Rialtas na hÉireann
Government of Ireland

Focus on Retail & Consumer Products

December 2018

Prepared by the Department of Business, Enterprise and Innovation

Retail & Consumer Products

Employment intensive and regionally dispersed, consumer sentiment improving but facing challenges with upward cost pressures

GLOBAL MARKET

FOOD (2017)
$8,465.9bn

GROWTH FORECAST
$11,577.9bn
by 2020
CAGR 6.5%

ONLINE (2017)
$929.8bn

GROWTH FORECAST
above $1740
by 2022
CAGR 13.4%

Source: Global Food and Grocery Retail, Marketline, February 2018;
Global Online Retail, Marketline, February 2018

ASIA-PACIFIC REGION ACCOUNTS FOR 37.6% OF THE GLOBAL ONLINE RETAIL SECTOR VALUE

↑20% IN ONLINE SPENDING BY IRISH CONSUMERS SINCE 2012

Online retail sales continue to grow in Ireland

Consumers spending approx. €850,000 per hour online, 24 hours a day

Source: Department of Communications, Energy and Natural Resources, Assessment of the Macro-Economic Impact of the Internet and Digital on the Irish Economy, 2016

EMPLOYMENT

299,700 in Q3 2018

1 in every 7 people employed in Ireland works in the retail and wholesale sector

Source: CSO - Labour Force Survey, Q3 2018 (data for NACE Rev. 2 sector G)

Employment in the sector is regionally dispersed with approximately 70% employed outside Dublin

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The sector in numbers

	Market Size	Growth Forecast
Global	Food $8465.9bn (2017)[i]	Food $11,577.9bn by 2022 CAGR 6.5% (2017-2022)
	Online $929.8bn (2017)[ii]	Online $1,740.8bn by 2022 CAGR 13.4% (2017-2022)

	Employment (Q3 2018)	% of National (2018)	CAGR (Q3 2013-Q3 2018)
Ireland[iii]	299,700	13.2%	1.17%

i) Global Food and Grocery Retail, Marketline, February 2018
ii) Global Online Retail, Marketline, February 2018
iii) CSO- Labour Force Survey, Q2 2018 (data for NACE Rev. 2 sector G). Note: Percentage of national employment derived using CSO total employment. Employment figures are seasonally adjusted.

Description of the sector globally

- The consumer products sector refers to a broad spectrum of manufacturers, sellers and marketers of physical goods used by consumers which are sold through retailing.
- The retail and consumer products sector is dynamic, playing a vital role in the operation of all economies and societies. It is an influencing factor in the development of cities, towns and villages, shaping (as well as being shaped by) patterns of settlement and transport infrastructure.
- The sectors efficiency makes an important contribution to the productivity of the economy as a whole. Decisions on retail pricing impact on consumer prices which, in turn, impact pay expectations and ultimately labour costs throughout the economy.
- The retail sector is an intensely competitive sector, due mainly to the relatively low barriers to market entry and the ease with which consumers can alter preferences in response to emerging trends and advances in technology.
- The nature of the sector is such that it is among the first to be affected by any economic contraction.
- While the sector is far more localised than others, globalisation and digitalisation have increased the scope for competition as reflected in the growth in omni-channel retailing and changing consumer preferences, increasingly influenced by global factors.

Global developments and implications

- In 2017 the world's top-30 largest retail companies posted results suggesting an overall improvement in their sales and profitability compared to the previous year.[1]

[1] Global Sector Report, Retail, *Euler Hermes Economic Research* (2018)

- The US registered a 6-year high in total number of bankruptcies listed during 2017 suggesting that struggling retailers need to adapt their business model to avoid competing on price alone and find balance between investing in new technologies and managing heavy debt burdens.
- A decline in **food retail** in some of the more mature markets disguises the growth of some sub-sectors, particularly the organic food market which grew at a CAGR of 9.4% over the period 2010-14. This is consistent with a growing trend towards ethically-responsible consumerism and the growth of “green, locally-produced and socially-conscious” products and services.
- The Asia- Pacific region has recorded the highest growth rates in the **online retail** sector and accounts for 37.6% of the global online retail sector.[2]
- With a growing middle class and rapidly increasing consumer spending, India overtook China as the world’s largest retail market in 2017.[3]
- International e-commerce retailers such as Alibaba and Amazon are demonstrating the global reach of online shopping platforms while also exploring ways of ‘digitalising’ the offline shopping experience (e.g. Amazon Go).
- Global movements towards a circular economy to reduce packaging waste and single-use plastics present a challenge to the sector.[4]

Technology

- Technology is having a transformative effect on retail and consumer products and shifting the model away from a buy low sell high product-centric model to a customer-centric data and insight driven model.
- The ROBO trend (‘research online, buy offline’) highlights the need for retailers to adopt an omni channel approach which integrates traditional methods of mass advertising with emerging interactive channels. Many retailers are offering a multitude of sales channels options to sell their goods- physical stores, social media, mobile apps and online websites.
- Online retail continues to disrupt retail business models, challenging the balance between “brick and clicks” and the need for firms to identify innovative ways to deliver to changing consumer demands. A change in consumer behaviour means that customers expect excellent value on products to which they are indifferent (which has increased the number of discount outlets) but remain willing to spend more on items in which they have a particular interest.
- The balance between bricks and clicks is particularly important for smaller towns and villages where a decline in physical retail activity has societal as well as economic consequences. The future sustainability of physical outlets the concept of the ‘store of the future’ will require an innovative approach taking advantage of the element of retail sales that cannot be replicated online.

[2] Global Online Retail, Marketline, February 2018
[3] Global Retail Development Index, AT Kearney, 2017
[4] Current EU Directive http://ec.europa.eu/environment/waste/plastic_waste.htm

- Growth of sales made on mobile devices surpassed desktop sales for the first time during the 2017 holiday shopping season.[5]
- Digital technologies will be key to product innovation for consumer products companies and will also allow them to deepen customer engagement, to 'engineer empathy' and enhance the consumers' path to purchase. Investing in digital technologies could also benefit consumer products companies by driving efficiency in supply chain.[6] Innovations include in-store digitisation experiences, use of CRM (Customer Relationship Management) software, etc.
- The sector is aware of the need to innovate the retail experience for the customer when shopping in bricks and mortar stores and how it needs to evolve to provide a consumer experience which sees 'retail as theatre'. Examples of this are prevalent in stores such as Starbucks Reserve Roastery, Magnum Pleasure Store where shopping and entertainment come together as 'Shoppertainment.'

The sector in Ireland

- The sector underwent considerable contraction during the years of the economic downturn, with a significant reduction in consumer spending and a consequential reduction in employment from a high of 311,600 at the beginning of 2008 to a low of 265,600 by the end of 2009. Employment in the sector in Ireland is regionally dispersed with approximately 70 percent employed outside Dublin.
- Domestic retail comprises eleven sub-categories[7] - total sales values across these categories increased by 3.9% in 2017, compared to 2016 growth of 2.4%. Specialised food stores were the only category of the eleven not to experience value growth in 2017 (likely due to the 2.5% fall in consumer food prices in Ireland in the first half of 2017). [8]
- Retail in Ireland encompasses various international outlets (*e.g. Zara, Tesco, Marks & Spencer*), some large indigenous wholesale players (*e.g. Musgraves, BWG Foods*) own a large number of small businesses and franchises, often family-owned and/or owner-managed. Numerous foreign owned e-commerce retailers i.e. Etsy, Wayfair, Cargurus and Shopify have chosen Ireland to base some of their operations, from tech roles to risk, sales and customer support.
- Traditional distinctions between wholesale and retail companies have lessened over the past decade through vertical integration - particularly by grocery and overseas-owned non-food retailers. There is also some integration back to the supplier.[9]

[5] Global Sector Report, Retail, Euler Hermes Economic Research, 2018
[6] 2018 Consumer Products Industry Outlook, Deloitte, 2018
[7] Supermarkets and convenience stores; Department Stores; Specialised food and drinks stores; Fuel; Pharmacies; Fashion, footware and textiles; Furniture, lighting and homewares, Computers, electrical and electronic; DIY and hardware; Books, newspapers and stationary; and Other non-food specialised stores.
[8] Retail Ireland Monitor February 2018, Retail Ireland IBEC, 2018
[9] Competition Authority research indicates that between 2001 and 2006 there was a substantial increase in the number of outlets controlled by the vertically integrated retailers (65 percent) and affiliated retailers (who have aligned themselves with a wholesaler-franchisor by contract (66 percent).

- The sector continues to have a high dependence on the UK and US market. While many companies had successfully adjusted to the impact of the sterling crisis in 2007, they have reduced overhead and costs to a minimum.
- While positive in terms of consumer spend, the return to economic growth has resulted in a series of upward cost pressures that further threaten to erode competitiveness.[10]
- While the retail and wholesale sector has traditionally provided opportunities for workers with relatively lower formal education levels, developments in the e-commerce sector increasingly require higher skill levels and average qualification levels in retail are rising correspondingly.[11] There are 3rd level courses in retail e.g. DIT e-commerce in Retailing.[12] Retail Ireland Skillnet is developing and delivering training programmes for employees in the sector. A retail apprenticeship scheme is expected to launch in 2019.
- Online retail sales continue to grow with Irish consumers spending approximately €850,000 per hour online, 24 hours a day – an increase of more than 20% since 2012.[13]
- While distance can be a barrier to Irish based retailers selling internationally, a number of specialist and niche retailers have expanded their networks overseas, facilitated through online selling, franchising and or setting up outlets in international markets (*Dunnes, Grafton Group Plc., Peter Mark, Paddy Power, Carroll's Irish Gifts, Primark, Avoca, Mick's Garage*). There is scope to expand this activity although the scale necessary to do so remains a factor for most firms.
- *Brexit* will present a challenge for retailers in terms of managing customs impacts on logistics/distribution channels, potential tariffs, movement of labour, and recognition of standards and certification. Of greatest concern to retail firms, according to DBEI's firm level analysis of Brexit implications, were: concern over the imposition of rules of origin, re-establishment of the physical border with the UK, absence of a customs union and any change in reciprocal Ireland/UK work, living, social and tax entitlements.[14]

Ecosystem

- The **Retail Consultation Forum**, chaired by the Minister for Business, Enterprise and Innovation, provides a platform for structured engagement between the retail sector and relevant Government Departments. The Forum's current work programme has four key areas of focus – Brexit, retail skills, online retailing, and revitalising town centres.

[10] Cost of Doing Business in Ireland Report 2016, National Competitiveness Council, 2016
[11] Three quarters of those working in the sector are now educated to Leaving Certificate level or higher. More than a fifth of those working in retail are educated to third level, as are about one in seven of those working in wholesale.
[12] https://www.dit.ie/studyatdit/undergraduate/programmescourses/allcourse
[13] Department of Communications, Energy and Natural Resources, Assessment of the Macro-Economic Impact of the Internet and Digital on the Irish Economy, 2016
[14] An Assessment of the Firm-Level Impact of Brexit on Most Exposed Sectors, Department of Business, Enterprise and Innovation, June 2018

- **Retail Ireland Skillnet** develops and delivers training and education programmes for those employed in the retail sector. The training is 50% funded through the National Training Fund and over 12,000 people working in the retail sector have received work based qualifications in recent years.
- From 2019 (following QQI validation) an apprenticeship in Retail Practice for Associate Sales Professional will be available. Traineeships that are currently available are Retail Associate, Pharmacy Sales Assistant and Retail Skills for Health and Beauty.

Relevant Reports

Click on hyperlinks below

- Framework for Town Centre Renewal, DBEI
- Addressing the Skills Needs Arising from the Potential Trade Implications of Brexit, Expert Group on Future Skills Needs, June 2018
- An Assessment of the Firm-Level Impact of Brexit on Most Exposed Sectors, Department of Business, Enterprise and Innovation, June 2018

Key actors

Government: Department of Business, Enterprise and Innovation

Agencies: Enterprise Ireland, IDA (Consumer Products)

Groups: Retail Consultation Forum, Chaired by Minister, DBEI, Retail Excellence Ireland, Retail Ireland (IBEC), RGDATA, Retail Ireland Skillnet, CSNA, Irish Hardware Association, Irish Pharmacy Union.

Recent Developments

Company Developments

- International Retail Solutions company E3 Retail to establish a Software Development & Sales Centre in Sligo, creating 40 jobs (June 2018)
- Panelto Foods, who serves instore bakeries in major retail chains in Ireland and in the UK, announced a planned 60,000sq ft. expansion to create 110 new jobs in Longford (December 2017)
- Smartbox Group, the European leader in the experience gift market, today announced that it will create 100 new jobs as part of its future growth plans for its Dublin office, which is based off Talbot Street, Dublin 1 (June 2017)
- Eason is opening two new stores as part of a €2million investment creating 30 jobs in Dublin and Limerick (January 2017)
- Aldi has announced a major expansion, with plans to open 20 new stores in the next three years creating 400 new jobs (December 2016)

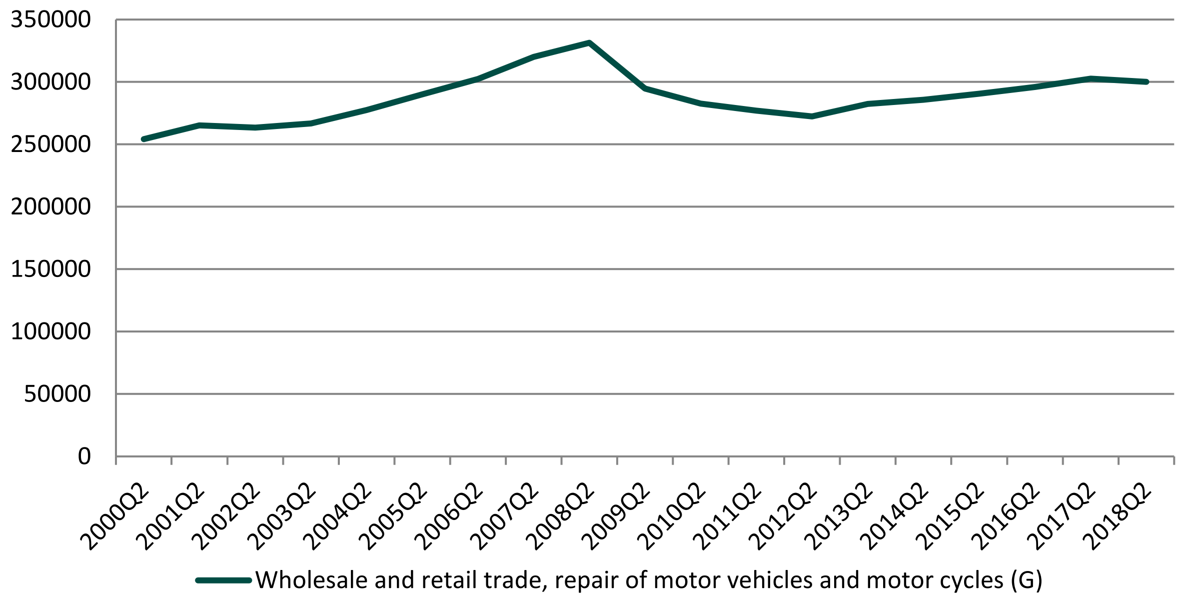
- Catering company Aramark is to create 60 new jobs with a €1 million investment in a new food hall at Dundrum Town Centre (December 2016)
- Cosmo Restaurants restaurant chain will create 60 new jobs at a new outlet in Liffey Valley, with two further restaurants planned by the end of 2018 to bring the total number of jobs to 150 (November 2016)
- The fashion, jewellery & giftware retailer, Carraig Donn, plans to hire 20 new staff across stores in Douglas, Mullingar & Liffey Valley (November 2016)
- The health food restaurant chain, Freshii in partnership with US food services company Aramark are to create 100 jobs with a new expansion plan starting with the opening of outlets in Arnotts and Trinity College (November 2016)
- Food company, Chopped, is to open five new outlets in Dublin and in Co Kildare, creating 110 new jobs (October 2016)
- New Mercedes-Benz dealership, Connolly’s Motor Group, is opening in Sligo, creating 20 new full-time jobs (October 2016)

Sector Developments

- In 2018, Amazon launched Amazon Go, its first grocery store without cashiers, which uses a system of cameras to track what products clients put in their bag and charges their credit card automatically when they exit the store. Although this is a single company development it’s likely to have a large-scale impact on the whole sector.

Data Trends

Employment in Retail and Wholesale (2000-2018)



Employment in retail and wholesale was at its peak during 2007 when the economy was prospering – although much of this was unsustainable debt-fuelled consumption. The significant drop in jobs in 2009 can be attributed to the recession. Employment has not yet reached levels of a decade ago. The aim is to ensure a level of growth that is sustainable over the longer term, underpinned by enhanced productivity.

Source: CSO LFS (Q2 2018- 2000, seasonally adjusted)