



insight
by mountpark

FOURTH EDITION

FRENCH LOGISTICS MATURES IN
THE E-COMMERCE ERA

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INTRODUCTION

E-COMMERCE AND THE MOVEMENT TOWARDS ONLINE CONSUMPTION HAS BEEN ONE OF THE STANDOUT TRENDS IN THE LAST DECADE.

Global business to consumer (B2C) e-commerce sales surpassed \$2.9 trillion in 2018, up 22.9% on the previous year, with global online sales accounting for 12.2% of total retail sales.¹ E-commerce is transforming not only the world of retailers, but also that of logistics operators, revolutionising supply chains along the way. This is driving meaningful change in retail logistics and physical distribution networks. Organisations require sufficient logistics space close to consumers to manage the ever-growing volume of e-commerce deliveries and shorter delivery horizons. In this paper, we look at the evolution of e-commerce and its impact on logistics space requirements. We investigate the conditions necessary for effective e-commerce fulfilment and explore the vital role that logistics real estate plays in the e-commerce era.



Source: ¹ eMarketer, 2019



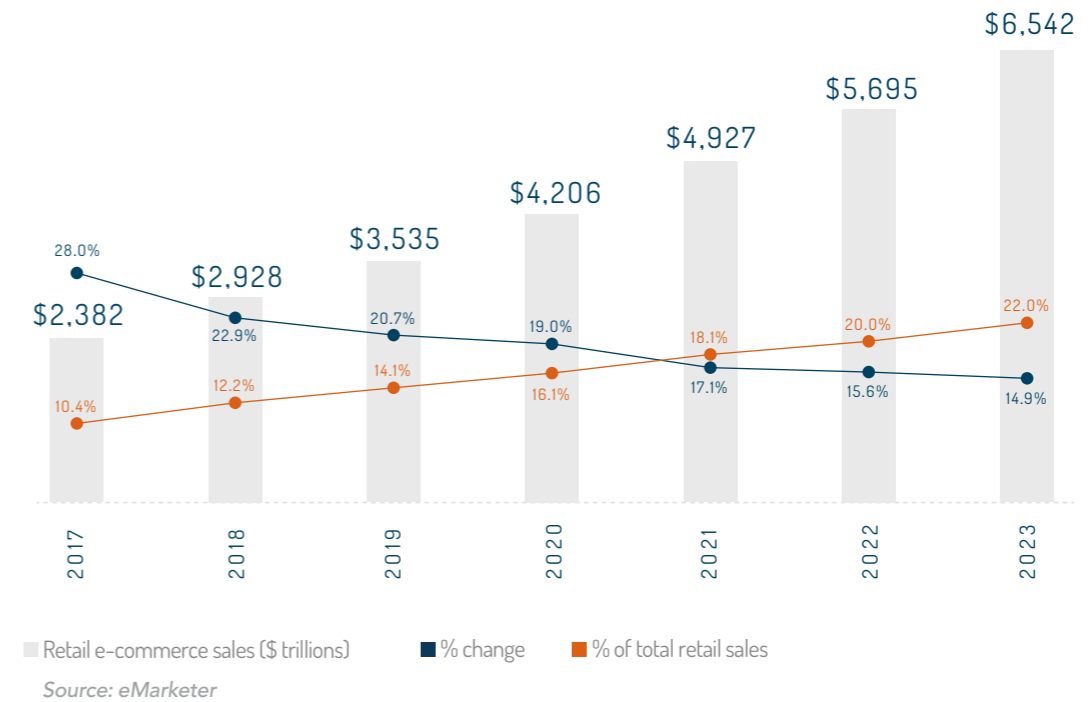
EVOLUTION OF E-COMMERCE

THE INTERNET HAS TRANSFORMED THE WAY PEOPLE BUY AND SELL GOODS. E-COMMERCE IS ON THE RISE, WITH INNOVATIONS IN TECHNOLOGY OCCURRING AT A RAPID PACE.

However, e-commerce can be traced back to remarkably simple origins. In 1994, The New York Times reported that a man named Phil Brandenberger purchased a Sting album from his computer. This opened up the opportunity for internet entrepreneurs to advance online technologies. With the advent of Amazon and eBay the following year, the pace of e-commerce picked up and in recent years has soared. By 2014, worldwide retail e-commerce sales amounted to \$1.336 trillion. Global B2C e-commerce sales have more than doubled since then, in line with changing consumer preferences and the growth of online users.

Estimates from eMarketer indicate online sales are predicted to reach \$3.5 trillion in 2019, accounting for some 14.1% of the world's total retail sales. Global online sales are growing rapidly, but the pace of growth varies, with sharp divergences between developed and developing economies. These differences can be explained by a variety of factors, but some of the features shown in more developed e-commerce markets include higher rates of internet penetration, secure online payment systems, well developed logistics infrastructure and a more mature 'bricks and mortar' retail market which provides opportunity to integrate systems across multiple channels.

Retail E-commerce Sales Worldwide, 2017-2023



Estimates for Europe indicate retail e-commerce sales growth of 14.5% this year in Western Europe compared to 19.4% in Central and Eastern Europe (CEE). CEE nations currently lag their Western European neighbours in terms of total online sales, but select countries are playing catch up driven by increasing online demand from consumers. Western Europe still retains three of the top six e-commerce markets globally (in terms of total online sales), led by the UK, Germany and France. These markets have been early adopters of e-commerce and have already established themselves as digitally advanced.

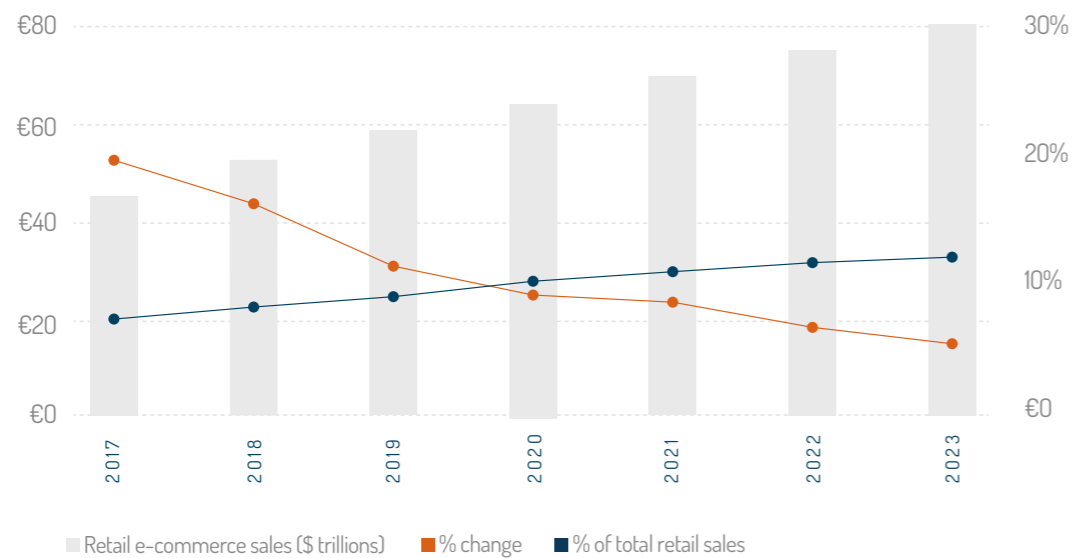
Despite significant variation in the maturity of e-commerce, one thing is clear – with European online sales estimated at approximately 10% of total retail sales, there is still significant growth potential.² The pace of online sales growth is slowing, but the shift towards online consumption is, in our view, not a short-term phenomenon, but rather a long-term structural change enabled by technology and driven by fundamental changes in consumption.

Source: ² JLL, 2019

FRANCE IN FOCUS

FRANCE IS AMONG THE LARGEST E-COMMERCE MARKETS IN THE WORLD IN TERMS OF TOTAL ONLINE SALES, RANKING THIRD IN EUROPE AFTER THE UK AND GERMANY AND SEVENTH GLOBALLY.

Retail E-commerce Sales France, 2017-2023



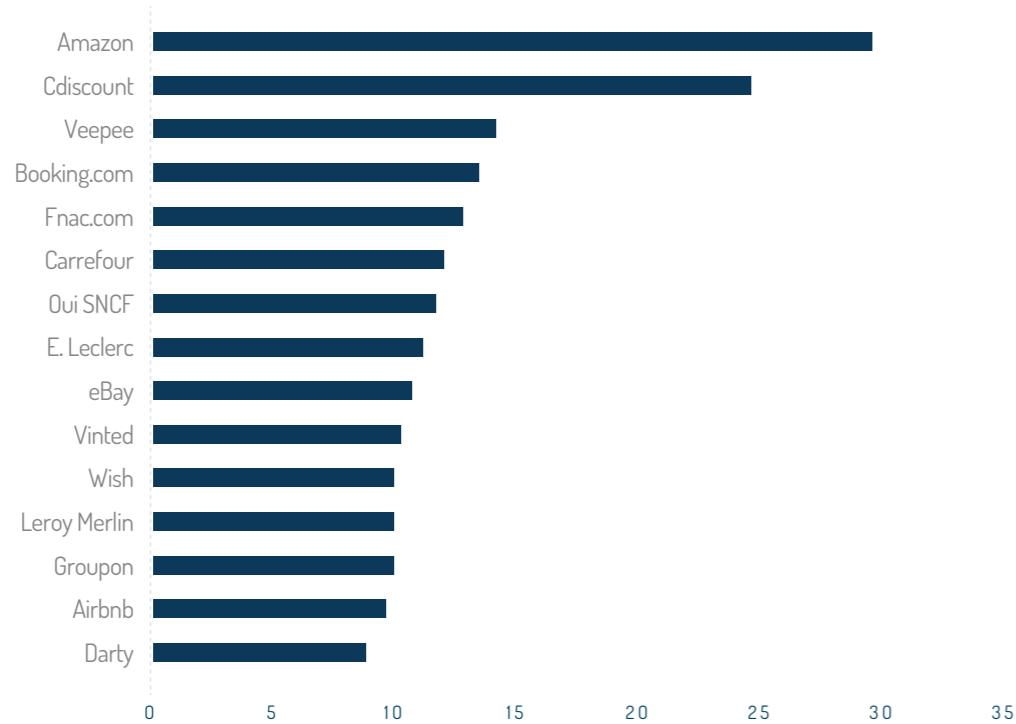
Source: eMarketer



The market has grown by 16.5% in the last year alone. In 2018 online retail sales in France accounted for around 8.6% of total retail spending. E-commerce is continuing to gain market share in France and 2019 is expected to mark a new record of over €58 billion in turnover, rising 11.5% year over year. That will represent 9.5% of total retail sales in France. By 2023, e-commerce outlays are expected to top €79 billion.³ This change in consumption is in line with the growth in French internet penetration, with the share of internet users reaching 89% in 2018 compared to just 62% a decade ago.⁴ Amazon remains the market leader for e-commerce sales in France and has developed a strong network of logistics space. However, major national players such as Cdiscount, Veepee and Fnac are continuing to make gains.

Source: ³ eMarketer, 2019, ⁴ Eurostat, 2019

Top 15 most visited e-commerce sites in France, Q2 2019

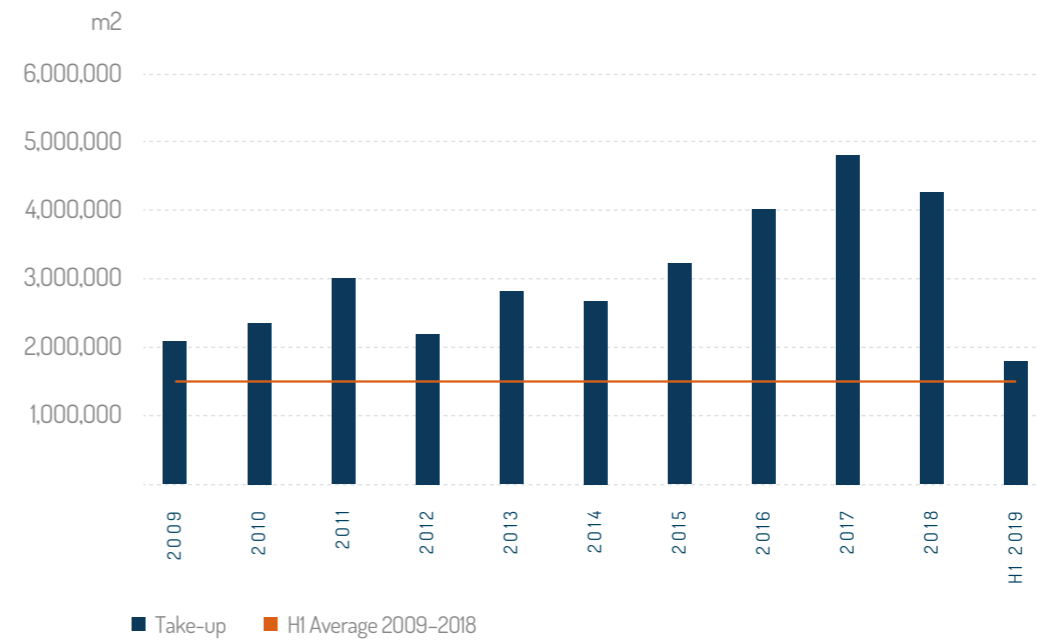


Source: FEVAD, Médiamétrie

Real estate market activity on French logistics assets has been dynamic with demand from users boosted by the needs of e-commerce. Whether it is XL hubs or urban logistics facilities to serve last mile consumption, logistics space has become a key enabler for effective e-commerce logistics fulfilment. Take-up of logistics space reached a record 4.8 million m² in 2017, more than doubling in the last five years.⁵ Since then, it has continued to trend well above average levels.

Requirements for XL warehouses have grown in parallel with e-commerce. In recent years, requirements for large warehouse facilities from the likes of Amazon, Cdiscount, E. Leclerc, Carrefour and Conforama, have meant the French logistics sector has been increasingly driven by large operations. Supply and land constraints, particularly in the Île-de-France region are leading users of logistics space to turn their attention to other strategic areas of the logistics corridor.

Logistics Take-up France >5,000 m²



Source: CBRE

There is growing evidence that an increasingly omni-channel retail strategy will drive additional logistics space demand in France. French furniture retailer Maisons du Monde aims to double its revenue over the next five years through international store openings and growth of its omni-channel model. It targets a 30-35% share of online sales by 2024.⁶ Users are also increasingly looking at urban logistics given consumer expectations around ever-faster delivery. The hypermarket retailer, E.Leclerc, has been experimenting with small click and collect “Drive Piéton” facilities in cities. Logistics spaces are gravitating towards urban centres, however, this type of building typically has price levels much higher than those of regional distribution warehouses, which can be a challenge for some players.

Source: ⁵ CBRE, 2019. ⁶ Global newswire (taking online to 30-35% of total sales)

E-COMMERCE IS TRANSFORMING SUPPLY CHAINS

SUPPLY CHAINS IN THE PRE-ECOMMERCE WORLD WERE VERY SIMPLE, WITH NATIONAL AND REGIONAL DISTRIBUTION CENTRES SERVING SHOPS. THE IMPACT OF ONLINE SALES ON SUPPLY CHAINS HAS BEEN PROFOUND.

They are now multi-faceted and more complicated, depending on the demands of suppliers and customers. There is no single e-commerce distribution method that is dominating the industry. Business models are responding to the shift in consumer preferences in diverse ways. But, broadly speaking, e-commerce supply chains are focused on speed, efficiency and proximity to consumers. In a recent survey of consumers, 58% say they would opt for a retailer with more delivery options over an alternative with fewer. In France, this proportion is significantly higher, with some 71% of consumers opting for retailers with more delivery options. The same survey also revealed 55% of consumers want one-hour delivery in metropolitan areas, rising to 64% in France.⁷ Consumers expect to encounter a range of fast and flexible delivery options when shopping online, however the survey suggests factors such as reliability, returns policy and brand loyalty also matter. For example, over one-third of consumers say they frequently check an e-commerce site's returns policy before making a purchase. Going forward, customer centricity as well as fast and flexible delivery are likely to be among the markers of success for retailers.

This is pulling supply chains closer to consumers and driving capital investment in logistics infrastructure. The shift in customer preferences is driving retailers to integrate physical and online stores as well as distribution networks. The distinction between off and online sales is blurring as supply chains become more integrated. Physical retail will remain an important part of retail supply chains, but logistics space is increasingly crucial to the performance of the retailer. Organisations are demanding more of their supply chains as they seek the flexibility to deliver for consumers across multiple channels and whenever they want.



Source: ⁷ Metapack

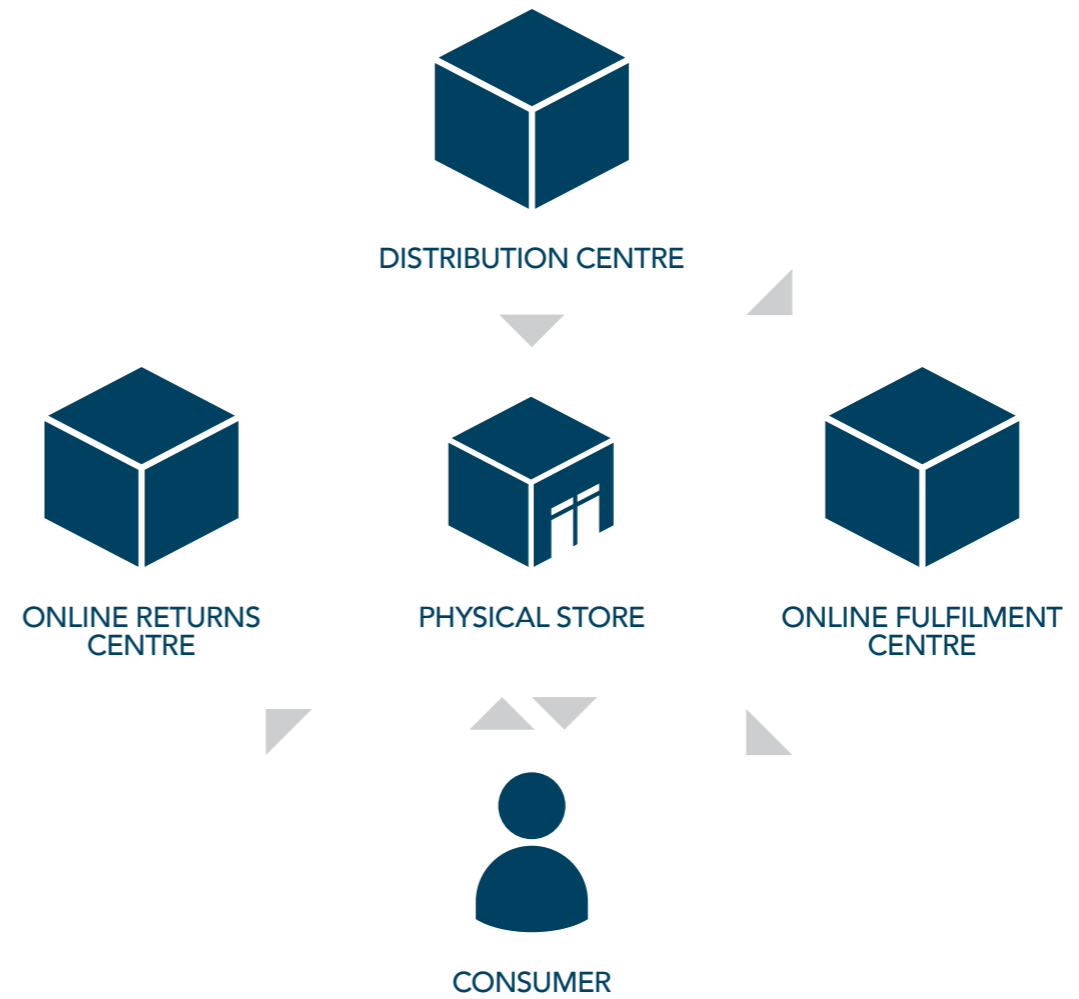


SUPPLY CHAIN EVOLUTION

Traditional retail supply chain



Omni-channel supply chain



LOGISTICS REAL ESTATE IS PART OF THE SOLUTION

EFFECTIVE LOGISTICS FULFILMENT NOW REPRESENTS A KEY POINT OF DIFFERENTIATION FOR RETAILERS LOOKING TO WIN THE BIGGEST SHARE OF CONSUMER SPEND.

The speed and efficiency of distribution networks is key to meeting consumer expectations and retailer business objectives. The ability to respond rapidly to consumer requirements is strongly dependent on the quality and flexibility of logistics supply chains. Logistics real estate is an essential part of the supply chain and has become a key differentiator for improving service levels, cost management and overall business performance.

The impact of e-commerce on logistics real estate has been apparent for some time, however it is likely to remain just as relevant. E-commerce will continue to be a strong tailwind for the logistics sector with demand for modern logistics space expected to remain robust. Scale matters so much in e-commerce logistics fulfilment, however it has been challenging, particularly for larger operators and retailers to secure the volume of space required under pressure of need and demand. The market has responded through increased development, but activity remains controlled with the majority (70%) either pre-let or built to suit. Although, real estate typically represents a small proportion of total supply chain costs, the need to achieve scale has raised the importance of real estate in the supply chain equation.

Undoubtedly, the growth of online sales has accelerated demand for logistics space, particularly larger facilities. This trend is expected to continue, given online sales require more logistics space than traditional in-store retail sales. To keep up with increasing demand from e-commerce channels and meet the expectations of consumers, we anticipate organisations will need to continue to invest in their logistics facilities and processes.



With E-commerce still forecast to have significant further growth, demand for logistics space is set to remain robust. Logistics take-up has been increasing since 2012. Despite new developments, supply for logistics space remains limited to meet anticipated demand. With vacancy rates at their lowest across Europe, it is essential to work with experienced teams to ensure access to the best sites and facilities. In the context of rising land values and intense competition, it is important to align with developers and owners who have strategic sites that are close to consumers and a local workforce, and those that are flexible and ready to develop.



CONCLUSION

E-COMMERCE AND THE DEMAND FOR OMNI-CHANNEL FULFILMENT IS AN IMPORTANT DRIVER OF DEMAND FOR LOGISTICS REAL ESTATE. AS RETAILERS SEEK TO DRIVE PROFITABILITY, TO RESTRUCTURE THEIR SUPPLY CHAINS AND TO IMPROVE EFFICIENCY, LOGISTICS FACILITIES ARE INCREASINGLY VIEWED AS REVENUE DRIVERS.

A functional logistics network is key to e-commerce meeting customer demands. In today's ultra-competitive retail environment, logistics real estate can provide organisations with a competitive advantage by supporting consumer expectations around efficiency and reliability and so too support overall retailer performance. To keep up with increasing demand from e-commerce channels and meet the expectations of consumers, organisations will need to invest in their warehouses and distribution centres.

Europe's economy has been tempered by signs of slowing growth in recent months, however, online retail sales still have enormous growth potential. E-commerce is the fastest growing retail channel in Europe and is expected to drive demand for logistics space, with new additions required in the coming years. With further growth anticipated, we expect demand for logistics supply chain locations on a national, regional and city level. While every supply chain is unique, we expect to see continued demand for a range of different types of e-commerce related distribution space. Europe's large population centres and established logistics hubs will continue to benefit, driven by trends like faster delivery times, transportation costs and access to labour. The nature and scale of the demand and the location attributes of the facilities will of course vary according to market conditions and customer requirements.





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BY MOUNTPARK LOGISTICS EU SARL.

We combine robust industry data with insights from leading international logistics occupiers to ensure we understand what our customers really want.

Mountpark Logistics EU Sarl is a Luxembourg domiciled joint venture between Mountpark Finco and Affinius Capital Europe Holdco B.V.

The venture was established to undertake logistics development across Europe, with particular emphasis on the UK, Western and Central European markets.

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