EXCERPT

RETAIL EUROPE 2017

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DIGITAL IQ INDEX

EUROPE

RETAIL

November 21, 2017

LAND OF OPPORTUNITY

While e-commerce has taken off in the UK, continental Europe still presents tremendous opportunity for enterprising retailers. In 2016, e-commerce represented 7 percent of grocery sales in the UK, tied with South Korea for the highest penetration in the world.[1] France, with 5 percent of grocery sales done online, is the next most advanced market in Europe, while Germany lags behind its neighbors with less than 1 percent.[2, 3]

A small number of retailers are controlling a disproportionate share of the spoils. Tesco, the first grocery store to sell online in the UK in 1996, controls 35 percent of the online grocery market—higher than the retailer's 28 percent offline share.[4,5] In France, the concentration of online grocery sales is even higher, with E.Leclerc taking 47 percent of grocery e-commerce, compared to 21 percent offline, leaving the second-largest grocer, Carrefour, with just 7 percent online share.[6, 7] However, one retailer is doing a better job taking advantage of the e-commerce opportunity across Europe: Amazon.

Groundhog Day

All retailer digital investments should be viewed through the lens of how to compete against Amazon. Europe is one of Amazon's key growth targets, and already represents a significant portion of the e-tailer's global business—Amazon captured one-third of all retail sales growth in the UK and Germany in 2016, and is estimated to be the largest general retailer in both countries.[8] France is next—Amazon has been looking to buy a retailer in France, reportedly having approached Groupe Casino about acquiring Monoprix earlier this year, only to be rebuffed.[9]

1. "Europe vs. Asia: who's ahead?" Morgan Stanley, March 2017.
2. Ibid.
3. "IGD: German grocery market to grow 10.5% to 2021," IGD, June 2017.
4. "Europe vs. Asia: who's ahead?" Morgan Stanley Research, March 2017.
5. "Great Britain: Grocery Market Share," Kantar Worldpanel, November 2017.
6. "Europe vs. Asia: who's ahead?" Morgan Stanley, March 2017.
7. "France: Grocery Market Share," Kantar Worldpanel, November 2017.
8. "Amazon's disruption accelerates in Europe," Morgan Stanley Research, February 2017.

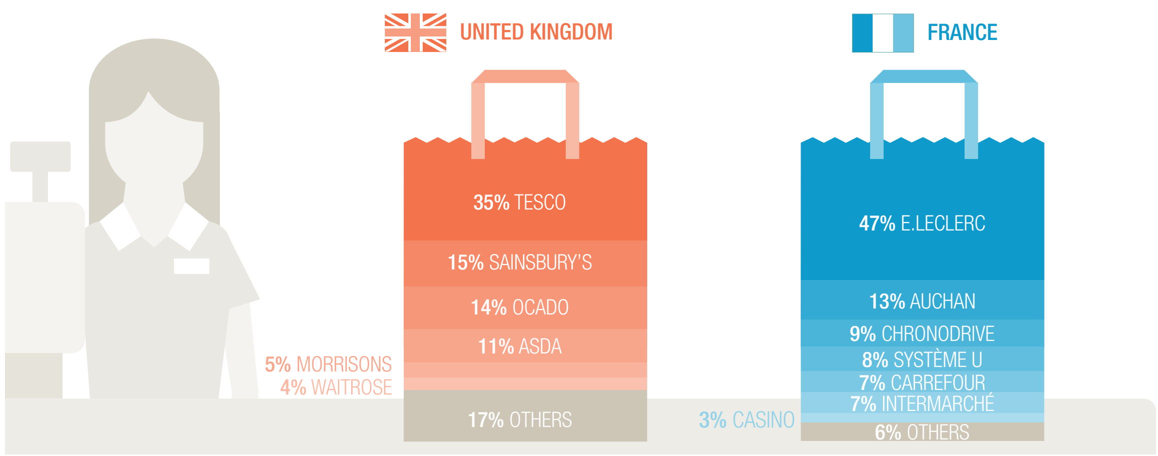
Some retailers are trying to compete on tech—Ocado is attempting to enter the voice assistant space by developing an integration for the Alexa platform, while Carrefour has launched an Amazon Dash copycat called Pickit.[10, 11] Others are trying to partner with Amazon—Morrisons in the UK and Dia in Spain are supplying AmazonFresh with groceries.

Retailers in the US have been to this movie before. In 2001, Target and Borders partnered with Amazon, outsourcing their e-commerce businesses in what then seemed like a coup—the opportunity to get exposure to growing digital sales without capital-intensive investment in warehousing, technology, and logistics.[12, 13] The deal ended in bankruptcy liquidation for Borders, and set Target's e-commerce growth back 10 years.[14, 15]

9. "Amazon said looking for physical stores, possible acquisition in France," Jeff Daniels, CNBC, October 2017.
10. "Alexa, add carrots to my Ocado order," Ocado Press Release, August 2017.
11. "E-commerce: Carrefour se développe sur le marché des courses connectées," Le Perisien, April 2017.
12. "Amazon's Alliance With Borders: An Experiment in Online-Offline Symbiosis," Gartner, April 2001.
13. "Amazon and Target Forge E-Tail Partnership," Commerce Times, September 2001.
14. "Borers Files for Bankruptcy," The New York Times, February 2011.
15. "Target (finally) parts ways with Amazon, but retailer's new site sputters at launch," GeekWire, August 2011.

Retail Europe: Online Grocery Market Share in the UK and France

2016



Source: Morgan Stanley Research.

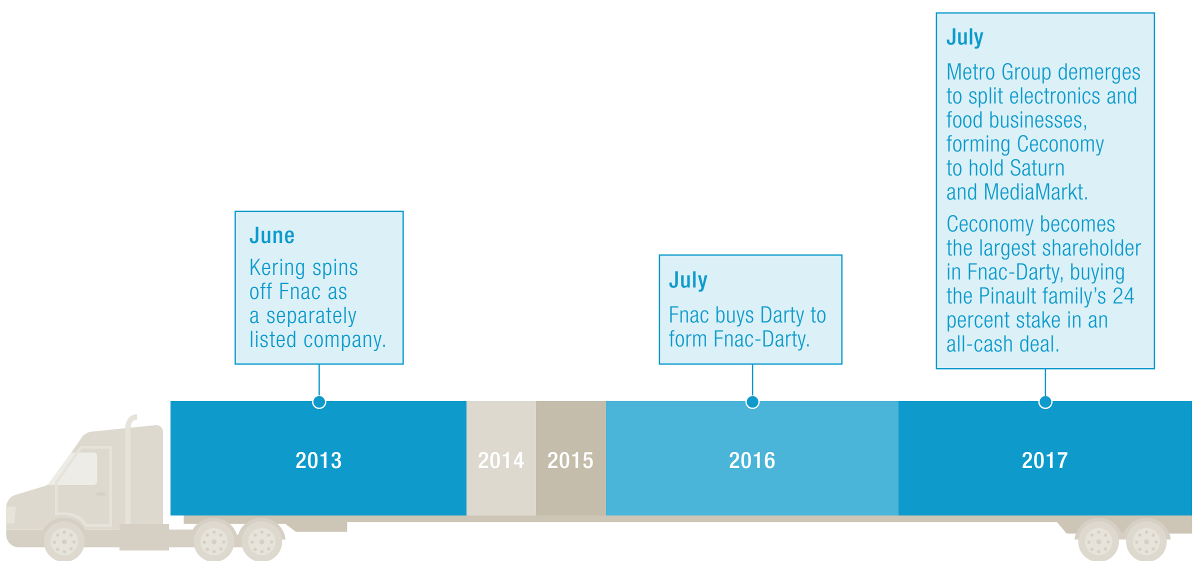
Forming a Rebel Alliance

European retailers have the opportunity to learn from Target and Borders. Consumer electronics retailers have seen a flurry of merger and acquisition activity, combining Fnac, Darty, MediaMarkt, and Saturn to form a pan-European consumer electronics behemoth, buying time and access to capital to compete against Amazon. Other consumer electronics and home improvement retailers are repositioning to emphasize their human intelligence—while artificial intelligence can power Subscribe and Save, it cannot customize a smart home package or help landscape a garden.

But a gap is emerging between retailers with strong and weak digital. The fifth of retailers that still lack e-commerce are about to hit a point of no return. As the pace of digital innovation continues to accelerate, it will become impossible for laggards to catch up. The only way out for a business that struggles with e-commerce, like Morrisons or Aldi, may be a sale…to Amazon.

Retail Europe: Timeline of the Formation of Ceconomy

June 2013–July 2017



Source: L2 analysis of company statements.

Digital IQ = Shareholder Value

This study quantifies the digital competence of 74 Retailers in the UK, France, Germany, Italy, and Spain. Our aim is to provide a robust tool to diagnose digital strengths and weaknesses, helping managers achieve greater results on incremental investment. Like the medium we assess, our approach is dynamic. Please reach out with comments that help improve our methodology and key findings.

Regards, **L2**

Reid Sherard | Associate Director, European Research
Gregorio Ossola | Research Associate, European Research
Sam Anker | Research Associate, European Research
Kyle Scallon | Senior Designer
Elena Akulova | Senior Designer

L2 research is based on data-driven analysis. Our findings, rankings, and recommendations are objective, unbiased, and independent of membership.

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METHODOLOGY

DIGITAL IQ INDEX

SITE & E-COMMERCE

35%

Site Performance:
Load Time

Search & Navigation:
Grid Elements, Sorting & Filtering Options, Site Search Function, Auto-Suggested & Auto-Corrected Search Results

Guided Selling:
Content Integration, Adoption and Shoppable Optimization of Blogs, Circulars, Catalogs, Videos, Buying Guides, and Lookbooks

Product Pages:
Image Collateral, Product Videos, Find In-Store, Calls to Action, Ratings & Reviews

E-Commerce & Omnichannel:
Single-Page Checkout, Expedited Payment Options, Access to Shipping & Return Information, Click & Collect, Drive-Through Pickup, Pick Up In-Store, In-Store Returns for Online Orders, Standard Shipping Minimums, Expedited Shipping

Customer Service & Store Locator:
Contact Options, Live Chat, Mapping, Geolocation

Account & Loyalty:
Consumer Account, Loyalty Program Opt-In, Multi-Tiered Loyalty Programs, Loyalty Program Integration Throughout Site Experience

DIGITAL MARKETING

30%

Search:
- Traffic, Web Authority
- Branded SEO/SEM on Google
- Unbranded SEO/SEM on Google (results for brand site, enterprise site, social properties)

Display Advertising:
Desktop Display Ad Impressions, Publishers, Creative Units, Share of Voice

Email Marketing: Open Rate, Personalization, Ease of Signup, Welcome Email, Frequency Relative to Category, Triggered Messaging, Subject Line Optimization, Segmentation

SOCIAL MEDIA

10%

Facebook:
Reach, Total Post Engagement, Average Interactions per Post

Instagram:
Reach, Total Post Engagement, Average Interactions per Post, Post Frequency

YouTube:
Channel Experience, Video Views, Post Frequency

Twitter:
Tweet Frequency, Responsiveness, Use of Twitter for Customer Service

Instagram Stories & Snapchat (if applicable):
Post Frequency, Number of Days Active Over a Month

MOBILE

25%

Mobile Site:
- Site Technology Across iOS & Android
- Search & Navigation, Store Locator & Geolocation, Customer Service, M-Commerce
- Implementation of Mobile-Native Features

Mobile Search:
Branded & Unbranded SEO/SEM on Google

Mobile Advertising:
Mobile Creative Units, Publishers, Share of Voice

Mobile Apps:
In-App Commerce, Support for iOS & Android, App Store & Google Play Rank History, Geolocation, Loyalty Integration, In-Store Functionality, Expedited Payment Options

CLASSIFICATION

GENIUS 140+

Digital competence is a point of competitive differentiation for these brands. Creatively engineered messaging reaches consumers on a variety of devices and in many online environments.

GIFTED 110–139

Brands are experimenting and innovating across site, mobile, and social platforms. Digital presence is consistent with brand image and larger marketing efforts.

AVERAGE 90–109

Digital presence is functional yet predictable. Efforts are often siloed across platforms.

CHALLENGED 70–89

Limited or inconsistent adoption of mobile and social media platforms. Sites lack inspiration and utility.

FEEBLE <70

Investment does not match opportunity.

	RANK	BRAND	COUNTRY	DIGITAL IQ
GENIUS	1	OTTO	GERMANY	146
	1	fnac	FRANCE	146
	3	MediaMarkt	GERMANY	142
	4	Boots	UK	140
GIFTED	5	Argos	UK	139
	6	M&S EST. 1884	UK	134
	7	Carrefour	SPAIN	133

RANK	BRAND	COUNTRY	DIGITAL IQ
7	DARTY	FRANCE	133
9	Cdiscount	FRANCE	132
10	LIDL	GERMANY	131
11	LEROY MERLIN	ITALY	130
12	Currys PC World	UK	128
12	MediaWorld	ITALY	128
12	unieuro	ITALY	128

RANK	BRAND	COUNTRY	DIGITAL IQ
12	Carrefour	FRANCE	128
16	El Corte Inglés	SPAIN	127
17	Superdrug	UK	125
17	REWE	GERMANY	125
19	B&Q	UK	123
20	TESCO	UK	121
20	ASDA	UK	121

RANK	BRAND	COUNTRY	DIGITAL IQ
22	fnac	SPAIN	119
23	castorama	FRANCE	118
24	LEROY MERLIN	FRANCE	115
25	Dia	SPAIN	114
25	Sainsbury's	UK	114
27	Auchan	FRANCE	111
28	MediaMarkt	SPAIN	110

AVERAGE

RANK	BRAND	COUNTRY	DIGITAL IQ
28	ROSSMANN	GERMANY	110
30	real	GERMANY	105
31	dm	GERMANY	104
32	MONOPRIX	FRANCE	102
33	ESSELUNGA	ITALY	101
33	EDEKA	GERMANY	101
35	Carrefour	ITALY	100

RANK	BRAND	COUNTRY	DIGITAL IQ
36	ALDI	UK	98
37	MORRISONS	UK	97
38	ao.com	UK	96
39	Intermarché	FRANCE	95
40	E.Leclerc	FRANCE	93
41	Kaufland	GERMANY	92
42	ocado	UK	90

CHALLENGED

RANK	BRAND	COUNTRY	DIGITAL IQ
43	Waitrose	UK	87
44	Netto Marken-Discount	GERMANY	84
45	Brico Dépôt	FRANCE	82
45	Lidl	SPAIN	82
45	Super U	FRANCE	82
48	Homebase	UK	78
49	Allyouneed Fresh Supermarkt	GERMANY	77
50	Lidl	FRANCE	75
51	Hipercor	SPAIN	74
51	Lidl	ITALY	74
51	Casino supermarché	FRANCE	74
54	Alcampo	SPAIN	73
54	Aldi Süd	GERMANY	73
56	Aki	SPAIN	70

FEEBLE

RANK	BRAND	COUNTRY	DIGITAL IQ
57	Coop	ITALY	69
57	Eroski contigo	SPAIN	69
59	Mercadona	SPAIN	64
59	Weldom	FRANCE	64
61	Conad	ITALY	60
61	Lidl	UK	60
63	Penny Market	GERMANY	58

RANK	BRAND	COUNTRY	DIGITAL IQ
63	Consum	SPAIN	58
65	Cora	FRANCE	55
66	Aldi Supermercados	SPAIN	54
67	Auchan	ITALY	50
68	Simply Market	ITALY	49
69	Aldi	GERMANY	43
70	Brico Center	ITALY	38
71	E.Leclerc	SPAIN	29
72	Unes	ITALY	27
73	Aldi Marché	FRANCE	25
74	Aldi	ITALY	17

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Guided Selling Tools

Tools that help consumers navigate large product assortments are particularly important for cross-category retailers, but are most commonly adopted by specialist retailers. Three quarters of home improvement retailers, half of pharmacies, and two in five consumer electronics retailers provide some form of guided selling tool on their sites, while only 14 percent of cross-category retailers provide similar tools.

But all implementations of guided selling tools are not equal. Optimizing content features as shoppable seems to be an afterthought, with only 19 percent of blogs and 11 percent of recipe sections frequently linking to product pages. These are clear missed opportunities given that the purpose of content is to encourage sales.

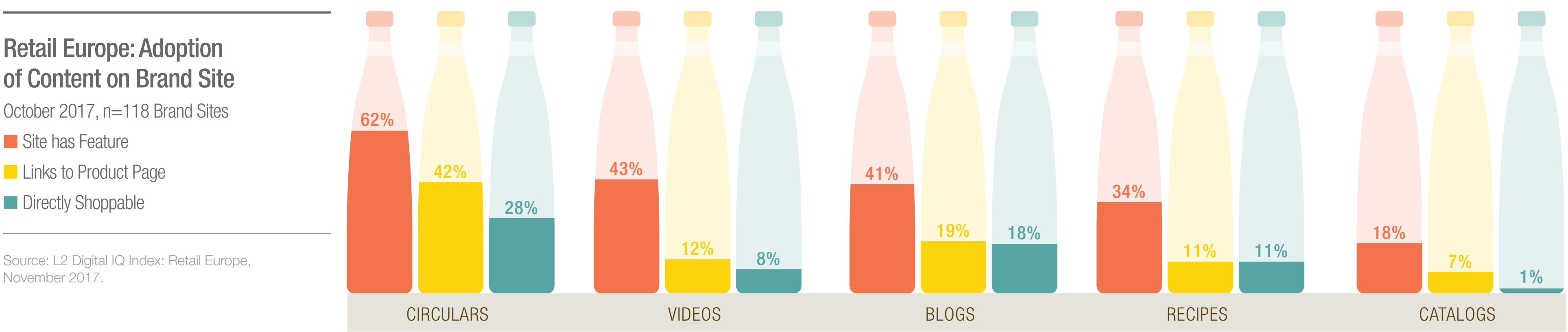
Weekly circulars are the most common tool. These online iterations of the common mailers hypermarkets and grocery stores are accustomed to sending highlight specific product deals. Forty-two percent of retailers link them directly to relevant product pages, while 28 percent let users build carts directly while browsing. However, weekly circulars are also the least immersive tool, guiding shoppers on pricing but not helping them make more complex choices.

Video content has the widest gap between implementation and shopability. Creating overlays in videos that link downstream can be a challenge, requiring specific technology. However, providing links to product pages below videos is an easy activation that is frequently neglected.

Recipes for retailers selling food offer a guided selling experience that encourages frequent use, and can result in large baskets of goods, but only one in three Index recipe site sections is shoppable.

Retail Europe: Adoption of Content on Brand Site

October 2017, n=118 Brand Sites



Source: L2 Digital IQ Index: Retail Europe, November 2017.

Branded Search

Mobile accounts for the majority of competitive search ad buying against branded keywords. Just over half of analyzed Google Shopping Ads and 60 percent of AdWords bought against Index retailer branded terms are bought for mobile, capitalizing on local search intent.

Not all retailers have caught up with the shift to mobile. UK retailers equally weight mobile and desktop when buying AdWords against their branded keywords, owning 84 percent of AdWords across devices. However, retailers in France and Spain disproportionately favor desktop, leaving a gap on mobile for competitors—Index retailers operating in France and Spain respectively bid on 50 and 73 percent fewer keywords for mobile compared to desktop.

German retailers take this competition to the next level, allocating six times more spend to bidding against competitors for mobile ads than desktop. This mobile advertising effort is led by Rewe and Real which focus half of their ad spend on competitor branded keywords. In particular, Rewe's competitive ads are focused on terms related to competitor offers or leaflets (e.g. “kaufland angebote” and “kaufland prospekt”).

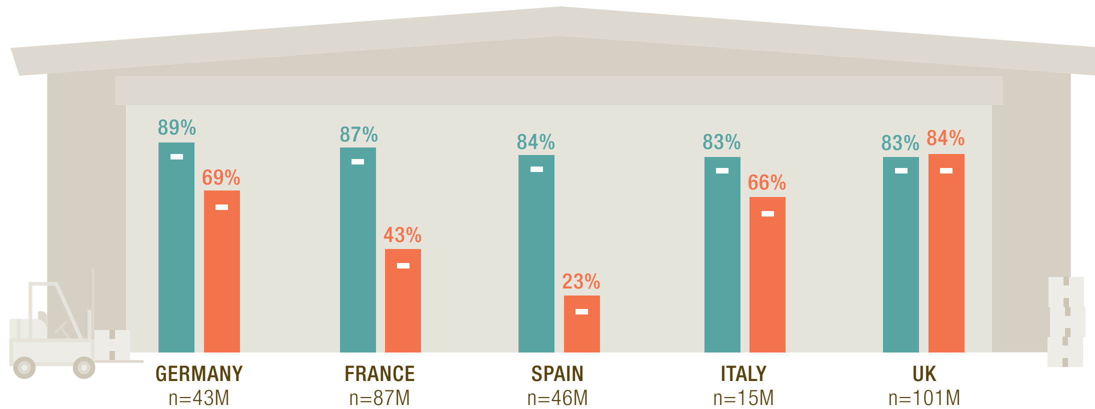
Looking at localized branded searches (e.g. “aldi london”), French, German, and British retailers exhibit similar high levels of ad space ownership, while retailers in Spain and Italy fall behind, with only 60 and 67 percent ownership of ad space against relevant localized terms, leaving room for other retailers to advertise.

Italy is the only market in which Index retailers buy against each other's localized keywords. Fourteen percent of desktop AdWords and 8 percent of mobile AdWords are placed by retailers against localized competitor terms. Esselunga is responsible for competitive ad buys on desktop and Coop for those on mobile. Notably, in the UK, 10 percent of all localized branded keywords are bid upon by non-Index competitors.

Retail Europe: AdWords Ownership Against Branded Keywords

Index Brand Ownership of AdWords Bought Against Branded Keywords Weighted by Search Volume

September–October 2017, n=789 Keywords

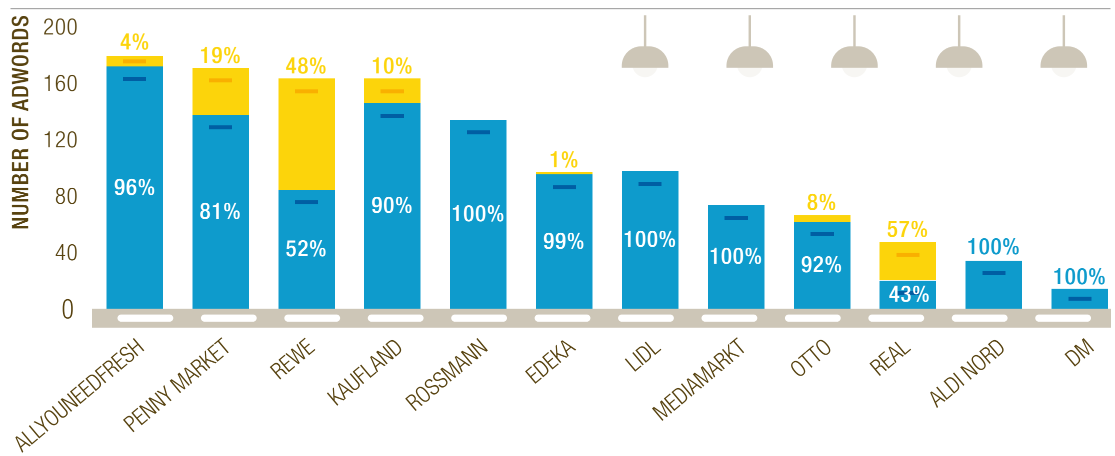


Source: L2 Digital IQ Index: Retail Europe, November 2017.

Retail Europe: AdWords Bought Against German Branded Keywords on Mobile

Competitive Ads Bought by German Index Brands as Percentage of Total

September–October 2017, n=154 Keywords



Source: L2 Digital IQ Index: Retail Europe, November 2017.

The Social Landscape

Retailers in Germany and the UK perform best on Facebook and Instagram in terms of engagement. French and Spanish retailers perform at the Index average on Facebook, having adapted to pay-to-play strategies, but lag on Instagram. Italian retailers garner negligible engagement across both platforms, with five times lower total engagement compared to the Index average on Instagram and 1.6 times lower engagement on Facebook.

Among Index retailer categories, cross-category retailers generate the most engagement on Facebook, collectively garnering 20 million interactions over the past year—double the total engagement for next-best category, grocery. The strong performance of cross-category retailers and grocers plays to existing marketing strengths, as Facebook's ad-targeting allows brands to place ads in front of target audiences using similar creatives and strategies to display advertising.

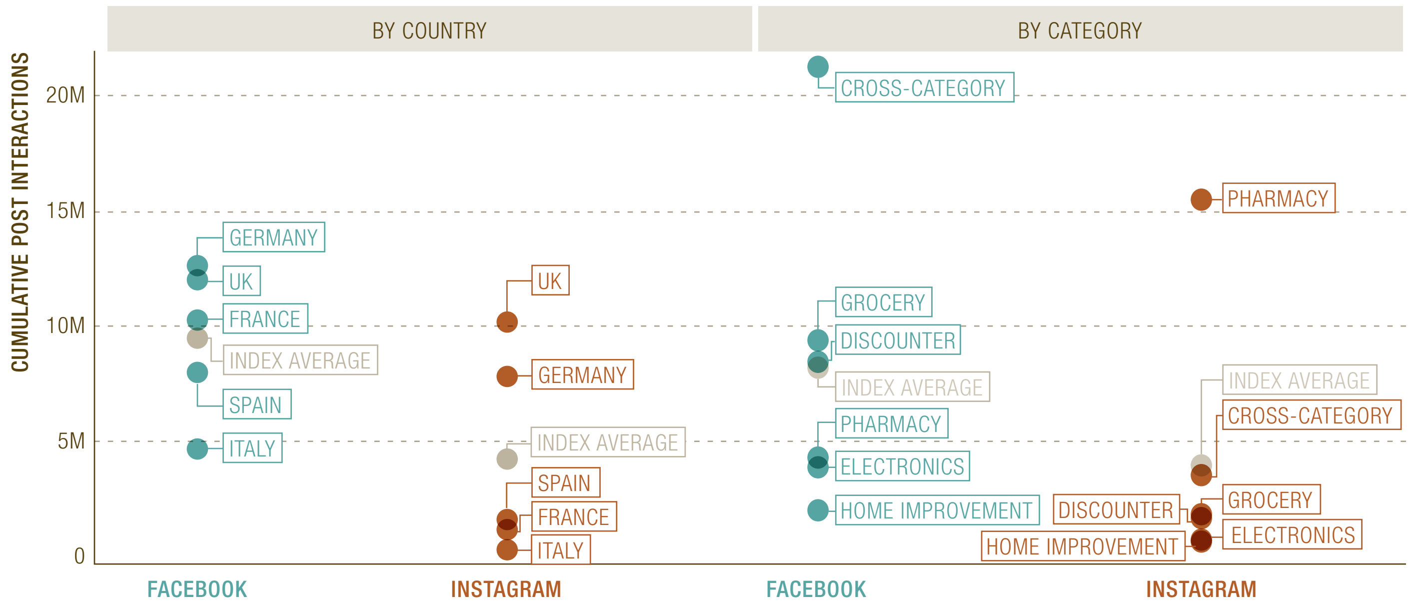
Retailer performance differs significantly on Instagram, as high organic engagement places greater emphasis on the quality of a brand's content than on its budget. To date, only pharmacies stand out as a category on the platform, focusing on beauty-related content.

Retailer presence on YouTube is nearly ubiquitous, with adoption at 96 percent. German retailers steal the show, with the largest number of views per video—almost three times higher than the other European countries in the study. Just over half of retailers have a presence on Pinterest, with few standouts. Forty-one percent of retailers maintain a presence on Snapchat, although only 5 percent post regularly.

Retail Europe: Cumulative Interactions on Facebook vs. Instagram

September 2016–August 2017, n=128 Brand Accounts

Source: L2 analysis of Unmetric data.



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Mobile Site: Just Ticking Boxes

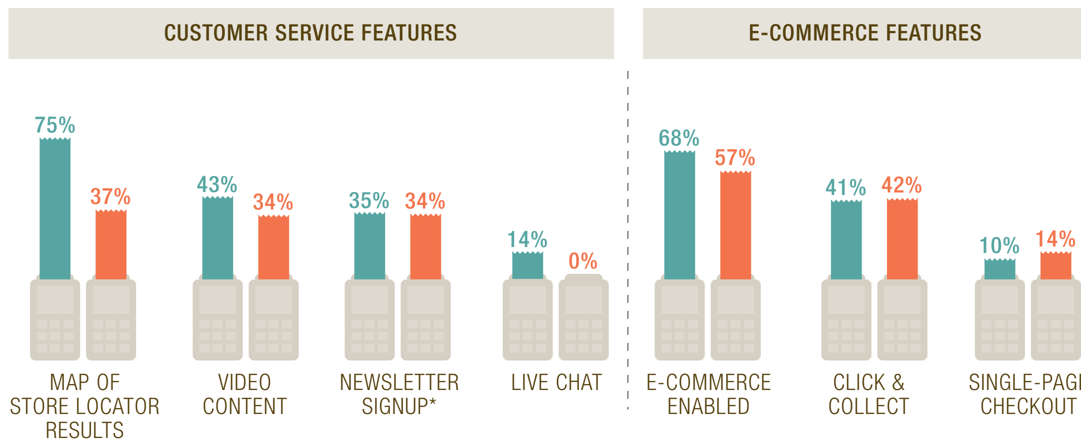
European retailers are finally catching up to their US peers in terms of mobile site optimization. The percentage of Index retailer sites that are mobile optimized increased for each country year over year. Consumers in the UK, Spain, and Germany saw 30 percent more mobile optimized retailer sites in 2017 than in 2016. Surprisingly, Waitrose is the only UK Index retailer without a mobile-optimized site, despite the mobile sophistication of its department store parent company John Lewis.

Increased adoption of mobile-optimized sites does not mean retailers have perfected the mobile experience, as many retailers have adapted existing desktop content to fit smaller screens without tapping into mobile-native utilities. Map-powered store locators represent the biggest missed opportunity, as only 37 percent of Index retailers provide a map of store locations on mobile site, compared to 75 percent adoption on desktop.

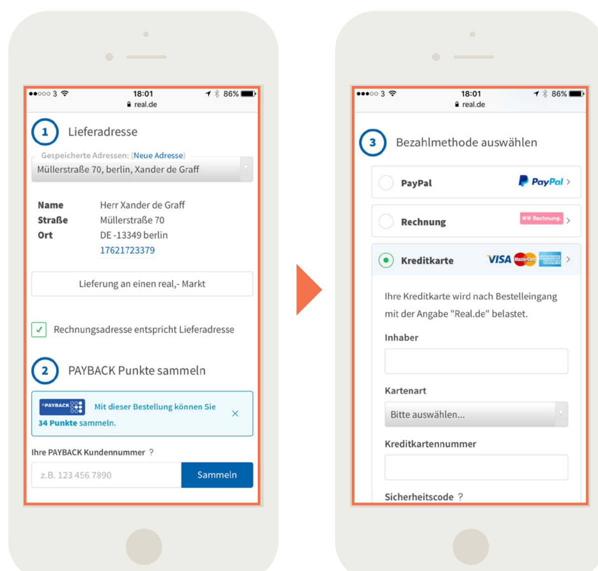
Single-page checkout is the only feature that has higher adoption on retailer mobile sites than on desktop. This is a crucial feature for removing purchase barriers and streamlining checkout for a smaller screen. But at only 14 percent, adoption of single-page checkout still leaves significant room for improvement.

Retail Europe: Desktop vs. Mobile Adoption of Key Site Features

October 2017, n=118 Brand Sites ■ Desktop ■ Mobile



*n=94 desktop sites; n=118 mobile sites
Source: L2 Digital IQ Index: Retail Europe, November 2017.



real,-

Real's mobile checkout combines all steps onto a single page to reduce the number of user refreshes.

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ABOUT L2

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L2 Membership Benefits

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L2 Digital IQ, Amazon IQ, and Category IQ Indexes provide analysis and rankings for brand performance, profiling best practices and key innovators.

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L2 advisors provide members with the support they need to make key decisions and prescriptively assess digital initiatives, offering dynamic guidance as improvements are implemented.

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L2 publishes 100+ reports annually, including L2 Digital IQ Indexes, cross-sector Intelligence Reports, and topical Insight Reports. Members have access to L2's entire archive of research.

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L2 hosts 65+ events around the world each year, bringing together top scholars, thought leaders, and L2 analysts to share insights and speak on important developments in the digital sphere.

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Rigorous analysis and benchmarking of brand performance within a specific industry, merchandise category or on Amazon.

- L2 Digital IQ Index
- L2 Amazon IQ Index
- L2 Category IQ Index

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- Video
- Localization
- Content & Commerce
- Social Content & Strategy

CONTACT INFO:

740 Broadway, 4th Floor
New York, NY 10003

L2inc.com
info@L2inc.com