BENELUX RETAIL 2025

A BENELUX HOME MARKET AS SPRINGBOARD FOR GROWTH

Opportunities and challenges for a Benelux retail market

Benelux
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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.

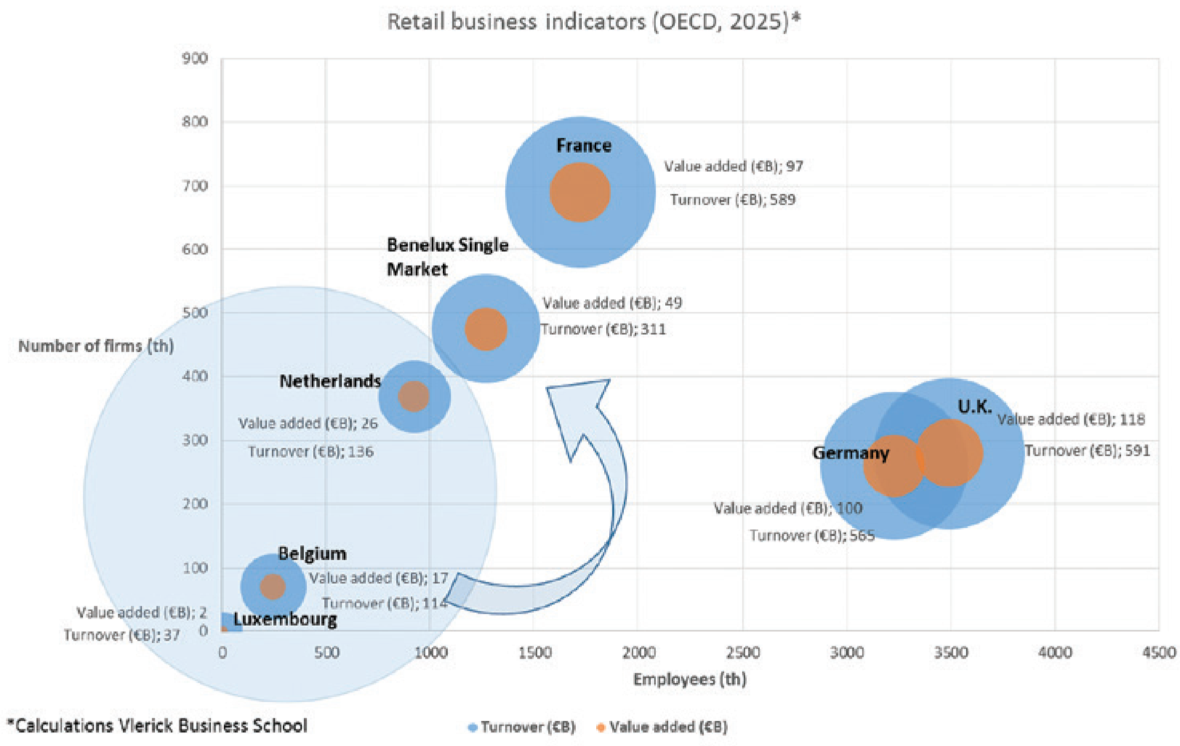
(5) In addition to a huge political prestige and power jump by achieving status in resembling retail powerhouses such as France, Germany, and the U.K., evolving into a Benelux Single Retail Market would also imply a very significant economic impact. By 2025, it would add another €23 billion in turnover 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

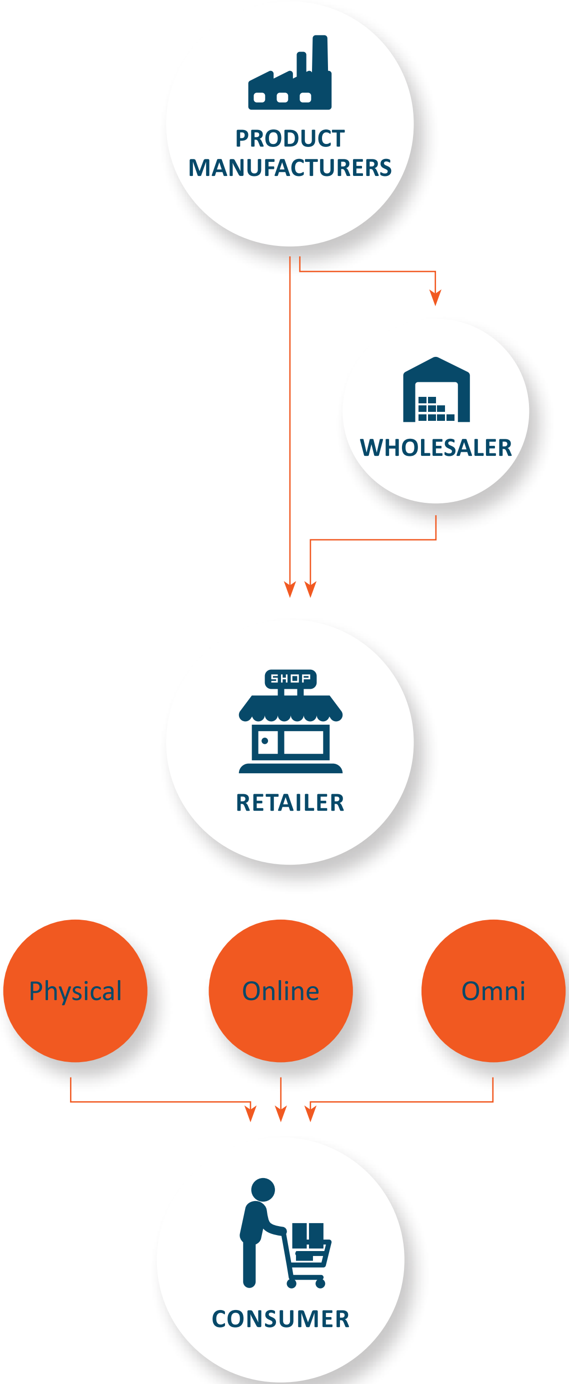
Retailing is one of an economy's most visible activities. Retailing refers to the sale of goods or services from companies to individual end-consumers.[1] Retailing is closely connected but different from wholesaling. Wholesalers act in their own right, or through brokers or agents, in conducting the 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.

Figure 2:
Simplified representation of retail activity

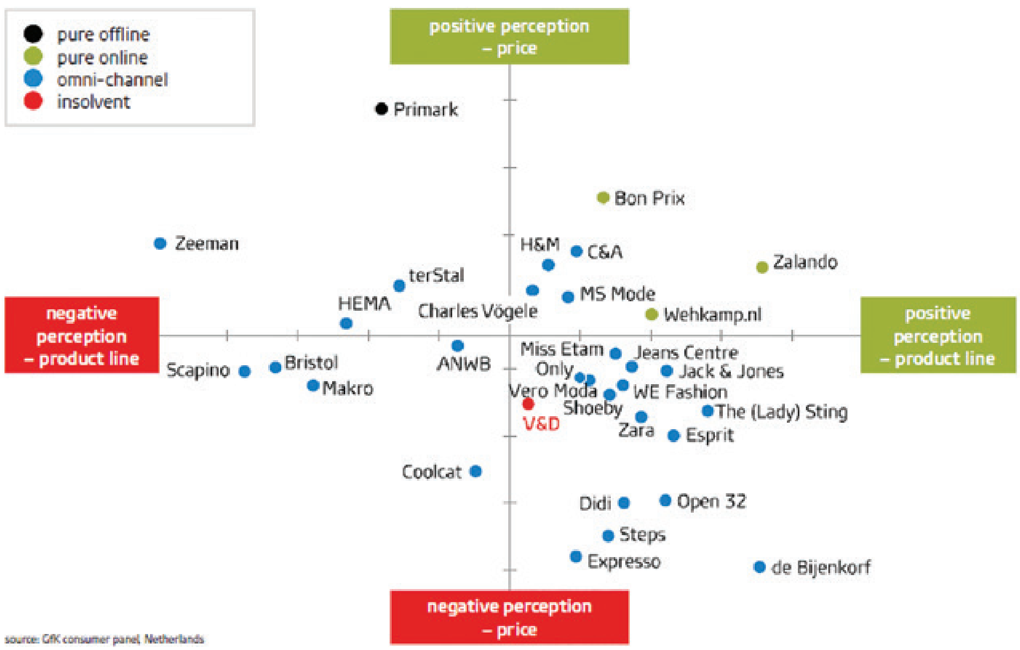


[1] Reynolds, J. and Cuthbertson, R. (2014), Retail & Wholesale: Key Sectors for the European Economy, Research report, Oxford Institute of Retail Management, 72p.

Figure 3:
Channel selection by some Dutch retailers[2]

name	format (number of physical stores)	online shops
Aldi Holding B.V.	Aldi (497)	-
A.S. Watson Group	Kruidvat (869); Trekpleister (144); ICI Paris XL (167); PrijsMepperOutlet (17)	Kruidvat.nl; Trekpleister.nl; Iciparisxl.nl; Prijsmepper.nl
Blokker Holding B.V.	Blokker (597); MARSKRAMER (205); Intertoys (265); bart smit (189); Xenos (190); other (276)	Blokker.nl; Intertoys.nl; Bartsmit.com; Xenos.nl
Euretco B.V.	HUBO (154); Libris (107); Sport Point (160), other (2479)	Intersport.nl; Shoprunnersworld.nl
GrandVision B.V.	Pearle (311); EYE WISH OPTICIENS (234)	Pearle.nl; Eyewish.nl
Ikea B.V.	Ikea (13)	Ikea.com/nl
Jumbo Group Holding B.V.	Jumbo (499)	Jumbo.com
Lidl	Lidl (400)	-
Macintosh Retail Group N.V.	Scapino (204); Kwantum (98); Dolcis (89); Invito (40); Manfield (69); other (34)	Scapino.nl; Invito.com; Dolcis.nl; Intreza.nl; Manfield.com; Kwantum.nl
Royal Ahold	Albert Heijn (969); Etos (539); Gall & Gall (600)	AH.nl; Gall.nl; Bol.com
Sligro Food Group N.V.	Sligro (47); Emté (130)	-
Vroom & Dreesmann (V&D)	V&D (63); La Place (123)	Vd.nl; Laplace.nl

Figure 4:
Dutch fashion retail[3]



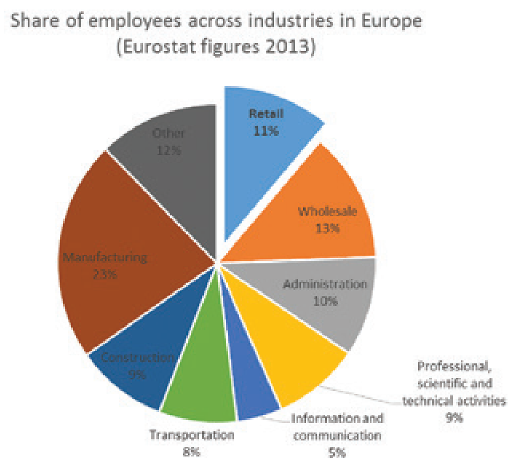
source: GfK consumer panel, Netherlands

[2] GfK (2016), European Retail in 2016.
[3] GfK (2016), European Retail in 2016.

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.

Figure 5:
Share of employees across industries in Europe



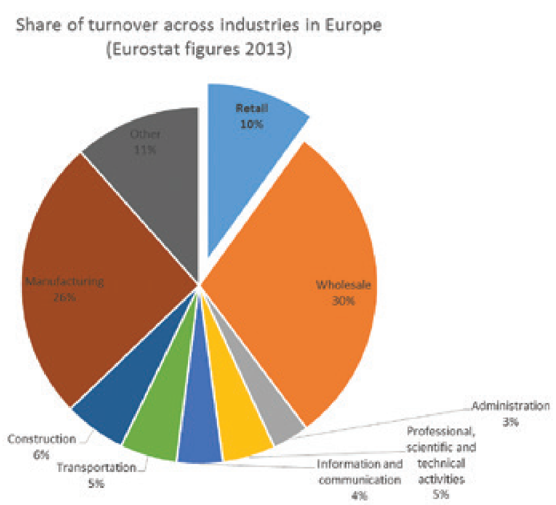
SMEs are considered the backbone of the EU economy. The retail sector represents a large part of the SME sector; almost 1 out of 4 European SMEs are active in retail or wholesale. At the same time, European retailers have been leading players internationally, with 5 out of top 10 global retailers stemming from the EU. The wholesale and retail sector is particularly important for youth employment with 13.7% of employees in the 15-24 age range, which represents almost 1 out of 5 young active persons in the EU. Retail therefore has an essential role to play in stimulating growth and job creation in the Single Market.[4]

1.2. HOW BIG IS RETAILING?

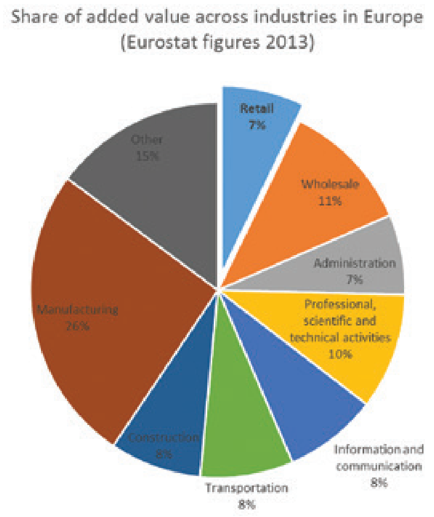
EUROPE

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).

Figure 6:
Share of turnover and value added across industries in Europe



[4] European Union (2015), High Level Group on Retail Competitiveness, Research report, July, 20p.



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]

BENELUX

The Benelux countries (Belgium, the Netherlands, and Luxembourg) are prosperous, have a high spending power, and are centrally located in Europe. Belgium counts 11.3 million inhabitants, the Netherlands 16.9, and Luxembourg almost 563.000[7]. In terms of spending power, Belgium has a GDP per capita (PPS) of €33.700, the Netherlands €36.800, and Luxembourg €77.800, whereas the European average is €28.700 in 2015.[8] Unemployment in the Benelux is relatively low, 8.5% in Belgium, 6.9% in the Netherlands, and 6.1% in Luxembourg, compared with the European average of 9.4%.[9]

The Benelux countries conduct intensive trade with each other. In 2015, the Netherlands was Belgium's 3rd largest customer (€41.1 billion current value, 11.4% share) and largest supplier (€55.9 billion current value, 16.7% share). In 2015, Luxembourg exported €605 million to the Netherlands (5.3%, current value) and €1.45 billion to Belgium (12.7%, current value), while it imported €617 million from the Netherlands (3.5%, current value) and €3.95 billion from Belgium (22.7%, current value).[10]

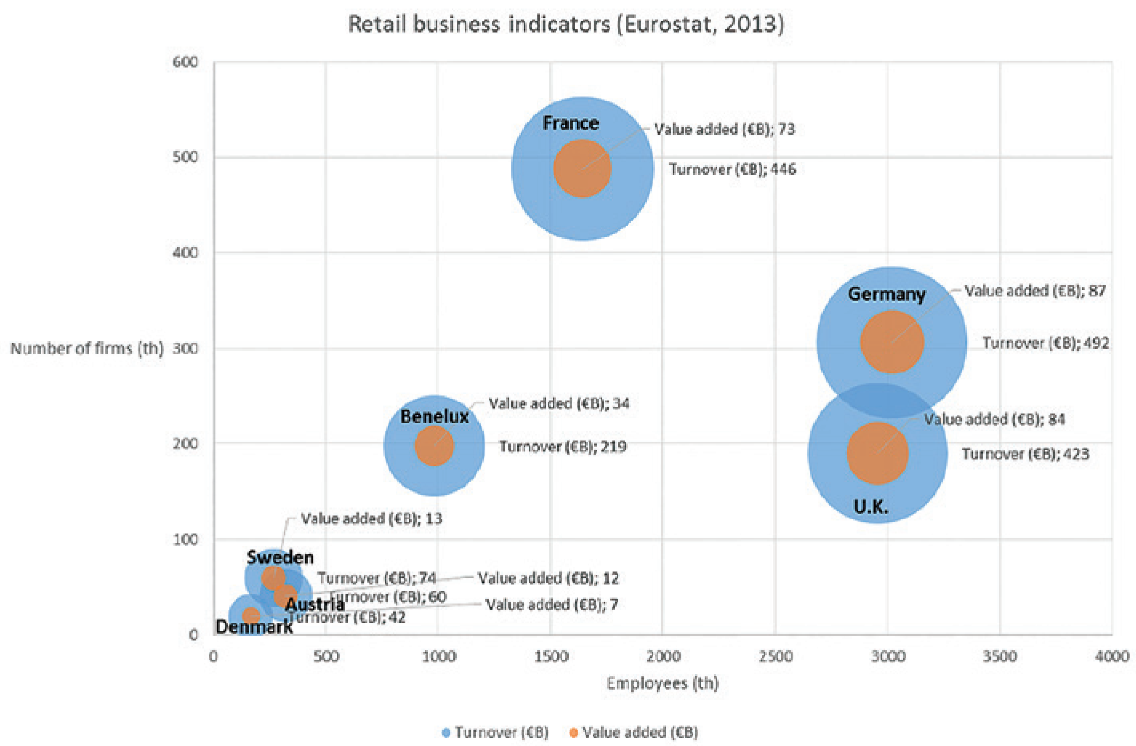
In the Benelux, retailing is also recognized as a large and important part of each country's economic activity. In comparison with other sectors, retailing contributes similarly in terms of employment, generated turnover, and value added as at the European level. In 2013, Benelux retailing (represented by 198.052 enterprises) accounts for 982.771 employees or approximately 12% of total Benelux employment, 9% of total Benelux turnover generated (€218.930 million), and 7% of total Benelux value added (€34.406 million).

[4] European Union (2015), High Level Group on Retail Competitiveness, Research report, July, 20p.
[5] Reynolds, J. and Cuthbertson, R. (2014), Retail & Wholesale: Key Sectors for the European Economy, Research report, Oxford Institute of Retail Management, 72p.
[6] European Commission (2013) COM (2013) 36 final: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Setting up a European Retail Action Plan, Brussels, p. 3. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0036:FIN:EN:PDF
[7] World Economic Outlook Database, April 2016, International Monetary Fund. Database updated on 12 April 2016. Accessed on 14 April 2016.
[8] Gross domestic product at market prices (Current prices, PPS per capita). Eurostat. 7 June 2016. Retrieved 28 July 2016.
[9] Total unemployment rate. Eurostat. Retrieved 31 May 2016.
[10] Wits.worldbank.org, figures 2015, retrieved July 2016.

Table 1:
Benelux retail snapshot

	Consumers (2016)	Enterprises (2013, th)	Employees (2013, th)	Turnover (2013, €B)	Value added (2013, €B)
Belgium	11.3 million	74.2	242.4	89.4	13.5
The Netherlands	16.9 million	120.6	717.9	102.3	19.4
Luxembourg	563.000	3.3	23.6	27.2	1.4
Benelux	28.763 million	198.1	983.9	218.9	34.3

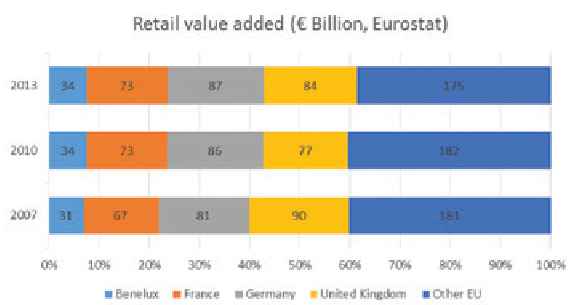
Figure 7:
Retail business indicators for Benelux and peer countries



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.

Figure 8:
Retail value added



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[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[12]

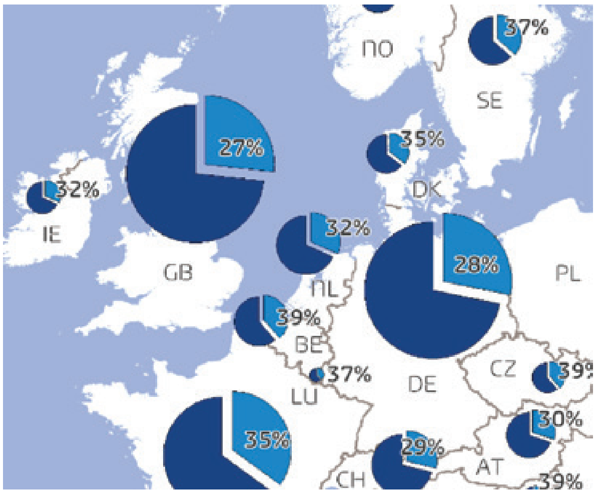


Figure 10:
Store-based retail growth in real terms
(in %, 2015 and 2016)[13]

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

Figure 11:
Retail in the Netherlands[14]

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.

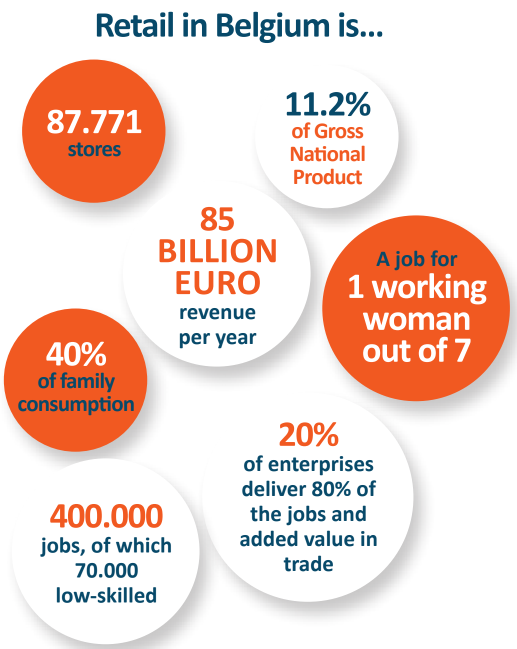
The retail sector likewise fulfils an important labour market function. Many people gain their first work experience in retail. Moreover, retail offers local employment and job market possibilities for more difficult labour market target groups.

[11] GfK (2016), European Retail in 2016.
[12] GfK (2016), European Retail in 2016.
[13] GfK (2016), European Retail in 2016.
[14] Detailhandel (2014), A Shopping List for Europe, Policy report, 13 pp.

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%.

Figure 12:
Retail in Belgium[15]



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%).

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%.[16]

In the Table below we see a snapshot of the e-commerce markets across the Benelux countries.[17] 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).

[15] Comeos (2014), Roadmap 2014-2019 Comeos, 3 pp.
[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).[18]

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

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

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

	2010	2015	2018	2020
Belgium				
Internet retailing	1.632	4.970	7.726	9.554
Internet pure play retailers	522	1.898		
Mobile Internet retailing		795		
Netherlands				
Internet retailing	4.315	8.166	10.410	12.146
Internet pure play retailers	1.271	3.518		
Mobile Internet retailing		2.229		

Figure 13:
Internet retailing market size[19]

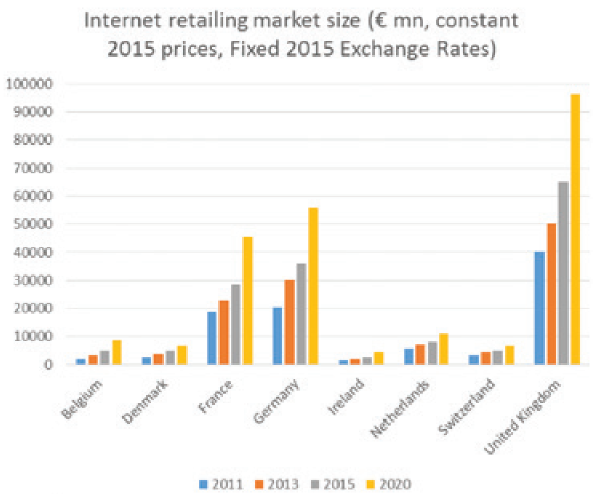
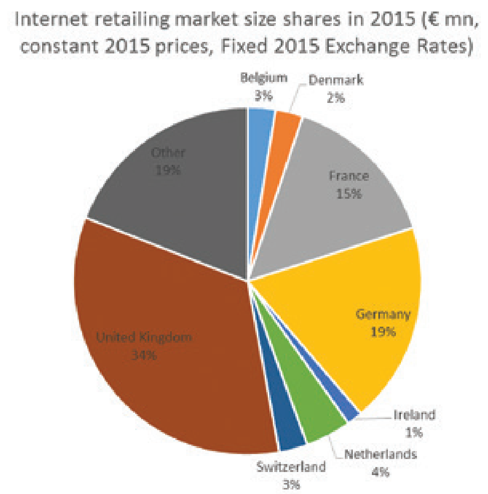


Figure 14:
Internet retailing Western Europe[20]



[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.[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.

Figure 15:
e-sales and e-purchases, 2014 (% enterprises)[22]

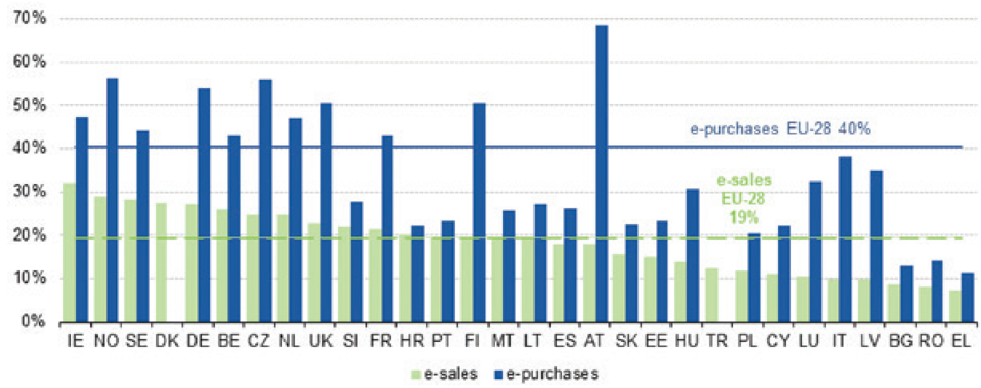
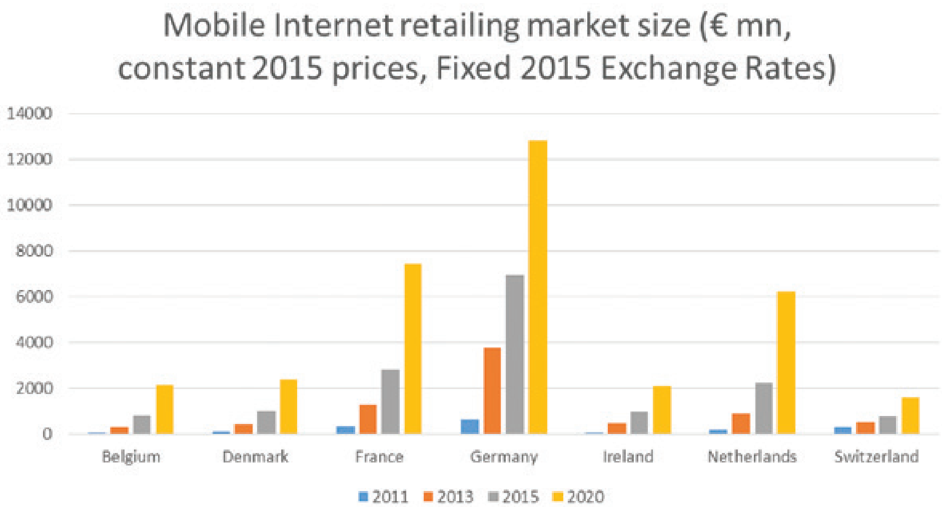
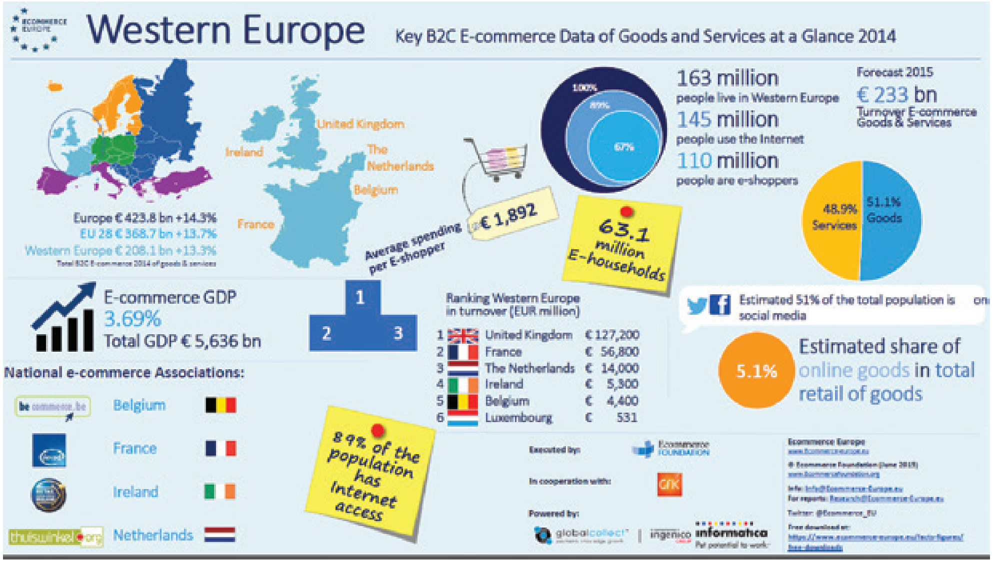


Figure 16:
Mobile Internet retailing market size[23]



[21] Comeos (2016), E-commerce Belgium 2015, p 88.
[22] Eurostat (07/06/2016)
[23] https://www.portal.euromonitor.com/ (07/06/2016)

Figure 17:
E-commerce in Western Europe[24]



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]

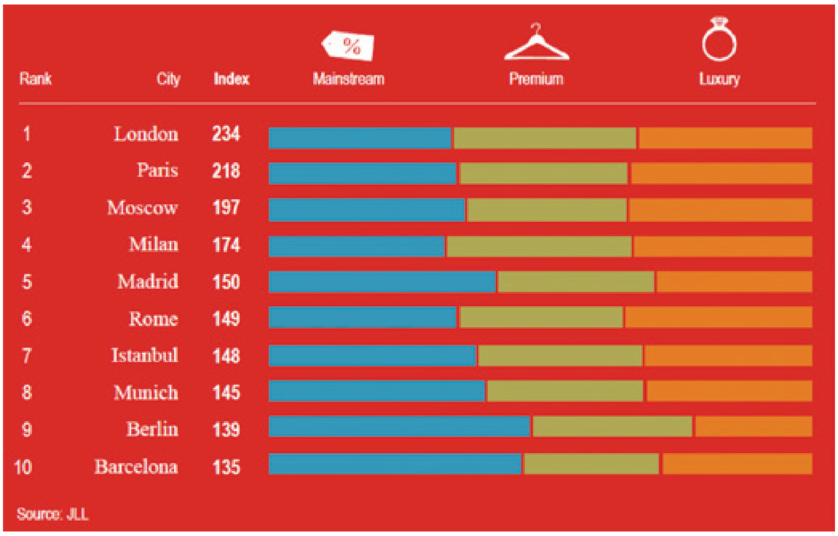
"What is certain is that most retailers are becoming more sophisticated at defining expansion strategies. They have become more strategic in their decision-making, are increasingly using e-commerce to test demand in new markets, while better at identifying the unique local challenges presented by every 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 (11th), Brussels (18th), Antwerp (21st), and Luxembourg City (41st). 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.

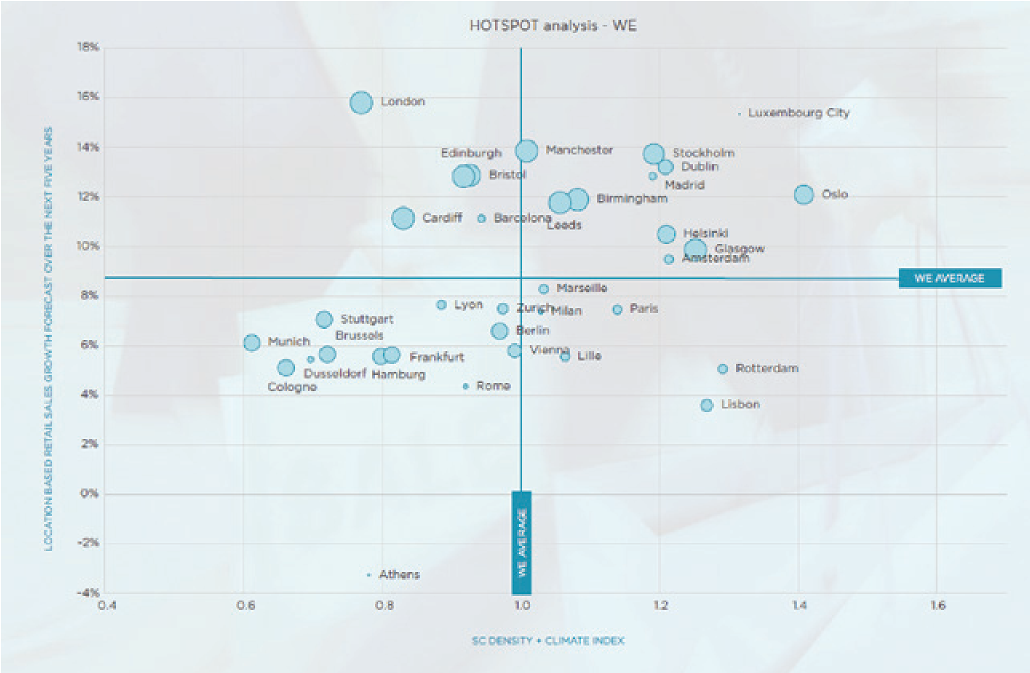
New shopping centres often function as new high quality retail space that attracts international investors. Figure 19 below gives an indication of how and where developed European cities feature in terms of shopping centre development (horizontal axis), economic dynamics (vertical axis), and ease of 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]



[25] Jones Lang LaSalle (2014), Destination Europe 2015, research report, 48 pp.
[26] Jones Lang LaSalle (2014), Destination Europe 2015, research report, 48 pp.
[27] Jones Lang LaSalle (2014), Destination Europe 2015, research report, 48 pp.
[28] Jones Lang LaSalle (2014), Destination Europe 2015, research report, 48 pp.

Figure 19:
City attractiveness towards shopping centre development[29]



Source: Cushman & Wakefield, Oxford Economics, The World Bank

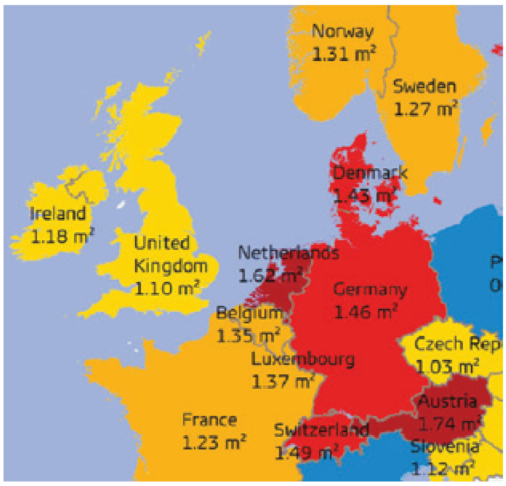
In the study by Jones Long LaSalle, various European cities are ranked and mapped according to their cross-border retailer attractiveness, sales growth forecast for 2014-2018, and their international prime rent price (€/m² per year). From that analysis we learn that Brussels and Antwerp have very low 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%.[30]

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).

Figure 20:
Per-capital sales area[31]



[29] Cushman and Wakefield (2016), European Shopping Centre Development Report, 24 pp.
[30] GfK (2016), European Retail in 2016.
[31] GfK (2016), European Retail in 2016.

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.[32]

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[34]

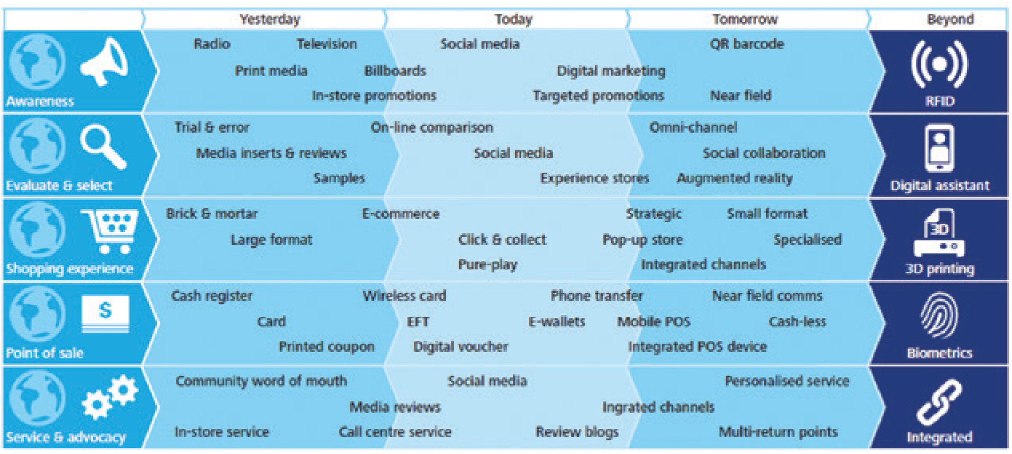
The store experience transformed
What might the shopping experience look like in a decade
If some of these technologies come together? Here is one
Possible scenario:

- You enter your favorite retailer. The store electronic monitoring system recognizes you by the devices you carry and the RF tags on you 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.[35]

Figure 21:
The future of retail along the customer journey[33]



[32] GfK (2016), European Retail in 2016.
[33] Deloitte (2014), Global Powers of Retailing 2014: Retail Beyond begins, Research report, 36 pp.
[34] Deloitte (2014), Global Powers of Retailing 2014: Retail Beyond begins, Research report, 36 pp.
[35] Manyika, J., Chui, M., Bughin, J., Dobbs, R., Bisson, P., and Marrs, A. (2013). Disruptive Technologies: Advances that will transform life, business, and the global economy, McKinsey Global Institute, p 176.

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%,[36] 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 wide-spread 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"[37]

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)
[37] Mindtree (2015), Benelux detailed report: Engaging a new breed of Benelux shoppers.

Figure 23:
The Benelux Phygital shopper[38]

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.[39] 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.

[38] Mindtree (2015), Benelux detailed report: Engaging a new breed of Benelux shoppers.
[39] Comeos (2016), E-commerce Belgium 2015, p 88.

- **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.[40] 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.

[40] Reynolds, J. and Cuthbertson, R. (2014), Retail & Wholesale: Key Sectors for the European Economy, Research report, Oxford Institute of Retail Management, 72 pp.

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.[41 42]

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.[43] 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.[44] 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.[45]

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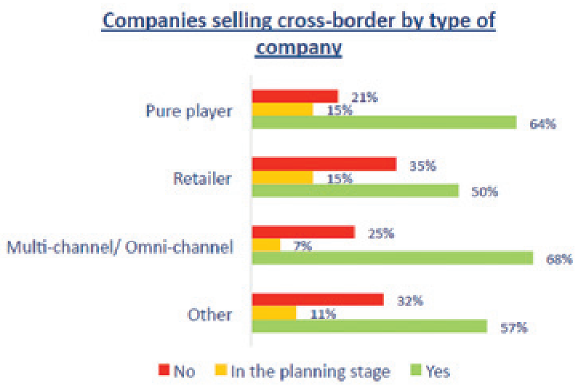
[41] http://ec.europa.eu/europe2020/pdf/csr2016/csr2016_belgium_en.pdf (03/06/2016)
[42] http://ec.europa.eu/europe2020/pdf/csr2016/csr2016_luxembourg_en.pdf (03/06/2016)
[43] Hoevenagel, Ruud & Vogels, René (2015), Nederlandse detailhandel en Europa. Gevolgen van één interne markt.
[44] CLC (2016), Panorama du Commerce Luxembourgeois, Presentation, 15/04/2016.
[45] Mindtree (2015), Benelux detailed report: Engaging a new breed of Benelux shoppers.

Figure 24:
Cross-border sales in Europe by type of company[46]



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.

[46] Ecommerce Europe (2016), Cross-border e-commerce barometer 2016, p 33.
[47] European Union (2015), High Level Group on Retail Competitiveness, Research report, July, 20 pp.
[48] Ecommerce Europe (2016), Cross-border e-commerce barometer 2016, p 33.

Table 4:
Top European retailers

Country	Retailer name	Retail revenue (2013, USD M)	CAGR retail revenue (2008-2013, %)	#countries (2013)
France	Carrefour SA	98688	-3.0	33
Germany	Schwarz Unternehmens Treuhand KG	98662	6.5	26
UK	Tesco PLC	98631	2.9	13
Germany	Metro AG	86393	-0.9	32
Germany	Aldi Einkauf Gmbh & Co. oHG	81090	5.5	17
France	Casino Guichard-Perrachon SA	63468	11.1	29
France	Groupe Auchan SA	62444	4.0	13
Germany	Edeka Zentrale AG & Co. KG	59704	5.9	1
Germany	Rewe Combine	51109	3.5	11
France	Centres Distributeurs E. Leclerc	47671	5.4	7
Netherlands	Koninklijke Ahold NV	43321	4.9	7
UK	J Sainsbury PLC	38031	4.8	1
France	ITM Développement International (Intermarché)	37351	2.0	6
Belgium	Delhaize Group SA	28037	2.1	9
UK	WM Morrison Supermarkets PLC	27739	4.0	1
Switzerland	Migros-Genossenschafts Bund	25010	1.4	3
France	Système U. Centre nationale	24706	5.4	5
France	LVMH Moët Hennessy-Louis Vuitton SA	24392	14.6	76
Spain	Mercadona SA	23954	4.8	1
Spain	Inditex SA	22265	10.0	89
Sweden	H&M Hennes & Mauritz AB	19729	7.7	54
Switzerland	Coop Group	19529	1.1	1

Source: Deloitte (2015)[49]

POTENTIAL IMPACT

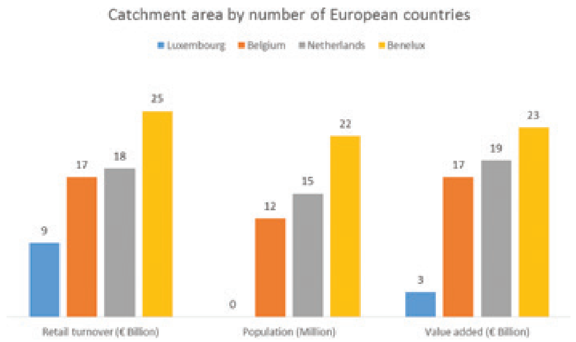
Considerable impact may result from the further coordination and integration of the Benelux retail market. First, existing Benelux retailers have a larger home market (e.g., the entire Benelux area market rather than just the market in only one of the individual Benelux members) that acts as a springboard 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

[49] Deloitte (2015), Global Powers of Retailing 2015: Embracing Innovation, Research report, 44 pp.

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.

Figure 25:
Catchment area for Benelux countries



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]

[50] Detailhandel Nederland (2016), Nieuwe Europese plannen voor BTW-vereenvoudiging, press release 07/04/2016.
[51] Deloitte (2015), Global Powers of Retailing 2015: Embracing Innovation, Research report, 44p.
[52] Commission Staff Working Document, "A Digital Single Market Strategy for Europe –Analysis and Evidence"
[53] Ecommerce Europe (2016), Cross-border e-commerce barometer 2016, p 33.

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."[54]

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.[55] 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.[56] 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.[57] The implications can be severe in terms of increased price levels and access to products, and are discussed further in this document.

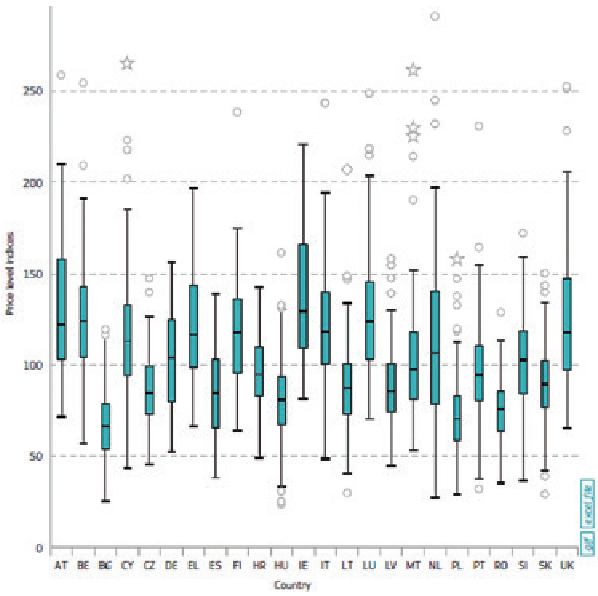
[54] European Union (2015), High Level Group on Retail Competitiveness, Research report, July, 20 pp.

[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.

[56] http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_belgium_en.pdf (03/06/2016)

[57] European Commission (2013), GREEN PAPER ON UNFAIR TRADING PRACTICES IN THE BUSINESS-TO-BUSINESS FOOD AND NON-FOOD SUPPLY CHAIN IN EUROPE, accessed online through http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013DC0037&from=EN (26/04/2016)

Figure 26:
Boxplot of price level indexes by country[58]



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.[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 ¼ 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.[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.

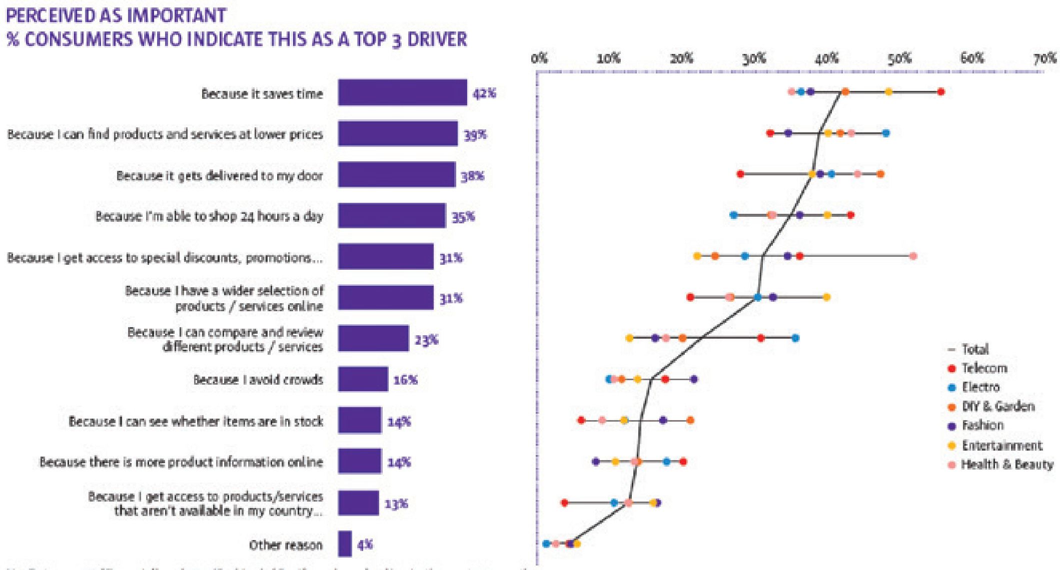
Second, a more integrated Single Market creates better access to other countries' product assortment and associated cultures, bridging cultural differences and enriching people's lives.

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.

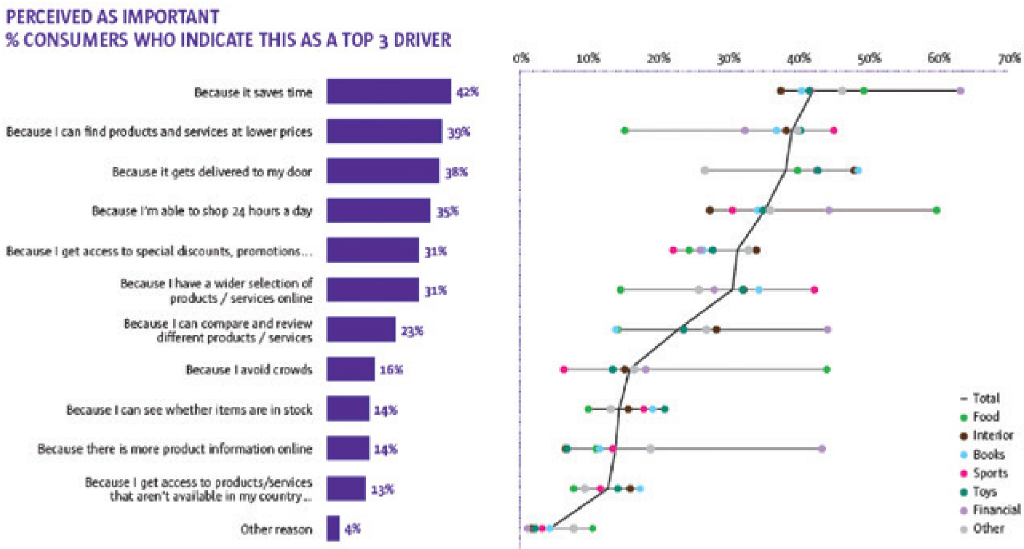
Nevertheless, there seems to be a limited impact of e-commerce on cross-border retail growth potential in terms of product range, as consumers indicate in a recent study that buying online to access products that are not available in their own country is the lowest graded reason for their doing so (See Figure 27).[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.

[58] http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/10_edition/docs/consumer_market_brochure_141027_en.pdf (03/06/2016)
[59] Market Monitoring Survey 2015, to be published in Consumer Markets Scoreboard 2016 (forthcoming). Found in: http://ec.europa.eu/europe2020/pdf/csr2016/csr2016_belgium_en.pdf (03/06/2016)
[60] Comeos (2016), E-commerce Belgium 2015, p 88.
[61] Comeos (2016), E-commerce Belgium 2015, p 88.

Figure 27:
Top drivers for buying online[62]



N = Between 77 (Financial) and 701 (Fashion) / F = if purchased online in the past 12 months



N = Between 77 (Financial) and 701 (Fashion) / F = if purchased online in the past 12 months

3.4. POLICY PERSPECTIVE: THE BENELUX AS LABORATORY FOR EUROPE?[63]

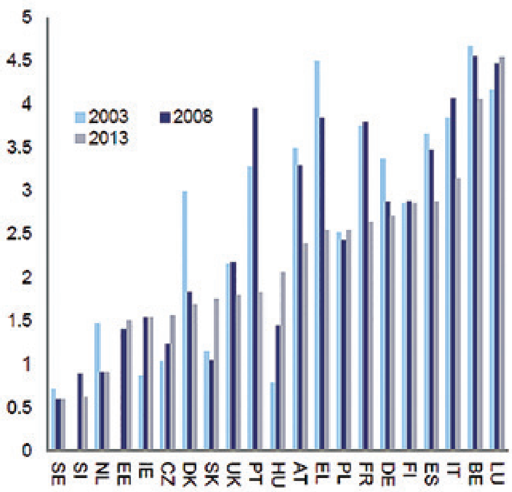
CURRENT SITUATION

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.[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.

[62] Comeos (2016), E-commerce Belgium 2015, p 88.
[63] I Börsen-Zeitung (09/07/2015), Benelux – Laboratorium für Europa.
[64] For more information and definitions, see http://www.oecd.org/eco/growth/indicatorsofproductmarketregulationhomepage.htm (03/06/2016)

Figure 28:
OECD Product Market Regulation (PMR) indicators for the retail sector[65]



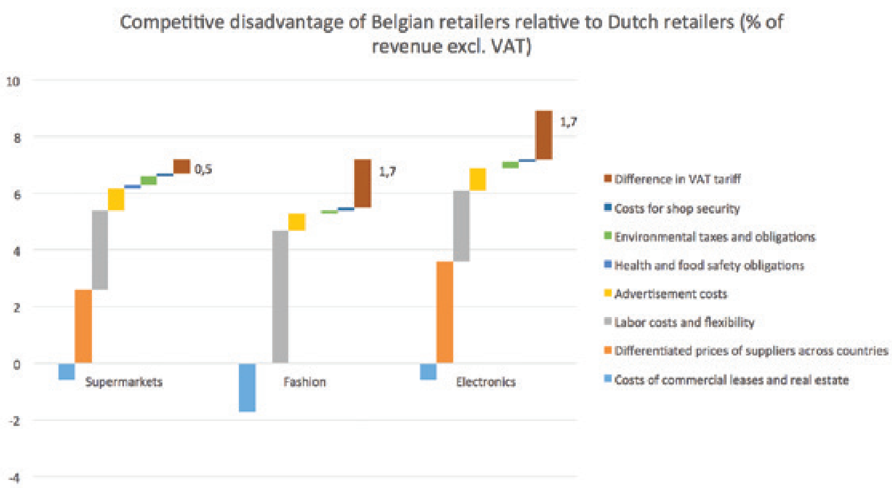
Different legislation and policy choices can form a basis for a competitive disadvantage of retailers in one country versus another. A study by Arthur D. Little[66] indicates that Belgian retailers have a cost disadvantage between 3.8 and 6.6% (% of revenue excluding VAT) relative to Dutch ones, based 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:[68]

- 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)

Figure 29:
competitive disadvantage of Belgian retailers relative to Dutch retailers (% of revenue excl. VAT)[67]



65 http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_luxembourg_en.pdf (03/06/2016)
66 Michel, Dominique (2012), Hoe zwart moet de handel het inzien? Witboek van de handel, 111 pp.
67 Michel, Dominique (2012), Hoe zwart moet de handel het inzien? Witboek van de handel, 111 pp.
68 http://www.ecommerce-europe.eu/news-articles/press/2016/05/key-executives-point-out-top-global-challenges-for-e-commerce-at-global-ecommerce-round-table-2016 (03/06/2016)

POTENTIAL IMPACT

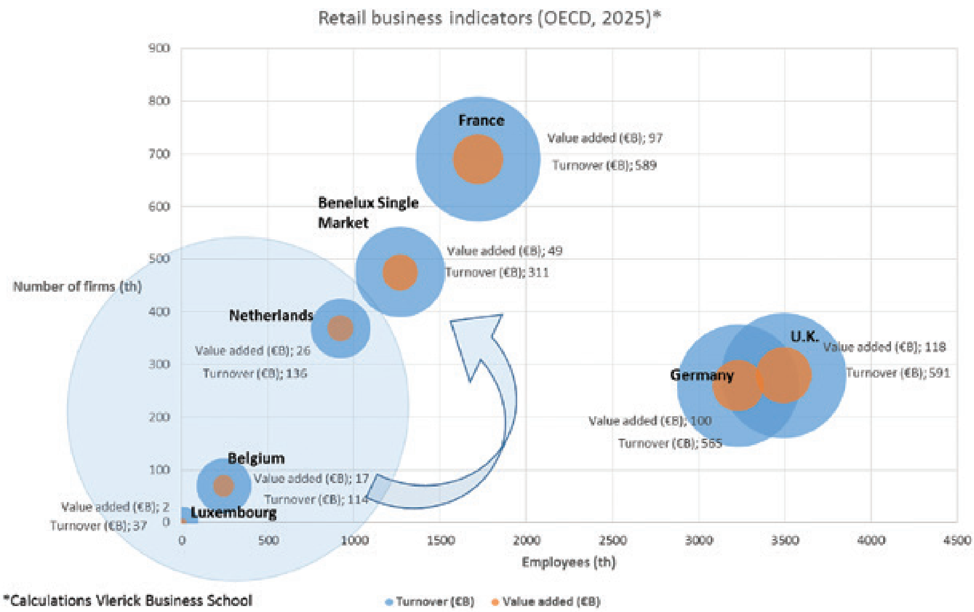
From a policy perspective, the potential impact of an integrated Benelux Retail Single Market is threefold. First, it will generate extra growth and more jobs. Figure 30 indicates the jump a Benelux retail market would make when evolving into a Benelux Retail Single Market. By 2025, it would add another €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.[69] 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%[70] to 14%[71] 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.[72]

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



[69] https://data.oecd.org/ (26/04/2016)

[70] Izlkovitz, F., Dierx, A., Kovacs, V. And Sousa N. (2007), Steps towards a deeper economic integration: the Single Market in the 21st century. A contribution to the Single Market Review, European Commission, European Economy, Economic Papers No. 271, January.

[71] Aussiloux, V., Emlinger C. and Fontagné, L. (2011), What Benefits from Completing the Single Market?, La lettre du CEPII, No. 316, 15 December.

[72] Schwab, A. (2013), Better Governance of the Single Market, European Added Value Assessment report, 75 pp.

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.

4

LEVERS FOR VALUE CREATION – WHY GO BENELUX? THE BUSINESS PERSPECTIVE

4.1. RETAILERS ARE IN SEARCH OF GROWTH

Just like any other business, retailers need to grow. We detect four main drivers for retailers' search for growth. First, increasing costs require top line growth to stay profitable. Data from Eurostat shows that gross wages in the retail sector have increased across the Benelux and their peer countries in the period 2010-2015. Figure 31 indicates that gross wages and salaries in the retail trade sector increased unevenly across the Benelux (26% in Luxembourg, 14% in Belgium, and only 4% in the Netherlands), while wages in the U.K. increased heavily with 24%, a phenomenon that might be due to a relatively fast increasing digital transformation, creating a demand for different types of human talent in the U.K. retail sector.[73] Indeed, the retail sector has sought to employ an increasing number of employees in e-business occupations as they restructure their operations to reflect the changing demands of the digital economy, ranging from web developers to social media specialists and from digital marketing to new business development managers.

Also, the costs of retail space are increasing. Examples are the increasing prime retail rents for high street shops in the most important Benelux retail cities such as Brussels (0.5%), Antwerp (0.5%), Luxembourg City (6.7-11.8%), and Amsterdam (4.1%). The percentages indicate the 5-year compound annual growth rate (CAGR) for Q1 2016.[74]

Figure 31:
Gross wage evolution in retail trade since 2010

Second, retailers need to grow to capture economies of scale in order to stay competitive. This is definitely true for retailers: one of the key characteristics of the retailing business is the search for cost efficiencies along the value chain. This is becoming increasingly more pressing given today's very demanding consumers looking for the best possible bargains and the best shopping experiences, and as new types of retailers (often of global scale and reach) are entering the marketplace. Therefore, scale advantages leading to cheaper and more secure sourcing are increasingly important drivers for a retailer's success, both offline and online.

"The only solution to give our European economy a boost is to make Europe one big country with one legislation that is simple and doable. Now we work as small grocers. If an American chain buys with our Chinese friends, they can offer huge quantities and get great purchase conditions in return! What can we offer?"– (Koen Nottebaere, Category Director Maxeda)[75]

Third, the digital transformation of the industry, both for store-based retailers and pure online players, is calling for major investments in technology. Again, economies of scale help to spread such investments over larger sales volumes. Figure 32 shows various technologies relevant for different phases along a customer's shopping journey. Some retailers are taking the lead in looking into the possibilities of adding technology to their retail activities. For example, Nordstrom announced in 2014 that 30% of its capital expenditures would be in technology. Some initiatives included an innovation lab in Seattle, investments in e-commerce companies such as Bonobos, Trunk Club, and HauteLook to merge online, in-store shopping experience, and interactive touch screens in fitting rooms.[76]

[73] https://ec.europa.eu/eurostat; for Luxembourg data only available till 2014 while for Belgium data provisional (25/04/2016)
[74] Cushman & Wakefield (Q1 2016), Retail Market Snapshot.
[75] Expert interview Koen Nottebaere (31/03/2016)
[76] Boston Consulting Group (2015), BCG Technology Advantage, 42p. Accessed online on 11/06/2016, http://media-publications.bcg.com/BCG_Technology_Advantage_April_2015.pdf

Figure 32:
In-store digital solutions across the customer shopping journey[77]

The use of technology systems can be a particular barrier for SMEs due to their high costs relative to the firm's financial resources. Emerging technologies such as analysing big data will become a critical success factor for successful retailers, but their development and application will be expensive. Similarly, other technologies with high innovation growth potential will carry potentially high costs, such as: 3D printing, digital wallets, and RFID solutions. High barriers to adoption are not restricted to store-based retailers. There is a commonly held belief that it is not particularly expensive to start up an online shop. In practice, however, advanced e-tailing means heavy investments in commercial web platforms, design, search engines, payments and security as well as in logistic solutions.[78]

The final trigger for growth is the ambition of the people running the business. This is particularly true in family-owned businesses and in the entrepreneurial stage of the development of the company. The founding fathers of many retailers have the ambition "to conquer the world." Just like many other entrepreneurs, retailers are often ambitious people with a very entrepreneurial mind-set. For instance, Blokker was founded by Jacob Blokker in 1896 and under the guidance of his grandson Jaap, the company evolved to become a retail holding operating in 12 countries with over 10 different banners. The Blokker banner still carries the name of the founding family, which also owns the business privately. Other examples are Albert Heijn and Delhaize.

"It is difficult to describe what a thrill it gives to see your own stores abroad." – retail entrepreneur

4.2. THE MIND-SET OF BENELUX AS SECOND HOME MARKET

Once the domestic market is significantly covered with stores, growth by expanding the store network has its limits. At that moment, going cross-border is an interesting option to continue the organic growth.

The same principle applies to e-commerce players. Once the penetration of the domestic market is relatively high, they may consider going cross-border. We observe a typical international expansion path among Benelux-based retailers. These retailers tend to enter another Benelux Member State as a first step in their international expansion:

- Geographically, the Benelux markets are nearby, rendering the logistics and supply chain challenges less complex. For instance, Albert Heijn is supplying its Belgian stores from its distribution centre in Tilburg. Similarly, most Dutch e-tailers ship to Belgian consumers from their Dutch distribution centres.

- At least part of the Benelux market can be covered by using the same language. The Netherlands and Flanders share the same language, while French is spoken in part of Belgium and is a common language in Luxembourg. This is not only handy for the external communication with the consumers but also internally for communicating with the staff.

- The limited scale of the Member States makes them easier targets for market entry (see below).

[77] Boston Consulting Group (2015), BCG Technology Advantage, 42p. Accessed online on 11/06/2016, http://media-publications.bcg.com/BCG_Technology_Advantage_April_2015.pdf
[78] European Union (2013), Final Report from the Expert Group on Retail Sector Innovation, 44 pp. Accessed online on 11/06/2016, http://ec.europa.eu/research/innovation-union/pdf/Report_from_EG_on_Retail_Sector_Innovation_A4_FINAL_2.pdf

The Dutch tend look at Flanders as a first foreign market to conquer. Retailers like Albert Heijn, Gamma, Kruidvat, and Hema all initially limited their scope to the Dutch speaking part of Belgium. The same applies to online retailer Bol.com and to the web shop of the leading Dutch department store De Bijenkorf currently targeting and serving only Flemish consumers outside the Netherlands.

"Belgium is an ideal springboard to test if the Suitable concept is exportable" – (Raoul van Dun, Founder Suitable)[79]

The Belgian situation is more complex. Because of the different languages and cultural differences, some retailers even consider the other regions as a "foreign" market. To date, the market leader in shoes in Flanders, the family-owned Torfs, has no operations in the French-speaking part of the country. Fashion retailer Zeb only recently crossed the language border. The same applies to French-speaking retailers like Pointcarré (no operations in Flanders) or Medi-Market (only recently active in Flanders). Some Flemish retailers prefer to expand to the Netherlands rather than to tackle the other Belgian regions. For instance, Torfs is targeting the Netherlands with its web shop, and is also selling through the marketplace of Bol.com. But their web shop is not available in French.

Belgian retailers operating nationwide are more inclined to expand to Luxembourg than to the Netherlands, because the market is smaller and perceived to be more like the Belgian market. Examples are Delhaize, JBC, and Brantano. Similarly, many international retailers, like Lidl or Q8, manage their Luxembourg operations and stores from their Belgian headquarters.

Finally, retailers in Luxembourg are the least inclined to look at the Benelux as their prime target for international expansion. The nearby Belgian province of Luxembourg has a very low population density without any large city, so the geographically proximity offers fewer benefits. This makes France more appealing, while the language hurdle doesn't play for France either.

Some recent cross-border Benelux retail examples:

Kwantum opens 10th Belgian store (03/02/2016)[80]

Dynamic Retail Group opens Belgian office (14/01/2016)[81]

Action since 2015 with first store in Luxembourg and already 100+ Belgian stores (25/09/2015)[82]

LolaLiza since 2013 active in the Netherlands with currently 4 Dutch stores (30/10/2015)[83]

JBC starts web shop with kids fashion in the Netherlands (03/09/2015)[84]

Suitable sets step to Belgium (20/08/2015)[85]

Dille & Kamille towards first store in Liege with already 9 stores in Belgium and 17 in the Netherlands (27/07/2015)[86]

FNG Group currently has 365 own sales points of which 233 in the Netherlands and 119 in Belgium (28/08/2015)[87]

Bloomon comes to Belgium with its flow subscription-based service (23/09/2015)[88]

Overall, all Benelux retailers with international ambitions tend to see the Benelux as their second home market after their domestic market. By removing barriers and encouraging cross-border retail within the Benelux, the region will stimulate the advent of stronger retailers operating on a larger scale. The nature of the Benelux market will also help retailers to develop their competences in cross-border retailing. The cultural differences and the very competitive landscape allow them to gain experience and to experiment on a smaller scale within the Benelux, before being confronted with similar issues on a larger scale outside the region.

[79] http://www.retaildetail.be/nl/news/suitable-zet-stap-naar-belgi%C3%AB (25/04/2016)
[80] http://www.retaildetail.be/nl/news/kwantum-opent-tiende-belgische-filiaal (25/04/2016)
[81] http://www.retaildetail.be/nl/news/dynamo-retail-group-opent-belgisch-kantoor (25/04/2016)
[82] http://www.retaildetail.be/nl/news/action-opent-eerste-luxemburgse-winkel (25/04/2016)
[83] http://www.retaildetail.be/nl/news/lolaliza-opent-nog-dit-jaar-zijn-100ste-boetiek (25/04/2016)
[84] http://www.retaildetail.be/nl/news/jbc-start-webshop-met-kinderkleding-nederland (25/04/2016)
[85] http://www.retaildetail.be/nl/news/suitable-zet-stap-naar-belgi%C3%AB (25/04/2016)
[86] http://www.retaildetail.be/nl/news/dille-kamille-op-weg-naar-luik (25/04/2016)
[87] http://www.fng.eu/fng-boekt-sterke-resultaten-omzet-groeit-boven-eur-250mio/ (25/04/2016)
[88] http://www.retaildetail.be/nl/news/bloomon-breidt-nu-ook-uit-naar-belgi%C3%AB (25/04/2016)

More competitive retailers will be able to expand faster internationally, source merchandise cheaper and, therefore, sell at lower consumer prices, while employment at the retailers' headquarters will increase.

Often, international investors also see the Benelux already as one market. For example, Alibaba recently opened an Amsterdam office to accommodate Benelux retailers in their potential expansion into the Chinese market.[89] And Decathlon wants to deliver its e-commerce business within the Dutch market through its distribution centre in Belgium.[90]

Retailing anno 2025

A random retail news item in the year 2025:

Fashion chain Kids Planet has recently made cross-border inroads in the Benelux. The Belgian chain started 10 years ago and grew into 30 stores in January 2025 with the opening of its new store in Mechelen, Belgium. If offers customized kids fashion through stores dedicated to give children and parents a great on and offline shopping experience.

Kids Planet started immediately with 10 stores in the Netherlands with openings in the period March to June. "We were able to make such leap in growth thanks to three main factors", says founder Bert Stroman. "First, for a cross-border start-up period of maximum three years we can manage our operations under complete Belgian law without having to take into account typical Dutch administrative formalities and complex regulations with respect to, for example, labour law, product assortment, and VAT and fiscal policies. Second, our investment risk and costs are lower through working with a government pledge for our loans. Third, we took great advantage of the cross-border knowledge platform and its mentorship program for having access to very important though often hidden cultural sensitivities when building our business."

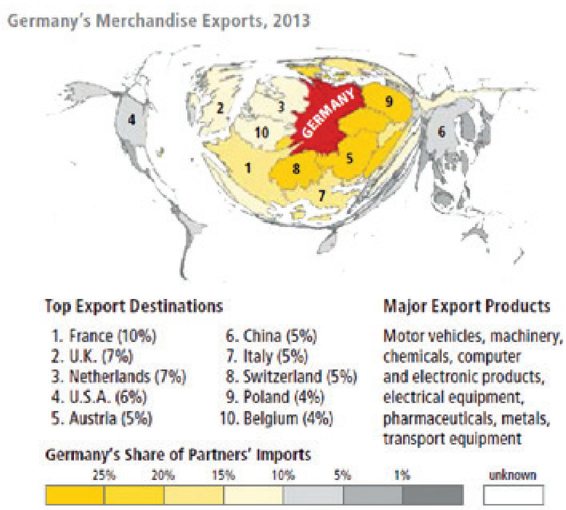
This is yet another example of what we have seen in the Benelux in recent years. Since 2018 when some cross-border retail barriers were removed within the Benelux Single Market, the number of retailers active cross-border in the Benelux has increased by 12% relative to 2016. The best is yet to come.

4.3. BENELUX IS ALREADY STRONGLY INTERCONNECTED

From a more macro-economic point of view, it is clear that the Benelux is already heavily integrated. For example, the Benelux takes 15% of Belgian exports (3rd place), 13% of the exports of the Netherlands (2nd place), and 20% of the exports of Luxembourg (2nd place).[91] Moreover, considering the Benelux as one country implies that close trade partners will need to treat the region more as an equal partner, which is not always the case with the Benelux countries as individual entities. For example, the Netherlands and Belgium individually are the 3rd and 10th most important export destinations for Germany; combined, the Benelux is Germany's number 1 export destination. Likewise, individually the Netherlands and Belgium are the 4th and 7th most important export destinations for the U.K.; combined, the Benelux is the U.K.'s number 2 export destination. Such close trade integration within the Benelux, and a more powerful trade partner position outside of it, helps retailers to expand not only easily cross-border within the Benelux, but also helps them to do so more easily cross-border outside the Benelux.

Figure 33:

Trade connectedness with Germany and the U.K.[92]

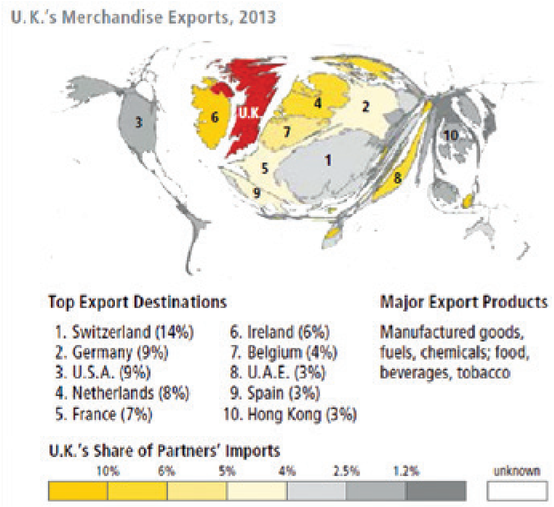


[89] http://www.retaildetail.be/nl/news/breaking-alibaba-komt-naar-de-benelux (11/06/2016)

[90] De Tijd (31/03/2016), Decathlon wil Nederlandse e-commerce vanuit België regelen.

[91] Ghemawat and Altman (2014), DHL Global Interconnectedness Index 2014, 292 pp. http://www.dhl.com/content/dam/Campaigns/gci2014/downloads/dhl_gci_2014_study_low.pdf (11/06/2016)

[92] Ghemawat and Altman (2014), DHL Global Interconnectedness Index 2014, 292 pp. http://www.dhl.com/content/dam/Campaigns/gci2014/downloads/dhl_gci_2014_study_low.pdf (11/06/2016)



Also, the connectedness of the Benelux with the rest of Europe and the world implies that retailers with the Benelux as their home market are present in one of the most globally connected places in the world, which is not only important when expanding internationally but also considered vital to becoming one of its most innovative hot spots. The DHL Global Connectedness Index 2014 would rank the Benelux very strongly as number one worldwide, with top positions in the ranking for trade (2nd), capital (1st), information (2nd), and people (7th).

The McKinsey Global Institute Connectedness Index 2014 would feature the Benelux as number 2 worldwide in terms of its global connectedness with other countries, based on the Benelux' participation in worldwide flows of goods (3rd), services (3rd), capital (6th, although perhaps 1st if Luxembourg were taken into account), people (21st), and data and communication (1st), just behind number one Singapore. Moreover, in terms of the value of the incoming and outward flows of goods, services, and capital, the Benelux ranks worldwide number 4 with a flow value worth $ 3.147 billion, just behind the U.S. ($ 6.832 billion), China ($ 6.480 billion), and Germany ($ 3.798 billion).[93]

4.4. RELEVANCE AND IMPLICATIONS FOR POLICY MAKERS

Benelux-based retailers are in search of growth and consider the Benelux as their second home market, while the Benelux is one of the most globally connected markets in the world. But what does that imply for policy makers?

- **The Benelux provides scale to survive in a global market**
  Helping retailers to achieve sufficient scale is needed for their survival. Rising costs, global competition, and digital transformation are forcing retailers to expand. No big Benelux-based retailers most likely means no Benelux-based retailers within a few years.

- **The Benelux is already a second home market**
  For Benelux-based retailers, both in-store and online, the quest for scale and consequently expansion across borders is, in general, undertaken by first considering the second home market, being the Benelux. The Benelux as second home market is thus already in the minds of people, which makes it easier for policy makers to further integrate and coordinate across Benelux countries.

- **A Benelux trade block increases retail opportunities**
  Policy makers can build on strong trade connections between countries within the Benelux for further integration. Also, a Benelux single market makes the region a much stronger and potentially 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. It thus increases economic opportunities for Benelux retailers.

- **The Benelux - a global gateway and testing ground for innovation and new concepts**
  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, whilst being also an ideal ground for innovation. Benelux policy makers can leverage such pole position as a spur for innovation and internationalisation, while further strengthening the region's economic status worldwide.

[93] McKinsey Global Institute (2016), Digital globalization: The new era of global flows, 156 pp.

5

CROSS-BORDER CHALLENGES – WHY NOT GO BENELUX?

In spite of all the (potential) benefits of cross-border retailing, selling outside the domestic market is for most retailers the exception rather than the rule. An online survey among Dutch retailers revealed that only 2% are operating stores outside the Netherlands, and only 3% running a web shop targeting non-residents.[94] And this while the Dutch retailers are perceived to be the most internationally active among the three Benelux Member States; hence, the situation among the Belgian and Luxembourg retailers is most likely even worse.

Nevertheless, consumer demand for cross-border transactions is real; of the retailers in Belgium and Luxembourg, 45% and 42% respectively report non-store-based cross-border sales to final consumers (a number 1 and 2 raking in Europe), whereas 31% of Dutch retailers report cross-border non-store-based sales.[95] This means retailers refrain from cross-border store-based expansion, in spite of clear signals of market demand being much in evidence. Although Benelux countries are economically highly interlinked and share many borders, there seems limited cross-border retail expansion within the region. However, at this moment no reliable figures on intra-Benelux retail trade exits.

A survey of European retailers indicates that 25% believe they might increase revenues by up to one quarter if they could sell more effectively online and cross-border in Europe.[96]

So what are the hurdles for going cross-border overall, and within the Benelux in particular?

5.1. YOU NEED SUFFICIENT SCALE AND STABILITY

When going cross-border, you need sufficient scale and stability in the organisation.

RATIONALE

Appropriate scale is needed to cover upfront investments and important operational costs related to going cross-border. It requires preparation (e.g., searching for a location and setting up a new team), also fine-tuning the retail concept (e.g., adapting the assortment and look & feel towards local tastes). Only after the initial test store(s) perform(s) in line with expectations can retailers roll out the concept and build a large-scale store network. This again requires major investments, while the contribution of the first stores may not be sufficient to carry the country-specific overhead costs. Indeed, retailers typically have to operate a large network of stores in a country to benefit from the economies of purchase, supply chain investments, and technologies that drive worker productivity.[97] For example, Albert Heijn needed 4 years and a network of over 35 stores to become profitable in Belgium.[98]

Taking e-commerce cross-border is similarly capital intensive and risky. Adapting the existing web shop to a foreign market (e.g., product range, language, etc.), as well as setting up all fulfilment services (payment methods, logistics & customer service), takes time and resources, again before any significant cross-border sales are made. Moreover, expanding the customer base in the new geographical market requires major investments in marketing and, in turn, will be very time-consuming.

Differences in language also play a role where you might not expect it - for instance, between the Netherlands and Flanders. The same product may have a different colloquial name. The Dutch call a lawn mower a “grasmaaier” while the Fleming tend calling it a “grasmachine”. What the Dutch call “klittenband” is known in Flanders as “Velcro”.

While this plays a minor role in physical retail because customers can see the actual product, in the online world using the correct product name is of paramount importance because textual “search” lies at the heart of shopping behaviour.

When lacking sufficient scale, the retail organisation has to be at least stable enough to bear the strain of cross-border entry difficulties. First of all, top management should be able to free up enough time to spend on setting up cross-border activities while being rest-assured the home market is in safe hands. Secondly, initial cross-border operations tend to be riskier than domestic ones.

[94] Hoevenagel, Ruud & Vogels, René (2015), Nederlandse detailhandel en Europa. Gevolgen van één interne markt.
[95] TNS Political & Social (2012), Flash Eurobarometer 359: Retailers’ attitudes towards cross-border trade and consumer protection, 279 pp.
[96] Accenture, (2012), European Cross-border E-commerce: The Challenge of Achieving Profitable Growth, study commissioned by the European Retail Round Table.
[97] Corstjens, M. and Lal, R. (2012), Retail Doesn’t Cross-borders: Here’s Why and What to Do about it, Harvard Business Review, April, 9 pp.
[98] De Tijd (04/03/2016), Albert Heijn maakt eerste winst in België.

It is not uncommon for the results not to meet the business plan forecasts, so that the time and investments required to reach the break-even point are higher than expected. The bottom-line is that the potential cash drain ought not to endanger the existing operations.

Therefore, it is crucial to assess the possible impact of cross-border activities on the existing organisation. In that respect, a realistic assessment of the time and resources needed to become profitable is essential.

RULE OF THUMB

A common rule of thumb in international retailing - although not scientifically validated - states that one should refrain from entering a market that is larger than 50% of the home market. The underlying idea is that, in the most likely scenario, the current operations will generate enough cash to finance the market entry and that, in a worse-case scenario, a failing market entry does not put the continuity of the entire business at risk.

This rule of thumb is of particular interest in the context of the Benelux, where retailers operating in a single country will find it hard to go cross-border outside the region. In fact, for all Benelux Member States their home market is relatively small compared with the markets of neighbouring countries like Germany, France, and the U.K.

It also helps to understand the foreign market entry strategies within the Benelux. Dutch retailers, having a larger home market, are far more likely to operate cross-border than Luxembourg retailers with their small one. It also helps to understand why Belgian retailers are more likely to enter the smaller Luxembourg than the larger Dutch market.

Finally, small and medium sized retail organisations are far more reluctant to venture cross-border than large ones. They lack the scale to carry the risk of doing so. They perceive that their home market is not yet saturated.

E-COMMERCE SIMILAR

These arguments are very similar for e-commerce players. Half of all Dutch e-commerce firms generate yearly revenues of less than 10.000 Euro, while 80% of all Dutch online entrepreneurs have never been able to generate an average income.[99] It is fair to say that they too lack the scale and stability to grow cross-border.

Bottom line, the go/no go decision is a cost/benefit analysis, linked to the perceived risk. Retailers consider targeting other customer segments, other domestic geographies, or launching new retail formulas as an alternative to going cross-border.

For instance, the Flemish family-owned shoe retailer Torfs considers the potential return on investment for cross-border expansion outside Belgium to be less attractive than building their online presence in Belgium. Also, strong competition in the home market from often powerful international players demands attention while pointing to the need to focus resources to stay competitive.

SME PERSPECTIVE[100]

SMEs are the backbone of the EU economy. This is especially true in the retail sector: 99% of retail businesses are SMEs. In practice, retail SMEs face difficulties which limit their ability to invest, particularly in the context of the development of e-commerce, and to develop their business. As such, they cannot take full advantage of the opportunities offered by the Single Market.

Retail SMEs face a number of challenges that put them more heavily at a disadvantage because of their limited scale. For example, SMEs face operational and financial challenges, issues related to education and support, local and regional development, the business environment, fragmented legal frameworks, and the burden of bureaucracy.

Access to finance is one of the biggest issues for retail SMEs. It limits their ability to invest and improve or expand their stores and effectively compete with international chains. Moreover, there are a number of complexities beyond the sole issue of access to financing.

[99] https://www.thuiswinkel.org/nieuws/2309/shopping2020-slechts-1-op-de-5-ondernemers-kan-goed-rondkomen-van-webwinkel (28/04/2016)
[100] European Union (2015), High Level Group on Retail Competitiveness, Research report, July, 20 pp.

These include unsustainable debt levels, accessing adequate levels of financing, and the ability to negotiate with financial institutions. In addition, unaffiliated retail SMEs are often not aware of the funding opportunities that exist. The lack of information therefore leads to a clear disadvantage for SMEs competing with larger retailers.

Retail SMEs, especially those who work on their own, also face a lack of visibility in the digital world. It is costly to invest in innovative retail methods and new cross-channel concepts (i.e., online shopping, digital marketing, etc.). There is grave concern that they are not visible on large commercial platforms. Unfortunately, the use of commercial platforms is very costly for SMEs.

Being part of legal structures such as groups of independent retailers is an alternative for SME retailers to improve the conditions under which they can conduct business. However, there are several issues for groups of independent retailers, in particular regarding the interpretation of competition rules. The existence of cooperation agreements within such groups, particularly in the context of e-commerce, is crucial. If independent retailers, operating in a group under a common brand, lack a unified pricing policy, they cannot develop an efficient online service and a uniform brand image. This creates a competitive disadvantage for independent retail SMEs compared to integrated chains.

In addition, independent retailers working together in specific business structures can be subject to additional administrative and cost burdens compared to other retail business models, resulting in a competitive disadvantage.

A report from the Expert Group on Retail Sector Innovation[101] indicates two important challenges for store-based retailers wishing to expand cross-border within Europe:

- A lack of transparency and legislative harmonisation regarding establishment and store implementation at national, regional and local/municipal levels form a barrier to facilitate retail expansion. It is difficult for companies to establish and build stores in particular Member States. Furthermore, administrative requirements discourage entrepreneurs and many start-ups lack adequate access to funding.

- A particular barrier, especially for retail SMEs, arises not so much from the level of VAT on transport charges, but more from the complexity of the distance selling regimes that require firms to account for VAT on a destination rather than origin basis.

5.2. IMPORTANT DIFFERENCES ACROSS BENELUX COUNTRIES

OVERVIEW

Retailing typically has a much stronger local embeddedness and interconnection with culture and legislation compared to producing and exporting products. As a result, seasoned retailers with wide cross-border experience indicate that cultural differences are the most important hurdle to being successful in another country. Differences in legislation are raised as the second most important barrier to entering a foreign market.

Cultural and legislative differences can be very broad or very specific. Some are very obvious and easy to discover, while others are hidden and difficult to assess. Some of these differences can be relatively easy (though sometimes very costly) to deal with, while others are perceived as a difficult or even insurmountable barrier. In the table below, we outline a non-exhaustive set of elements important for retailers active cross-border in the Benelux.

[101] European Union (2013), Final Report from the Expert Group on Retail Sector Innovation, 44 pp. Accessed online on 11/06/2016, http://ec.europa.eu/research/innovation-union/pdf/Report_from_EG_on_Retail_Sector_Innovation_A4_FINAL_2.pdf

Table 5:
Categorisation of differences across Benelux countries

		Difficulty to cope	
		Easy	**Difficult**
Level of openness	**Hidden**	To what extent legislation is strictly applied or offers room for interpretation Regional differences in legislation within a single country	Dealing with internal and external stakeholders Shopping habits Competitive situation
	Open	National legislation in various domains Promotional policies & payment methods	Language

CULTURAL DIFFERENCES

Many cultural differences exist within the Benelux, the most obvious being language. With four different official languages (Dutch, French, German, and Letzeburgs), retailers have to invest in translating all their internal and external communication into the appropriate language. As explained before, the vocabulary used by the Dutch and the Flemings is not always identical, although both speak the same language.

But besides language and other symbols of culture, the differences in habits and values are at least as important. They play a role not only in the interaction with customers but also in the relationship with all stakeholders, including personnel. Dutch retailers struggle with the more flexible legislative Belgian culture, while the Belgians struggle with the strictness of the Dutch legislative culture.

For instance, it took Maxeda 4 important organisational steps and often related top management shifts throughout a decade in order to create an organisational structure capable of reaching appropriate cross-border synergies related to product assortment and purchase approach.[102]

The complexity increases when we take into account the profile of the ethnic minorities. In Luxembourg, approximately 15% of the population has Portuguese roots.[103] However, this also offers opportunities. For example, Lidl won the hearts and minds of the Portuguese community in Luxembourg through a well-executed marketing campaign featuring the Portuguese soccer team.

Culture also relates to the retail and shopping culture. Belgians have a much higher risk aversion than the Dutch, which explains why Belgian consumers are slower in adopting e-commerce, less price sensitive and more inclined to buy from local vendors known for their good service. This helps to understand why Belgian consumers are keen on reading general conditions of sale when buying products online, and why in Belgium independents have a much higher market share in most retail industries than in the Netherlands.

Other differences in shopping culture are more the result of pure coincidence. In fact, the different geographical markets have historically developed their own commercial practices, independent of what happened elsewhere:

- The Belgians are heavy users of price-off coupons, a practice that hardly exists in the Netherlands.
- Each country has developed its own payment systems, in practice the result of initiatives of the local banking industry.
- In the Netherlands, door-to-door promotional folders lie at the heart of all retail communication. In Belgium, this is far more restricted to non-shopping goods and out-of-town retail.

[102] Expert interview Koen Nottebaere, Category Director Maxeda (31/03/2016)
[103] https://en.wikipedia.org/wiki/Demographics_of_Luxembourg (26/04/2016)

DIFFERENCES IN LEGISLATION

Retailers already operating cross-border are confronted with numerous differences in legislation. They tend to call upon third-party service providers, such as accountants, lawyers, and consultants, to deal with them. While these disparities do not stop such experienced retailers from operating cross-border, they are nonetheless perceived as very costly and highly inefficient, while also distracting from important business operations. In contrast, new entrants who go cross-border for the first time, or are planning to do so, often underestimate these legislative differences or, faced with their complexities, are discouraged from going cross-border altogether. For them, the incremental cost of managing these disparities creates an extra barrier and reduces the chances of success.

The concerns of the retailers can be summarised as follows:

- European legislation is often differently transposed into national legislation from one country to the other. Sometimes, individual countries impose stricter rules, sometimes they just use a different way to implement the same principles. Furthermore, European legislation is sometimes incorrectly or only partly transposed.

- Some differences have come about because each Member State has developed its own legislation without considering other Member States. Retailers suggest that the relevant legislation be harmonised as, from their perspective, there exist no reasons to maintain the differences.

- Some differences reflect different political choices. Some may reflect differences in public opinion. Others are at least partially linked to some type of protectionism. For instance, in Belgium and Luxembourg, non-prescription drugs can only be sold in pharmacies, while in the Netherlands they are also on offer in drugstores.

But apart from differences between countries, there are also many differences in legislation within a single country. This is most evident within Belgium which, as a federal state, has different legislative provisions in the different regions. But also in the other Member States local authorities can create their own rules, all of which increases the overall complexity.

Of particular interest are the inconsistencies in the legislation within a single country. The Belgian economic law differs from the labour law: for example, Belgian retailers can open their stores on more Sundays than the number of personnel they are allowed to employ to staff them. This is also linked to cultural differences (see earlier): the Dutch authorities appear to be far stricter in applying the rules, while the Belgian authorities seem to be more flexible in their interpretation.[104]

A case in point is the product categories “electricity” and “sanitary”. DIY chain Maxeda indicates that in these categories not a single norm is comparable between Belgium and the Netherlands, a major source of frustration. Respecting these different norms is very costly. A prime example of frustration is the fact that Belgian norms for stoves are more severe than they are in the Netherlands, and they generally tend to get even more so. Hence, a purchaser at Maxeda’s needs to buy better performing and, therefore, more expensive stoves only for Belgium, while Belgian consumers can easily buy their stoves in the Netherlands.

Case study

Main barriers for Torfs [105]

The Flemish family-owned shoe retailer Torfs is currently cross-border active in the Netherlands with e-commerce activities. When asked, they consider the following points as their main barriers for going cross-border, in order of importance:

1) The investment in financial and human capital trade-offs favourable to their home market development compared to cross-border market development. Big advances towards online growth are still possible in the Belgian market.

2) An important barrier is their identity as a true and original Flemish company. An extra language (e.g., French) is for everybody in the organisation a big leap. On the one hand, there is the website and the need for native speakers to translate product information and staff customer service. On the other hand, IT needs to support multi-language environments. Nevertheless, for the Netherlands, we considered Dutch to be a different language.

[104] Shared belief among top executives in focus groups conducted across Benelux countries.
[105] Expert interview Frederik Wybo, e-commerce manager Torfs (30/03/2016)

3) You need to have knowledge and insight in consumer and market habits of a country. Therefore, native (or nearly native) Dutch colleagues in the organisation are very valuable. Moreover, it is key to offer at least an equal value proposition as your competitors in the country you are targeting. For example, offering most used payment methods, working with a logistics company offering low cut-off time at competitive prices, etc. Also, using address data and typical words and language in the right way for a particular country is important to build trust.

4) Understanding how you are unique compared to competitors is likewise a key point. Do you have a unique assortment that is in line with customer needs?

5) Obviously, you need to know the legislative requirements, which are different for each country. Especially, general terms and conditions, privacy concerns, VAT regulations, etc.

DIFFERENCES ARE ESPECIALLY DIFFICULT FOR SMALL BORDER RETAILERS

Both large and smaller retailers are concerned about cross-border differences that have an impact on their business and growth. However, a very specific niche group of retailers is, relatively speaking, hit very hard by these differences, i.e., the so-called “border retailers”. Retailers located close to a country border are especially sensitive towards the costs and difficulties implied by cross-border differences we discussed, because it easily affects 50% or more of their potential business. Below, we outline key legislative barriers for a typical border retailer.

Case study

“Border retail” - key legislation barriers for Berden Mode[106]

Sjang Berden and Wilhelmina-Trienekens opened their first store ‘Berden-Trienekens’ in Blerick in 1902. What started very modestly has grown into a chain of stores with 450 employees. Not only in Blerick, but throughout Limburg.

Berden mainly runs its business through the physical stores in the Netherlands. Its web shop provides good support with growing turnover. There are no physical stores abroad, but if attractive opportunities present themselves, it cannot be ruled out that these will make their appearance. Meanwhile, Berden has become one of the major players in the region and in the Netherlands in the field of fashion, living, and sleep products.

Because the Limburg stores are in the border region, Berden traditionally counts many Belgian customers. However, the tax differences in the European market are bothersome. For the VAT declaration for each country, the retailer needs a specialist in Belgium to be sure that all is properly handled.

Also, there are major differences in regulations on advertising around sales periods. In Belgium, sales periods are fixed by law. Outside these periods, retailers are not permitted to organise their own sales, except under special circumstances, e.g. renovations, bankruptcy, or termination of a lease. Foreign companies are not allowed to advertise bargain sales in Belgian media. Berden made this mistake once and ever since then is well aware how strict the Belgian government can be in that respect.

The difference in culture is also felt in customer relations. Belgian customers are more lenient in their reaction to difficulties. They tend to remain calm. In contrast, Dutch consumers are more forceful, with a tendency to rigidly stand up for what they think is their right. Compared to Limburg, this attitude is even more pronounced in the western part of the Netherlands.

KEY QUESTION

These differences lead to the key question for retailers: is our retail concept exportable enough?

The combination of all these differences in culture and legislation may result in very different markets, with a very different retail approach. In a highly price-driven competitive market, it may be difficult to gain a relevant market position for an added value-driven retailer. Belgian fashion retailers operating out-of-town stores in their home country may find it difficult to enter the Dutch market, where only centre-of-town fashion stores are allowed. This is the key reason why Belgian shoe retailer Brantano failed in the Netherlands.

[106] Hoevenagel, Ruud & Vogels, René (2015), Nederlandse detailhandel en Europa. Gevolgen van één interne markt.

Finally, differences in product preference may render an existing product range hard to introduce into a foreign market. Bol.com has adapted its Dutch book range to the Belgian (Flemish) market, as the bestselling books and authors differ greatly between the two countries.

These insights lead to the key question for retailers: to what extent is the existing retail concept "exportable"? In general, the exportability of the retail concept mainly depends on a cultural fit and the competitive situation. Also, sometimes legislation creates different shopping habits. For instance, there is a ban on out-of-town "shopping goods" retail in the Netherlands. It is obvious that the fewer adaptations are needed, the higher the synergies will be. Cross-border operations will be less risky and achieve their break-even point much sooner.

The level of difficulty a retailer confronts when trying to cope with the cross-border differences we identified depends heavily on the retail concept at hand. Some things you can adapt; other issues are more fundamentally questionable in terms of the viability of the retail concept. The Belgian fashion house FNG is a good case in point. Some of its brands, like Claudia Sträter, appeal sufficiently to the needs of consumers in both the Netherlands and Belgium. As a result, the company runs fairly standardised brand stores in both countries. Other brands, such as Fred & Ginger, are only operated on a national basis.

Another example is Bol.com. For them, identifying the Belgian bestsellers was not difficult, and in other product categories few adaptations to the product range were necessary. The higher preference of Belgians for pick-up than the Dutch does not require a different fulfilment strategy, as both options are also available in the Netherlands and a third-party logistics service provider is taking care of this. But Bol.com, which proclaims in its mission statement that it wants to be leading in the Dutch-speaking market, is very reluctant to enter the French speaking part of Belgium. However, there is no consensus among retailers to what extent it makes sense to adapt the retail concept to the local market situation. A.S. Watson prefers not to adapt their approach when going cross-border, although some core aspects still have to be brought in line with the needs of the new market.[107]

This difference in willingness to adapt among retailers seems to depend on the retailer's scale. Smaller firms are more eager and more readily convinced to adapt, whereas larger firms are more hesitant. Also, the country of origin seems to play a role. Dutch firms are less keen on adapting whereas Belgian firms have less of a problem doing so.[108]

5.3. SOURCING ISSUES

An important cost aspect is the difficulty of coping with territorial supply constraints imposed by product manufacturers. They may impede retailers from sourcing identical goods cross-border in a central location and distributing them to other Member States.[109] The implications can be severe.

The most telling one is that retailers have to source more expensively in their home market than their foreign competitors can sell in the cross-border market they are competing for. Luxembourg retailers often have to source their merchandise from Belgian wholesalers and subsidiaries of multinationals. This puts them at a cost disadvantage. For instance, French bookstores and German supermarkets can source their books cheaper than their Luxembourg competitors. Also Dutch retail considers territorial supply constraints to be a barrier, leading to unacceptable market-fragmentation that hinders the development of one single Benelux retail market.[110]

Moreover, retailers sometimes cannot obtain the right product range. For example, the car models for Belgium may not be ideal for the Luxembourg market, while Luxembourg retailers had difficulties receiving soccer scarves relevant for consumers interested more in German than Belgian teams.[111]

[107] Focus group discussion (11/04/2016)
[108] Based on focus groups with retail executives across all Benelux countries.
[109] European Commission (2013), GREEN PAPER ON UNFAIR TRADING PRACTICES IN THE BUSINESS-TO-BUSINESS FOOD AND NON-FOOD SUPPLY CHAIN IN EUROPE, accessed online through http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013DC0037&from=EN (26/04/2016)
[110] Detailhandel Nederland, Naar een Benelux Detailhandelsmarkt, mei 2016.
[111] Focus group discussion (15/04/2016)

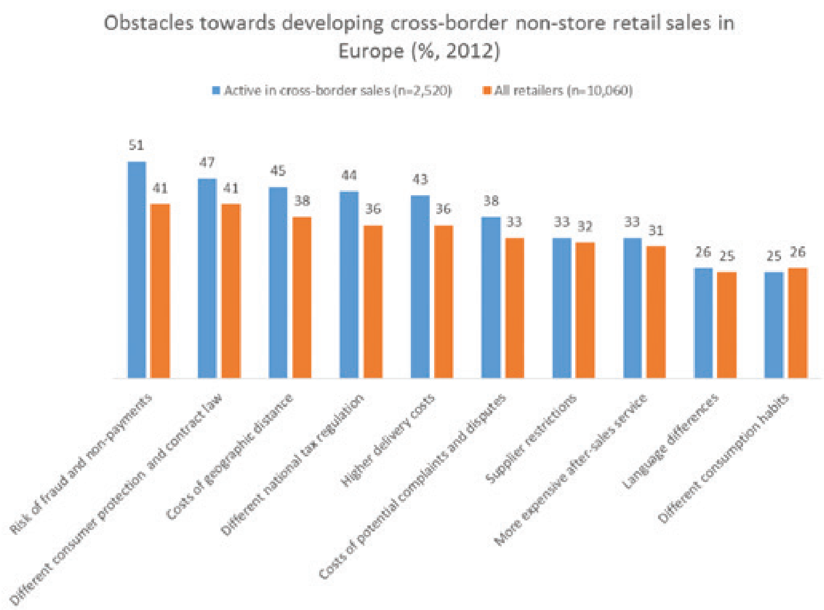
5.4. E-COMMERCE PERSPECTIVE

Although the cross-border challenges identified above (e.g., scale and stability, cultural and legislative differences, sourcing issues) are also relevant for e-commerce as already indicated, the perceived order of importance for e-commerce might be somewhat different.

Figure 34 shows the number of retailers (as a percentage) that perceive ‘something’ as an obstacle to developing cross-border non-store retail sales across Europe. The data are from 2012 and have been obtained across a sample of European retailers. A cross-border sale is defined in this study as a sale by phone, mail, or e-commerce, or by a home visit to the end consumer resident in an EU Member State different from that of the seller. Figure 34 and further information in the study highlight the following key observations:

- The top obstacles to developing cross-border non-store retail sales include: potentially higher costs of the risk of fraud and non-payments in cross-border sales, additional costs of compliance with different consumer protection rules and contract laws (including legal advice), and higher costs due to geographic distance.
- Retailers that are experienced in cross-border sales more often identify certain obstacles for their cross-border activities compared to retailers not active in cross-border sales. It indicates that retailers not active in cross-border sales may be more business naïve with respect to certain cross-border obstacles.
- The number of retailers identifying certain topics to be clear obstacles for cross-border sales activities has increased over time across various surveys. It may indicate that retailers are becoming more aware of such obstacles and/or that certain obstacles are becoming more pronounced in retail business reality.
- Obstacles are typically observed by a greater number of Luxembourg than Belgian retailers, while Dutch retailers seem to have less of a perception of obstacles being present in cross-border sales. Only the Dutch retailers score systematically under the EU-27 average for each obstacle.
- However, whereas in-store retail international expansion is traditionally practised more by Dutch retailers, it appears from the data of this study that cross-border non-store sales activity is more evident amongst retailers in Belgium (45%) and Luxembourg (42%). Only 31% of Dutch retailers interviewed indicate they have cross-border sales activity in at least one EU country.

Figure 34:
Obstacles towards developing cross-border non-store retail sales in Europe as perceived by retailers[112]



[112] TNS Political & Social (2012), Flash Eurobarometer 359: Retailers’ attitudes towards cross-border trade and consumer protection, 279 pp.

A more recent survey among European e-commerce players shows that overly restrictive regulations are identified as the number one barrier to cross-border e-commerce growth. Other relevant strategic reasons listed are lack of resources, that it is not a strategic priority of the company, or that it has been previously attempted but abandoned.[113] Their top 3 restrictions in regulations hindering cross-border e-commerce growth in Europe are:

- The existence of different legal frameworks, meaning the necessity of having to deal with different sets of rules, especially for data protection, privacy, and consumer and contract laws across country borders.

- Different taxation systems, VAT rates and/or customs still represent a difficult barrier to overcome when going cross-border for 48% of companies selling abroad. The most problematic areas are legal uncertainty and general unfamiliarity with VAT rules, high VAT-related accounting and administrative costs, and difficult VAT registration and declaration procedures.

- Logistics and distribution with as main barriers the quality and transparency of services.

Another survey of European retailers suggested that 25 particularly problematic regulatory hurdles were identified as arising from product return laws, dissimilar VAT levels between markets, and the general cost of compliance with different national laws dealing with consumer transactions (such as distance selling or involving data transfer).[114]

With respect to sourcing and territorial supply constraints, some e-commerce players are resorting to so-called *geo-blocking*. According to the European Commission, geo-blocking is widely used in e-commerce across the EU. With regard to consumer goods, more than one third of online retailers participating in a recent Commission inquiry collect information on the location of users for geo-blocking purposes. Geo-blocking mainly takes the form of a refusal to deliver abroad. Refusal to accept payment, and, to a lesser extent, re-routing and website access blocks are also used. While a majority of such geo-blocking results from retailers' unilateral business decisions, geo-blocking may also stem from contractual restrictions in agreements between retailers and suppliers. More than one out of ten retailers report contractual restrictions to selling across borders. As such, from a consumer's perspective, geo-blocking forms a major impediment towards fully developing the European and Benelux e-commerce market.[115]

Ecommerce Europe, representing European e-commerce players, makes detailed recommendations towards policy makers with respect to the phenomenon of geo-blocking from a business perspective.[116]

A recent report of the High Level Group on Retail Competitiveness makes the following observations with respect to legal fragmentation in many areas in the EU hindering the development of e-commerce in the EU. [117]

"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. The lack of consumer and businesses confidence in relation to digital activities is an important issue affecting the development of e-commerce in the EU. Consumers need to be reassured that they will also continue to enjoy a high level of protection of their rights when buying online and that their personal data will not be misused. Help should also be offered to businesses to enable them to develop their offer online. The objective should be that businesses in the Single Market may trade cross-border in a similar manner as they trade in their home country. Building of trust also involves providing transparent, accurate, and unbiased review and comparison web sites.

[113] Ecommerce Europe (2016), Cross-border e-commerce barometer 2016, p 33.
[114] Accenture, (2012), European Cross-border E-commerce: The Challenge of Achieving Profitable Growth, study commissioned by the European Retail Round Table.
[115] Commission staff working document (2016), Geo-blocking practices in e-commerce - Issues paper presenting initial findings of the e-commerce sector inquiry conducted by the Directorate-General for Competition, Brussels, 18.3.2016.
[116] Ecommerce Europe (2016), How to ensure online merchants' right to economic and contractual freedom in the debate on geo-blocking practices, 10 pp.
[117] European Union (2015), High Level Group on Retail Competitiveness, Research report, July, 20 pp.

The creation of a sound regulatory framework and a sufficiently level playing field for all operators in the Single Market, both online and offline, would contribute to the emergence of strong European e-commerce market players, features that are currently lacking in Europe.

Many issues would need to be addressed to create the right framework conditions for e-commerce.

1. For example, the lack of tax harmonisation, different national labelling rules, considerable administrative costs and often too expensive and/or inadequate delivery services restrict the retailers' ability to sell cross-border. Logistics and delivery are one of the main concerns of both e-shoppers and e-retailers in the EU. The discussions in the Postal Users Forum in 2012 highlighted the importance for e-retailers of a quality delivery service, i.e., time definite delivery, a well-functioning transparent transport network, availability of track-and-trace systems, etc. These characteristics remain equally relevant today.

2. Easy and convenient online payment is also essential to the development of cross-border online sales. With the existing systems, retailers need to send the product before payment is received and the identity of the buyer cannot be verified. Payments should become electronically verifiable and more secure.

3. With respect to data protection aspects, the Group underlined the need for a comprehensive dialogue with economic operators while action should be taken to guarantee consumers' fundamental right to the protection of their personal data. It is important that any misuse of personal data be strictly prohibited. But at the same time, businesses should be allowed to use – in a transparent manner towards consumers, the data necessary for the efficient provision of services and supply of products or which could help to improve them. Clarification on the law applicable to B2B data would also be welcomed.

4. Platforms have also a central role in the development of e-commerce, to the benefit of both consumers (who can get access to a larger offer of products and services) and retailers (who can extend their market presence). In practice it appears that some platforms function as "gatekeepers" and as such can, for example, restrict other players' access to the market, in particular small retailers. It is therefore important to ensure that the behaviour of platforms with significant market power not impede the development of platforms as a business model.

   This issue is, however, very complex, as the notion of platforms is used today to refer to a large variety of different business models and situations. The Commission's e-commerce sector inquiry will help to clarify the situation in the market.

5.5. RELEVANCE AND IMPLICATIONS FOR POLICY MAKERS

The identification of cross-border challenges for store-based retailers and e-commerce development provides important implications for policy makers. The most important ones are listed below.

- **Size matters - SMEs suffer most from legal fragmentation**

  Retailers need sufficient scale and stability for expanding cross-border. This is important for both store-based retailers and e-commerce players willing to do so but seems most difficult for store-based retail SMEs. This is especially true for SMEs. Key retail SME challenges include:
  - Limited access to finance 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 space investment at national, regional and local/municipal level form a barrier to facilitate retail expansion.
  - A particular barrier, especially for retail SMEs, arises from the complexity of the distance selling regimes requiring firms to account for VAT on a destination rather than origin basis.

- **Cultural differences persist - provide Benelux retail information**

  There still exist strong cultural differences across Benelux countries. Although policy makers might think they cannot do much about it, there still are opportunities for policy makers to help bridge these differences, given their importance as retail success drivers. For example, policy makers can help map out and explain particular cultural sensitivities towards incoming retailers, while also trying to welcome, accommodate, or at least explain, new cultural influences that follow in the wake of the new retailers.

- **Map differences in legislation**
  Differences in legislation create cross-border challenges for retailers. Important differences in legislation can be very transparent or quite hidden, while also easy to tackle or rather difficult to cope with. Some important differences most relevant for policy makers concern the following:
  - The extent to which legislation is strictly applied or offers room for interpretation
  - Regional differences in legislation within a single country
  - Differences in national legislation in various domains
  - Promotional policies & payment methods

- **Address retail sourcing issues in a Benelux-context**
  Territorial supply constraints imposed by product manufacturers or suppliers can impede retailers from sourcing identical goods cross-border in a central location and distributing them to other Member States. The implications for retailers can be severe in terms of sourcing cost efficiency and having appropriate access to the right product range. This issue has already been raised several times and seems high on the policy agenda.

- **Develop a common (legal) framework for e-commerce**
  Legal fragmentation in particular impedes cross-border e-commerce development. 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. The most important areas for improvement appear to be the following.
  - Easy and convenient online payment is also essential to the development of cross-border online sales. Developing ways to tackle fraud and non-payment in cross-border sales is necessary.
  - Consumer related legislation matters as well. Progress on making compliance easier with respect to different data protection, privacy, and consumer and contract laws ought to be high on the agenda.
  - Another concern centres on how to resolve the problems of legal uncertainty and general unfamiliarity with VAT rules, high VAT-related accounting and administrative costs, and difficult VAT registration and declaration procedures.
  - Also, e-commerce experiences important barriers in matters of the quality and transparency of logistics and distribution services.

6

INSIDE A RETAILER'S HEAD – HOW TO GO BENELUX?

6.1. MAIN STRATEGIES FOR GOING CROSS-BORDER

International growth is mainly pursued through either acquisitions or organic growth. Both pose specific challenges.

Entering foreign developed markets by acquiring established local concerns is hard because few retailers want to sell their business. Also, making acquisitions work is easier said than done. Unfortunately, expanding organically is equally difficult because of real estate costs, entrenched competition, and the lack of suitable sites.[118]

Nevertheless, there are no alternatives; hence, Benelux retailers can only grow cross-border by applying either one or both strategies.

For example, Lidl, Hunkemöller, and Delhaize entered Luxembourg by opening stores (organic growth). Hema entered the Belgian market organically by opening two test stores. Next it acquired Sarma from JC Penney to build scale.

Albert Heijn entered the Belgian market by converting an independently operated supermarket into a franchising store, after which it grew mainly organically. Belgian retailers Fiets! and Aveve entered the Dutch market by means of an acquisition.

Acquisition is preferred over organic growth in instances where reaching an appropriate scale in a limited time frame is important for the retail concept to be viable. However, it can be difficult to stay true to the original concept when acquiring an existing retailer cross-border and we note different approaches following acquisitions. First, you can buy an existing retailer and try to impose your original retail concept. The downside of this is that old customers may become disappointed in the new retail concept. For example, Aveve struggled heavily with this strategy, partly because the “new” and “old” concepts were both garden centres. For Hema it proved to be a good strategy, partly because the “new” Hema store type (“general warehouse”) differed from the acquired stores (strong emphasis on fashion).

The Belgian FNG Group acquired Dutch concepts to gain access to the Dutch market. These concepts were not converted to existing FNG concepts but, on the contrary, introduced into Belgium. At the same time, FNG got immediate access to expertise on the Dutch market that could be used to develop the Dutch market for Belgian concepts.

An alternative way to enter the market is by attracting a master franchisee to develop the new market. The Belgian Ellis Gourmet Burger chain entered the Dutch market by means of franchising. The advantage is that the local franchisee knows the local market, undertakes the risk, and has to invest his own resources. The downside is that success will depend on a third party, i.e., the franchisee.

This entry strategy is based on “geographic exclusivity”. The rapid development of cross-border e-commerce, more particularly when geo-blocking becomes illegal, makes it less appealing to the master franchisee who risks competition from an international web shop selling the same brand.

6.2. E-COMMERCE AS A STARTING POINT

A fairly recent trend for store-based retailers to enter a foreign market is by launching a web shop targeting that foreign market.

The biggest challenge is to build traffic to such a web shop. In fact, in an omni-channel world, store-based retailers tend to use their stores and all other communication media to promote their web shops. However, when entering a foreign market without physical stores and with a web shop only, that communication strategy is not an option.

There is a broad consensus that, in most cases, opening physical test stores may be less costly than relying on digital marketing to build traffic to an otherwise unknown web shop.

The exception seems to be when the retailer is already somewhat known in the foreign market. For instance, department store De Bijenkorf is well-known amongst tourists visiting Amsterdam. That has motivated De Bijenkorf to open its web shop for Belgian consumers.

[118] Corstjens, M. and Lal, R. (2012), Retail Doesn’t Cross-borders: Here’s Why and What to Do about it, Harvard Business Review, April, 9 pp.

A good alternative is to join an online market place like, for instance, Bol.com Plaza. You have to grant a commission to the market place, but you can piggyback on the traffic to it.

Flemish shoe retailer Torfs has its own dedicated web shop for delivering their online experience in the Netherlands, but they have decided to start selling handbags through Bol.com in order to gain access to a larger audience and to build their brand awareness.

Pure play e-commerce retailers face the same challenges. They too have to build traffic to their web shop, and they too may choose to join a market-place. Kinderenkoning.be is selling directly in the Netherlands, but also through Bol.com Plaza.

6.3. DRIVERS OF CROSS-BORDER SUCCESS

Before the implementation of a cross-border growth strategy, it is considered a vital point to have appropriate market knowledge to run a proper cost/benefit assessment.

Also, all cross-border retailers point to the utmost importance of having a good team to lead the cross-border market development. Such a team should have a good mix of people knowledgeable about the retail concept and people familiar with the local market. For example, to develop the Belgian market, Albert Heijn employs mixed teams recruited for their experience with the company's particular retail concept and knowledgeable about the Belgian retail market. Moreover, in the recruitment process, the main focus lay on the content of the job rather than on the Albert Heijn employer brand name. Applicants learned only in the second to last application round that they were applying for Albert Heijn.

At the same time, it is not easy to attract and recruit the right people. For example, Belgian fashion retailer Lola&Liza was looking for a Dutch CEO to launch the concept in the Netherlands. But hiring a person capable of running dozens of stores (the long-term goal) is hard when in the initial stage he is in charge of 2 pilot stores only.

A large openness towards the local market is also identified as an important driver for cross-border success.

For example, Lidl shows that through being receptive and accommodating towards the Luxembourg market they became aware of the large Portuguese presence. While listening very carefully to, and interacting with, the local market, they identified the Portuguese opportunity and were able to profit from it by adapting their assortment and marketing communication to target this large, local community.

6.4. RELEVANCE AND IMPLICATIONS FOR POLICY MAKERS

The following policy implications are related to the topics discussed in this chapter:

- **Availability of Benelux retail-specific information**
  For policy makers it is important to understand how retailers are currently coping with cross-border expansion and what strategies are possible. Retailers can benefit from an environment in which various strategies are possible, such as growing organically, merging, or acquiring another retailer, or licensing a master franchisee. A transparent overview of country-specific information and cross-border challenges related to these various strategies is beneficial for cross-border success.

- **E-commerce as starting point for going Benelux**
  Given that e-commerce is more and more a starting point for retailers to launch their cross-border expansion in a particular country, the policy implications for e-commerce development as stated in the previous chapter are equally relevant here. We repeat these policy implications below. Legal fragmentation in particular impedes cross-border e-commerce development. 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. Several stakeholders point to many areas for legislative improvement to spur cross-border e-commerce.

- **Benelux as a living lab for EU rules**
  Benelux policy makers should use the overview with the aim of developing a more coordinated and ideally common set of rules and regulations for retail. In the case of e-commerce, current EU proposals regarding the Digital Single Market, including parcel delivery and geo-blocking, could serve as a basis.

7

SOLUTIONS TOWARDS MORE VALUE CREATION IN BENELUX RETAIL MARKET – SOLVING IMPORTANT BENELUX CROSS-BORDER RETAIL CHALLENGES

7.1. THREE TYPICAL RETAILER SITUATIONS

In this chapter we address some important Benelux cross-border retail challenges we previously identified. However, before offering solutions, it is important to consider that the impact and relevance of possible solutions is determined by the typical cross-border retailer situation. There are three main types of cross-border retailers.

First, there are the "new entrants", e.g., the retailers going, or considering going, cross-border. They have limited or no experience with cross-border activities. Stimulating cross-border entry and removing barriers will result in more retailers being active in several Benelux Member States. This will help Benelux retailers to take the hurdle of internationalisation. Eventually they will become retailers of the second type.

Second, there are "established" cross-border retailers already operating across borders in the Benelux or elsewhere. Removing barriers will result in lower operating costs. While these players are currently coping with all the barriers, the absence of a Single Benelux Retail Market causes frustration, a loss of time, and incremental operational costs. By stimulating the retailers' competitiveness, they can offer lower prices to consumers, establish a stable business within the larger Benelux domestic market much faster and, as such, be more readily inclined to expand outside the Benelux. The same applies to non-Benelux international retailers, who will be more disposed to operate their regional or continental headquarters in the Benelux and use the Benelux as a test market for new concepts.

Third, there are so-called "border retailers", e.g., the retailers located close to a country border. They are often small and not necessarily aiming for much growth but, nevertheless, confronted and greatly affected by the impact of cross-border challenges.

Below we have grouped the barriers hindering the stimulation of cross-border retail in the Benelux under 4 headers. The matrix table below summarises their impact for the three types of retailers.

Table 6:
Barriers hindering the stimulation of cross-border retail

Issue	"new entrants"	"established"	"border retailer"
Lack of knowledge	Very important	Less important	Very important
Lack of scale	Very important for small businesses; also more important in smaller countries of origin	Less important	Very important for small businesses; also more important in smaller countries of origin
Complexity of regu-lations & legislation - no Single Market	Very important	Very important	Very important
Lack of role models	Important	Less important	Less important

7.2. KNOWLEDGE CREATION AND DISSEMINATION

One of the key challenges facing cross-border retail is lack of knowledge. To help bridge the current knowledge gap we suggest the following solutions that we discuss in greater depth below: creating relevant business networks, setting up a dedicated virtual cross-border knowledge centre, and reducing the complexity of legislation.

This challenge and its proposed solutions originate from the fact that there typically is no dedicated cross-border retail representation for businesses and related stakeholders. Moreover, retail businesses want, and need, to have a voice in how cross-border retail is "allowed" to be conducted.

A dedicated role for the General Secretariat of the Benelux Union seems relevant, together with the respective national sector representatives and/or business organisations like the Chambers of Commerce, for taking up the coordinating role for solving the existing knowledge gap problem.

CREATE RELEVANT BUSINESS NETWORKS

What?

Relevant business networks are networks of business executives, project and team leaders, functional experts, consultants, academic experts, etc., created to discuss relevant topics that are heading the executive business agenda. For cross-border retail, business executives indicated the need and enthusiasm to discuss relevant topics in-depth in such networks. Moreover, the suggestion was made to also include potential retail executives in such networks through internships and exchanges across borders within or across different retail organisations.

Example?

A prime example of a relevant business network is thuiswinkel.org. This network is set up to inform, inspire, and share ideas on how to deal with challenges related to e-commerce. Its activities are targeted towards multiple stakeholders: business executives, policy makers, and consumers. Also, in practice it is already common to reach out to non-competing retail colleagues to learn about best (or worst) practices and particular information such as common habits for the cross-border market of interest.[119] Moreover, establishing relevant business networks for cross-border retail may also support the visibility needed to convince supply chain partners to invest and support cross-border initiatives accordingly.

Key stakeholders?

Key stakeholders to create relevant business networks are in the first place business executives, sector representatives, and key experts. One can also include educational institutions.

Especially retail SMEs, both store-based and e-commerce, seem the most important target group for this solution as they have least access to, and little means at their disposal for, important cross-border knowledge.

CREATE A DEDICATED "VIRTUAL" CROSS-BORDER KNOWLEDGE CENTRE

What?

In line and complementary with relevant business networks is the set-up and development of a dedicated cross-border retail knowledge centre.

It could serve as a central Benelux point of contact to find meta-information (e.g., where to look for what information), factual information, and gain knowledge about cross-border retail. The information and education can be at the level of top executives, middle management, and functional domain experts. This initiative can embark on existing national knowledge centres and therefore be "virtual". Every country has national export-oriented knowledge centres that should be virtually linked to each other, which can be hosted by the existing retail representation organisations.

Example?

A relevant example, complementary to thuiswinkel.org, is the knowledge exchange platform Shopping Tomorrow. It is set up as a platform to share information, knowledge, and concrete actions related to changing consumer behaviour, new technology, and international market development. Also linked to thuiswinkel.org is the Thuiswinkel e-academy, an education portal on e-commerce bridging education and business practices. Also, in the Netherlands action is taken towards stimulating export knowledge for retailers on existing information platforms of the "Rijksdienst voor Ondernemend Nederland", the Ministry of Foreign Affairs, and the "ondernemersplatform".[120]

Case study:

Virtual retail entry point in Luxembourg[121]

Luxembourg's Ministry of the Economy presented the "Pakt Pro Commerce", a strategy designed to boost and develop retail. The plan was presented in conjunction with the Chamber of Commerce and the CLC (Confédération Luxembourgeoise du Commerce). The government has a desire to stimulate a key sector of the Luxembourg economy, which employs some 23.000 people in 3.150 companies. One of the measures planned is the creation of a common database to serve as a retail trade register. Besides providing a clearer picture of the sector in terms of statistics, it will also serve as a management tool for members of the pact to deal with, for example, vacant buildings. The strategy is designed to encourage digitalisation as well, this to serve as a "virtual entry [point] to Luxembourg", as Francine Closener, Secretary of State of the Economy, stated.

[119] Expert interview Frederik Wybo (30/03/2016)
[120] https://www.thuiswinkel.org/data/uploads/Belangenbehartiging/retailagenda.pdf (26/03/2016)
[121] Luxemburger Wort (15/04/2016), A pact to boost Luxembourg's retail sector.

Stakeholders?

Key stakeholders to include are business executives, sector representatives, topic experts, and educational institutions. We note that key experts can play an important role in supporting a knowledge centre, but it remains important for retail executives not to be too dependent on them.

Again, especially retail SMEs, both store-based and e-commerce, seem the most important target group for this solution.

REDUCE COMPLEXITY OF LEGISLATION

What?

Complexity of legislation creates risk, loss of management time and attention, and additional costs such as expert consultation and mistakes. Some legislation domains are more prominently discussed as being overly complex compared to others. Moreover, legislation is sometimes unclear and even conflicting.

Root causes are:

- The existence of different levels of legislative and executive initiative;
- Historical development of legislative complexity;
- Reflex towards protecting the own market.

A general issue is the so-called gold-plating by individual EU Member States of EU rules related to, for example, product quality, labelling and integrity requirements, or assortment-specific requirements. These requirements often go beyond EU requirements and are frequently designed to comply with traditional practices by established domestic producers. They unnecessarily increase the costs of cross-border activities. These national additional requirements to the EU provisions (which are already designed to sufficiently protect EU consumers) are often disproportionate to the goals of public safety or consumer protection which they claim to serve. For this reason, they create significant barriers to cross-border investment for retail companies.[122]

Example?

Based on our research, we detected several important challenges for retailers that want to grow within the Benelux. These challenges are related to rigidity, restrictions, and differences in legislation across the Benelux countries with respect to various business management domains. These domains include employment and working conditions, supply chain operations, e-commerce, commercial establishment, product assortment, financial management and accounting, and store and commercial operations. In 7.4., we discuss the legislative difficulties and possible solutions in greater depth.

By reducing the complexity you take away one of the root causes of the need for knowledge.

Stakeholders?

Key stakeholders for reducing complexity of legislation are the legislative and executive arm at local, regional, national, and European levels, while also including retail sector representatives.

This solution seems highly relevant for all types of retailers: SMEs, large Benelux retailers, international investors, and both store-based and e-commerce.

NOTE

It is important to highlight the potentially pivotal role of sector organisations (e.g., Comeos, Detailhandel Nederland, and CLC) and business organisations like the Chambers of Commerce in knowledge creation and dissemination initiatives. It seems paramount to have a network and knowledge centre as close as possible to companies and their respective sector, but the most relevant organisations to facilitate may differ per country. Moreover, the sector must be large enough, and count its members in relative large numbers, to have a sector-specific instead of a cross-sector approach. At the national level, sector organisations and business organisations need to help companies to access and manage cross-border markets. At the international level, they need to establish and maintain horizontal contact with their cross-border counterparts.

[122] Ahold Europe (2013), Submission of Royal Ahold to the consultation of the European Commission on the Green Paper on unfair trading practices in the business food and non-food supply chain in Europe, 14 pp.

Knowledge centre case study:
the ESRC Retail Sector Initiative, U.K.[123]

In 2013, the UK's Economic and Social Research Funding Council announced a focused £2.5mn call for collaborative projects and knowledge exchange activities that will maximise the impact of social and economic research on the retail sector. In addition to its own Knowledge Exchange Opportunities (KEO) funding, the Council will also harness other, existing research vehicles, including working with the U.K. Technology Strategy Board to engage with the 4.000 businesses in its community and deliver an extensive programme of retail-themed Knowledge Transfer Partnerships (http://www.ktponline.org.uk/). The Knowledge Transfer Partnership offers retail businesses the opportunity to work in partnership with an academic institution to obtain knowledge and expertise to which they currently have no access, to address their business challenges, and embed sustainable innovation.

A Retail Sector Initiative Partner Database aims to help stakeholders find appropriate partners by providing details of research interests and contact details so participants can foster direct links.

7.3. SCALE BUILDING

A second key challenge in developing a cross-border retail presence is a lack of scale for retailers operating in only one of the Benelux countries. To address this lack of scale we suggest the following solutions, which we discuss in greater depth below: developing appropriate instruments for hedging financial risk and building administrative scale.

A dedicated role for the General Secretariat of the Benelux Union seems relevant especially in taking up the coordinating role for building administrative scale in the Benelux.

Especially retail SMEs, both store-based and e-commerce, from smaller countries appear the most important group to target in this challenge.

HEDGING FINANCIAL RISK

What?
Many retailers entering a foreign market cannot hedge their financial risk. Losses made in operations outside the home market are not readily, or even not at all, deductible from the taxable profit in the home market. This situation exacerbates the financial risk that is inherently present while growing internationally.

Possible ways of overcoming this problem are:

- government pledge for particular company loans for small to medium-sized retailers (cf., including a limit on the number of employees and turnover)
- credit risk insurance contracts for investments cross-border
- rendering cross-border development losses easily deductible (without having to hire expensive experts in international accounting)

"8 out of 10 cross-border initiatives fail" – Vic Ragoen, SVP Darty Group[124]

Example?
Export promotion offers good examples of instruments dedicated to hedge financial risk. For example, in Belgium, Delcredere is a Belgian public credit insurer covering companies and banks against political and commercial risks of international trade transactions. Likewise, the Belgian Tax Shelter is a government-approved tax incentive designed to encourage the production of audio-visual works in Belgium. The system is open to Belgian productions as well as qualified international (mainly European) co-productions with Belgium. It is a win-win-win situation for the three parties involved: the producer is offered a very attractive way to finance projects, the investor obtains tax exemption through a virtually risk-free investment, and the Belgian state benefits from increased economic activity and spending.[125]

Stakeholders?
Policy makers, financial institutions, and sector organisations are key partners to further develop such hedging instruments.

[123] European Union (2013), Final Report from the Expert Group on Retail Sector Innovation, 44 pp. Accessed online on 11/06/2016, http://ec.europa.eu/research/innovation-union/pdf/Report_from_EG_on_Retail_Sector_Innovation_A4_FINAL_2.pdf
[124] Expert interview Vic Ragoen (31/03/2016)
[125] http://www.screenflanders.be/en/film-commission/production-guide/financing-incentives/tax-shelter (27-04-2016)

BUILDING ADMINISTRATIVE SCALE

What?

Many companies willing to start cross-border operations are confronted with a heavy and novel administrative burden. This burden is from the outset very high, even in the case of very limited operations cross-border. A possible solution is to create a Benelux company form, with similar legislative possibilities such as the country-specific “bvba”, “bv”, “sarl”, “nv”, “sa”, etc., adopting all of its legislative provisions from its country of registration (at least for a considerable period of time). This new legal form would offer the advantage of having to deal only once with all administrative start-up procedures and having only one administration contact point for tax and VAT, and the like. A possible disadvantage (shown by recent European experience with the so-called European Company (see below)) is the likelihood that to develop such a company form shared across countries will prove a lengthy process, while its use might be limited, especially when the application domain is itself very limited in its scope.

Another concept is to create a so-called “Temporary Regulatory Free Zone”, the idea being that companies going cross-border will only be subject to the national legislation of their home country for a limited period of time, for example, the first two years active in a new country. It can be referred to as the “home country control” instrument. Variations of this idea can also be worked out for specific areas only, for example, in the case of VAT, where one could imagine that an SME expanding cross-border will during its first year be allowed to conduct its VAT administration in its home market.

Example?

There already exists a so-called European Company.[126] The main reasons for its existence are indeed similar to what is proposed *supra*:

- A simpler and cheaper way to run business across more than one EU country. For example, you can regroup your activities under a single European label.

- Greater mobility on the single market. For instance, you can transfer your registered office to another EU country without having to dissolve the company.

- A framework for cross-border operations, to allocate foreign costs to your home market operations. For instance, you can involve staff employed in more than one country and run your business without setting up a network of subsidiaries.

The registered and head office must be in the same country. Winding-up, liquidation, and insolvency procedures governed by the laws of that country.

Important to note is that this system should allow to deduct start-up losses in a foreign market from the profit in your home market. It can be part of the previously mentioned home country control instrument.

Stakeholders?

Policy makers at the Benelux level and sector/business associations are key stakeholders.

7.4. HARMONISING LEGISLATION

A third important challenge in developing and managing a cross-border retail presence is a lack of harmonised legislation for retailers operating in multiple Benelux countries. To help solve that problem, we suggest a list of possible legislative and executive initiatives. It is clear that harmonisation is the ultimate step, but also coordination and enhanced use of mutual recognition of legislation and its implementation are necessary – perhaps interim – steps for policy makers to take.

A dedicated role for the General Secretariat of the Benelux Union seems relevant for taking up the coordinating role for these cross-border legislative and executive initiatives, while ensuring dedicated attention towards the interoperability of retail legislative and executive aspects.

This challenge and potential solutions are relevant and important towards all types of retailers, SMEs and larger organisations, store-based and e-commerce, and international investors.

[126] http://europa.eu/youreurope/business/start-grow/european-company-legal-form/index_en.htm (26/04/2016)

LEGISLATIVE HARMONISATION ISSUES

Following is a non-exhaustive list of legislative harmonisation issues hindering cross-border business development and operations.[127] We list these issues per relevant retailer business management domain. The order of appearance is in line with how important the domain is for a "typical" retailer. Nevertheless, for individual retailers this order might change.

"Labour regulations and supply chain regulations are core towards value creation, because our people and supply chain efficiency are central in the retail business model. Any harmonisation taking place in these domains implies we can fight with more similar means. Fiscal and administrative regulations are things you have to deal with. You need to know and make sure you are in line. Anything that can harmonise these facts is welcome and adds to our efficiency and cost base, but it is not core in our business model." – Frank De Moor, CEO Q-Park

- Retailers are confronted with rigid and expensive regulations on employment and working conditions. There are important differences in terms of wage costs, but there are many other (often more hidden) difficulties to cope with as well. Examples include the following:
  - There is the high complexity of the remuneration system, while a web of subsidies make it necessary to outsource part of the human resource management to external, specialised (and thus expensive) contractors.
  - There is high legislative uncertainty and many administrative costs associated with the secondment of employees, leading to customised contracts for often part-time employees.
  - Retailers are confronted with differences in working hours, opening hours, linking working hours with business peaks, etc., which makes it sometimes hard to copy-paste the retail concept. A case in point was a large, international retailer being fined because its employees in Belgium had pro-actively started 30 minutes earlier with their shift to make sure they could cope with a peak in store traffic expected.
  - Moreover, labour regulations are different across countries in terms of indexation rules, sick leave, resignation, year reports, etc.
- Different regulations and constraints related to the efficiency of the supply chain entail greater costs for retailers. Some important examples:
  - Territorial supply constraints, restricted use of LZVs (long and heavy transport vehicles), uncertainty and practical complexity towards kilometre-contribution for transporters, different rules and interpretations concerning the transport of dangerous goods and the like all block efficient trade across borders.
- There are important differences with respect to e-commerce regulations. Examples are:
  - Issues related to data protection, price differences for online products and package deliveries based on crossing borders instead of actual costs, different modalities of online payments, and differences in terms of website regulations. For example, Dutch regulation obliges online sellers who offer payment upfront (e.g., through Ideal) also to offer a method to pay afterwards through a much more expensive credit card system.
  - Also, it is not possible to sell cross-border online without having a website in that country with appropriate (but different) online sales stipulations and conditions.
  - Moreover, online sellers who want to operate cross-border run a higher risk of fraud and unpaid accounts. A relevant 69% of Dutch retailers indicate their lack of trust in selling online in other European Member States. In addition, perfecting the internal Benelux market could fuel e-commerce growth with the number of Dutch retailers, with e-commerce activities increasing from 15% to 57%.[128]

- Restrictions and differences with respect to commercial establishment regulations consume valuable time. Selecting the right location for retail development and the timely start of operations are decisive for business success. To open a new store in Belgium, you need a "SEV" ("Socio-Economische Vergunning"), for which the administrative procedure (and standard appeal) can take several months. Commercial establishment regulations are often more restrictive than European regulations and are now regionally or even locally worked out, which implies an uncertain and indistinctive body of regulation. For example, city councils have the right to indicate areas with limited shopping possibilities and the power to impose assortment restrictions through a retail code.

[127] This list is based on the following sources: expert interviews with top retail executives in Belgium, the Netherlands, and Luxembourg; Detailhandel Nederland (2014), Inventarisatie Detailhandel Nederland – Benelux handelsbarrières (2015), Handelsbelemmeringen voor Kruidvat in België, presentation at 22/10/2015; Comeos (2014), Roadmap 2014-2019, 3 pp.

[128] Hoevenagel, Ruud & Vogels, René (2015), Nederlandse detailhandel en Europa. Gevolgen van één interne markt.

- The product assortment is another important domain for which there are many challenges. Some examples:
  - Harmonising label and packaging standards are estimated to add between 30 and 60% in commercial trade volume.[129] Other examples include channel restrictions for pharmaceutical products, different demands for product labelling, packaging and constitution, product tests that are invalid across country borders, different legal warranty durations and other consumer protection rules such as privacy and data protection, different end-of-life and recycling obligations, etc. For example, a Belgian retailer is obliged to annually indicate per product the volume of its packaging material, necessitating a yearly analysis together with their suppliers for 19 different packaging material categories. Then there is an explosion of traceability rules for different products, while the execution of those rules is sometimes financially and operationally nearly impossible.
  - A relevant case in point is the Declaration of Performance or so-called DoP legislation. Each construction product covered by a European harmonised standard, or for which a European Technical Assessment has been issued, needs this Declaration and has to be CE marked. The aim is to increase transparency and improve the functioning of the Single Market. However, it means that many products used in construction (e.g., bricks, screws, etc.) need to be accompanied by a document stating it complies with all relevant regulations, while a new document is required when the product is from a different production batch. Huge administrative costs for retailers and constant uncertainty about their being compliant or not is the result.

- A retailing business' financial and accounting management struggles often with different rules, interpretation and application of VAT regulations and fiscal laws, all constraining cross-border operations. The European Commission has calculated that adapting to national VAT rules costs 8000 Euro per entrepreneur per Member State.[130]
  - Examples of difficulties are numerous: different VAT tariffs, perceived difference in rigidity of inspections, different procedures to take into account, etc. For example, each supermarket needs to be registered with the local VAT inspection of the region in which it is established, which leads to significant administrative costs.

  Recently, the European Commission proposed the introduction of one system for VAT electronic registration and payment, which offers retailers the opportunity to declare their VAT in one country, i.e., their home state.[131] Until now, this has only been possible for online products, hence creating a competitive disadvantage for brick-and-mortar stores.

- Store and commercial operation is another core aspect of the retailing business prone to issues related to different legislations.
  - For example, promotion through flyer distribution is not straightforward. In Belgium, distribution costs are much higher compared with those in the Netherlands, as the "Belgische Distributiedienst" holds a monopolistic market position while, at the same time, every city and community may have a different tax base, tax percentage, and tax collection mode.
  - Another example is the prohibition for supermarkets to transport their food waste across borders, which is a pity given the sometimes more efficient waste systems in other countries, e.g., via food banks in the Netherlands.
  - Selling electronics means paying a disposal fee for batteries, but this is levied and operated by foundations with different rules and procedures across countries.
  - A very specific and particular problem for retail store operations is cross-border criminality. For Dutch stores, 35% of losses through store theft are attributed to foreign criminal organisations.

Note that besides harmonising legislation across Benelux countries at national level, it is paramount for success that also local and regional legislative and enforcement initiatives be included in the harmonisation exercise. If retailers are confronted with very different local rules and practices, costs to adapt and obtain relevant legislative knowledge remain high and frustrating. Therefore, a pledge to reduce local regulation pressure on retailers is repeated here. Relevant and quick win aspects to address and resolve are the following: rule enforcement inspections not restricted to a limited number of visible retailers, local and regional permits on, for example, revolving displays and advertisements, local differences towards so-called precario-rights regulations on delivery time gates.[132]

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[129] Hoevenagel, Ruud & Vogels, René (2015),Nederlandse detailhandel en Europa. Gevolgen van één interne markt.
[130] Europese Commissie, MEDEDELING VAN DE COMMISSIE AAN HET EUROPEES PARLEMENT, DE RAAD EN HET EUROPEES ECONOMISCH EN SOCIAAL COMITÉ over een actieplan betreffende de btw, Brussel, 7.4.2016, COM(2016) 148 final.
[131] Europese Commissie, MEDEDELING VAN DE COMMISSIE AAN HET EUROPEES PARLEMENT, DE RAAD EN HET EUROPEES ECONOMISCH EN SOCIAAL COMITÉ over een actieplan betreffende de btw, Brussel, 7.4.2016, COM(2016) 148 final.
[132] Detailhandel Nederland (2013), Actieplan Detailhandel, 56 pp.

Moreover, we stress that many of our solutions towards harmonisation issues point to situations where more sectors than purely the retail ones could profit from harmonisation. For instance, a common European standard for VAT declaration may lead to annual company cost reductions between 9 and 20 billion Euro. The more effective application of the Directive for Reciprocal Acknowledgement leads to an increase of European GDP of 1.8% and in increase in trade between European countries between 30 and 60%.[133]

E-COMMERCE LEGISLATION KEY ISSUES

In the previous chapter on cross-border challenges we already indicated that e-commerce businesses face similar challenges related to legislation issues, while the perceived order of importance for e-commerce might be somewhat different.

Important restrictions in regulations specifically hindering cross-border e-commerce growth in Europe are:

- Easy, safe, and convenient online payment. This relates to tackling fraud and non-payments in cross-border sales,

- Compliance with different data protection, privacy, and consumer and contract laws.

- Legal uncertainty and general unfamiliarity with VAT rules, high VAT-related accounting and administrative costs, and difficult VAT registration and declaration procedures.

- Quality and transparency of logistics and distribution services.

Benelux policy makers can use the inventory to aim to develop a common set of e-commerce rules. Current EU proposals for Digital Single Market, parcel delivery, and geo-blocking could be used to serve as a basis for this.

OVERVIEW LEGISLATIVE AND EXECUTIVE SOLUTIONS

The previous overview shows there are many issues regarding legislation hindering retailers' cross-border activities. In general, there exist broad guidelines that would turn legislation into a cross-border stimulator instead of a barrier:[134]

1. Legislation which is feasible and workable and contributes to the aim pursued.
2. Better coordination of implementation of European legislation in order to avoid different interpretations.
3. Removal of trade barriers through harmonisation of legislation on topics such as consumer protection, VAT payments, packaging and labelling requirements, payment services, data protection, and labour mobility.
4. Working towards an increased application of mutual recognition.
5. Better coordination of monitoring, transposition, implementation, and enforcement by Member States of European legislation.
6. Addressing the issue of adding additional national requirements in European regulation by Member States during transposition, i.e., reducing so-called gold-plating.

To help solve the lack of harmonised legislation, we suggest in the table below a list of core legislative issues to address and the potential impact of more coordination / harmonisation. We indicate the legislative domains and what the impact can be of more harmonisation for each stakeholder. The last column shows selected policy initiatives on European and Benelux levels (further information on the policy environment in the EU, the Benelux, and the three Benelux states can be found in paragraph 7.6).

This general inventory is not exhaustive and the order of appearance of the issues in the table is random. Examples of specific issues mentioned by stakeholders and found during the process of producing this study are listed in Annex 1.

[133] Hoevenagel, Ruud & Vogels, René (2015),Nederlandse detailhandel en Europa. Gevolgen van één interne markt.
[134] https://www.thuiswinkel.org/data/uploads/Belangenbehartiging/retailagenda.pdf (26/03/2016)

Table 7:
General inventory of cross-border retail legislative issues

Domain	Expected benefits from cooperation / coordination / harmonisation	Selected policy EU and Benelux initiatives
STORE ESTABLISHMENT	***Retailers:*** easier, faster, cost savings and lower costs for experimentation ***Consumers:*** more diverse and faster changing retail offer ***Policy-makers:*** more and faster growing cross-border retailers, more stable total retail job offer, fewer vacant retail locations	**EU:** Communication “Upgrading the Single Market” - Best practice initiative facilitating retail establishment and reducing operational restrictions in the Single Market
E-COMMERCE	***Retailers:*** easier access to new markets, fair competitive environment for home and international market ***Consumers:*** better access to full potential of digital market, larger retail offer, lower prices ***Policy-makers:*** better use of the potential of the digital market and of the digital strengths of the Benelux – more jobs and growth as a result	**EU:** Digital Single Market Strategy, E-Commerce Package **Benelux Union:** Action Plan for Growth and Jobs
VAT	***Retailers:*** lower costs, less risk for non-compliance ***Consumers:*** more efficient retailers can lead to lower prices and faster operations ***Policy-makers:*** lower administration burden, lower costs	**EU:** VAT Action Plan (expected autumn 2016) [135] **Benelux Union:** Cooperation regarding VAT–carousels, streamlining VAT-procedures and improving the Mini One-Stop Shop; Action Plan for Growth and Jobs
WASTE PROCESSING	***Retailers:*** lower costs, less environmental impact ***Consumers:*** better environment ***Policy-makers:*** improvement of environment, development of innovative economic sectors	**EU:** EU Action Plan Circular Economy; Amending Directive on Packaging and Packaging Waste; Amending Directive on Waste **Benelux Union:** Recommendation on Paper-Waste, Initiatives related to Circular Economy

[135] http://www.detailhandel.nl/nieuws/2016/621/Nieuwe%20Europese%20plannen%20voor%20BTW-vereenvoudiging.html (10/06/2016)

Domain	Expected benefits from cooperation / coordination / harmonisation	Selected policy EU and Benelux initiatives
DATA PROTECTION	***Retailers:*** increased legal certainty, more efficient use of data, more innovation leading to new services / products ***Consumers:*** increased legal certainty, better access to existing and new offer of services and products ***Policy-makers:*** building legislative scale and power for (often global) digital players	**EU:** Regulation processing and free movement of personal data ; Directive processing and free movement related to criminal offenses
PAYMENTS	***Retailers:*** lower costs, reducing risk of fraud or non-payment; innovation ***Consumers:*** increased safety in online transactions, new services ***Policy-makers:*** development of Benelux as a global digital hotspot; jobs and growth	**EU:** Directive on Payment Services; **Benelux Union:** Survey on barriers to mobile payments
CONSUMER PROTECTION (e.g., privacy, data protection, warranty)	***Retailers:*** lower costs, level playing field, legal clarity and certainty, less risk of non-compliance ***Consumers:*** legal clarity and certainty, larger offer ***Policy-makers:*** more powerful European enforcement towards global (especially online) players	**EU:** Directive on Consumer Rights; European Consumer Agenda **Benelux Union:** Initiatives relating to concert tickets, package travel, and on-line dispute resolution
PRODUCT RELATED REQUIREMENTS (e.g., packaging and labelling, product test reciprocal acknowledgement, traceability)	***Retailers:*** lower costs, faster product assortment changes ***Consumers:*** more diverse and faster changing product assortment ***Policy-makers:*** satisfactory product safety	**EU:** multiple a.o., EU Directive on packaging and packaging waste, CE-marking

Domain	Expected benefits from cooperation / coordination / harmonisation	Selected policy EU and Benelux initiatives
LABOUR LAW (e.g., employment and working conditions, opening hours, flexibility, recruitment, secondment, resignation, etc.)	***Retailers:*** legal clarity and certainty, increased possibilities to innovate and experiment, lower costs, increased ability to compete against online and international competitors ***Consumers:*** larger variety of retail concepts I, more retail concepts in line with consumer needs and preferences ***Policy-makers:*** more and faster job creation, increased job opportunities for citizens	**EU:** multiple a.o., working time directive, posting of workers directive **Benelux Union:** Recommendation on cross-border labour mobility; Regulation on automatic mutual recognition of higher education diplomas
SUPPLY CHAIN (e.g., territorial supply constraints, package delivery, transport, etc.)	***Retailers:*** lower operating costs, equal base for competition ***Consumers:*** lower prices, better and more varied product assortment access, cheaper and faster delivery of goods ***Policy-makers:*** deploying full potential of Benelux as European logistics hub	**EU:** a.o., proposed Regulation on Parcel Delivery; E-Commerce Package[136] **Benelux Union:** Recommendation on territorial supply constraints; Recommendation test with Benelux cross-border transport with long and heavy truck-combinations; Regulation trans-border Benelux transport 45- foot containers.
GEO-BLOCKING	***Retailers:*** increased legal clarity and certainty, new markets ***Consumers:*** access to new providers, services and products; lower prices ***Policy-makers:*** more integrated markets	**EU:** Proposed Regulation on unjustified geo-blocking; E-Commerce Package[137]

[136] http://www.ecommerce-europe.eu/press/05/ecommerce-package-good-start-on-parcel-delivery-more-clarity-needed-on-geo-blocking (10/06/2016)
[137] http://www.ecommerce-europe.eu/press/05/ecommerce-package-good-start-on-parcel-delivery-more-clarity-needed-on-geo-blocking (10/06/2016)

HOW TO GET STARTED?

Given the complexity of the differences in legislation, which may be very broad and therefore applicable to all business industries and not retail only, or very specific and solely applicable within a single retail industry (food safety), we recommend creating a Benelux high-level retail steering group and parallel working groups for each specific type of legislation or domain.

The steering committee should consist of senior civil servants and retail industry representatives of the three Member States, their mission being 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 more quickly than the overall EU in creating a Single Retail Market and as such offer an example to the other EU Member States, which may be invited to join the new harmonised legal framework.

A parallel initiative might be the following, inspired by Luxembourg practice.

INCLUDE BENELUX BUSINESS INPUT DURING AND AT THE END OF THE LEGISLATION PROCESS

What?

Retail sector representatives have clear opportunities for lobbying during the legislative process. However, a key aspect of legislation, i.e., the execution and enforcement guidelines, is not, or much less, prone to input from the sector. Retail executives and sector representatives indicate that such involvement may solve particular issues related to the enforcement of often complex legislation.

Moreover, for Benelux cross-border issues it is paramount that the relevant business representatives of all countries involved be consulted during the legislation process within a particular country.

Example?

In Luxembourg there is a strong tradition and embeddedness in their laws of involving the Confédération Luxembourgeoise du Commerce (CLC) at various stages of the legislative process for advice and consultation, even at the end.

The General Secretariat of the Benelux Union can take (at the request of national governments) an important role towards coordinating cross-border legislative and executive challenges across several policy domains (e.g., waste processing, VAT administration, logistics, etc.).

Stakeholders?

Key stakeholders to include are the executive arm at relevant levels and retail sector representatives. Moreover, the General Secretariat of the Benelux Union may play a coordinating role in identifying ongoing Benelux-relevant legislation and urging all players involved to have their say.
This solution is relevant and important for all types of retailers, SMEs and larger organisations, store-based and e-commerce, and international investors.

7.5. CREATE INSPIRATIONAL ROLE MODELS

What?

Inspirational role models can be relevant to create awareness and ambition to start cross-border retail activities. This seems to have potential, especially in Belgium and Luxembourg.

In parallel with initiatives regarding the promotion of start-ups, for instance the Dutch campaign promoting Amsterdam as the start-up hub in Europe, a campaign for cross-border retail start-ups could be envisaged. Linked to that, each country could forward a retail start-up ambassador.

Example?

Today, many entrepreneurs are featured in media and education as role models to create entrepreneurial awareness and ambition. Examples include TV shows such as "het eerste kwartaal" in Belgium, awards to showcase and stimulate entrepreneurship, e.g., "Mercuriusprijs" at Comeos, while many incubator programs try to stimulate entrepreneurship, e.g., Yes!Delft, Startup Weekend, etc.

Also, it may be important to inspire also supply chain partners towards cross-border oriented business. When starting cross-border, you need to be able to offer the minimum market requirements that are already offered by competitors operating in the market you enter.

For example, when entering the Dutch market, Torfs was forced to offer similar delivery conditions as its Dutch competitors, namely next-day delivery. It was especially thanks to lengthy negotiations and a strategically visionary and strong partner such as Bpost that Torfs was able to make that promise. Without that service element of next-day delivery, entry into the Dutch market would have been doomed before it ever got off the ground.

Stakeholders?
Key stakeholders to include are retail sector representatives, business executives, education institutions, and media organisations.

Especially retail SMEs, both store-based and e-commerce, from smaller countries appear the most important target group for this challenge and solutions.

7.6. CURRENT POLICY LANDSCAPE FOR RETAIL IN EUROPE AND THE BENELUX

Given the economic importance of retail combined with the current disruptive changes in this sector, specific policy measures for retail and related issues are being developed at different governance levels. This ranges from local to European authorities to national and regional authorities. Without being exhaustive, some of the more important recent policy initiatives should be mentioned here.

The EU in 2013 launched a European "Retail Action Plan" and created a "High Level Group on Retail Competitiveness" that reported in 2015. That same year, the European Commission in its communication "Upgrading the Single Market" specifically mentioned the retail sector as a priority. Also against this background, it presented in mid-2016 the "E-Commerce package" containing proposals to promote the development of e-commerce. These proposals concern, among others, geo-blocking, cross-border parcel delivery, and consumer protection. A proposal on VAT-simplification is scheduled to be published in the autumn of 2016.

The intention of this study is not to duplicate any of the EU initiatives but rather to complement certain measures at the Benelux level, as well as to create a base of knowledge and competence for intensified cooperation between the Benelux officials and authorities in this field. By creating a snapshot of the Benelux retail market, an inventory of the existing obstacles and opportunities, and finally suggesting a number of possible policy initiatives, the Benelux Member States should be better prepared and equipped for future discussion, decision, and implementation.

Also, in the individual Benelux countries, current policy initiatives already exist with regards to retail and retail-related issues. In Belgium, where competences for retail have since July 2014 been divided between the federal state and the regions, the Flemish region, for example, produced the policy documents "Shopping in Flanders (2.0)" (2010 / (2012)), launched the initiative "strategic commercial plan" (2012), and created the "Knowledge Network Retail" (2012). In 2015, the Netherlands launched the national "Retail-agenda", which tries to complement and strengthen already existing initiatives and will be implemented through so called "Retail Deals". In Luxembourg, the Ministry of Economic Affairs, together with relevant business organisations, launched the "Pakt Pro Commerce" in 2015.

On the Benelux level, the "Action Plan for Jobs and Growth" of April 2015 established the vision to create an internal market for retail and identified the related issues of e-commerce, digital single market, payments, and VAT-coordination as priorities for the Benelux agenda. The Plan positioned the Benelux as an incubator for European integration in these matters. The issue, however, is not new to the Benelux as, in the past, the Benelux cooperation already benefitted the retail sector, either directly or indirectly. Beginning 2015, the Benelux took on the issue of "Territorial Supply Constraints" in the retail sector, leading to the signing of a recommendation later that year that will deepen the countries' cooperation in this area. Moreover, prolonged Benelux cooperation on transport, VAT, and mutual recognition of diplomas has contributed to the development of the sector. The regulations on Long and Heavy Trucks and on 45-Foot Containers, for example, have made transport of goods between the Benelux countries more efficient, while mutual recognition of diplomas makes it easier for retail companies to employ personnel from another Benelux country.

7.7. RELEVANCE AND IMPLICATIONS FOR POLICY MAKERS

This chapter on solutions for Benelux cross-border retail challenges implies many implications for policy makers. Below we identified the major headlines of this chapter.

Policy makers should focus on:

- harmonising legislation through taking several legislative and executive initiatives, while including Benelux business input during and at the end of a legislation process;
- knowledge creation and dissemination through creating relevant business networks, creating a dedicated "virtual" cross-border knowledge centre, and reducing complexity of legislation;
- scale building through hedging financial risk and building administrative scale;
- creating inspirational role models.

SMEs benefit most

Whereas SMEs wishing to start expanding across the Benelux may benefit from all 4 dimensions, vested (sometimes international) players have the most interest in abolishing legal barriers.

The role of the General Secretariat

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 identified 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 that we have previously listed.
- Encourage and involve all relevant stakeholders to take up responsibility towards a better functioning Benelux retail market.

Creation of a Benelux high level steering group on retail legislation

In order to facilitate the implementation of the study and the realisation of its recommendations, the Benelux General Secretariat should take the initiative in forming a high level standing group on retail issues.

METHODOLOGY

We conducted this research based on the following methodology. We applied desk research to access relevant reports and data available on the retail market and any cross-border legislation or business issues involved. We conducted several expert interviews and organised discussions in focus groups across the 3 Benelux countries to access relevant qualitative information on how retail executives make decisions and assess legislation issues and solutions.

With respect to our findings and reported insights, we tried – where possible – to triangulate these by accessing multiple data sources and methods for similar aspects of the report. For example, desk research, focus groups, and expert interviews all discussed (but from different standpoints) legislative issues and possible solutions.

We engaged the following experts and companies:

Tom Baelden
(COO, Lola&Liza)

Meike Beeren
(Business Development & Co-Founder, Marqt)

Auke Bos
(Controller, Intergamma)

Bie Buelens
(ex-COO, Euro Shoe Group)

Luc de Baets
(CEO, Albert Heijn België)

Frank De Moor
(CEO, Q-Park)

Peter De Smedt
(COO, Brantano)

Nathalie de Vos
(Real estate Europe, Zeeman)

Fernand Ernster
(owner and CEO, librairie Ernster, L'esprit livre)

Pierre Friob
(CEO, Abitare meubles et Abitare Kids)

Daan Giesen
(Business developer België, Bol.com)

Ed Goedert
(ADAL, Autopolis)

Wolfgang Hennen
(CFO BeLux, Lidl)

Margriet Keijzer
(Head of EU Office, Detailhandel NL)

Rudy Lefèvre
(ex-CEO, Aveve)

Koen Nottebaere
(Category Director, Maxeda)

Vic Ragoen
(Senior VP, Darty Group)

Laurent Schonckert
(CEO, Cactus)

Gerard van Breen
(CEO, A.S. Watson Health & Beauty Benelux)

Hendrik-Jan Van Oostrum
(Head of Brussels Public Affairs Office, Ahold)

Hendrik Winkelmans
(Founder & CEO, fiets!)

Frederik Wybo
(e-commerce manager, Torfs)

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ANNEX 1:
EXAMPLES OF BARRIERS AND OBSTACLES TO CROSS-BORDER OPERATIONS IN THE BENELUX

This annex presents a number of exemplary issues that retailers perceive as posing obstacles to operating (optimally) across borders in the Benelux. These examples were gathered during interviews and in the course of the three focus group meetings and from other input received during the elaboration of the study.

The list is not intended to be exhaustive and the examples given are not mutually exclusive; some occasionally even partially overlap. To avoid such overlap and excessive detail, examples have often been clustered / categorised and presented in a more general fashion. Thus, quite concrete as well as more general examples are both listed to properly reflect the issues raised. For the sake of consistency they have been categorised along the lines as described in table 7 of paragraph 7.4 of the study.

The issues are diverse but generally refer to “restrictions and requirements regarding product assortment”, “differences in regulation” (e.g., regarding assortment, safety, transport, and remuneration of personnel), “additional administrative burden” and “inflexibility regarding the deployment of personnel”. They illustrate the impact of “gold plating”, the different transposition of European regulations, and divergent national legislation.

STORE ESTABLISHMENT

- Different, complicated, and often decentralised (local) rules, permits and related appeal procedures regarding store establishment. This leads to lengthy procedures, extra costs and delays. Sometimes, social-economic permits are required that may qualify as an economic needs test (prohibited by European legislation).
- Restrictions on selling specific types of products at certain locations, e.g., the restriction to sell clothing outside city centres.

E-COMMERCE:

- Differences in labour regulations and high labour costs of distribution (e.g., night work).
- High cost and poor quality of (cross-border) package delivery.
- Differences in “sales periods”, which is especially burdensome for online-stores selling in different countries.

VAT

- dissimilar systems and procedures for VAT and excise leading to high costs, e.g., as a result of differences in the forms used.

WASTE PROCESSING

- Dissimilar national environmental requirements, often as a result of the “gold plating” of European regulations.
- Dissimilar disposal systems and fees for batteries, energy saving lamps, and electronics - procedures and regulations are developed nationally and do not take into account that products cross and re-cross borders. This limits the free circulation of these goods and increases costs and the administrative burden.
- Rigid waste rules making it not possible to transport “over the shelf trade food” from supermarkets across borders.
- Differences in taxation (procedures) on waste, leading to additional administrative burdens and additional costs.
- Dissimilar regulations regarding taxation on packaging. For example, due to differences in the implementation of European regulations, the Netherland and Luxembourg differentiate packaging in 11 categories, while Belgium has 16 categories.

PAYMENTS

- Dissimilar, non-interoperable, payments systems between countries for debit cards both offline and online.
- High costs of “money transport” due to strict regulation and monopolistic markets.

CONSUMER PROTECTION

- Differences in guarantee rules.
- Differences in terms and conditions of sale.

PRODUCT RELATED REQUIREMENTS

- Differing national requirements for products, often as a result of “gold plating” European regulation
- Limitations of selling certain types of products that cannot be justified on grounds of serving a public interest – e.g., certain “non-prescriptive” medicinal products like painkillers.
- Differing requirements for labelling or packaging, e.g., for bread, chocolate milk, and chemicals that cannot be justified on grounds of serving a public interest.
- Differing requirements regarding content of products, packaging and storage that cannot be justified on grounds of serving a public interest. Examples are mandatory labelling of the “price per kilo” on food products or differences in interpretation of “packaged for immediate sale” for food products.
- Differing interpretation of regulations regarding cosmetics that cannot be justified on grounds of serving a public interest, such as in the case of certain hand soaps, which leads to the obligation to register certain types of them. Another example is the use of different language requirements for the same products, even where the language is the same. In the case of lipstick, eyeliner, and nail polish, this leads to different labelling / packaging in the Dutch and Flemish markets.
- Differing legislation and tax rules leading to the limitation of product range and the freedom of selling certain products, e.g., regarding sterile medical devices, certain non-prescriptive medicines, nutritional supplements, baby-food, vitamins and minerals, enriched food products, and domestic chemicals.
- Differing national product safety regulations leading to extra costs and lengthy procedures (related to EU Directive 764/2008)

LABOUR LAW

- High labour costs.
- Different, inflexible, and complex systems of remuneration.
- Limited possibilities regarding flexible working times (e.g., night work, work on Sundays, and general work in shifts).
- Complicated and unclear rules regarding cross-border secondment of personnel leading to uncertainty and high costs.
- Differences in restrictions regarding rules and regulations on opening hours.

SUPPLY CHAIN

- Territorial supply constraints leading to limitation of product range offer and price differences between the countries.
- Discrimination by producers on the basis of what sales channels retailers are using to sell their products. Some producers differentiate prices, products, and conditions of supply depending on the type of channel used (physical stores, pure e-commerce, and multi-channel)
- Differences in rules and interpretation of rules related to “dangerous substances”.

OTHER:

- Different, regionally diverse and complicated regulations regarding advertising leaflets.

NOTES

NOTES

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