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Research Deutschland

Digitalisation in the German retail sector

An analysis of retailers in the seven most important shopping locations

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Foreword

The attractiveness of city centres is heavily dependent on a vibrant retail sector, but this has been facing increasing competition for a long time now. Whilst the last few decades had seen a boom in shopping centres which had attracted many customers away from the city centres and shopping streets, it is now the virtual reach of online retail which is driving a shift in demand. As JLL's regular footfall analyses show, Germany's prime retail locations have so far managed to withstand the competition. In addition to the disruptive influence of internet-based retail and the structural transformations in consumer behaviour, the current Covid-19 pandemic is adding to the concerns facing the high street segment. Whilst the non high street-relevant retail warehouses such as supermarkets, DIY stores and furniture stores are experiencing significant growth, fashion stores in particular will be struggling to cover their rental payments this year.

Bricks-and-mortar retail will have to adapt to the competition from online shopping, the effects of the pandemic and the resulting change in customer expectations from both sets of circumstances in order to remain an attractive proposition. This applies to both the large retail chains and local retailers alike. It is not only the location of a shop which will determine the future but also the online and mobile visibility of the retailer amongst its potential customers. The way in which the retailer accompanies and retains its clientele throughout the entire customer journey will be equally important in future.

The customer experience in the physical shop cannot be any less exciting, informative and convenient than a visit to the retailer's online shop. Local retailers must leverage their inherent advantages. These include the potential for inspiration as customers walk around the goods displayed for sale. Customers are inclined to trust the products more when they can touch them, try them on or test them in the shop. It is also very practical to be able to take goods home immediately. But there are disadvantages which may be counteracted by the use of technology. For example, navigation through large shops and department stores can become rather tiresome. The availability of items in the assortment may be physically limited. A salesperson may be unavailable or unable to answer questions about a particular article. The customer has no access to personal recommendations. Customers must queue at tills when the store is busy.

This topic is the subject of a collaborative analysis by JLL and eStrategy Consulting. With the help of a set of measurable criteria, the analysis attempts to pinpoint the overall maturity rate relating to the use of technology and digital innovations along the customer journey. The study looks at the most important retail locations in the Big 7* cities and is unparalleled in terms of scope and approach. This report does not offer an evaluation of which features are useful and sustainable over the longer term. But selected examples should serve to illustrate the analysis and give some impression of best practice.

*Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich, Stuttgart

Overview

The study examines 755 shops in 12 retail streets in the seven biggest cities in Germany. It shows an analysis of all phases relevant for the bricks-and-mortar point of sale (POS) customer journey. The 45 criteria used for the study can be broken down into four principal dimensions:

1. Online visibility of the shop and its assortment.

2. Omni-channel features, i.e. functions which operate across the various channels and touchpoints, e.g. click & collect.

3. Digitally enhanced customer experience at the POS.

4. Digitally driven customer loyalty at the POS.

The study defines a digital maturity rate which is applied for all shops. The maximum score of 10 is achievable by successful coverage of all criteria analysed in the survey. The overall digital maturity rate is currently at the low level of 3.7 (of a maximum of 10) points. This is a significant year-on-year increase compared to the study carried out by eStrategy Consulting in Berlin in 2019 and only in Berlin (maturity rate in Berlin rose from 3.1 to 3.6 points), driven above all by the dimension 'digital customer experience at the POS' (from 2.1 to 3.5).

The reason for the overall score is online visibility (e.g. the web shop or app) with a maturity rate of 6.2, which is the most significant driver of the digital maturity rate. This high level is probably the result of its relevance, having been the subject of many analyses, and the fact that this is already a well-established factor in the retail sector: For increasingly more assortments, the customer journey starts not in the physical shop but online. The focus in the initial phases of the customer journey is on researching the product. Only in the second phase does the customer move on to identifying a particular retailer. In this case, the objective of the bricks-and-mortar retail sector must be on its online visibility to the customer

during these first two phases so as not to drift out of the relevant set of potential purchase options. The shops in the survey scored a very low maturity rate in the three other dimensions (Omni-channel 3.3, Digital Customer Experience at the POS (3.0) and Customer Loyalty (3.3)). There is also a significant divergence between the various sectors. Electronics retailers and department stores lead the way in terms of digitalisation, whilst the fashion segment reflects the average.

Individual stores such as the Berlin branches of Conrad Elektronik, C&A and Lego, and the Düsseldorf branch of Decathlon are examples of how digitalisation can be used sensibly along the customer journey and also test which applications appear to offer potential. This type of activity has only been observed in individual cases but could be interpreted as bricks-and-mortar retail continuing its search for the right answers and solutions to make digitalisation a key component in the improvement or maintenance of the customer experience in the shop and in terms of customer loyalty. The various concepts related to these topics are naturally more individual and less standardised than themes such as online visibility, which means that they are cost intensive and not yet seen as a success factor. This hypothesis is reinforced by the observation that shops in Berlin have a relatively high score in the Digital Customer Experience at the POS dimension, driven by the high number of concept and innovation stores.

The overall conclusion is that the bricks-and-mortar retail sector in the Big 7 cities has already made more significant progress in areas such as the transportation and display of its own products and services into the digital world (Online Visibility dimension). By contrast, the sector is still at an early stage in terms of bringing the possibilities offered by digitalisation into its stores and offering them to the customers already visiting the shops.

Subject matter and methodology

The study was carried out in October 2020 and looks at 12 retail streets in the 7 most important retail cities (Germany's Big 7 cities comprising a total of 755 shops). Taking into account the multiple occupancy of particular chains, there are a total of 399 companies represented across all locations.

Cities	Streets	# Stores
Berlin	Kurfürstendamm, Tauentzienstraße	181
Düsseldorf	Flinger Straße, Schadowstraße	91
Frankfurt	Zeil	68
Hamburg	Mönckebergstraße, Spitalerstraße	98
Cologne	Hohe Straße, Schildergasse	129
Munich	Marienplatz, Kaufingerstraße, Neuhauser Straße	88
Stuttgart	Königstraße	100
Total		**755**

The analysis examines the digital maturity of retailers in the various dimensions along the typical customer journey. The first dimension is the online visibility of the local stores: whether these are visible, for example, on Google Maps; whether the stores are presented on the company's websites and apps. The second dimension is the combination of the online sales channels with the local assortment. For the larger companies in particular, there is a question of how successfully the local shops are reflected in its omni-channel strategy, e.g. by showing local product availability or via click & collect. The third dimension is the customer experience at the point of sale. This includes inspiration and entertainment, store navigation and product information, self-service, equipping staff with tablets, mobile payment and digital services. The fourth dimension includes elements relating to digital customer loyalty at the POS, such as digital customer loyalty cards, customer accounts and apps.

Over 50% of shops sell goods in the clothing & accessories segment, followed by health & beauty (9%), watches & jewellery (9%), home & living (7%) and electronics (5%). The study does not include the service and hospitality sectors.

Whilst the first two dimensions can be researched from the desk, research into dimensions three and four included a visit to all stores in all locations. The analysis evaluates 45 factors which are weighted to show the digital maturity rate for each retailer. The maturity rate is in a range from 0 (minimum) to 10 (maximum) points, so a score of 10 would mean that a shop fulfils all criteria under review in all respects. The starting point for this study is the survey carried out by eStrategy Consulting in October 2019 which analysed the digital maturity of 165 shops along Kurfürstendamm and Tauentzienstrasse in Berlin.

Digitalisation of the retail sector:
Innovation in times of crisis

The high level of competition in the retail sector also results in significant pressure to innovate. The Covid-19 pandemic has brought further challenges to the bricks-and-mortar retail sector over the last few months. The first part of this study looks at the structural differences, which mean that some locations and sectors are better equipped than others in this regard.

Digital maturity – before and after the corona lockdown

The degree of digitalisation in the retail sector is an indication of the modernity and future-orientation of the bricks-and-mortar retail sector. It is the result of a number of criteria across various dimensions. For example, the indicator showed a score of 3.6 out of 10 for the Berlin retail streets of Kurfürstendamm and Tauentzienstrasse in November 2020. This sounds like a low score, but in fact showed an increase of 0.5 points compared to the maturity rate of 3.1 in November 2019. The increase was the result of an increase in online visibility across the more than 160 local stores and an improvement in customer experience at the digital point of sale. Various retailers are also driving the maturity rate themselves. For example, Kurfürstendamm and Tauentzienstrasse offer a whole range of innovative pilot concepts. One example is the C&A store which newly opened this year and which improved its maturity rate from 4.2 in 2019 to 7.4 in 2020. Over the last year, C&A has extended its omni-channel range and completely revitalised its store on Tauentzienstrasse, transforming it into a pilot store with many innovative features including smart assistant and a 'design configurator'.

The Covid-19 crisis has had a significant effect on the bricks-and-mortar retail sector over the last few months. Not only has the segment been affected by the shop closures resulting from the pandemic, but the resulting uncertainties facing the customers have also been felt by bricks-and-mortar retail. There are no tourists now in evidence in the cities under review. The local clientele has been forced to make increased use of online shopping over the last few months and their behaviour towards the bricks-and-mortar retail sector has changed to take account of the pandemic. One example of this is the requirement for contactless payment.

The widespread rollout of contactless payment has meant an increase from almost 60% in 2019 to over 90% in 2020. Also, the digital display of product information has more than doubled from 21% to 50%. There is also a significant increase in local stores' online visibility from 58% in 2019 to 93% in 2020.

The high number of tenant rollovers may also be seen as a consequence of the pandemic. Over 10% of the shops surveyed in Berlin in November 2019 were no longer there in November 2020. The shops which closed scored a slightly below average maturity rate of 2.7 in the 2019 survey. This should be no cause for closure, but can be correlated to a lack of opportunities. However, a low digital maturity rate can be interpreted as an indication of a lack of competitiveness.
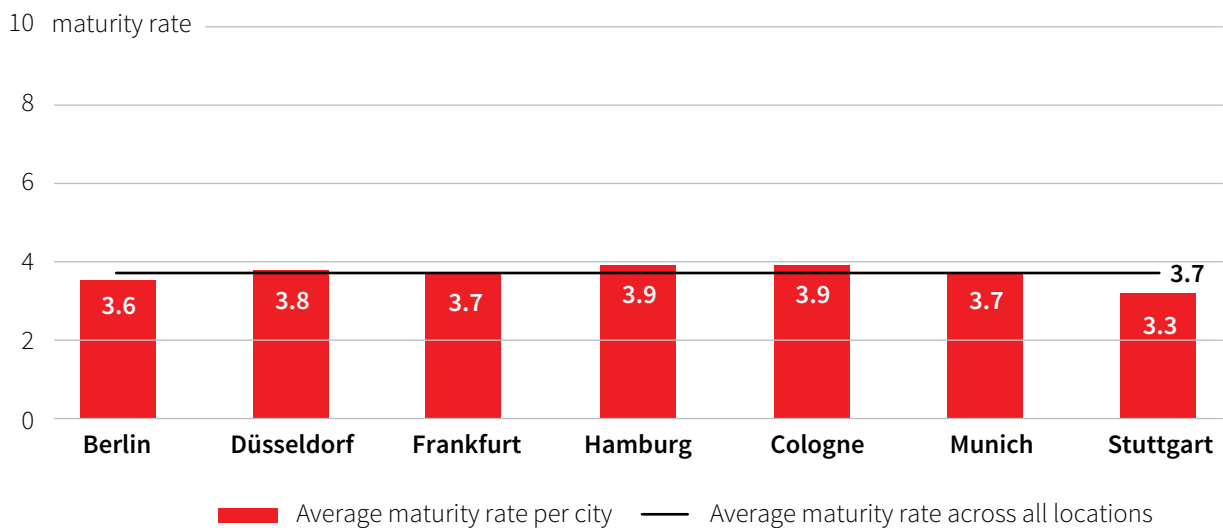
The closures have been compensated in the survey by new openings and new stores which are now included in the study. Whilst the 2019 analysis picked up 165 stores along Kurfürstendamm and Tauentzienstrasse, that had increased to 181 in the 2020 survey. However, the study does not include vacant stores.

Minimal variances in digital maturity between locations

As the comparison of the 12 retail locations in the Big 7 cities shows, the top two places in the rankings go to Hamburg and Cologne with a digital maturity rate of 3.9. The average score across all locations is 3.7 out of 10 points.

Looking at the stores in the various cities in terms of dimensions, it is clear that Hamburg and Cologne are particularly strong in Online Visibility, Omni-channel and Customer Loyalty dimensions. However, Berlin and Munich are ahead in terms of Digital Customer Experience at the POS.

Digital maturity by location

	Berlin	Düsseldorf	Frankfurt	Hamburg	Cologne	Munich	Stuttgart
maturity rate	3.6	3.8	3.7	3.9	3.9	3.7	3.3

Average maturity rate across all locations: 3.7

■ Average maturity rate per city　━━ Average maturity rate across all locations

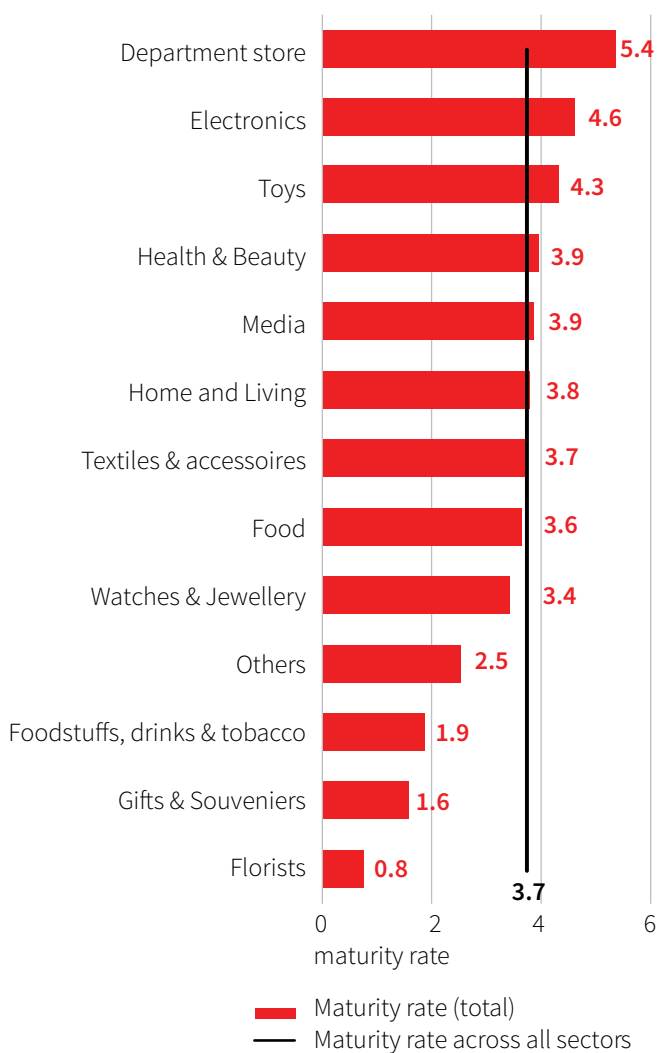|	Online Visibility	Omni-channel Features	Customer experience at POS	Customer Loyality
Hamburg	6.8	3.9	2.9	3.7
Cologne	6.7	3.9	2.9	3.7
Düsseldorf	6.4	3.8	3.1	3.4
Frankfurt	6.1	3.7	2.7	3.4
Stuttgart	5.9	3.3	2.3	3.0
Munich	5.9	3.7	3.2	3.2
Berlin	5.9	3.6	3.5	3.0

This may be due to the fact that Berlin has a larger number of pilot and concept stores which are experimenting with new digital elements at the point of sale. Stores with a particularly high maturity rate in terms of Digital Customer Experience at the POS include Conrad (10 points), Saturn (10), Nike (9), Levi's (8.6), C&A (8.6), WMF (8.6), Fossil (8.6) and Lego (7.6). The drivers include particularly digital elements in the stores such as entertainment, product information, advice and service.

Significant variances in digital maturity between retail sectors

In the analysis of other structural variances, a comparison was made between brands such as Adidas and Nike on the one hand, and pure retailers such as Foot Locker and Runners Point on the other. Branded producers selling directly to end customers have greater scope across the whole vertical value creation chain and appear able to invest more in digital infrastructure for their business. One or two showrooms may support this hypothesis but the assumption that this typology results in fundamental differences has yet to be proved. Brands and pure retailers together have an average digital maturity rate of 3.0. There are also only minor differences within the various dimensions underlying the analysis. Whilst brands tend to forge ahead in terms of pure online visibility, the retailers are slightly ahead in terms of their omni-channel offer.

Digital maturity by retail sectors

Sector	Maturity rate
Department store	5.4
Electronics	4.6
Toys	4.3
Health & Beauty	3.9
Media	3.9
Home and Living	3.8
Textiles & accessoires	3.7
Food	3.6
Watches & Jewellery	3.4
Others	2.5
Foodstuffs, drinks & tobacco	1.9
Gifts & Souveniers	1.6
Florists	0.8

Maturity rate across all sectors: 3.7

maturity rate

■ Maturity rate (total)
— Maturity rate across all sectors

Greater differences in the bricks-and-mortar retail sector emerge in the analysis by segment and assortment type. This depends both on the type of goods on offer and the different customer requirements in terms of the respective assortment. The electronics and toys sectors are in the leading group, the fashion & accessories group is in the middle with an average score of 3.7, which comes as no surprise as this segment comprises over 50% of all stores in the locations under review. Assortments such as florists, foodstuffs, drinks and tobacco, gifts and souvenirs are at the bottom end of the ranking, as these assortments are characterised by reliance on footfall and taking goods home immediately (impulse purchases).

It is interesting that department store formats are first placed in the rankings, as these are not a segment as such but more of an all-rounder by comparison. This may be a surprise given the problems experienced by this form of sales platform which emerged before the pandemic and the more recent discussions about store closures. However, it is clear that digital investments themselves are not a cure-for-all and that they cannot solve fundamental structural problems (e.g. assortment depth, personal advice, shopping experience).

	Online Visibility	Omni-channel Features	Customer experience at POS	Customer Loyality
Department store	7.6	6.0	3.9	5.6
Food	7.6	2.8	2.0	4.8
Electronics	7.1	3.8	4.3	4.1
Health & Beauty	6.5	3.7	2.8	4.2
Textiles & accessoires	6.4	3.4	3.0	3.2
Toys	6.3	1.4	4.8	6.0
Watches & Jewellery	6.2	3.6	2.3	2.8
Home and Living	6.0	3.5	3.0	3.7
Media	5.3	4.9	2.2	4.6
Foodstuffs, drinks & tobacco	4.5	0.3	2.1	1.1
Others	4.2	1.4	2.9	1.8
Gifts & Souveniers	3.2	0.9	1.9	0.3
Florists	1.7	0.4	0.7	0.5

Looking at the detailed analysis of the various dimensions, there have been a number of interesting shifts in ranking. The food retail sector has moved into leading positions in Online Visibility and Customer Loyalty. Book shops (media) is in a leading position in Omni-channel, due to the wide-ranging ordering and delivery options available. Toys and electronics head the ranking in terms of Digital Customer Experience at the POS because they offer digital entertainment and the kind of assortments which are increasingly part of the 'digital ecosystem'.

Results along the customer journey

Digitalisation in retail is not an end in itself. It serves to optimise the satisfaction of customer requirements and ensures competitiveness. For this reason, the next few pages show the four dimensions along the customer journey under review in greater detail, illustrated by illuminating case studies.

Online Visibility

This dimension has the highest average maturity rate of 6.2 points. Around 90% of stores already have an internet presence and an online shop. This reflects the way they have approached competition with online retailing. The bricks-and-mortar retail sector has generally adapted to the new shopping behaviour of their increasingly digitally aware customers. But only 50% of retailers offer their customers a shopping app, even though 'mobile shopping' is just as prevalent as 'desktop shopping'. Further progress on this is expected from retailers.

Distribution of Availability

	in %
Website for a local store	94.2
Webshop	87.0
Shopping-App	41.9
GMB or Google Inventory Ads	9.9
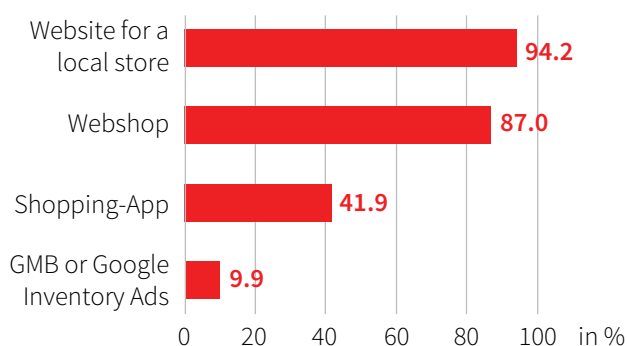
Marketing projects undertaken by local shops, e.g. via Google My Business (GMB), and local assortments, e.g. via Google Inventory Ads, are visible to some extent but still offer plenty of potential. These, (in some cases still new) initiatives are currently only used by some large players such as Saturn, Rewe and Adidas. Their experiences will show whether these will be taken up by the wider market.

Selected examples for Online Visibility:

Maturity rate	Retailer/brand	Location	Online Visibility
10	**Saturn**	Berlin	
10	**SportScheck**	Cologne	
10	**Christ**	Hamburg	
10	**adidas**	Berlin	
10	**Rewe**	Cologne	

Website for a local store
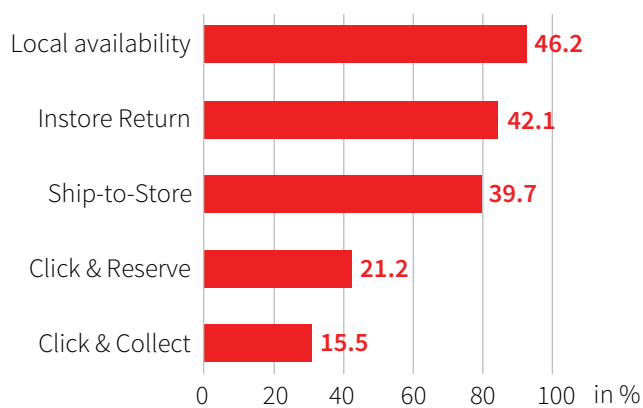
Shopping-App

Webshop

Marketing projects for a local store or local assortments

Omni-channel features

The average maturity rate is 3.7 points. Almost half of all shops under review already offer their customers the opportunity to check the local availability of goods and products online. The most widespread amongst the omni-channel features is the availability check at 46.2%. This supports the customer's targeted visit to the shop and is something of a competitive advantage in times of a pandemic.

Local availability

Local availability	46.2
Instore Return	42.1
Ship-to-Store	39.7
Click & Reserve	21.2
Click & Collect	15.5

0 20 40 60 80 100 in %

In-store returns and ship-to-store are available at around 40% of all shops. These features offer the retailers the opportunity to get customers into the store without incurring major technical or operative expenditure.

Click & reserve and click & collect are offered by just 21% and 16% of all shops, respectively. These also offer the retailers the chance to get customers into the local stores. However, they must be able to establish additional processes locally and reserve goods which may then not be collected. The lower level of importance amongst customers and greater effort for retailers appear to be obstacles to the more widespread rollout of these features.

Selected examples for Omni-channel features:

Maturity rate	Retailer/brand	Location	Omni-channel features
10	Christ	Hamburg/Frankfurt	
10	Thalia	Stuttgart	
10	Peek & Cloppenburg	Frankfurt/Düsseldorf/Hamburg/Cologne	
10	Depot	Frankfurt /Hamburg/Stuttgart	
8	Galeria Karstadt Kaufhof*	Frankfurt/Cologne/Munich	

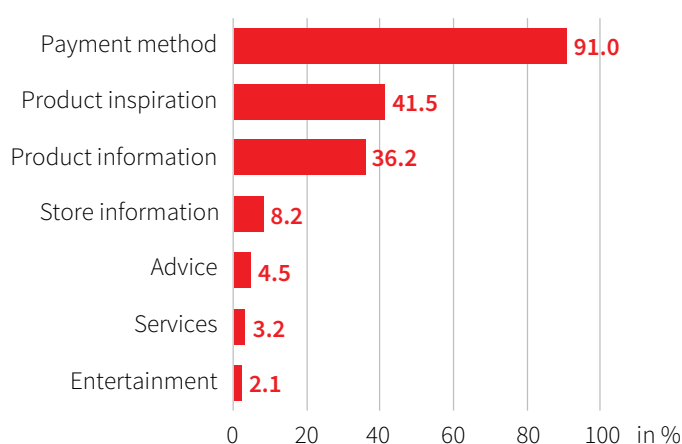All omni-channel features   *despite C&C for local assortments

Digital Customer Experience at the Point of Sale

The average maturity rate is 3.0 points. The most widespread feature is mobile payment at the POS. There are two reasons for this. Legislation has required the gradual increase of requirements relating to in-store payment systems over the last few years which has forced the introduction of digital tills. Also, customers have developed a strong preference for contactless payment as a result of the pandemic. Mobile payment is available in 9 out of 10 shops.

Distribution of Availability

Category	Value
Payment method	91.0
Product inspiration	41.5
Product information	36.2
Store information	8.2
Advice	4.5
Services	3.2
Entertainment	2.1

0   20   40   60   80   100   in %

Some 40% of all stores use displays for product inspiration and information. Displays for in-store information/navigation play a more important role in larger shops and department stores, and are therefore much less commonplace. Displays are now also used to communicate Covid-19 measures in-store.

There has been much media coverage of digital components relating to entertainment, services and advice at the point of sale, but in reality these are also less common. In the retail sector, these concepts are typically more individual, complex and cost intensive, which has tended to hinder their rollout to date.

Selected examples of customer experience at the POS:

Maturity rate	Retailer/brand	Location	Description
10	**Saturn**	Berlin	Interactive displays for product information and services; machine for the return of used smartphones, etc.
10	**Conrad**	Berlin	Interactive displays for navigation and product information; vending machine for out-of-hours sales, etc.
7.6	**Lego**	Berlin	Digital elements for entertainment and product configuration
7.4	**C&A**	Berlin	Scan & online search, self-service tills, smart assistant, design studio
7.2	**Decathlon**	Düsseldorf	Displays, tablets for services, QR codes, self-service tills, scan & go
7.2	**Telekom**	Stuttgart	Displays for inspiration, entertainment, product information and services
7.2	**Douglas**	Frankfurt	Tablets offering perfume recommendations
6.2	**Bonprix**	Hamburg	Displays for inspiration and store and product information
4.8	**Samsung**	Frankfurt	Flagship store with virtual entertainment elements
4.8	**Sunglass Hut**	Frankfurt	Virtual try-on facility for sunglasses

Digital Customer Loyalty

The average maturity rate is 3.3 points. With 56%, the app is the most popular digital customer loyalty scheme. However, this function is typically part of the customer profile in the shopping app, so the high rollout rate comes as no surprise. The app also offers the opportunity to collect relevant customer data and to fine-tune the offers and assortments.

Distribution of Availability

Category	Value (in %)
App	56.3
Customer loyalty card	38.9
Other programmes/ Newsletter	11.5
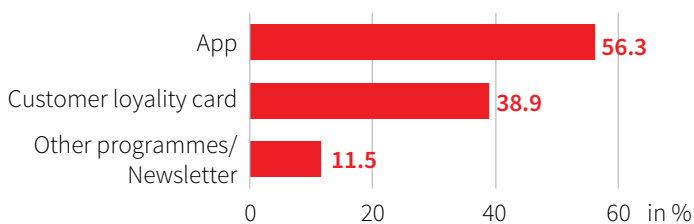
A customer loyalty card is available in around 40% of all shops and is actively advertised in-store. This is further evidence of the importance of building a core customer base. Notwithstanding this, only around 10% of retailers actively promote other programmes or newsletter registrations in-store.

Selected examples for digital customer loyality:

Maturity rate	Retailer/brand	Location	Digital customer loyality
10	Conrad	Berlin	Shopping-App, Customer loyalty card, Newsletter
10	Uniqlo	Berlin	Shopping-App, Customer loyalty card, Newsletter
10	Hugendubel	Berlin	Shopping-App, Customer loyalty card, Newsletter
10	WMF	Cologne/Stuttgart	Shopping-App, Customer loyalty card, Payback
10	Tchibo	Hamburg	Shopping-App, Customer loyalty card, Newsletter, Payback

Shopping-App Customer loyalty card Newsletter Payback

Conclusion

The analysis shows that the digital maturity rate of all 755 shops under review in this study is at the very low level of 3.7 out of 10 points. Wide divergences can be seen between the various retailers. Positive examples illustrate the opportunities offered to local retail in terms of digitalisation and interaction with customers. However, this also shows that there are currently many concepts being tested, particularly in terms of the digital experience at the point of sale, which is shown by the multitude of pilot and concept stores.

The retail-tech sector has produced many innovations over the last few years which have been implemented by the more progressive retailers and brands. The experiences with these will show the way, and successful concepts will result in successful schemes finding their way into more shops along prime retail locations. Other ideas will either disappear or will only be successful in particular sectors. This explains the differences which already exist between the different assortment types exemplified by this study.

As this analysis also shows, there are certain dimensions along the customer journey in which digital solutions are already well-established. These include the commitment to online visibility which has proved to be a sensible and sustainable initiative. The high technical and processing requirements of many omni-channel features have

prevented the digital maturity rate reaching higher scores. The high level of maturity in the case of contactless payments in the bricks-and-mortar retail sector has been driven by both legislation and the standards of technology on offer. At the same time, the Covid-19 crisis has increased the level of acceptance and use of contactless payment methods.

Of some comfort to the real estate sector is the marginal difference between the locations under review in this study, the Big 7 German cities. Even if the number of pilot and concept stores across Germany is unevenly distributed, the overall result is well-balanced and there are no particular locational disadvantages in terms of digital maturity.

The overall development of digital maturity is highly dynamic, as shown by the year-on-year growth in the Berlin locations of Kurfürstendamm and Tauentzienstrasse. The full comparison of the Big 7 cities in the year to follow will show whether the speed of innovation is identical in all locations and which players are driving progress. Furthermore, an evaluation of customer expectations and the use of the criteria analysed in this study will present additional insights in the form of a follow-up survey.

Appendix
List of criteria

Digital visibility

- Link to Google Maps
- Website for local shop
- Mobile-responsive website
- Online shop
- Shopping app
- Live on Google Inventory Ads?
- Live on GMB Ads?
- Live on Google Shopping?

Omni-channel

- Local availability
- Click & collect
- Ship-to-store
- Click & reserve
- In-store return

Customer Loyalty

- Customer loyalty card
- QR code for newsletter registration
- Staff with tablets for newsletter registration
- Third-party system such as Payback
- Mobile app

Digital Customer Experience

Inspiration
- Digital display with brand advertising/video entertainment

Entertainment
- Interactive display for entertainment

In-store information
- Digital display for store information, e.g. store layout plans
- Interactive display with in-store navigation

Product information
- Digital display for product advertising
- Interactive display with product information
- Staff with product information tablets
- QR code for product information
- e-price labels

Advice
- Digital components for examination (e.g. for the skin)
- Digital components for product configuration
- Digital components for product testing (e.g. magic mirror, AR)
- Digital components for other advice formats

Payment method
- Google Pay
- Apple Pay
- PayPal
- Alipay
- WeChat Pay
- Samsung Pay
- Barzahlen.de
- Klarna
- Payback Pay
- Staff with payment tablets

Services
- Digital display with till or service counter functions
- QR code for service information
- e-till
- Other services at the e-till

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