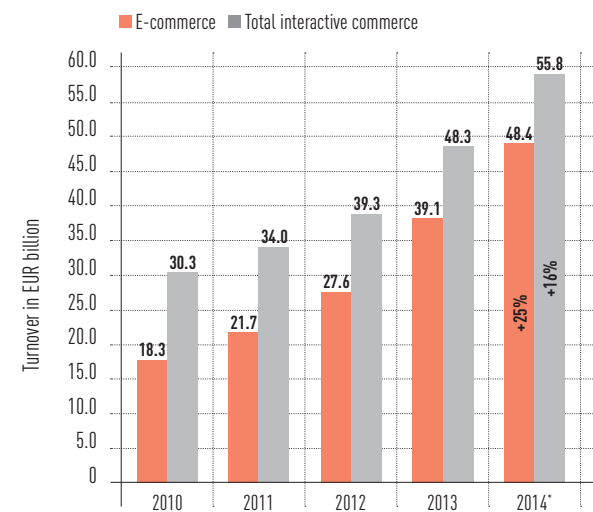
GROWING MARKET

European online retail sales will reach EUR 191 billion by 2017; up from EUR 128 billion in 2012 – equivalent to a 10.5 percent compound annual growth rate (CAGR) over the period. With more than 42 million (52 percent of the total domestic population and 73 percent of the domestic population aged 14-69 years old) digital buyers in 2013 (forecast to rise to almost 46 million in 2016), 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 Global Retail E-Commerce Index 2013 identified Germany as the Western European market with the highest growth potential.

Together, German B2C multichannel online and mail order business generated total turnover of EUR 48.3 billion in 2013. With more than EUR 39 billion, e-commerce generated 81 percent of the industry's turnover. Germany's e-commerce sector represents nine percent of the nation's total retail industry (EUR 428 billion). The *Bundesverband E-Commerce und Versandhandel Deutschland* ("German E-Commerce and Distance Selling Trade Association") has forecast that e-commerce volume will grow by around 25 percent in 2014. The increasing popularity of smartphones and tablet devices is seen as one reason for this growth in Germany. The increase in turnover can also be observed in the B2B e-commerce environment: EUR 870 billion was generated in 2012 alone (for more information about the B2B e-commerce sector please see our "Germany's Digital Economy: Opportunities for International Investors" fact sheet at www.gtai.com/internet-economy).

According to the *Verband der deutschen Internetwirtschaft* ("Association of the German Internet Industry"), 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 e-commerce market in Germany in both B2C and B2B environments.

B2C Interactive Commerce and E-Commerce Turnover in Germany



*Forecast
Source: BVH 2014

MARKET PLAYERS IN GERMANY

A number of German start-ups – including Zalando, Fab.com and Westwing Home & Living – have made the leap into the country's top 100 e-commerce companies. Westwing, an online shopping club for home and living accessories, was founded in 2011 and generated almost EUR 60 million in its first two years of operations. Many German online retailers are already engaged in international business. Of the surveyed members of the German E-Commerce and Distance Selling Trade Association, almost 90 percent conduct online business beyond national borders. Twenty-two German e-commerce companies are represented in the list of the Top 100 European E-Commerce Companies. Forty-three percent of those companies who do not currently generate business abroad are working on their international expansion.



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ONLINE CONSUMER BEHAVIOR

As the biggest market in Europe (population and internet use) with a high per capita purchasing power level, Germany offers major opportunities for international companies looking to participate in the domestic market. With 54 million people (77 percent of the population aged 14 or older) online on a regular basis, Germany boasts the most internet users in Europe. More than 42 million Germans (equivalent to 52 percent of the total population and 73 percent of the 14- to 69-year-old demographic group) purchased goods online in 2013.

CONSUMER AGE GROUPS

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

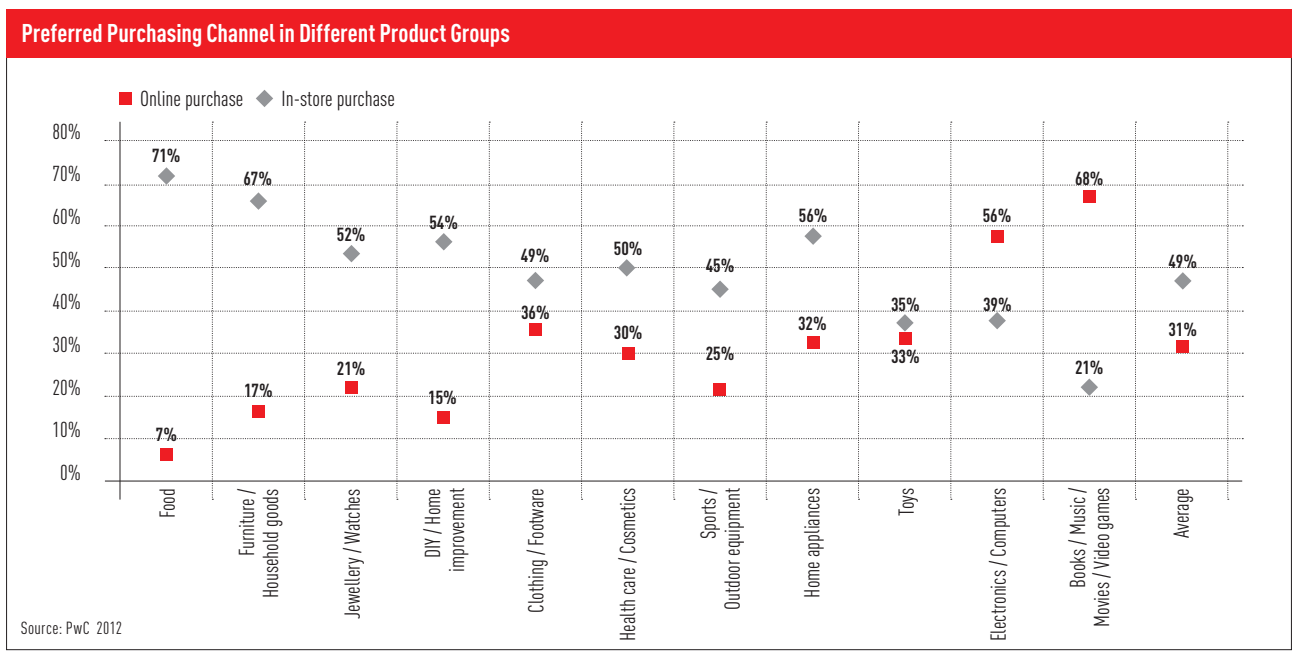
ONLINE EXPENDITURE BY SECTOR

The Centre for Retail Research forecasts that German online shoppers will spend more than EUR 1,100 online in 2014 (22 percent increase on 2013) placing Germany

second in Europe only after the UK. According to a 2012 PwC study, the product categories "clothes and shoes" and "healthcare and cosmetics" recorded the strongest growth rates from 2011 to 2012. Online buyers spent an average of 61 percent on "clothes and shoes" and 56 percent on "healthcare and cosmetics." While only five percent of online buyers questioned intend to increase their in-store spending, 43 percent intend to do so online. In 2013, flight, train, and bus ticket sales generated the highest e-commerce turnover in the service sector with more than EUR 4 billion, followed by travel packages (EUR 2.9 billion) and event tickets (EUR 1 billion). Even though e-commerce is experiencing high growth in most sectors, in-store retail remains the preferred channel in 9 out of 11 product groups for domestic digital consumers and remains the base of a multi-channel strategy. Electronics and computers as well as books, music, movies and video games are preferably bought online. One in three in-store retail purchases is made on the basis of online research – generating EUR 92 billion or two thirds of total in-store turnover. German companies earn one in every six euros online.

ONLINE DEVICE SHIFT

The way in which German consumers go online is increasingly shifting away from stationary computers to mobile devices. Fifty-three percent of all online users currently go online via mobile devices (including smartphones and tablets) – an increase of more than 50 percent compared to 2012 usage levels.



NEW ORDERING MODELS, FLEXIBLE DELIVERY MODELS

Customers are increasingly demanding multichannel transactions including browsing, buying, and returning as well as pre- and post-sale services. They want to decide where and when to shop. In order to be successful in the retail industry, it becomes increasingly important to combine different sales and marketing channels.

MOBILE COMMERCE

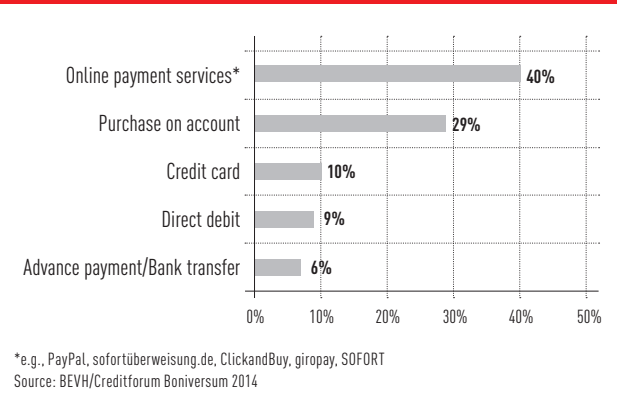
Smartphones and tablets play a crucial role in the e-commerce purchase decision-making process. According to BITKOM (Federal Association for Information Technology, Telecommunications and New Media), around 30 million smartphones will be purchased in Germany in 2014; generating turnover of EUR 9.3 billion (an increase of 10 percent compared to 2013). The e-commerce turnover via mobile devices still has room to grow and currently accounts for 10 to 47 percent of total e-commerce turnover subject to sector. QR shopping is also becoming significant in this context. Six percent of German smartphone users state that they handle the entire purchasing process via mobile phones, making this channel a serious income stream.

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; recasting the “e” in “e-commerce” from “electronic” to “everywhere.”

SOCIAL COMMERCE

According to Booz & Company, global retail industry turnover generated by social networks will reach EUR 30 billion by 2015. Business in social networks can function if the relevant tools – together with the right strategy and the necessary intuition – are deployed. This means that social commerce will not function as an autonomous shopping channel in the near future, but will instead be an indispensable part of a multichannel strategy, e.g. as a marketing and communication channel. One new development in this regard is “social gifting.” As this is still in an early development stage in Germany, innovative international companies can enter and shape this market with their proven models and experience.

Preferred Online Payment Methods in Germany



LOGISTICS: DELIVERY AND RETURN

Parcel service providers have to face new challenges due to the boom in e-commerce and new developments such as same-day delivery. The increased B2C traffic results in higher total shipment costs as deliveries are more decentralized with smaller quantities per stop. Competition in the parcel market will further intensify and prices will rise as companies invest in their logistics networks and services. A model combining offline and online shopping is Click and Collect. With Click and Collect an increasing number of retailers offers their customers the possibility to order online and to pick up their purchases in store.

One factor impacting upon this is the high rate of returns that most of the online shops experience. Germans are return champions: 40 percent of customers already take returns into account when purchasing online. In order to fulfill the rising demand of customers also in respect to sustainability and eco-friendliness in e-commerce, innovative delivery methods can put companies ahead of their competition. International companies supplying innovative solutions for the challenges mentioned above are highly valued partners for German companies.

Top 10 E-Commerce Companies in Germany 2012

Company	Country of origin	Assortment	E-commerce turnover 2012 (in EUR million)
1 Amazon EU S.a.r.l. www.amazon.de	USA	All-rounder	4,811
2 Otto (GmbH & Co KG) www.otto.de	Germany	All-rounder	1,701
3 NOTEBOOKSBILLIGER.DE AG www.notebooksbilliger.de	Germany	Computer, consumer electronics, mobiles, equipment	485
4 Zalando AG www.zalando.de	Germany	Apparel, textiles, shoes	412
5 Verlagsgruppe Weltbild GmbH www.weltbild.de	Germany	All-rounder	389
6 Conrad Electronics SE www.conrad.de	Germany	All-rounder	373
7 Tchibo GmbH www.tchibo.de	Germany	All-rounder	360
8 bonprix Handelsgesellschaft mbH www.bonprix.de	Germany	Apparel, textiles, shoes	357
9 Cyberport GmbH www.cyberport.de	Germany	Computer, consumer electronics, mobile phones, equipment	343
10 Esprit Retail B.V. & Co. KG www.esprit.de	USA	Apparel, textiles, shoes	328

Source: iBusiness 2013

E-PAYMENT

German online shoppers are often regarded as risk-averse customers preferring full payment services with grace periods for invoiced amounts. This is true for online shopping carts with high volume items. However, online services are on the rise when the frequency of payment method used - and not the revenue generated per order - is taken into account. The use of online payment services providers (including PayPal, SOFORT, 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 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.

TOP 10 E-COMMERCE COMPANIES IN GERMANY

Amazon is the leading online retailer in terms of number of online shoppers and e-commerce turnover in Germany. All-rounders dominate the top 10 online shops in Germany. One significant e-commerce development is the gradual disappearance of the boundaries between what can be sold online. E-commerce provides not only an opportunity to shop everywhere at anytime, it also increasingly means the ability to buy almost anything typically sold in-store: be it clothes, shoes, home furnishings or even food.

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

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 and more calculable. With a logistic turnover of EUR 228 billion in 2012, Germany continues to be Europe's leading logistics market. 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.

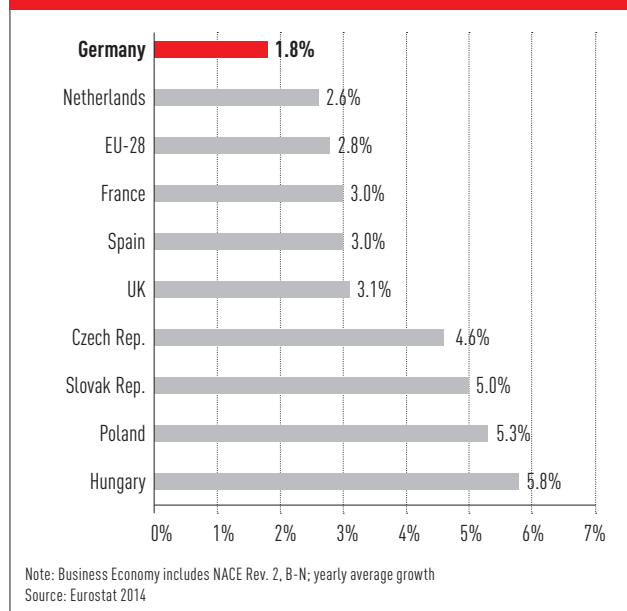
STABLE LABOR COSTS

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 in the business economy within the EU at just 1.8 percent. 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.

Growth of Labor Costs 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. For corporations the average overall tax burden is just below 30 percent. Significantly lower rates are available in certain German municipalities – up to ten 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 (DTA) ensuring that double taxation is ruled out, e.g. when 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 free services includes:

- Legal and tax-related project support
- Funding and financing advisory services
- Site visit organization
- Local partner and network matchmaking
- Public and private partner coordination

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.

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