

# UK overtakes Germany as Europe's number one on-line retail market

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In 2005 on-line retail sales in the UK, Germany and France collectively made up almost two-thirds (65%) of the 40.2bn Euro European\* e-commerce market. Overall, this market has grown at a phenomenal rate - up an impressive 51% on the 26.6bn Euros of 2004 - and yet the sector still only amounted to 2% of total European retail sales. However, MINTEL estimates show that this market is expected to grow by a further 186% between 2005 and 2010. With sales forecast to reach some 115bn Euros, e-commerce is set to increase its share of total European retail sales from 2% to nearer 5% over this five year period.

"The business to consumer e-commerce sector has come of age and is gaining consumer acceptance as a 'normal' retail sales channel. Mintel is confident that on-line sales of goods will grow strongly over the next few years as this channel matures. But physical shops will not sit back and watch their trade drain away, they will respond by making the physical shopping experience more enjoyable and rewarding with much better interaction from informed and trained staff," comments Neil Mason, senior retail analyst at MINTEL.

According to MINTEL's June 2006 Internet Quarterly report almost two in three (65%) adults now have access to the Internet, rising to some 80% amongst those who work. Greater competition among UK broadband providers has led to falling prices and faster Internet speeds, which has ultimately been the major driver of growth in terms of Internet penetration in the last 12 months. When it comes to buying on-line, half (50%) of Internet users have bought from the site they were browsing. Meanwhile, 30% bought not from the site they were browsing but from the site owner's bricks and mortar store, up from just one in four (24%) back at the start of 2004, showing a rising level of loyalty amongst consumers.

## France growing fastest

By 2010 the UK, France and Germany will each have on-line retail sales worth over 18bn Euros. Of the three countries France will experience the greatest growth, with retail sales increasing just over 200% between 2005 and 2010 to reach 19.60bn Euros. The UK will remain the largest market growing 102% to an impressive 19.80bn Euros. Although Germany will experience the slowest growth over this five year period, on-line retail sales are still expected to increase by 93% to reach 18.74bn Euros.

"France has a relatively immature e-commerce market, due to Minitel and to the French love affair with going out regularly to physical shops for fresh produce or for their clothes. The French market is a lot smaller than that of Germany and the UK and as such has much greater potential for growth in coming years. This leads us to forecast relatively rapid increases in e-commerce sales now that the Internet is an accepted part of French life. . When it comes to Germany, MINTEL believes that while the general economy will expand it will take a while for the benefits to feed through to consumer expenditure and to retail sales both on-line and on the high street, meaning that Internet retail sales are set to resume only modest growth across the current decade," comments Neil Mason.

Italy (13.24bn Euros) and Spain (10.88bn Euros) complete the top five Internet markets for 2010, with each e-commerce market in the remaining 14 European countries coming in at just 4bn Euros or under.

## The demise of 'Big Book' mail order

Much e-commerce growth will be derived from mail order companies switching business from the relatively expensive processing of paper orders from traditional catalogues to virtually free processing of internet orders. This format will lead ultimately to the demise of traditional big book catalogues as they become progressively more uneconomic to operate.

Growth will of course be down to the Internet retailers themselves as they need to persuade more of us to buy more on the internet. In part this will be through reassuring consumers in areas like credit card payment security and also

ensuring that deliveries and returns operate smoothly and at minimal cost. More retailers will start trading on-line and this widening choice will encourage greater spending. More food retailers will offer internet home delivery services and this will play a big part in expanding the sector - although Mintel expects that discount-focused Germany will lag behind other countries in this aspect of on-line selling.

\* For the purpose of this report we have covered 19 European countries. These are: UK, France, Italy, Germany, Spain, Netherlands, Ireland, Portugal, Greece, Austria, Switzerland, Belgium, Norway, Denmark, Sweden, Finland, Czech Republic, Hungary and Poland

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