

# Germany



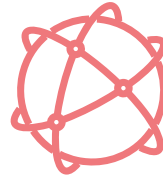
2018 ECOMMERCE STUDY



MAZARS



# ECOMMERCE



# GLOBAL

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## OPPORTUNITIES & RISKS

2018

### BUSINESS SOLUTIONS IN THE FACE OF NEW CHALLENGES BROUGHT ON BY ECOMMERCE

Given the digitization spree, e-commerce as a global marketplace has gained significant momentum. Together with the Ecommerce Foundation, Mazars has produced a series of country-specific studies and thought leadership pieces exploring the trends, challenges, and opportunities brought on by the emergence of e-commerce. As global advisors, Mazars' experts provide you with perspectives and tools to best leverage this new ecosystem. Our experts specialize in topics such as tax & legal, ethics & compliance, logistics & footprint, digitization & technology as well as business models and customer experience, all of which are evolving with the emergence of e-commerce.

Discover more on our website at [www.ecommerce.mazars.com](http://www.ecommerce.mazars.com)



The Ecommerce Foundation is an independent organization, initiated by worldwide national e-commerce associations as well as online and omnichannel selling companies from industries such as retail, travel & finance.

Our mission is to foster global digital trade as peace is the natural effect of trade. By facilitating digital commerce we hope to make the world a slightly better place. We facilitate the development of practical knowledge, insights and services for which individual institutions, retail and e-commerce associations and B2C selling companies do not have the (financial) resources and/or capabilities.

By combining collective goals and efforts, the Ecommerce Foundation is able to realize projects which could not have been realized on an individual basis.

Visit us at [www.ecommercefoundation.org](http://www.ecommercefoundation.org)

# E-COMMERCE IN GERMANY



“Companies should challenge their business model to market expectations. It is essential to verify that the business ideas will be accepted by German consumers and that the business model will be competitive.”

Martin Schulz-Danso, Partner, Mazars in Germany

## 1. THE BACKDROP

Germany is a bustling country in Western Europe, popularly known as the “Gateway to Europe” from its advanced transport network. It operates under a Federal Republic and encompasses a population of ~82 mn over an area of 357,022 sq. km. Economically, the country has witnessed a steady rise in its GDP, from being EUR ~2.9 tn in 2014 to EUR ~3.3 tn in 2017 (CAGR of 3.6%); it is forecast to reach EUR ~3.7 tn in 2018. Meanwhile, the demographic mix is quite favorable with over 63.4% of the population being under 55 years-of-age, among which ~40.5% are within 25-54. This dominantly young, working population sheds a positive light towards greater economic development, given that upcoming markets and technological developments will always be in picture. A key dynamic aspect here includes digitization, which has and is radically transforming the nature and scope of a wide range of industries. Goods & Services, as well as people and their data, are readily moving into the e-platform. Germany is quite in line with

this trend, given that it houses a thriving internet user base of 91%, which is further growing by ~2.4%. This internet penetration is expected to climb up to 92% by this year as even more of the local population become active laptop/PC users. The e-revolution is well on its way to disseminate into each and every individual's daily life. In terms of performance, Germany ranks 12th out of 86 countries on the Inclusive Internet Index, which outlines the current state of internet availability, affordability, relevance and readiness. Out of all the parameters, readiness is the largest stumbling block, standing at a rank of 19. Hence, the requisite skill-set, cultural acceptance and supporting policies that boost internet access need to be refined. Meanwhile, the Availability parameter can further be improved by ironing out ad-hoc quality issues. Having a sound infrastructural base ultimately becomes paramount to extensively build up a digitized industry across all domains. For example, while the country has a very high rate of fixed-line broadband use, its mobile penetration lags behind. This needs to be ramped up amidst a proactive e-atmosphere.

## GERMANY



**GOVERNMENT**  
FEDERAL REPUBLIC



**POPULATION**  
**82,114,224**  
(UP BY 0.2 %)



**INTERNET  
PENETRATION**  
**91%**  
PENETRATION  
UP BY 0.4 %



**GDP**  
**EUR 3.3 Bn**  
(YOY 2.5 %)



**AVAILABILITY**  
78.1/100  
RANK 18



**AFFORDABILITY**  
88.5/100  
RANK 16



**RELEVANCE**  
89.7/100  
RANK 15



**READINESS**  
77.3/100  
RANK 19



**LPI RANK 1**  
Customs Clearance Process,  
Quality of Trade/Transport  
Infra, Ease of Logistics  
Services

OVERALL SCORE 83.5/100

RANK 12

LOGISTICAL PERFORMANCE INDEX

Logistically, Germany shears ahead at 1st place on the LPI (Logistical Performance Index), reflecting an exceptionally strong customs clearance process, trade and logistical services quality, as well as transport infrastructure. Government involvement in terms of making investments in telecommunication, human capital and provision of online services is also strong, given the E-Government Development Index ranking at 15th place. Upgradation will keep going sound and steady. Nevertheless, the ease of doing business – though standing relatively strong at 20th place – can still be further improved upon, especially when startups and SMEs have a pivotal role to play towards emerging trends and markets. It is critical to have in place a friendly route for small yet high-potential businesses, which helps them navigate through the high density of

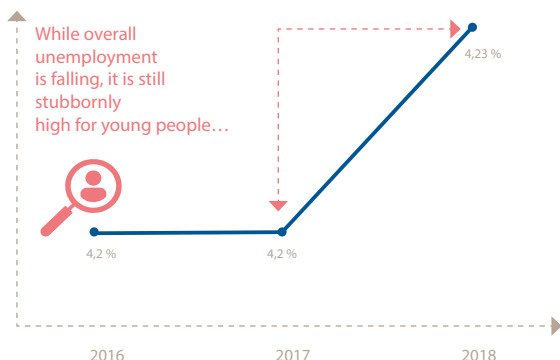
local rules and regulations, as well as local know-how. An idea should not lose out on its environment before having a fair chance to compete in today's dynamic market. Evolving technology has made new products & solutions of utmost importance.

On a macro level, Germany is undoubtedly up for a steady e-market development, given that young people and young habits are on the rise. For example, over 68% of the German millennials use laptops/PCs, with users actively looking to embed technology into daily life. However, the labor market poses an ironic scenario. Though unemployment – in absolute terms – is on the low side, for young people it is stubbornly high. Hence, better training and channeling resources becomes key, in order to build bustling local community that is more than ready to embrace the upcoming digital revolution.

## Local Unemployment Rate

The German Labor Market needs to make a shift towards better training the youth through mandatory vocational schools

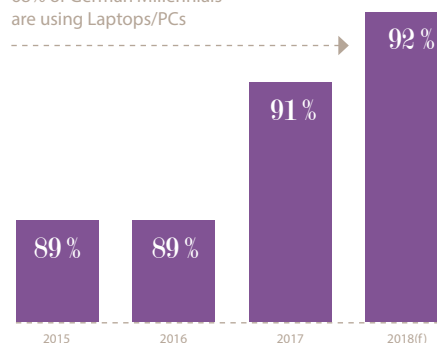
While overall unemployment is falling, it is still stubbornly high for young people...



Proper skill-sets will create opportunities in the Digitized Space, given that internet usage is at an upswing across the entire population...

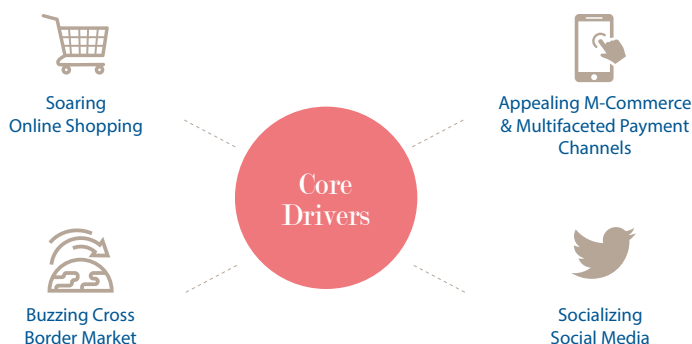


68% of German Millennials are using Laptops/PCs



## 2. A VIBRANT E-COMMERCE SPHERE

While e-platforms are building up across all industries and domains, a crucial breakthrough has been in retail, with the rise of e-commerce marketplaces. Shopping has become instantaneous, electronic and on-the-go, which is very much in line with today's fast-paced lifestyle.





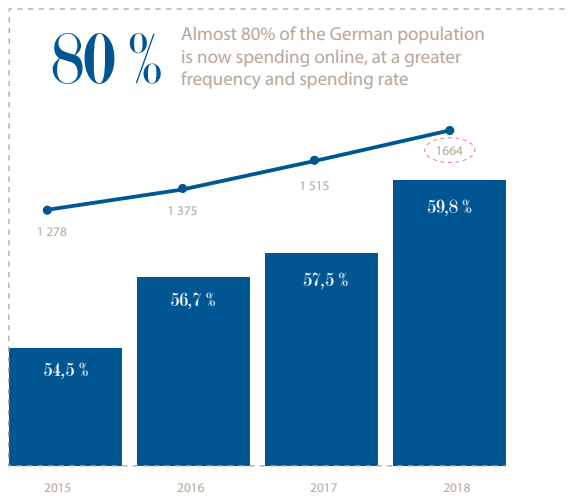
## BUYING GOES ONLINE

E-shopper penetration in Germany has gradually increased from 75% of the population in 2015 to an expected 79% in 2018. Along with this, average consumer spending continues to marginally grow year-on-year, reaching EUR ~1,663 by the end of 2018. People are readily adopting e-platforms on a regular basis, with 38% of consumer survey respondents having made 3-5 online purchases in the last 3 months and spending EUR 100-499 on average.

In terms of popular product categories, while shoppers

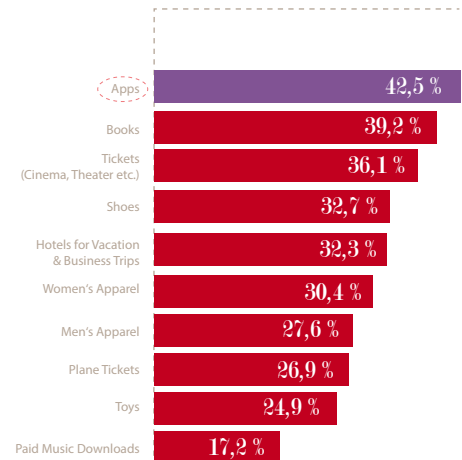
in general buy a range of goods electronically – ranging from leisure items, entertainment, apparel, music etc. – apps and books are commonly bought by 42.5% and 39.2% of consumers respectively. While there are exceptions, the ultimate preference lies for non-durable, everyday goods, which do not make up sizeable expenditures. Consumers can therefore afford to place order(s) on goods/services, without necessarily having to do a thorough physical observation. Their losses are limited while the odds of success are high.

### E-Shopper Penetration (Mn of People) and Avg. Spending per Shopper (EUR)



Consumers readily buy a range of non-durable, tangible and intangible products online

### Popular Product Categories 2017

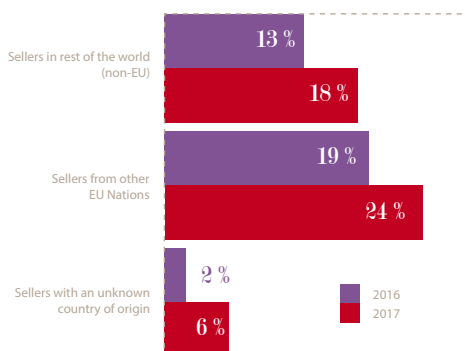


## CROSSING THE BORDER WITH CROSS BORDER SALES

The German e-commerce drive is not simply limited to buying in-house. Rather, the prospects for international sales (though not as dominant as national sales) looks more promising, with transactions from non-EU countries and unknown countries of origin having risen by 5% and 4% respectively from 2016 to 2017. Consumers largely shop abroad for lower prices, as well

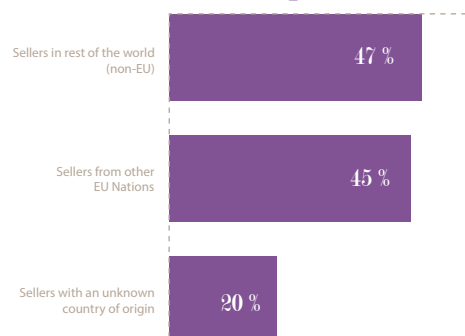
as product/brand variety. Meanwhile, language compatibility across neighboring EU countries helps create a seamless customer experience. This activity stream will keep mounting ahead, given that Germany is the third most active country (after the UK and US) for both import and export e-commerce.

### Rise of Cross Border Sales



7 million German Consumers have shopped from China

### Reasons Consumers Shop Abroad



Germany is the 3rd most active country worldwide both in import and export e-commerce (after UK and US)

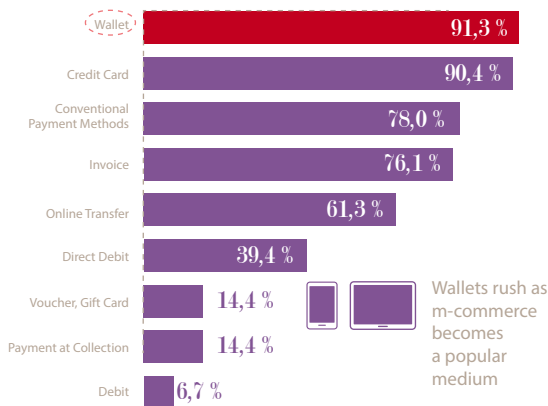
## SHOPPING GOES MOBILE

While a range of technological and preferential shifts have wheeled e-retail across markets, a key driver has been the rise of mobile usage, with buyers actively scouring for their phones across various parts of the shopping journey. For example, over 70% of all present-day transactions are done via a smart device such as smartphones, tablets or IoT devices. This is because today's consumer values a personalized, omnichannel experience and mobile platforms help to meet such need to a great extent. People can quickly, conveniently and simultaneously complete purchasing while on-the-move, through a variety of payment methods such as wallets (popularly used by 91% of surveyed consumers), credit cards, invoices, transfers, debit etc. While German consumers are highly keen on open invoice payments, followed by SEPA direct debt, PayPal etc., the key lies in

providing a variety of mechanisms that make them feel trusted and in-control. This holds true for both payment and delivery.

Item-wise, while consumers buy a whole range of products via mobile, majority (61%) purchased books from their phones in 2017. Hence, a wide variety of shopping apps have cropped up, with "Wish" being the most popular with ~519,000 downloads. Nevertheless, apps should only be a part of strategy and not the only sales channel as they are often dependent upon large platform operators. Alongside this, consumers also like to intertwine both traditional and contemporary channels in order to customize their entire experience. Hence, creating a feeling of uniqueness for buyers is the trigger for more sales.

### Popular Payment Methods Offered



### Top 5 Webshop Rankings (By FB Fans)

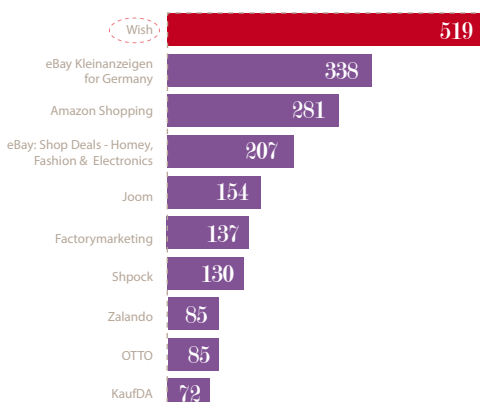


## POWER PACKED SOCIAL MEDIA

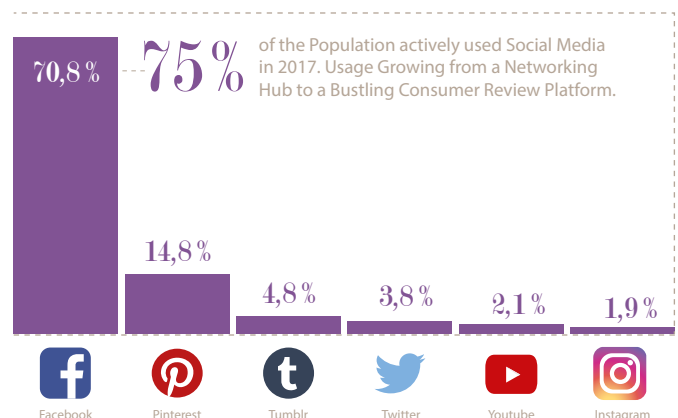
Social media usage has gained substantial appeal over the last few years on a worldwide level. Nationally, 75% of the German population actively used such platforms in 2017, with Facebook being highly popular amidst ~71% of the lot. This route has therefore become a core review platform for consumers to share their happiness and grievances with others across the network. 70% of such users research online before making a major investment, with product descriptions becoming a key webshop

criteria. Quality, delivery, company service, & satisfaction are some of the various issues discussed and highlighted, which are highly influential in terms of formulating the corporate image. For example, webshops are readily ranked by their number of "Facebook Fans" with Amazon topping the charts with a fan following of over 4 mn users. Hence, these "likes" and "dislikes" become critical to an e-retail player's brand identity.

### Leading Google Playstore Apps (000's of Downloads)

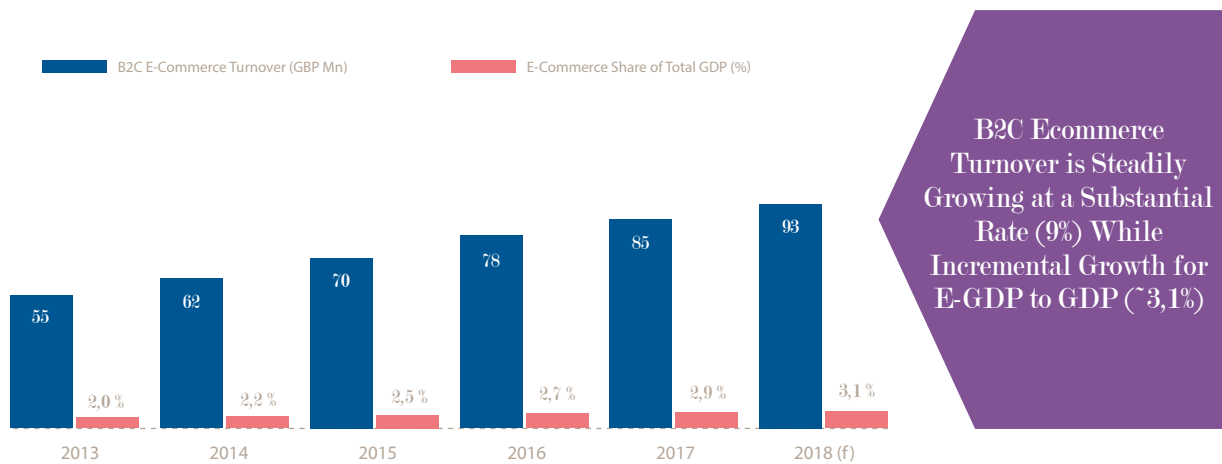


### Share of Population Using Social Media Platforms (2018)



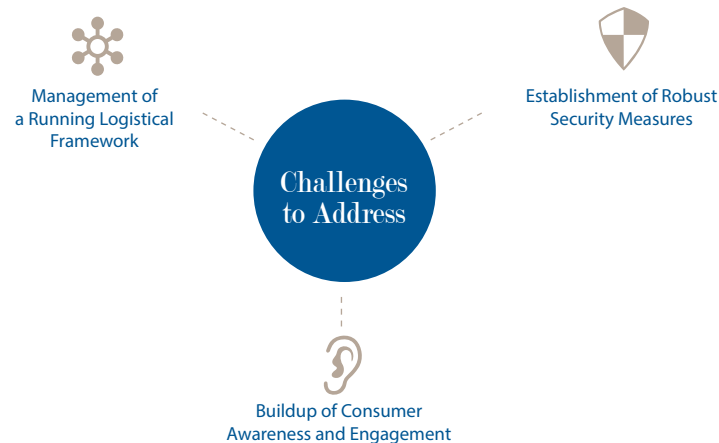
## PROMISING B2C MARKET

In an economic sense, the e-commerce sphere holds a promising future ahead with B2C turnover growing from EUR 55 mn in 2013 to EUR 85 mn in 2017 (CAGR of 11.5%), which is forecast to reach EUR 93 mn in 2018. Meanwhile, the E-GDP share of total GDP has steadily increased from being ~2.0% in 2013 to ~2.9% in 2017; it is expected to become ~3.1% in 2018.



## 3. KEY CHALLENGES

E-commerce is sure to bring various monetary and non-monetary changes ahead; hence, it is pertinent that players identify and respond to incoming concerns/obstacles in a timely manner. This market will not respond well to time lags.



## KEEPING LOGISTICS IN ORDER

Given the nature of e-commerce as encapsulating various geographies and markets, the management of a sound logistical framework becomes paramount. While Germany is inherently placed in a central geographical position with an extensive transport system, the maintenance of roads and railway systems have been somewhat neglected in the past. For example, road surfaces and bridges need to be renewed and reconstructed so as to reduce traffic jams and upgrade the quality of travel. At the same time, diesel-limitations have to be overseen and streamlined so as to make sure customers located in all parts of the country are accessible. This is crucial to drive up shorter delivery turnaround, which forms the backbone of online retail.

At the same time, physical connectivity is not enough. Broadband networks have to also be ramped up in order to link people and enterprises in the digital space, across rural and urban areas.

New technologies such as e-mobility or drones can be utilized to digitize the entire value chain. Zalando is a prime example of how the optimization of logistic centers can boost the e-commerce business model. This involves deciphering the right number of logistical centers with the right level of automatization, data analysis capability, as well as policies & processes to govern customer returns. Proper data management is the driver of success and often underestimated in organizations.



## SECURITIZATION GOES UPHILL

While e-platforms are the next thing ahead, they do come with strings attached. One of the greatest concerns around the cyber world is security, given that misuse of sensitive information can produce catastrophic consequences. Hence, compliance and sustainability ethics management remain critical factors as German consumers are highly vary of data ownership and protection; many are still skeptical when they have to input their payment and address data online. In this sense, a single glitch can significantly shake consumer confidence and trust, putting a large dampener on future sales. Firms must therefore employ a sophisticated securitization framework that makes use of encryption,

validation, multi-channel authentication and biometrics to keep threats at bay. Meanwhile, Distributed Denial of Service (DDoS) protection tools become important to curb system breakdowns that can otherwise cost millions of euros in Germany alone. Alongside this, players must make sure that internet presence does not end up after the checkout process; sites must be duly responding and working for all parts of the purchasing journey (pre-sale, sale, aftersales) as slow responding pages can make consumers nervous. For example, many page visitors end up leaving a site if it does not load within 3 seconds. Faster and reliable pages must simply become the standard.

## MAKING CONSUMERS AWARE

Building a strong e-system is not enough. Consumers must also be aware on the existence, mechanics and usage of advanced technological platforms. Hence, firms must take all requisite steps to inform the layman buyer on how to utilize the omnichannel route to get the best deal around. Currently, while e-retail and devices are gaining strong local appeal, 55% of German millennials have still never tried mobile payments. Players must decipher the reason for such a case and subsequently reach out this substantial user base that may potentially become staunch e-shoppers in the coming time.

## 4. WAY FORWARD

As a big picture, e-commerce is here to stay and propel forward in Germany as the soaring young & tech-savvy generation instills digitization as a shopping norm. Consumers and merchants will work together to carry this market forward, utilizing new technologies to refine and streamline e-platforms. Artificial intelligence, robotics and big data will change the way information is gathered, analyzed and perceived, making sales more proactive rather than reactive in nature; firms will be able to decipher an upcoming need before it actually arises. Nevertheless, the path to achieve such omnichannel

digitization can bring bottlenecks as consumers becoming even more demanding. Security will be critical as cryptocurrencies – which currently lack the complete trust and comfort amongst users – also tweak the payment landscape ahead. Hence, regulators and players must have a sound logistical system up into play, amidst an ambit of friendly policies and structures. The labor market must constantly be skilled in order to stay abreast with all latest developments – e-commerce never was and never will be a static process.





MARTIN SCHULZ-DANSO

LOGISTICS & FOOTPRINT, MAZARS IN GERMANY

*There are some who call Germany the 'gateway of Europe'. With its advanced infrastructure encompassing road, rail and waterways it seems to have a strong foundation for such a title. Do you agree with this assessment, and if so where do you see areas of improvement?*

With its central geographical position and its extensive network of roads, rail and waterways Germany is indeed the 'gateway of Europe'.

However, maintenance of roads and railway systems have been neglected in the past. Actually, there are a lot of road surfaces and bridges which have to be renewed or reconstructed in order to guarantee the safety to traffic. This leads to an increase of traffic jams. Especially trucks are required to take alternative routes which causes massive delays and additional costs in the transportation sector. This development contradicts the aim of short delivery times. Due to the actual diesel-crisis several cities plan to impose driving limitations for certain areas. Such limitations could impact the delivery of goods to private customers as most of the carriers use a diesel technology.

A further area of improvement is the roll-out of broadband networks especially in rural areas in order to link people and enterprises. In a digital world people and enterprises are dependent on a fast and secure data transfer.

Finally, companies might think about the development and the usage of new technologies within the logistic process, i.e. e-mobility or the usage of drones.

**E-commerce companies will have to establish appropriate measure flanked by information services in order to comply with data protection regulations.**

*A success story in Germany is Zalando, and the establishment of its efficient logistics in Germany. One aspect of their success was the optimization of the logistic centers. In what way do you see this developing in the future?*

The optimization of logistic centers is essential for the success of e-commerce retailers. The main aspects to be addressed are as follows:

- the number and geographical position of logistic centers in order to efficiently distributing the goods to consumers
- the level of automatization within the logistic process in order to minimize handling-, and storage time and packaging costs and to optimize working capital
- the capability of data analysis in order to check the availability of goods and to improve the ordering process
- the policy and process of customer returns. On the one hand, e-commerce companies are anxious to avoid the



return of goods as such returns materially raise handling and transportation costs and causes questions of reutilization or disposal. Measures to avoid returns may be seen in a better product placement or the decision to participate the customer in the costs of returns. On the other hand, companies are keen to simplify the process of returns in order to raise consumer satisfaction.

*What are the opportunities and challenges for businesses to apply business ethics in their online trading? Generally, and more specifically for Germany?*

In a global world, compliance and sustainability aspects will increasingly impact the judgment of consumers.

The choice and origin of raw materials, producing conditions as well as ethical and ecological aspects will become more and more important to the question if a consumer is going to buy a product.

Just right now, in Germany large companies are obliged to report on sustainability and ethics in a regular and detailed manner. Consumer trust in brands and companies will more and more depend on such reports. It will be crucial that these reports do not only serve as lip service. Communication via e-mail is efficient with regard to online trading but less attractive for consumers in case of troubles. E-commerce companies will have to find ways to better convince consumers other than by concepts based on pricing and simplicity.

Part of the German consumers is very sensitive regarding data ownership and data protection. Especially e-commerce companies will have to establish appropriate measure flanked by information services in order to comply with data protection regulations.

*What are the three main tips you give to foreign companies coming to Germany? Specifically small- to mid- sized companies?*

First, companies should challenge their business model to market expectations. It is essential to verify that the business ideas will be accepted by German consumers and that the business model will be competitive.

Second, the choice of location is crucial for the e-commerce business. Creative talents, especially in marketing, IT and logistics may only be found in certain cities and urban areas. Due to rapidly changing environments, technologies and customer expectations companies will be required to gain the best talents in order to successfully develop their business.

Last, but not least, small and mid-sized companies should seek to nominate an advisor who is capable to deal with legal, magisterial and tax matters. Germany is governed by a high density of rules and regulation to comply with. Especially small and mid-sized should better concentrate on their business and delegate legal, tax and regulative issues to an external advisor.



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