BENELUX RETAIL 2025
A BENELUX HOME MARKET AS SPRINGBOARD FOR GROWTH
Opportunities and challenges for a Benelux retail market
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PREAMBLE BY THE GENERAL SECRETARIAT OF THE BENELUX UNION

The Benelux represents an economic area of 28 million consumers with a per capita income in each of the three countries that is well above the EU average. A functioning Benelux market is thus very attractive for both domestic and foreign companies. The real winners, however, will be SMEs and consumers. SMEs, as they may finally dare to go cross border with their businesses and, hence, extend their home markets substantially; consumers, because they can expect better prices, services, and a wider offer.

In their April 2015 “Action Plan for Jobs and Growth”, the Prime Ministers of Belgium, the Netherlands, and Luxembourg explicitly acknowledge this importance of the Benelux internal market and Benelux cooperation. In line with European integration, the Benelux internal market can contribute to the creation of jobs and growth and act as a laboratory and catalyst for European cooperation. The plan consequently defines a number of priority areas and formulates a number of measures to improve the functioning of the Benelux internal market. One of the priorities set is the internal market for retail and, related to that, the e-commerce and digital single market. Against this background and in the light of the importance given to the retail sector, the General Secretariat of the Benelux Union commissioned the Vlerick Business School to identify the main barriers to, and opportunities for, the development of a Benelux retail market. The result of their work lies before you. The analysis will guide and help the General Secretariat and the Benelux countries to commonly define, prioritize and develop measures and initiatives to improve the Benelux retail market. These will have to be developed and implemented within the context of the Benelux cooperation in the coming years. The Benelux has instruments at its disposal to achieve this, among others Article 350 of the Treaty on the Functioning of the EU which allows the Benelux-countries to agree on binding regulation for the Benelux territory with regards to achieving the internal market.

REACTIONS TO THE REPORT:

The report is an official Benelux document that is publicly available on the website of the General Secretariat of the Benelux Union (www.benelux.int). Stakeholders, authorities, or researchers can freely quote from this document and are encouraged to do so.

Within the Secretariat, all internal market issues are handled by the Market Department under the direction of Jan Molema (j.molema@benelux.int). Within this department, Wim Martens (w.martens@benelux.int) is special caseworker on retail. Both may be contacted for any questions or reactions to this report.

The General Secretariat of the Benelux Union is located in Brussels. It is the central administrative pillar of the Benelux Union and handles the Secretariat of the Committee of Ministers, the Council of Economic Union, and the various committees and working parties.
AUTHOR FOREWORD

The Benelux retail market is an underestimated powerhouse brimming with important economic and social contributions towards society, and many business opportunities for retail companies across various sectors. The three Benelux Prime Ministers clearly acknowledged this importance and potential of the retail market and want to solve the key challenges for retail business growth in the Benelux. At their summit in April 2015, Charles Michel, Mark Rutte and Xavier Bettel launched the “Action Plan for Growth and Jobs”, emphasizing the opportunities and challenges of retail and e-commerce.

The General Secretariat of the Benelux Union engaged Vlerick Business School to conduct an in-depth, pragmatic study to explore future chances for the Benelux retail, the current cross-border challenges and obstacles for retail in the Benelux and how possible solutions might look like.

There is an important reading guideline for this report. It is a document intended for policy makers with the aim of informing them on the way retailers look at the Benelux cross-border opportunities and obstacles. It is not an in-depth economic or legislative analysis but an analysis of what is most important and relevant for retailers to know and discuss when starting or already operating across borders in the Benelux.

Against this background, we invited leading retail executives to participate in informal group and expert discussions on opportunities, obstacles and possible solutions for cross-border retail expansion and operations within the Benelux.

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EXECUTIVE SUMMARY

This report attempts to capture the opportunities and challenges of a Benelux Single Retail Market for the benefit of retailers and consumers and its consequences for policy makers.

TOWARDS A BETTER UNDERSTANDING OF THE FULL POTENTIAL OF A BENELUX RETAIL MARKET

Retailing refers to the sale of goods or services from companies to individual end-consumers. Retailers typically sell through physical stores (e.g., Action), the Internet (e.g., Amazon), or a combination of both (e.g., H&M). Retail has an essential role to play in stimulating growth and job creation in the Single Market. The efficiency of this sector has implications for innovation, price trends and competitiveness.

In the Benelux countries (Belgium, the Netherlands, and Luxembourg) the retail sector is the beating heart of the economy. Retail in the Benelux accounted in 2013 for 198,052 firms, nearly 1 million jobs, €219 billion turnover, and €34 billion value added. Online retailing, referred to as e-commerce, already accounted for nearly a €20 billion turnover in the Benelux in 2014. Also, m-commerce, a purchase through your mobile device, is increasing fast. Retail is also an important contributor of value through taxation, including property, sales, and employee taxes. In addition, there are the important social contributions made by the retail sector. For example, accessibility to a wide range of safe consumer goods, shops and employment close to home, including first work experiences and jobs for difficult target groups, etc.

Nevertheless, the full potential of the Benelux retail market has not yet been reached. What if we could create a Benelux Single Retail Market? Removing the barriers to cross-border retail within the Benelux area will allow its retailers to grow faster internationally, both within the Benelux and outside, with its enticing promise for further growth and more jobs. A Benelux Single Retail Market implies the following benefits across retailers, consumers, and policy makers:

1. Benelux retailers can use the Benelux Single Retail Market as springboard to Europe. Taking a Benelux home market perspective allows retailers from each Benelux country to grow faster as it enlarges the catchment area for those that are already expanding, or contemplating expansion, throughout Europe with between 7 to 22 countries.

2. A Benelux Single Retail Market allows for important efficiency gains. A modest objective to realise 1% savings on retail turnover by 2018 leads to approximately €2.45 billion cost savings at Benelux level that can either be used to lower consumer prices or to further strengthen and solidify the retail industry and its international ambitions.

3. Legal fragmentation and overly restrictive regulations hinder the development of e-commerce throughout Europe, especially hurting growth-oriented SMEs. Whereas 65% of European Internet users shop online, only 16% of SMEs sell online, of which only 7.5% sell online across borders. If all EU countries had the same rules for e-commerce, 57% of companies would be willing to start trading or increase their sales to other EU countries. The Benelux should use its unique position to assume the role of laboratory and frontrunner in the European Union (EU) and, as such, serve as an inspiration for European integration.

4. From a consumer’s perspective, a more integrated and competitive Benelux retail facilitates the digital transformation of retail, which, in turn, reinforces the downward pressure on prices and upward pressure on store service and experience while creating better access to other countries’ product assortment and associated culture, bridging cultural differences and enriching people’s lives. Consumers demand more access to cross-border consumption.
(5) In addition to a huge political prestige and power jump by achieving status in resembling retail powerhouses such as France, Germany, and the U.K., evolving into a Benelux Single Retail Market would also imply a very significant economic impact. By 2025, it would add another €23 billion in turnover and €4 billion in added value, while also providing 95,000 extra retail jobs and 36,000 extra firms (See Figure 1).

(6) A Benelux Single Retail Market is better able to embed strong “own” retail companies locally. Having stronger Benelux retailers of broader scale and wider scope, and better able to withstand global competition, leads to more high-skilled jobs at retailers’ headquarters and more secure low-skilled jobs in local or regional retail stores.

(7) A Benelux Single Retail Market will act as an example for Europe and its leaders on how a Single Market can work and which benefits it brings. The Benelux could lead the European integration by example, while showing the importance of its role as a legislative living lab.

(8) A Benelux Single Retail Market makes it easier to manage upcoming – often disruptive – retail trends. For example, joint legislation and enforcement makes the Benelux stronger in dealing with the use, and potential misuse, of an upcoming overwhelming amount of unstructured data, the so-called big data. Also, a region such as the Benelux, with its increased receptivity in terms of joint and integrated legislation within Europe, could serve as an experimental laboratory for testing and rapidly transforming into appropriate legislation any new disruptive business ideas.

Figure 1:
Growth jump and prestige impact of a Benelux Single Retail Market

BENELUX RETAILERS ALREADY CONSIDER THE BENELUX AS SECOND HOME MARKET

Just like any other business, retailers have a need for growth, because of increasing costs, potential economies of scale, and an entrepreneurial ambition to leave a legacy. All Benelux retailers with international ambitions tend to see the Benelux as their second home market after their domestic market, while the Benelux is one of the most globally connected markets in the world. But what does that imply for policy makers?
(1) Helping retailers to achieve sufficient scale is indispensable to their survival, because rising costs, global competition, and digital transformation are forcing them to grow. No big Benelux-based retailers most likely means no Benelux-based retailers within a few years.

(2) For Benelux retailers, both store-based and online, expanding across borders is, in general, undertaken by first considering the Benelux as their second home market. It implies that such integration across countries is already in the minds of people, thus making it easier for policy makers to further integrate and coordinate across Benelux countries.

(3) Policy makers can build on existing strong trade relations between countries within the Benelux for further integration. Also, the Benelux featured as one market makes it a much stronger and equally powerful partner for the closest trading partners such as the U.K., Germany, and France, which helps further coordination with those big European players and, hence, creates increased economic possibilities for Benelux retailers.

(4) Several studies indicate that the Benelux is a – if not the - global hotspot in terms of participating in economic valuable flows such as flows of goods, services, capital, people, and data and information. It implies that the Benelux is a global gateway to the rest of the world and an ideal fertile breeding ground for innovation. Benelux policy makers can leverage such a pole position as a spur to innovation and internationalisation, while further strengthening the Benelux position worldwide.

**WHAT STOPS RETAILERS FROM GOING CROSS-BORDER?**

In spite of all the (potential) benefits of cross-border retailing, most retailers look upon selling outside the domestic market as the exception rather than the rule. When going cross-border, you need appropriate scale (critical mass) and stability in the organisation to cover upfront investments and substantial operational costs. Taking e-commerce cross-border is similarly capital intensive and risky.

Adequate scale and stability for expanding cross-border is most difficult for store-based retail SMEs. More specific retail SME challenges for cross-border growth include:

- Limited access to financing and ability to negotiate with financial institutions, unsustainable debt levels, and lack of awareness of funding opportunities
- Lack of visibility in the digital world through often expensive large platforms, while also technology investments needed are too high.
- A lack of transparency and legislative harmonisation regarding establishment and store implementation at national, regional, and local/municipal levels form a barrier to facilitating retail expansion.
- The complexity of the distance selling regimes requiring firms to account for value added tax (VAT) on a destination rather than origin basis.

Differences in legislation are important cross-border challenges for all types of retailers. Important differences in legislation can be either very transparent or quite hidden for retailers, while also easy to tackle or rather difficult to cope with. Some important differences most relevant for policy makers concern the following:

- To what extent legislation is strictly applied or offers room for interpretation
- Regional differences in legislation within a single country
- Differences in national legislation in various domains, e.g., promotional policies
- Differences in payment methods

Territorial supply constraints can impede retailers from developing their business cross-border. This issue has already been raised on numerous occasions and appears high on the policy agenda.

Legal fragmentation also hinders cross-border e-commerce development. Several stakeholders point to many areas for legislative improvement to spur cross-border e-commerce. The top 3 regulatory restrictions hindering cross-border e-commerce growth in Europe are:

- Different legal frameworks: the existence of different legal frameworks implying having to deal with different sets of rules especially towards data protection, privacy, and consumer and contract law across country borders.
• Complicated and expensive taxation systems: different taxation systems, VAT rates and/or customs still represent a difficult barrier to overcome when going cross-border. The most problematic areas are legal uncertainty and general unawareness of VAT rules, high VAT-related accounting and administrative costs, and difficult VAT registration and declaration procedures.

• Logistics and distribution issues: main barriers being the quality and transparency of services in these fields.

SOLUTIONS TO ACCESS THE FULL POTENTIAL OF THE BENELUX RETAIL MARKET

There are three main types of cross-border retailers:

• the “new entrants”, e.g., the retailers going, or considering going, cross-border
• the “established” cross-border retailers already operating across borders in the Benelux or elsewhere
• the so-called “border retailers”, e.g., the retailers located close to a country border

We identified four main issues for which solutions are developed, while taking into account that those solutions are not always relevant for each type of retailer. We discuss in our report the following solutions towards accessing the full Benelux retail market potential.

• Knowledge creation and dissemination:
  - Creating relevant business networks
  - Creating a dedicated “virtual” cross-border knowledge centre
  - Reducing complexity of legislation to tackle the root cause for the need for knowledge

• Scale building:
  - Instruments for hedging financial risk
  - Building administrative scale through a new legal form, the “Benelux company”

• Increased coordination, enhanced use of mutual recognition and, ultimately, harmonisation of legislation:
  - Providing an overview of key legislative domains to attend to and an indication of small and major steps for improvement
  - Include Benelux business input during and at the end of the legislation process

• Creating inspirational role models

Given the complexity of the differences in legislation, these solutions can be very broad and therefore applicable to the business industry at large and not to retail only, or very specific and applicable within a single retail industry only (e.g., food safety), we recommend the creation of parallel working groups for each type of legislation and a dedicated Benelux high-level retail steering group. The steering committee should consist of senior civil servants and retail industry representatives of the three Member States, to define the priorities; the working groups should consist of civil servants who would work on the actual harmonisation (or enhancement of the mutual recognition) of the set priorities.

In this way, the Benelux can act faster than the overall EU in creating a Benelux Single Retail Market and, as such, offer an example to the other EU Member States that can be invited to join the new harmonised legal framework.

The General Secretariat of the Benelux Union can play an important coordinating and orchestrating role towards solving several Benelux retail cross-border challenges. As such, it sets the example for broader EU cooperation.

It should:

• Prioritise the barriers found in this report, together with relevant other stakeholders at national and European levels.
• Safeguard the principles of Better Regulation in future retail legislation at all levels.
• Develop Benelux cross-border initiatives that tackle important cross-border retail challenges along the 4 major dimensions and solutions we previously listed.
• Encourage and involve all relevant stakeholders in assuming responsibility towards a better functioning Benelux retail market.
1

BENELUX RETAIL FOOTPRINT ANNO 2016
1.1. WHAT IS RETAILING?

DEFINITION

Retailing is one of an economy’s most visible activities. Retailing refers to the sale of goods or services from companies to individual end-consumers.\(^1\) Retailing is closely connected but different from wholesaling. Wholesalers act in their own right, or through brokers or agents, in conducting the sale of merchandise to retailers or other professional businesses. Wholesale is less visible to the end consumer, but that doesn’t make it less significant and important within the economy. Wholesalers position themselves as intermediaries between producers and retailers or between producers and producers. Statistics on retailing and wholesaling activity are categorised under NACE Divisions G47 and G46 respectively. In this study we further focus on retailing.

THE RETAIL BUSINESS

With a view to realising a profit, retail involves selling consumer goods or services to the benefit of customers through one or multiple channels of distribution at reasonable cost. Figure 2 gives a simplified representation of retailing.

Whereas, traditionally, most retailing took place in physical stores (notwithstanding mail order catalogue-based retail business), as from the 2000s an increasing amount of retailing began occurring online using electronic payment and delivery via a courier or via postal mail, a practice which is often referred to as e-commerce. Retailers can choose between different channels to sell goods or services. Retailers can adopt a pure offline retail approach with only physical store-based sales (e.g., Action), a pure online e-commerce retail approach with only sales through the Internet (e.g., Amazon), or an omni-channel approach in which a retailer tries to connect with the customer through different channels such as physical store, web shop and mobile simultaneously (e.g., H&M). Figure 3 shows how different Dutch retailers choose between physical and online stores, while Figure 4 shows how various Dutch fashion retailers with different channel approaches are perceived by consumers in terms of price and product line.

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\(^1\) Reynolds, J. and Cuthbertson, R. (2014), Retail & Wholesale: Key Sectors for the European Economy, Research report, Oxford Institute of Retail Management, 72p.
Figure 3:
Channel selection by some Dutch retailers

<table>
<thead>
<tr>
<th>Name</th>
<th>Format (number of physical stores)</th>
<th>Online shops</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aldi Holding BV</td>
<td>Aldi (497)</td>
<td></td>
</tr>
<tr>
<td>A.S. Watson Group</td>
<td>Kruidvat (857), Trekkleister (144), ICI Paris XL (167), Pijnboom/Centra (17)</td>
<td>Kruidvat.nl, Trekkleister.nl, ICIparis.nl, Pijnboom.nl</td>
</tr>
<tr>
<td>Blokker Holding BV</td>
<td>Blokker (597), MARSROAMER (205), Intertoys (261), bart smit (169), Xanos (150), other (275)</td>
<td>Blokker.nl, Intertoys.nl, Bartsmi.com, Xanos.nl</td>
</tr>
<tr>
<td>Eurexco BV</td>
<td>HUIBO (154-1), Libre (127), Sport Parkis (168), other (2479)</td>
<td>Intersport.nl, Shopmastersworld.nl</td>
</tr>
<tr>
<td>Grandvision BV</td>
<td>Pearle (311), EYE WISH OPTICING (234)</td>
<td>Pearle.nl, EyeWish.nl</td>
</tr>
<tr>
<td>IKEA BV</td>
<td>IKEA (13)</td>
<td>IKEA.com.nl</td>
</tr>
<tr>
<td>Jumbo Group Holding BV</td>
<td>Jumbo (199)</td>
<td>Jumbo.com</td>
</tr>
<tr>
<td>Lidl</td>
<td>Lidl (400)</td>
<td></td>
</tr>
<tr>
<td>Macintosh Retail Group N.V.</td>
<td>Scapino (204), Kuurnum (92), Dodax (89), Immo (40), Mankfield (69), other (24)</td>
<td>Scapino.nl, Dodax.com, Immo.nl, Mankfield.com, Kuurnum.nl</td>
</tr>
<tr>
<td>Royal Ahlold</td>
<td>Albert Heijn (910), reso (538), Gall &amp; Calt (600)</td>
<td>Albert.nl, Gall.nl, Bol.com</td>
</tr>
<tr>
<td>Sligro Food Group N.V.</td>
<td>Sligro (47), Esmé (136)</td>
<td></td>
</tr>
<tr>
<td>Vroom &amp; Dreesmann (V&amp;D)</td>
<td>V&amp;D (65), La Place (123)</td>
<td>V&amp;D.nl, Laplace.nl</td>
</tr>
</tbody>
</table>


Figure 4:
Dutch fashion retail

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To maximise their sales, retailers have to be successful in generating traffic to their stores by ensuring that these are well known, visible, and easily accessible in an interesting catchment area, and by enticing people to return frequently. Advertising can help to generate consumer traffic (e.g., a radio spot inviting Belgians to visit Rosada Fashion Outlet in Roosendaal), while a pleasant customer experience in the store can raise the frequency with which the latter wants to come back and likewise contribute to increased traffic through word-of-mouth amongst consumers. Although the implementation is different, the need for high traffic and a good customer experience is similar for both physical and online shops.

Once customers are inside their stores, retailers have to build high transaction power, which means inducing customers buy instead of merely browse and look, while increasing the average ticket of customers leaving the store. Shopping - which refers to the act of buying products - is either done to obtain final goods such as food and clothing, or may happen as a recreational activity. Recreational shopping involves window shopping (just looking, not buying) and Internet browsing. It does not always result in a purchase, which makes store operations often expensive for retailers. Again, the need for transaction power is similar for physical and online shopping, whereas the implementation of doing so is different.

### 1.2. HOW BIG IS RETAILING?

**EUROPE**

The retail sector is an essential sector for the European economy. Figures 5 and 6 show the market shares of the retail industry relative to other European industries in terms of number of employees, turnover generated, and added value. The retail industry accounts for more than 15 million employees throughout Europe (approximately 11% of all European employees), almost € 3 trillion turnover (approximately 10% of turnover generated across European industries), and more than € 470 billion value added (approximately 7% of total value added generated across European industries).

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A study by Reynolds and Cuthbertson\(^5\) indicates that, unlike many other sectors, the hidden economic multiplier effects of retail and wholesale activities are strong both upstream and downstream within the value chain, as the sector helps drive consumer demand for other firms’ products and services. Estimates suggest that 1 in 4 jobs are dependent upon the retail and wholesale sectors. Moreover, the retail and wholesale sectors are important contributors of value through taxation, including property, sales, and employee taxes. Together, European retailers and wholesalers contributed an estimated €171.5 billion in labour, profit and other direct taxes in 2010, €102 billion from wholesale and €69.5 billion from retail, representing 16.5% of the total tax intake of the European business economy covering industry, construction, and services. Retail and wholesale paid a further estimated €518 billion and €1.023 billion respectively in VAT to European governments in 2010.

Given previous statistics, it comes as no surprise that the European Commission views retailing as a key sector. “The retail and wholesale sectors have an essential role to play in stimulating growth and job creation […] They are among the key sectors that can drive the transition to both a more sustainable economy and consumption patterns.”\(^6\)

In Figure 7 we compare the Benelux retailing industry with peer neighbouring countries in terms of key business indicators such as number of enterprises, number of people employed, turnover, and value added. We see that the Benelux easily outcompetes countries such as Sweden, Austria, and Denmark on each statistic, while being able to keep pace on certain dimensions with important heavyweights such as France (in terms of number of employees), and Germany and the U.K. (in terms of number of firms). Together with France, Germany, and the U.K., the Benelux accounts for more than 60% of total value added in retailing in Europe in 2013 (Figure 8).

Retail is an important aspect of people’s everyday lives as it absorbs a large part of consumers’ private consumption (Figure 9), while nominal spending is still increasing.

At respectively 32% (NL), 39% (B), and 37% (Lux), the retail share of private consumption is in most cases higher than in peer countries like Germany, France, U.K., and Austria.
The European average is 30.4%. Recent figures\(^\text{11}\) on store-based retail show that nominal turnover in Benelux grew in 2015 but remained below the EU-average (Be: 0.6%; Ne: 1.2%; Lux: 1.7%; EU-28 average: 3.0%), and is also expected to grow in 2016 (Be: 0.8%; Ne: 1.6%; Lux: 2.0%; EU-28 average: 1.1%). However, given the inflation rates in 2015 and the expected inflation in 2016 (Be: 0.6 and 1.4%; Ne: 0.2 and 0.9%; Lux: 0.1 and 0.4%), store-based retail growth in real terms gives a different perspective across the Benelux countries (Figure 10). Whereas retail in the Netherlands and especially Luxembourg is able to grow by turnover in real terms, Belgium has a more difficult time.

![Figure 9: Retail share of private consumption in 2015\(^\text{12}\)](image)

![Figure 10: Store-based retail growth in real terms (in %, 2015 and 2016)\(^\text{13}\)](image)

When considering the importance of retail, every country shows several key figures when presenting their national retail industry (See Figures 11 and 12).

Next to the purely economic contribution of retailing, there is also the very important social and socio-economic contribution of the sector. The retail sector can make important social contributions related to the functioning of society, personal fulfilment through better access to employment, and socially responsible behaviour. The retail sector provides an affordable, accessible, and wide range of consumer goods, including the primary necessities of life. Also, with shops and employment possibilities close to home, retail stores play a major role in the quality of life in neighbourhoods, cities, and the countryside. Where there are shops nearby, citizens’ perception of safety is considerably more positive. A safe retail climate leads to less damage and harm to society, decreased impoverishment, stronger social cohesion, more enterprise, and improved employment.

The retail sector likewise fulfils an important labour market function. Many people gain their first work experience in retail. Moreover, retail offers local employment and job market possibilities for more difficult labour market target groups.

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\(^{11}\) GfK (2016), European Retail in 2016.
\(^{12}\) GfK (2016), European Retail in 2016.
\(^{13}\) GfK (2016), European Retail in 2016.
In Luxembourg, retail job growth even increased by 11.3% in the crisis years 2009-2014. Retail serves also as a flywheel for other activities. For example, hotels, restaurants, and cafés cluster near shopping centres, while shopping itself is a form of recreation and a tourist attraction. For example, in Luxembourg, the amount of monthly cross-border shoppers from Germany, France, and Belgium is larger than its own population of approximately 562,000.

Finally, retail can play a significant role in sustainability. For example, in 2013, Belgian supermarkets donated 1.846 tons of food to food banks, being a 28% increase over 2012, while, since 2003, the number of plastic disposable bags in Belgian supermarkets decreased by 86%.

E-commerce represents Internet-enabled non-store sales, which in 2015 across Western Europe still represents only 7% of the total retail market, whereas store-based retailing represents 93%.

In the Table below we see a snapshot of the e-commerce markets across the Benelux countries. In 2015, the Belgian B2C e-commerce turnover grew by 34.2% to €8.2 billion.

Belgium had an online population of 8 million people, 86% of people aged 15 and older. Of the online population, 6.9 million people (86%) bought something online in 2015.

The average spending per e-shopper was €1.191. In 2015 the Dutch B2C e-commerce turnover grew by 16.1% to €16.1 billion. The Netherlands had an online population of 13.3 million people, 98% of people aged 15 and older. Of the online population, 12.9 million people (93%) bought something online in 2015. The average spending per e-shopper was €1.242. In 2015, the Luxembourg B2C e-commerce turnover grew by 13% to €0.6 billion. Luxembourg had an online population of 0.5 million people, 98% of people aged 15 and older. Of the online population, 0.4 million people (80%) bought something online in 2015. The average spending per e-shopper was €1.636.

Figures 13 and 14 show the e-commerce market sizes and market size shares of various countries in Western Europe. The big online player is the U.K. with over €65 billion market size in 2015, which represents 34% of the Western European e-commerce market in 2015. The U.K. is followed by Germany and France (€36 billion and €29 billion market size in 2015 respectively). Belgium (€5 billion market size in 2015) started later with e-commerce development, but is trying to catch up with the Netherlands (more than €8 billion market size in 2015). The Internet retail market size growth rate in Belgium between 2013 and 2015 was 57%, whereas in the Netherlands growth slowed to 17% during the same period. In Belgium, Q1 2016, e-commerce takes 8% of all B2C (business-to-consumer) sales of goods, whereas in the Netherlands Q4 2015 e-commerce represents 13% of all B2C sales of goods (GfK Market Monitor).

E-COMMERCE

An important change in the retail industry is the advent of online retailing, often referred to as e-commerce. A recent study on the state of e-commerce in Belgium shows that, during the past 12 months, consumers bought via the Internet new fashion products (57%), interior products (14%), or Do-It-Yourself and garden products (12%).

References:
16 https://www.portal.euromonitor.com/ (07/06/2016)
17 https://www.ecommercewiki.org/Global_Ecommerce_Figures/Europe (19/09/2016)
Concrete Euromonitor numbers for Luxembourg are not available, but Eurostat figures of 2015 indicate that Luxembourg citizens are ahead in Europe for buying online, with 78% of the population in Luxembourg reporting online purchases within the last year (against 55% for Belgium and 71% in the Netherlands). However, only about 10% of the firms in Luxembourg sell online (versus circa 26% in Belgium and 25% in the Netherlands). See Figure 15 for more information on e-sales and e-purchases in Europe.

Table 2:
E-commerce across Benelux countries

<table>
<thead>
<tr>
<th></th>
<th>Belgium</th>
<th>The Netherlands</th>
<th>Luxembourg</th>
</tr>
</thead>
<tbody>
<tr>
<td>B2C E-commerce turnover</td>
<td>€8.2 billion</td>
<td>€16.1 billion</td>
<td>€0.6 billion</td>
</tr>
<tr>
<td>B2C E-commerce growth</td>
<td>34.2%</td>
<td>16.1%</td>
<td>13%</td>
</tr>
<tr>
<td>Online population</td>
<td>8 million</td>
<td>13.3 million</td>
<td>0.5 million</td>
</tr>
<tr>
<td>Number of e-shoppers</td>
<td>6.9 million</td>
<td>12.9 million</td>
<td>0.4 million</td>
</tr>
<tr>
<td>VAT rate</td>
<td>21%</td>
<td>21%</td>
<td>17%</td>
</tr>
<tr>
<td>Most popular payment method</td>
<td>Credit Card</td>
<td>iDeal</td>
<td>unknown</td>
</tr>
</tbody>
</table>

Table 3:
Internet-enabled non-store sales (EUR million, Euromonitor (2016))

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
<th>2018</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium Internet retailing</td>
<td>1.632</td>
<td>4.970</td>
<td>7.726</td>
<td>9.554</td>
</tr>
<tr>
<td>Internet pure play retailers</td>
<td>522</td>
<td>1.898</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile Internet retailing</td>
<td>795</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands Internet retailing</td>
<td>4.315</td>
<td>8.166</td>
<td>10.410</td>
<td>12.146</td>
</tr>
<tr>
<td>Internet pure play retailers</td>
<td>1.271</td>
<td>3.518</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile Internet retailing</td>
<td>2.229</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 13: Internet retailing market size

Figure 14: Internet retailing Western Europe

18 Eurostat, online purchases, figures 2015 (07/06/2016)
19 https://www.portal.euromonitor.com/ (07/06/2016)
20 https://www.portal.euromonitor.com/ (07/06/2016)
Mobile Internet retailing, denoted by *m-commerce*, is part of e-commerce. Figure 16 shows the m-commerce development across Western European countries for 2011 until 2015, and the expectation for 2020. Figures for Luxembourg were not available. Whereas Belgium is developing similarly to Denmark and Ireland, the Netherlands is growing much faster and even catching up with France. The U.K. is not represented in Figure 16 but is the most important m-commerce market with more than €25 billion market size in 2015 and growing towards more than €55 billion by 2020. In a recent study on the state of e-commerce in Belgium, 63% of people would consider a mobile purchase in the coming 12 months for fashion products, 36% for interior products, and 38% for Do-It-Yourself and garden products.\(^\text{21}\)

If we look at the state of e-commerce in Western Europe (Benelux, France, UK, and Ireland) in Figure 17, we learn that roughly 67% of the population are also e-shoppers, that e-commerce already accounts for almost €20 billion turnover in the Benelux (figures 2014), and that the average e-shopper spends €1.892 per year. However, the share of online goods in the total retail of goods only represents 5.1%, which clearly shows room for e-commerce growth.

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\(^{21}\) Comeos (2016), E-commerce Belgium 2015, p 88.

\(^{22}\) Eurostat (07/06/2016)

\(^{23}\) https://www.portal.euromonitor.com/ (07/06/2016)
1.3. RELEVANCE AND IMPLICATIONS FOR POLICY MAKERS

The key indicators for policy makers, based on the overview of the Benelux retail footprint anno 2016, are the following:

Retail: an important sector, essential for our jobs, well-being, and value creation.
- Retailing refers to the sale of goods or services from companies to individual end-consumers. Retailing can be considered the *face of the European and Benelux economy* as it entails very visible activities in our daily lives while also absorbing a large part of our private consumption (cf., more than 30% in Benelux countries). Moreover, European retailers have a long-standing tradition in being globally active and thus a very visible part of our business activity worldwide.
- The retail industry is an essential key sector of the European and Benelux economy. It accounts for €219 billion turnover in the Benelux (9% of total Benelux turnover), and for more than €34 billion value added for the Benelux (7% of total Benelux value added).
- It provides a huge number of jobs, representing 12% of all employees across Benelux (11% across Europe), while at the same time offering numerous opportunities for youth employment.

Also, the retail sector represents a large part of the SME sector; almost 1 out of 4 European SMEs are active in retail or wholesale.
- Retail is also an *important contributor of value through taxation*, including property, sales and employee taxes. European retailers contributed an estimated €69.5 billion in labour, profit, and other direct taxes in 2010, representing 6.69% of the total tax intake of the European business economy covering industry, construction, and services. Retail paid a further estimated €518 billion in VAT to European governments in 2010.

Retail is changing: e-commerce and new business models demand facilitation for change and innovation to grab opportunities
- Online retailing, referred to as e-commerce, is heavily on the rise, with the notable emergence of big global players such as Amazon and Alibaba. In (North) Western Europe, roughly 67% of the population are also *e-shoppers with an average €1.892 spent per year*, while e-commerce already accounts for almost €20 billion turnover in the Benelux (figures 2014). However, the share of online goods in the total retail of goods only represents 5.1%, which clearly shows room for e-commerce growth.

---

24 http://www.ecommerce-europe.eu/website/facts-figures/infographics/western-europe-2014 (04/06/2016)
In Europe, the biggest e-commerce market is the U.K. with over €65 billion market size in 2015, representing 34% of the Western European e-commerce market. Belgium (€5 billion market size in 2015) started later with e-commerce development but is catching up with the Netherlands (more than €8 billion market size in 2015).

Also, m-commerce, a purchase through your mobile device, is increasing fast but likewise offers plenty of room for growth. For example, in Belgium in 2015, 63% of people would consider a mobile purchase in the coming 12 months for fashion products, 36% for interior products, and 38% for Do-It-Yourself and garden products.

New business models: Retailers can choose between different channels to sell goods or services: a pure offline retail approach with only physical store-based sales, a pure online e-commerce retail approach with only sales through the Internet; or an omni-channel approach in which a retailer tries to connect with the customer through different channels such as physical store, web shop, and mobile simultaneously.

Policy and regulations matter and demands good framework conditions and appropriate regulation

To be successful – be it a purely offline, purely online, or through an omni-channel approach - retailers have to perform well in particular activities: generating traffic to their stores, trying to make customers buy instead of merely browse and look, and organising their supply chain efficiently. For each activity, policy makers can have an important impact; be it positive or detrimental. Some examples: to generate store traffic, retailers need attractive, visible, and easily accessible locations; to spur transactions, retailers need more and more information about customers and their needs; to organise their supply chain efficiently, retailers need access to wholesalers and product manufacturers globally while undergoing minimum administrative and operational impediments when transporting and delivering goods.
2

TRENDS IN RETAILING
2.1. CITIES ARE VITAL FOR INTERNATIONAL EXPANSION

International retailers are increasingly focused on cities for their expansion strategies. This is partly driven by global trends such as population growth and continued urbanisation. For example, over one million people move to cities every week worldwide.\(^{25}\) Moreover, cities are often appealing for tourists, workers, and residents, and relative strong in withstanding economic headwinds because of their market scale, connectivity, diversity and vitality, and heritage and culture.

Cities, often more than countries, are vital in attracting international retail investors looking to expand their retail format. However, given the cost of expansion and competition retailers face in attractive cities, it is of paramount importance for them to consider thoughtfully what cities to target next. As a general rule, in the last two years, for every two stores opened, one closed down.\(^{26}\)

“What is certain is that most retailers are becoming more sophisticated at defining expansion strategies. They have become more strategic in their decision-making, are increasingly using e-commerce to test demand in new markets, while better at identifying the unique local challenges presented by every market and taking steps to overcome them.”\(^{27}\)

In their recent European city ranking index showing cross-border retailer attractiveness, Jones Lang LaSalle indicates that currently London is still the preferred springboard to Europe for international retailers; and this across mainstream (e.g., H&M, Zara), premium (e.g., G-Star, Nespresso), and luxury retailers (e.g., Louis Vuitton, Max Mara). London is followed by Paris, Moscow, Milan, and Madrid (Figure 18).

In the top 50 we also count 4 Benelux cities: Amsterdam (11\(^{st}\)), Brussels (18\(^{th}\)), Antwerp (21\(^{st}\)), and Luxembourg City (41\(^{st}\)). All 4 Benelux cities are considered so-called mature markets, meaning established markets with a stable growth outlook and an affluent consumer base. In Germany, mature cities like Berlin, Hamburg, Munich, Düsseldorf, and Cologne have been able to attract many international retailers. New high quality retail spaces may play a pivotal role in attracting international retailers.

New shopping centres often function as new high quality retail space that attracts international investors. Figure 19 below gives an indication of how and where developed European cities feature in terms of shopping centre development (horizontal axis), economic dynamics (vertical axis), and ease of doing business (size of the circle). It seems that Luxembourg City and Amsterdam are already well developed, whereas Brussels may offer interesting shopping centre prospects based on limited shopping centre density and ease of doing business.

Figure 18: Cross-border retailer attractiveness index 2015\(^{28}\)

\(^{27}\) Jones Lang LaSalle (2014), Destination Europe 2015, research report, 48 pp.
In the study by Jones Long LaSalle, various European cities are ranked and mapped according to their cross-border retailer attractiveness, sales growth forecast for 2014-2018, and their international prime rent price (€/m² per year). From that analysis we learn that Brussels and Antwerp have very low sales growth prospects, while being relatively cheap. Luxembourg City has very high sales growth prospects, while being relatively cheap. And Amsterdam is relatively expensive with a moderate sales growth forecast.

2.2. PHYSICAL STORE EVOLUTION: QUALITY OVER QUANTITY

The number of stores is decreasing but the sales area remains stable. Two smaller stores are frequently replaced by a large one, and weaker locations are supplanted by project developments at strong locations. The average sales area in the EU-28 last year climbed by 0.3%.

The per-capita sales area is an important gauge of a market’s maturity and competitiveness. The EU-28 average is 1.17m². The Netherlands with 1.62m² per-capita sales area is considered a saturated retail market, whereas Belgium and Luxembourg seem less saturated with 1.35m² and 1.37m² respectively. With these figures, Belgium and Luxembourg may be considered a relatively saturated and the Netherlands a saturated market (See Figure 20).

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Sales area productivity (gross turnover per m² of sales area) is an important reference point for evaluating retail location performance. It depends on factors like the purchasing power volume in the relevant area and the intensity of the competition. Over the past year, sales area productivity in the EU-28 increased by 2.7% to just under €4,200 per m² of sales area. After years of decline, this is the second year in a row to achieve growth. Unprofitable shops were closed as part of retailers’ digitisation of their offering and pursuit of omni-channel solutions. We see clear differences in sales area productivity across Benelux countries: Luxembourg scores very highly around €6,000/m², Belgium highly around €5,250/m², and the Netherlands modestly around €3,250/m².

2.3. TECHNOLOGICAL CHANGES

However, the in-store experience might change heavily given the current break-through of important technological changes. A study by Deloitte shows how many different technological changes acting simultaneously may change the in-store consumer experience and the overall experience of consumers along their so-called customer journey (See Figure 21). A customer journey is the representation of the different steps a customer passes through during a product’s life cycle. It starts from becoming aware of a particular need, then evaluating and selecting a particular product, shopping and buying the chosen article, to after-sales service and recycling. Figure 22 tells a particular in-store experience scenario that is already possible today from a technology standpoint.

Figure 22: A possible future in-store experience

The store experience transformed

What might the shopping experience look like in a decade if some of these technologies come together? Here is one Possible scenario:

- You enter your favorite retailer. The store electronic monitoring system recognizes you by the devices you carry and the RF tags on your garments and triggers your personal digital shopping assistant.
- The digital assistant suggests the look for your new outfit by accessing your wardrobe from past purchases and needs from recent searches.
- The retailer’s 3D printer begins production of your new outfit by leveraging MRI scanned custom fit requirements.
- You donate or recycle part of your current wardrobe to offset the cost of the new outfit.
- Finally, you pay with a secure biometric authorization, no cards or devices required.

The startling reality is that Retail Beyond is possible today. It’s a matter of assembling and integrating these technical capabilities into the next generation of retail experience.

In a study on the potential impact of different disruptive technologies, Manyika et al. indicate that there is significant disruption ahead for the retail sector, which is linked to the development of Mobile Internet and the Internet of Things.

Figure 21: The future of retail along the customer journey

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Mobile Internet comprises increasingly inexpensive and capable mobile computing devices and Internet connectivity.

For the retail sector, Mobile Internet’s potential global economic impact of sized applications by 2025 is 0.1 to 0.4 trillion USD annually. Mobile Internet usage has great potential to extend the reach of online and hybrid online shopping (for instance, visiting showrooms and then purchasing online). Based on differences in prices and margins between traditional retail and online stores, the productivity gain of delivering retail goods through a digital channel could be 6 to 15 percent, based on reduced labour, inventory, and real estate costs. By 2025, 30 to 50 percent of retail transactions (40 to 70 percent in advanced economies and 20 to 30 percent in developing economies) might take place online, with a potential economic impact of $100 billion to $400 billion per year.

The Internet of Things comprises networks of low-cost sensors and actuators for data collection, monitoring, decision making, and process optimisation. For the retail sector, the Internet of Things’ potential global economic impact of sized applications by 2025 is 0.02 to 0.10 trillion USD annually. The Internet of Things could help address the out-of-stock challenge in retail sales. It is estimated that, every year, retailers lose the equivalent of 4 percent of sales because items desired by the consumer are not in stock. By 2025, this could represent $200 billion a year in lost value. We estimate that 35 to 50 percent of this value can be recaptured by using sensors and tags to tighten supply chains and predict where stock-outs are likely to occur. This could drive potential economic impact of $20 billion to $100 billion per year by 2025.

These numbers show that Mobile Internet, together with the Internet of Things, can by 2025 have a global value-creating impact of $120 to $500 billion per year in the retail sector. If we take into account the Benelux global retail market share of approximately 1.5%, it appears that disruptive technologies may generate a $1.77 to $7.36 billion additional economic value a year in the Benelux, a huge number. The methodology used by Manyika et al. allows for a broad economic impact measure, including consumer surplus. More important than the accuracy of the numbers is the identification and direction of these technological disruptions and the opportunities they offer.

2.4. CONSUMERS ARE CHANGING RAPIDLY

Consumers are becoming more and more used to these technological changes. Following the widespread adoption of the Internet and mobile devices, shoppers increasingly have instant access to the latest trends and new products, product reviews, and a detailed list of relevant retailers. It implies that consumers have a much more transparent overview of the available offer and associated service elements such as delivery and price.

“More than 50% of Benelux shoppers now mix online and in-store experiences when they purchase products or services”

This shift makes that consumers’ expectations change accordingly. So-called “Phy-gital shoppers” are shoppers who access digital information from their smartphone while standing in the brick-and-mortar store. A recent study by Mindtree for the Grocery and Home and Garden industries among 400 Benelux consumers (aged 21-50) identifies important implications for Benelux retailers and the current service gaps Benelux retailers still need to bridge. Figure 23 shows the highlights from that study. Key observations from the study include the following:

- Addressing phygital consumers’ needs is not only important for gaining and retaining customers, but also for increasing revenues per customer.
- Notwithstanding the 50% phygital shoppers, 45% of Benelux consumers remain in-store adepts without online adventures, while 5% only shop online.
- Many retailers struggle with making appropriate investments. They are not providing the features that shoppers expect but features that customers have little or no interest in.

36 https://www.portal.euromonitor.com/ (25/04/2016)
2.5. RELEVANCE AND IMPLICATIONS FOR POLICY MAKERS

Policy has to facilitate the adaption of retail to societal change. These 4 trends bringing multiple simultaneous changes have important implications for retail business leaders, but also for policy makers. Policy makers are structured along vested dimensions of power and operational structures. Existing legal (and fiscal) arrangements need to be adapted to new realities and developments. From a policy perspective and the following list of trend-related policy challenges, it makes sense to further discuss a better coordinated and deeper integrated Benelux retail market. Some clear challenges ahead are the following:

- Reset retail priorities in the Benelux
  Organise for an economy being driven by demand and not by supply. With the digital transformation, customers’ decision-making and behaviour change heavily. For example, 45% of Belgian consumers indicate that they search for information on particular products or services online before they purchase in-store, while 23% indicate they visit one or more shops in order to examine a product before buying it online at a lower price. For policy makers, important considerations are, for example, linked to consumer data protection, true cost calculation of parcel delivery (including economic and environmental cost of increased probability of traffic jams), the need for parking spot areas in city centres intended more for inspiration rather than buying, etc.

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38 Mindtree (2015), Benelux detailed report: Engaging a new breed of Benelux shoppers.
• **Big Data – Develop a Benelux approach**
  The overwhelming amount of unstructured data to be managed and organised for use and, along with it, the potential for misuse of such information, calls for a concerted approach. This dimension of so-called *Big Data* challenges must be high on policy makers’ agenda. Funding research projects, taking legislative initiatives in terms of privacy concerns, and privacy law enforcement towards global corporations are cases in point. Joining forces across country borders in such initiatives at the European, or at least the Benelux, level can leverage the efforts.

• **Facilitate, manage, and use innovation and “disruptive” change – a Benelux approach**
  It is important to facilitate coping with a continuing displacement and disruption of businesses, markets, and industries while taking into account many failures and false starts for people and firms experimenting. Policy makers at various levels experience huge difficulties with the disruption of vested structures. Clear examples are the difficulties trying to cope with so-called disruptive players like Uber and Airbnb, or – from a distant past – RyanAir and Metro Newspapers. It is striking to note that new businesses disrupting existing powerful players in vested industries are always stigmatised as being detrimental for consumers, whereas consumers often have much to gain. Powerful industry-related lobby groups seem bent on outcompeting consumers and new disruptive players that are often poorly organised. A region such as the Benelux that can act faster in terms of joint and integrated legislation within Europe could serve as a trial ground for testing and rapidly transforming new disruptive business ideas into conformity with appropriate legislation. Moreover, policy makers should focus more on facilitating and remedying transformations instead of refraining from planning or even constraining change.

• **Promote a new retail skills agenda**
  There exists a huge and important talent void for dealing with these transitions. Indeed, one of the important identified indirect effects of the digital economy is the transformation of jobs and skills in retail firms. An initiative in place is, for example, the public employment service that recently signed an agreement with the Union of Luxembourg Enterprises under the label ‘enterprises, partners for employment’, which aims to recruit 5,000 jobseekers in three years, mainly in the retail sector.

• **Use and link cities as drivers for retail**
  Cities take precedence over countries in terms of international attractiveness for investors. For policy makers, it is important to understand that international investors are attracted first by the cities’ potential as local entities for expanding their business before rolling out their retail network across a wider region or country. Part of a city’s attractiveness can be the ease of connecting with other close-by hotspot cities and with a wider business region. A region such as the Benelux might benefit strongly from tight cooperation between hotspot cities like Amsterdam, Brussels, Antwerp, and Luxembourg City to increase the individual cities’ attractiveness for international retail investors.

• **Cost of real estate and location are still important**
  Cross-border success is heavily related to real estate costs, entrenched competition, and availability of suitable retail locations. Policy makers are powerful influencers of a well-functioning market in which these success factors are properly defined and managed.

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3

STRATEGIC IMPORTANCE OF A BENELUX RETAIL MARKET
3.1. WHY THE IDEA OF A BENELUX RETAIL MARKET?

There are important retail trends we previously discussed that offer interesting opportunities and challenges towards retail business leaders and policy makers. Moreover, observations and recommendations by the European Council on the Benelux countries’ individual National Reform Programmes indicate that Belgium and Luxembourg are urged to take action with respect to a more competitive and less restricted retail market.

Therefore, it may be interesting to look at the Benelux as a particular, single legislative area that can develop a faster process of coordination and harmonisation within the existing framework of the EU. The Benelux is offered such legislative opportunity through Article 350 of the Treaty on the Functioning of the EU. It implies that a legislative framework is in place that offers the EU the possibility to experiment with (cross-border) legislation. The questions “what if we would accomplish a Benelux retail Single Market and what would it look like?” are perhaps less daydreaming than was expected up till now.

Moreover, the three Benelux Prime Ministers clearly acknowledged the importance and potential of the retail market and want to solve the key challenges for retail business growth in the Benelux. At their summit in April 2015, Charles Michel, Mark Rutte, and Xavier Bettel launched the “Action Plan for Growth and Jobs” emphasising the opportunities and challenges of retail and E-commerce.

In what follows we discuss the strategic importance of a Benelux retail market from a business, consumer, and policy perspective. In each instance, we assess the current situation from each perspective while also presenting the potential impact of a better integrated Benelux retail market.

3.2. BUSINESS PERSPECTIVE

CURRENT SITUATION

There are important trends in retailing that exert an important impact on retailers’ current and future performance. Depending on the retailer’s reaction towards these trends, they will prove to be either threats or opportunities. We discussed the signs and implications of cities as international expansion hubs, physical store evolution, technological disruptions, and changing customers.

Some observations feed the assumption that Benelux retailers are not yet ready to fully engage in exploiting the opportunities offered by these trends:

Are retailers ready for continued globalisation? An online survey among Dutch retailers reveals that only 2% are operating stores outside the Netherlands, and only 3% running a web shop targeting non-residents. Typically, more Internet-oriented retailers are selling across borders. See, for example, Figure 24 that indicates how the actual and intended cross-border sales are influenced by type of company. More traditional retailers (mainly depending upon in-store sales and described in figure 24 as “retailer”) are less inclined to sell across borders, whereas pure online players and omni-channel retailers are more favourably disposed to do so. Pure players are companies (mainly SMEs) that have more than 80% of their business linked to online commerce. Omni-channel retailers are referred to as companies that use a variety of channels (both online and offline) in a customer’s shopping experience. The survey captured responses from 585 different retailers across various European countries.

Are retailers ready for a digital transformation of their store and customer? By 2015, 78% of the population in Luxembourg indicated they were buying online. However, only 7% of the firms in Luxembourg sell online. Many retailers struggle with making appropriate technology investments. They are not providing the features that shoppers expect but rather features that customers have little or no interest in.

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44 CLC (2016), Panorama du Commerce Luxembourgeois, Presentation, 15/04/2016.
45 Mindtree (2015), Benelux detailed report: Engaging a new breed of Benelux shoppers.
Retail SMEs in particular often lack the resources to invest and develop their business along the challenges posed by the various retail trends identified. They cannot take full advantage of the opportunities offered by the European Single Market. The challenges they face include operational and financial obstacles, issues related to education and support, local and regional development, the business environment, fragmented legal frameworks, and the burden of bureaucracy.47

SMEs also struggle to seize the e-commerce opportunities. A recent study by the Ecommerce Foundation on barriers to growth indicates that 65% of European Internet users shop online (55% in Belgium, 71% in the Netherlands, and 78% in Luxembourg), whereas only 16% of SMEs sell online, of which only 7.5% sell online across borders.

The study lists a number of important barriers e-commerce players face when trying to expand their e-commerce business across borders.48 Companies not selling cross-border indicate that overly restrictive regulations in other Member States are the main reason for not doing so. Concrete difficulties are the broad variety of privacy rules, overlapping requirements, conflicting implementation at national levels, and difficult enforcement of the laws across European Member States. For example, merchants wishing to sell cross-border are forced to invest heavily in legal and IT systems to adhere to privacy laws in different European countries, a practice that can be very costly.

The top 3 barriers for e-commerce companies for selling cross-border are:

- Different legal frameworks
- Complicated and expensive taxation systems (VAT)
- Logistics/distribution issues

Also, Benelux retailers cannot fully engage in international expansion as their home market of individual Benelux countries is not large enough. Deloitte’s global overview of the 250 most important retailers shows that Europe has a rich competence in retailing and a natural drive for internationalisation. In their list of the world’s biggest retailers, 22 European retailers are featured in the top 50. Also, Europe serves as the continent with the most internationally oriented retailers. For a typical European retailer in Deloitte’s global overview list, 38.6% of his retail revenue derives from operations across 15 foreign countries on average. For a typical U.S. retailer, 15.4% of retail revenue comes from operations across 8 foreign countries on average. However, only 2 retailers in that top 50 have Benelux roots, whereas 7 originate from France and 5 from Germany (having much larger home markets).

Moreover, from the largest European retailers that are operating internationally, it is clear that retailers from larger home markets are typically active in more countries, in spite of their already substantial home market. The table below gives a more detailed overview of the top European retailers, specifying their total retail revenue, the compound annual growth rate thereof, and their country presence.

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### Table 4:
Top European retailers

<table>
<thead>
<tr>
<th>Country</th>
<th>Retailer name</th>
<th>Retail revenue (2013, USD M)</th>
<th>CAGR retail revenue (2008-2013, %)</th>
<th>#countries (2013)</th>
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<tbody>
<tr>
<td>France</td>
<td>Carrefour SA</td>
<td>98688</td>
<td>-3.0</td>
<td>33</td>
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Source: Deloitte (2015)

**POTENTIAL IMPACT**

Considerable impact may result from the further coordination and integration of the Benelux retail market. First, existing Benelux retailers have a larger home market (e.g., the entire Benelux area market rather than just the market in only one of the individual Benelux members) that acts as a springboard to Europe for their international growth ambitions. A larger home market has a strategic advantage for retailers in terms of growth prospects. A common wisdom in the retail industry is that you refrain from entering a market that is larger than 50% of your home market. The scale of your existing market is thus an important growth driver for individual firms; the greater the scale, the faster you can grow. Having the entire Benelux as home market instead of only the market in one of its individual members thus makes you better equipped to conquer the broader European retail market. As such, the Benelux retail market serves as a springboard for Europe.

In Figure 25 we show the potential impact of moving towards a Benelux retail Single Market. We list the number of European countries that are in each country’s catchment area, that is the number of European countries...
countries being only half the size of the particular focal country (Luxembourg, Belgium, the Netherlands, or the Benelux) with respect to an important retail business indicator (retail turnover, population, or value added). We see that taking the perspective of the Benelux as a retail Single Market instead of the perspective of one of its individual country markets enlarges the catchment area for retailers expanding or willing to expand throughout Europe. Based on retail turnover, the catchment area increases with at least 7 (for the Netherlands) and maximum 16 (for Luxembourg) countries. Based on overall population, the catchment area increases by at least 7 countries, while based on value added, the catchment area increases by at least 4 countries. Each individual country gains when taking the Benelux perspective.

A second important implication from further coordinating and integrating the Benelux retail market is linked to the cost of having to cross borders. The costs relate to having to learn, and comply with, different legal frameworks across several policy domains, while having to work on a smaller and, hence, less efficient scale. For example, the European Commission calculated that adapting to national VAT rules costs 8,000 Euro for an entrepreneur per Member State.50 Examples of difficulties are numerous: different VAT tariffs, perceived difference in rigidity of inspections, different procedures to take into account, etc. A Benelux retail Single Market thus allows for important efficiency gains that retailers can use to lower prices or invest in becoming stronger players in the market, for example, through expanding across borders, transforming for a digital age, building the human capital needed to survive in the market, etc.

As such, resources wasted on tackling barriers to operate cross-border within the Benelux can be used to expand outside the Benelux.

“What if the set-up of the Benelux retail Single Market allows retailers to make a 1% cost efficiency gain?”

This could be the one million Euro (and much more) question for retailers and policy makers.

The creation of a Single Benelux Retail Market will result in fundamental cost savings. We set as a modest objective to realise 1% savings on retail turnover by 2018. This leads to €0.99 billion at Belgian, €1.15 billion at Dutch, and €0.31 billion at Luxembourg level. This amounts to approximately €2.45 billion at Benelux level in terms of cost savings that can either be used to lower consumer prices or solidify the strength of the retail industry and its international ambitions.

An important implication of this is that non-Benelux retailers will also be more inclined to choose the Benelux as the location for their European regional headquarters or choose a set of Benelux cities to support their expansion strategy throughout Europe, being attracted by having immediate and efficient access to a relatively large and prosperous area with several attractive cities.

The same principles apply to e-commerce. The online market is rapidly consolidating, with the biggest vendors gaining market share. If we look at the biggest e-retailers worldwide, we see that in the global top 50 there are 19 European firms with only one Benelux player (Koninklijke Ahold NV).51 Again, larger home markets deliver bigger e-retailers, with 3 German, 5 French, and 10 UK e-retailers in the global top 50. Moreover, large offline world retailers are also big e-retail players. For example, Tesco plc in the UK is number 6 worldwide as e-retailer and number 5 worldwide as regular retailer.

Legal fragmentation in many areas in the EU is hindering the development of e-commerce in the EU. In 2014, only 15% of businesses sold their products online cross-border.52 As mentioned before, a recent study by the Ecommerce Foundation on barriers to growth indicates that 65% of European Internet users shop online, whereas only 16% of SMEs sell online, of which only 7.5% sell online across borders.53

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Companies not selling cross-border state that overly restricting regulations in other Member States are the main reason for not doing so.

“If all EU countries had the same rules for e-commerce, 57% of companies would be willing to start trading or increase their sales to other EU countries.”

Because the cost of legal fragmentation is considerable, many businesses refrain today from selling cross-border, which is ultimately detrimental to consumers who want to buy products online from other Member States but cannot do so in practice.

Retailing anno 2025.

A random retail news item in the year 2025:

Healthy Vices, a chain offering food and non-food products in a playful experiential setting, enters Deloitte’s list of 30 largest European retailers. The chain started 8 years ago in Luxembourg City and grew by the end of its 2nd year already towards 30 stores in the Benelux Single Retail Market. Today the chain has more than 300 stores spread across more than 20 European countries.

“We were able to make such a leap in growth thanks to the Benelux without Business Borders concept”, says founder Jacky le Grand. “We obtained a steady and large footprint of 25 stores in our Benelux home market very fast thanks to being able to replicate our business concept simultaneously across various Benelux cities without infringing on previously national, regional or even local legislation issues. Now, the Benelux makes sure legislation relevant to our retail concept is transparent and shared across all policy makers involved. That enabled us to gain cost efficiencies of up to 5% of our revenues very early on. That money was rapidly invested in further growth in physical and digital stores, and human capital. Also, this fast growth enabled us to gain access to much-needed extra growth capital from our Venture Capitalist partner to grow across several European countries as competition is also not standing still.” This is yet another example of what we have seen from the Benelux in recent years. Since 2018 when some important cross-border retail barriers were removed within the Benelux Single Market, the number of Benelux retailers active cross-border in more than 10 European countries has increased by more than 10% relative to 2016. The best is yet to come.

3.3. CONSUMER PERSPECTIVE

CURRENT SITUATION

Price levels in Belgium and Luxembourg are traditionally higher compared with their neighbouring countries, and increasing. Price levels for both food and non-food products have been found to be substantially higher in Belgium than in neighbouring countries. Although specific country conditions such as the size of the Belgian market, purchasing conditions, labour costs, VAT rates, Belgian distributors’ business strategies, and consumers’ higher quality standards could justify somewhat higher price levels in Belgium, indications are that the sub-optimal functioning of certain product markets, particularly in the retail trade, contributes to the inflation differential. Figure 26 indicates that the median price level index in Belgium and Luxembourg is substantially higher than the median in the Netherlands, while the spread of price level indexes across product and service categories in the Netherlands is much larger and more downward. In fact, a common assumption is that Luxembourg price levels are aligned with the Belgian ones, because many international companies - both retailers and branded goods manufacturers - serve the Luxembourg market from their Belgian subsidiary. This is linked to the phenomenon of so-called territorial supply constraints imposed by product manufacturers. These constraints impede retailers from sourcing identical goods cross-border in a central location and distributing them to other Member States. The implications can be severe in terms of increased price levels and access to products, and are discussed further in this document.

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55 In 2012 prices for food and non-food items were 11.7 %, 8.6 % & 6.5 % higher than in the Netherlands, Germany and France. Source: Price Observatory (2014), INR/ICN Annual Report 2013. Data for shops > 400 m², excluding hard discounters.
Consumer product assortment satisfaction is relatively low in Belgium. The forthcoming Market Monitoring Survey finds that Belgian consumers are significantly less satisfied than the EU average with the number of retailers or products they can choose from. This is specifically the case for fast-moving retail markets, a fact which provides further signs of a lack of competition in the sector.\textsuperscript{59}

Shopping across borders still follows particular stereotypes. Examples are Belgian and Dutch shoppers travelling to Luxembourg for gas, alcoholic beverages, and cigarettes, while Belgian and Luxembourg shoppers are travelling to the Netherlands for painkillers. A similar prototype mind-set exists for crossing the border shopping online. For example, people are shopping online for the lowest price available, notwithstanding their inherent distrust towards trading (and paying) online. Recent research on Belgian consumers shows that the first typical online mind-set towards exclusively buying online in search for the lowest price is changing as today’s consumers consider a combination of time and convenience and low prices much more important. Nevertheless, trust in e-commerce is still not unconditional. Buyers’ trust in e-commerce remains stable at 60%, while only $\frac{1}{4}$ has faith in mobile purchases. Moreover, 45% of people interviewed state that they prefer an online purchase via a Belgian website to one via a foreign website.\textsuperscript{60}

**POTENTIAL IMPACT**

From a consumer’s perspective, a more integrated and competitive Benelux retail market also offers strong advantages. First, a more competitive Benelux Single Market for retailing exerts downward pressure on prices and upward pressure on store service and experience, as retailers need to compete more heavily for the consumer’s wallet.

Second, a more integrated Single Market creates better access to other countries’ product assortment and associated cultures, bridging cultural differences and enriching people’s lives.

Third, a better coordinated Benelux retail market facilitates the digital transformation in retailing, which would also benefit consumers with more competitive prices, greater convenience, greater transparency, and a wider product range, while offering new opportunities for cross-border purchasing.

Nevertheless, there seems to be a limited impact of e-commerce on cross-border retail growth potential in terms of product range, as consumers indicate in a recent study that buying online to access products that are not available in their own country is the lowest graded reason for their doing so (See Figure 27).\textsuperscript{61} However, part of the explanation may be the scarce number of retailers already selling online across borders, making it difficult for consumers to find the unknown offer in other countries. Also, other current reasons for buying online may simply be more important for customers, such as time savings, lower prices, and doorstep delivery.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Boxplot_of_price_level_indexes_by_country.png}
\caption{Boxplot of price level indexes by country\textsuperscript{58}}
\end{figure}

\textsuperscript{58} http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/10_edition/docs/consumer_market_brochure_141027_en.pdf (03/06/2016)


\textsuperscript{60} Comeos (2016), E-commerce Belgium 2015, p 88.

\textsuperscript{61} Comeos (2016), E-commerce Belgium 2015, p 88.
3.4. POLICY PERSPECTIVE: THE BENELUX AS LABORATORY FOR EUROPE?\textsuperscript{63}

CURRENT SITUATION

Competition and growth in the Benelux retail sector is constrained by tight regulation. Retail regulation is typically linked to registration and licensing, special regulation of large outlets, protection of existing firms, shop opening hours, price controls, and promotions or discounts.\textsuperscript{64}

The OECD shows large differences across Benelux countries in terms of how competition-friendly retail regulation is (Figure 28). The Netherlands seems one of the most competition-friendly OECD countries with respect to retail distribution regulation, whereas Belgium and Luxembourg are very restrictive towards retail establishments, which hampers retail competition and growth in the Benelux and its individual countries.

\textsuperscript{63} Comeos (2016), E-commerce Belgium 2015, p 88.
\textsuperscript{64} Börsen-Zeitung (09/07/2015), Benelux – Laboratorium für Europa.
\textsuperscript{64} For more information and definitions, see http://www.oecd.org/eco/growth/indicatorsofproductmarketregulationhomepage.htm (03/06/2016)
Different legislation and policy choices can form a basis for a competitive disadvantage of retailers in one country versus another. A study by Arthur D. Little indicates that Belgian retailers have a cost disadvantage between 3.8 and 6.6% (% of revenue excluding VAT) relative to Dutch ones, based on various choices in different policy domains. Including VAT regulations, the implications are a potential price disadvantage for Belgian retailers between 5.5 for supermarkets and 8.2% for electronics (price difference including VAT in %) relative to the Dutch. See Figure 29 for more details.

Policy choices and legislation hinder global e-commerce development. E-commerce executives developed a recent manifesto with the key challenges in global e-commerce with respect to policy strategies. The key problem areas they defined in global e-commerce are:

- Payments: Difference in preferred payments methods (e-payments, cash on delivery);
- Geography and market: Lack of global mind-set, small market size, location and connections to other markets, competition issues;
- Taxes: VAT, export tax, administrative burden on SMEs as a consequence of complicated and dissimilar tax-systems;
- Skills: Lack of digital skills, not promoted enough by governments, lack of professionals;
- Logistics: Monopolies, poor service (expensive, slow);
- Consumers’ trust and rights: Lack of trust, difference in legislation EU/non-EU and within the EU;
- Capital: Difficulties in getting investments (local/foreign); and
- Legislation: Lagging behind the e-commerce development, contract rules, intellectual property rights, custom rules, regulations on warranty.

“With an estimated worldwide turnover of $2,205bn in 2015 and a 20.1% growth rate, the e-commerce sector is booming. Internet knows no borders and a well-functioning e-commerce market is by definition a global one.” (Wijnand Jongen, CEO Thuiswinkel.org)

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**Figure 28:**
OECD Product Market Regulation (PMR) indicators for the retail sector

![OECD Product Market Regulation (PMR) indicators for the retail sector](image)

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**Figure 29:**
Competitive disadvantage of Belgian retailers relative to Dutch retailers (% of revenue excl. VAT)

![Competitive disadvantage of Belgian retailers relative to Dutch retailers (% of revenue excl. VAT)](image)

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POTENTIAL IMPACT

From a policy perspective, the potential impact of an integrated Benelux Retail Single Market is threefold. First, it will generate extra growth and more jobs. Figure 30 indicates the jump a Benelux retail market would make when evolving into a Benelux Retail Single Market. By 2025, it would add another €23 billion in Turnover and €4 billion in added value. Moreover, it would add 95,000 retail jobs and 36,000 firms. Through evolving into a Benelux Retail Single Market we would also come closer in terms of retail business indicators relative to European peers like France, Germany, and the U.K.

The extrapolation exercise of the Benelux retail footprint by 2025 is done by assuming normal economic conditions with a GDP growth curve based on the OECD’s long-term forecasts. A number of recent studies show that a further deepening of the European Single Market will yield significant additional gains for EU citizens and businesses. These studies suggest that EU27 GDP could be raised by a further 2.2% to 14% over a ten-year period if the remaining Single Market barriers were to be eliminated (of which we took the average). The magnitude of the estimates of the further gains from deeper Single Market integration varies across studies, depending on the methodology used and the assumptions about the extent to which Single Market barriers are further reduced.

Nonetheless, they all show unambiguously that such a further deepening of the Single Market would have substantial benefits for EU citizens and businesses in terms of higher incomes and employment and greater choice and business opportunities.

Second, policy makers are concerned about embedding strong “own” retail companies locally in order to internationally gain economic (and thus political) power, but also to bank on direct contributions (e.g., taxes and employment) and indirect contributions (e.g., regional clustering, social stability through stable employment). Related to the retailers’ increased employment-generating potential, having stronger Benelux retailers with more scale and better able to withstand global competition leads to more high-skilled jobs at retailers’ headquarters and more secure low-skilled jobs in local or regional retail stores.

Third, a Benelux Retail Single Market will act as an example for Europe and its leaders on how a Single Market can work and which benefits it will bring. As such, the Benelux could lead the European integration by example, while showing the importance of its role as a legislative living lab. Such a living lab would hold promise as an experimental region to discover quickly, and with limited impact, how particular disruptions along technological, societal, or legislative dimensions are unfolding.

Figure 30:
Growth jump and prestige impact of a Benelux Retail Single Market

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69 https://data.oecd.org/ (26/04/2016)
3.5. RELEVANCE AND IMPLICATIONS FOR POLICY MAKERS

What if we could create a Benelux Retail Single Market? Removing the barriers for cross-border retail within the Benelux will allow retailers from the Benelux to grow faster internationally, both within the Benelux and outside; and that holds promise for further growth and more jobs.

This chapter on the strategic importance of a Benelux retail market highlights the following key findings for policy makers:

• **A Benelux Retail Market - a springboard for international expansion**
  Benelux retailers can use the Benelux Retail Single Market as springboard to Europe. Taking a Benelux home market perspective enlarges the catchment area for retailers expanding, or willing to expand, throughout Europe. The catchment area increases between 7 and 22 countries. Retailers from each individual Benelux country gain when taking the Benelux perspective.

• **A Benelux Retail Market – potential for efficiency gains**
  A Benelux retail Single Market allows for important efficiency gains. A modest objective to realise 1% savings on retail turnover by 2018 leads to €0.99 billion at Belgian, €1.15 billion at Dutch, and €0.31 billion at Luxembourg level. This amounts to approximately €2.45 billion at Benelux level in terms of cost savings that can either be used to lower consumer prices, increase innovation efforts, or foster the strength of the retail industry and its international ambitions.

• **One legal framework is key for e-commerce, especially for SMEs**
  Legal fragmentation is hindering the development of e-commerce throughout Europe. Whereas 65% of European Internet users shop online, only 16% of SMEs sell online, of which only 7.5% sell online across borders. Overly restrictive regulations in other Member States are the main reason for this restraint. If all EU countries had the same rules for e-commerce, 57% of companies would be willing to start trading or increase their sales to other EU countries.

• **Consumers are the winners**
  From a consumer’s perspective, a more integrated and competitive Benelux retail exerts downward pressure on prices and upward pressure on store service and experience, while creating better access to other countries’ product assortment and associated cultures, bridging cultural differences and enriching people’s lives. Also, it facilitates the digital transformation in retailing that would benefit consumers in terms of their being offered more competitive prices, greater convenience, greater transparency, a wider product range to choose from, and new opportunities for cross-border purchasing.

• **A Benelux Retail Market - a clear potential for jobs & growth**
  The leap that a Benelux retail market would make when evolving into a Benelux Retail Single Market versus not doing so means that, by 2025, it would add another €23 billion in Turnover and €4 billion in added value, while also providing 95.000 extra retail jobs and 36.000 extra firms. By evolving into a Benelux Retail Single Market, we would also come closer in terms of retail business indicators relative to European peers like France, Germany, and the U.K.

• **The Benelux will strengthen its company base**
  A Benelux home market is better able to embed strong “own” retail companies locally. Having stronger Benelux retailers with more scale and better able to withstand global competition leads to more high-skilled jobs at retailers’ headquarters and more secure low-skilled jobs in local or regional retail stores.

• **The Benelux is a living lab for policy and business and increases retail investment**
  A Benelux Retail Single Market will act as an example for Europe and its leaders on how a Single Market can work and which benefits it brings. The Benelux could lead the European integration by example, while showing the importance of its role as a legislative living lab. By offering not only the prospects of an innovation-encouraging policy environment, but also by its unique position as a prosperous, centrally located, culturally diverse, and innovation-prone region, the Benelux could attract innovative retailers willing to test innovative new retail concepts in this ideal test market.
A Single Benelux Retail Market would bring...
Larger and stronger Benelux retailers growing more and faster internationally
Efficiency gains for retailers up to €2.45 billion by 2018
Lower consumer prices
A wider range of products and new opportunities to buy cross-border
More in-store service and convenience
More (foreign) investment in retail

.... and by 2025
Create 95,000 additional jobs
Create 36,000 additional companies
Generate €4 billion in extra added value
Spur turnover with an additional €23 billion
Lift the individual Benelux countries up to the prestige (and power) level of retail giant markets like Germany, France, and the U.K.