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Appropriateness of retail sales distinguished by sales channels

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 „Appropriateness of retail sales distinguished by sales channels“
 - Discussion paper -**

1 Background

1.1 Development of retail sale via mail order houses or via Internet in Germany

The German retail trade not in stores, stalls or markets (according to group 479 of ISIC Rev. 4) increased with two digit rates concerning the number of enterprises during the years 2010 up to and including 2012:

Table 1

Number of enterprises in the German retail trade from 2009 up to and including 2012

Year		number of enterprises	annual percentage change
ISIC classes (selected positions): Trade			
2009			
ISIC 47	Retail trade, except of motor vehicles and motorcycles		
ISIC 471-477	Retail sale in stores	303 574	
ISIC 479	Retail trade not in stores, stalls or markets	19 333	
2010			
ISIC 47	Retail trade, except of motor vehicles and motorcycles	325 085	-1.3
ISIC 471-477	Retail sale in stores	296 595	-2.3
ISIC 479	Retail trade not in stores, stalls or markets	22 398	15.9
2011			
ISIC 47	Retail trade, except of motor vehicles and motorcycles	331 297	1.9
ISIC 471-477	Retail sale in stores	300 167	1.2
ISIC 479	Retail trade not in stores, stalls or markets	24 639	10.0
2012			
ISIC 47	Retail trade, except of motor vehicles and motorcycles	325 245	-1.8
ISIC 471-477	Retail sale in stores	290 181	-3.3
ISIC 479	Retail trade not in stores, stalls or markets	29 050	17.9

With the help of the following illustration it becomes furthermore apparent, that the German retail sale via mail order houses or via Internet (ISIC-4791) could clearly increase its turnover in comparison to the retail trade in stores (ISIC 471 - 477) during the years 2013 and 2014:

Figure 1

Development of deflated turnover: retail sale in stores and retail sale via mail order houses or via Internet from 2010 up to and including 2014.

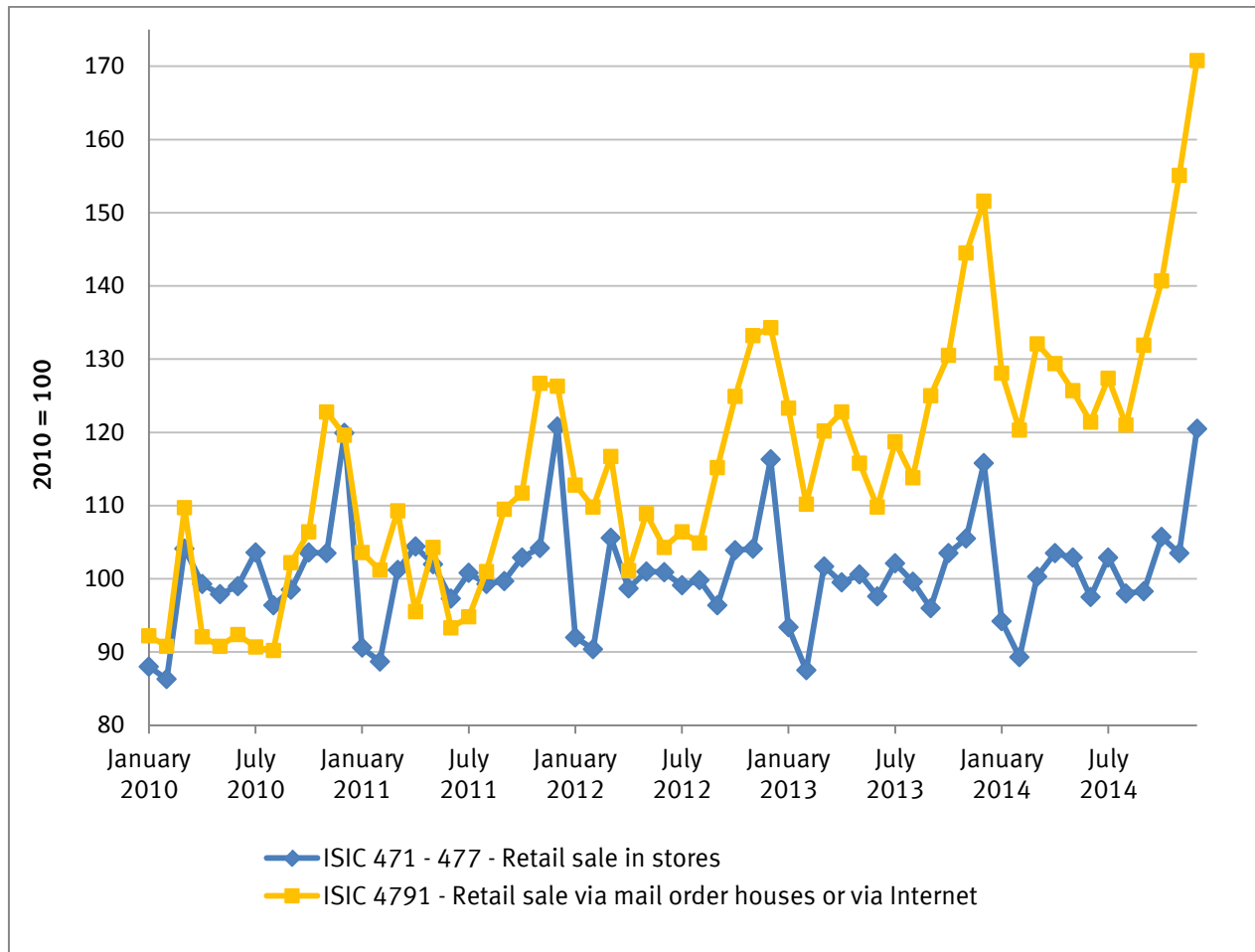


Table 2 on the following page shows the turnover of the German retail sale via mail order houses or via Internet according to the range of goods in terms of shop-based ISIC classes in 2012. The allocation has been done by recoding the turnover of enterprises in retail sale via mail order houses or via Internet for the range of goods in terms of the statistical Classification of Products by Activity in the European Economic Community (CPA 2008) via the German classification of economic activities to the corresponding ISIC classes. On the basis of this analysis it gets apparent, that, already in the year 2012, the enterprises of retail sale via mail order houses or via Internet (ISIC class 4791) held considerable sales shares of specific goods in relation to the retail sale in stores (ISIC groups 471 to 477):

Table 2

Turnover in the German retail sale via mail order houses or via Internet in 2012 according to ISIC-classes and their relation to the respective classes of the retail sale in stores

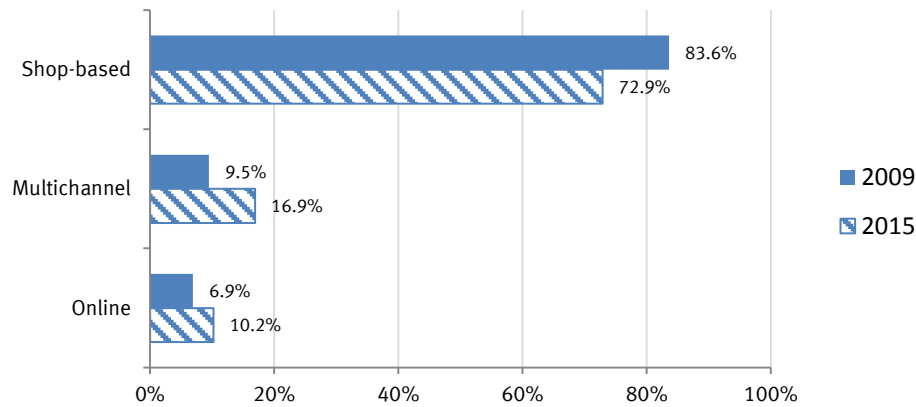
Range of goods according to ISIC class	Turnover by mail order houses or online shops [1 000 EUR]	Relation of sales by mail order houses or online shops compared with sales in stores [%]	Turnover by stores [1 000 EUR]
4721 Retail sale of food in specialized stores	446 083	3.9	11 360 000
4722 Retail sale of beverages in specialized stores	215 458	3.7	5 837 000
4723 Retail sale of tobacco products in specialized stores	28 983	1.1	2 622 000
4741 Retail sale of computers, peripheral units, software and telecommunications equipment in specialized stores	2 346 260	32.9	7 123 000
4742 Retail sale of audio and video equipment in specialized stores	1 413 241	8.2	17 304 000
4751 Retail sale of textiles in specialized stores	1 161 022	47.0	2 471 000
4752 Retail sale of hardware, paints and glass in specialized stores	834 954	3.9	21 308 000
4753 Retail sale of carpets, rugs, wall and floor coverings in specialized stores	290 294	12.1	2 400 000
4759 Retail sale of electrical household appliances, furniture, lighting equipment and other household articles in specialized stores	3 523 802	10.5	33 486 000
4761 Retail sale of books, newspapers and stationery in specialized stores	856 253	13.1	6 542 000
4762 Retail sale of music and video recordings in specialized stores	329 036	91.1	361 000
4763 Retail sale of sporting equipment in specialized stores	1 065 472	14.9	7 161 000
4764 Retail sale of games and toys in specialized stores	731 067	51.8	1 412 000
4771 Retail sale of clothing, footwear and leather articles in specialized stores	7 631 579	20.5	37 201 000
4772 Retail sale of pharmaceutical and medical goods, cosmetic and toilet articles in specialized stores	907 077	1.8	50 517 000
4773 Other retail sale of new goods in specialized stores	5 587 143	22.3	25 089 000
4774 Retail sale of second-hand goods	353 987	18.6	1 902 000
Total	27 721 711	11.8	234 096 000

Due to the increase in turnover up to 2014, subject to figure 1 on page 2, it is assumed, that the German retail sale via mail order houses or via Internet could meanwhile increase its share of sales from the particular ranges of goods.

One reason for the expansion of the retail sale via mail order houses or via Internet sector in Germany is the possibility for enterprises to contact a remarkably higher number of customers via the Internet. The German retailers therefore increasingly move on to establishing multiple sales channels (Multi-

channel-Strategy), in order to increase their turnover. Figure 2 shows the prospects of the share of sales in the non-food-multichannel-trade for the year 2015 in comparison to the year 2009. According to this a decrease in the share of sales in the mere retail sale in stores in the non-food-section in Germany faces an increase of the multichannel-trade and mere online retail trade during the same period of time in the same economic area:

Figure 2 Forecast of the shares of sales in the non-food-multichannel trade in 2015 in comparison to 2009

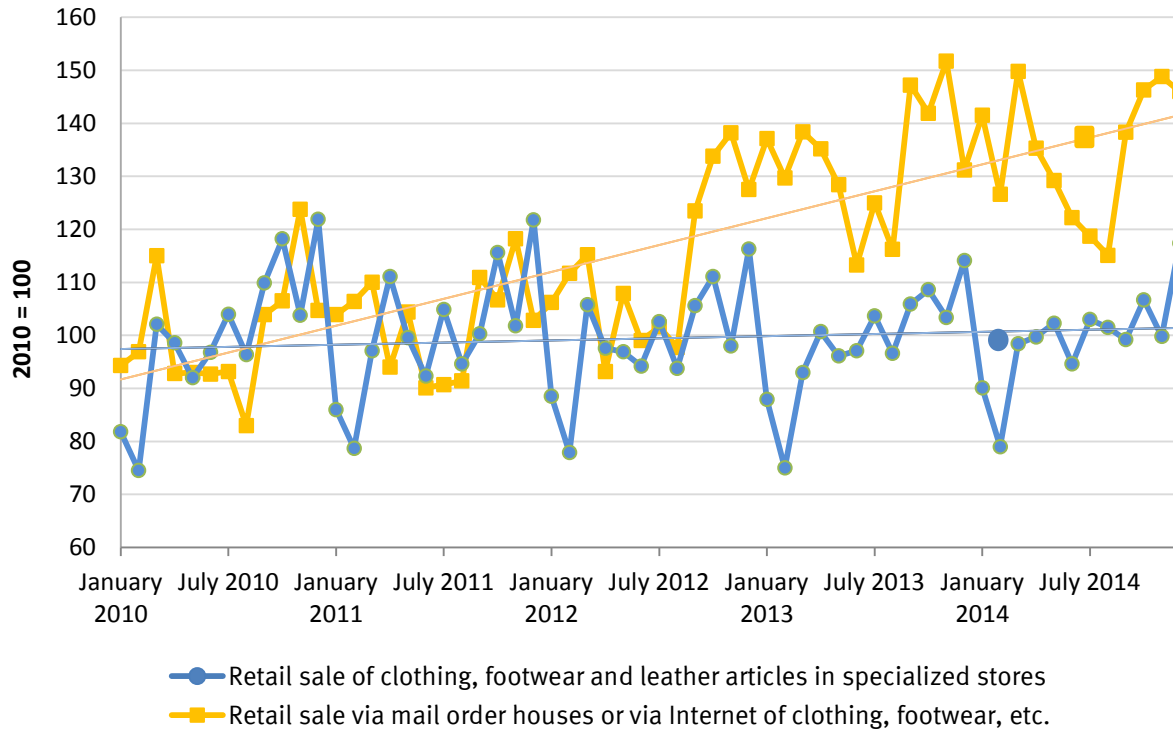


The classification of the particular enterprises results from their principal activity. If the sales form “retail sale via mail order houses or via Internet” prevails, the enterprises concerned will be reclassified into the retail sale via mail order houses or via Internet, even though they continue the retail sale in specialized stores. But the statistics on retail trade then suggest a “die back” of shop-based retailers.

The German statistic disseminates the retail trade using a national classification. On the basis of ISIC it divides the retail trade first according to sales channels and in the next step according to the range of goods. Due to this classification structure of retail trade and the impact resulting from the reclassification mentioned above, it gets more and more difficult to provide statistical data according to ranges of goods. Figure 3 makes clear that e. g. the class of the retail sale of clothing, footwear and leather articles in specialized stores is not applicable for the evaluation of the economic situation of the total retail trade in that particular sector. This is because the corresponding retail sale via mail order houses or via Internet offers a completely different economic development. But for economic policy measures and trade cycle policy measures statistical data are needed, particularly according to the range of goods and to a lesser extent according to sales channels.

Figure 3

Deflated turnover in the German retail sale of clothing, footwear and leather articles in specialized stores (ISIC 4771) and retail sale with textiles, clothing, footwear and leather goods via mail order houses or via the Internet (national subclass in ISIC 4791) from 2010 up to and including 2014



Due to the increasing extension of the Multichannel-Strategy in many cases shop-based retailers realize turnovers from online trade additionally to their turnover from their stores. However the enterprises classified in retail sale in stores usually do not provide this additional turnover from sales via Internet separately but add them to the turnover of the shop-based retail trade.

By the classification of the retail trade mainly according to sales channels and in a second step according to the type of goods traded, information on the range of goods are statistically no more available for an industry analysis.

Methodological indications

The abovementioned statistics are based on the German annual survey on retail trade from 2009 up to and including 2012 and the monthly survey on retail sale from 2010 up to and including 2014. Due to the annual update of the underlying sample both surveys are exceedingly representative. In the course of the annual survey the enterprises of the German retail sale via mail order houses or via Internet are requested to separate their turnover in percentages according to 60 different product groups (ranges of goods).

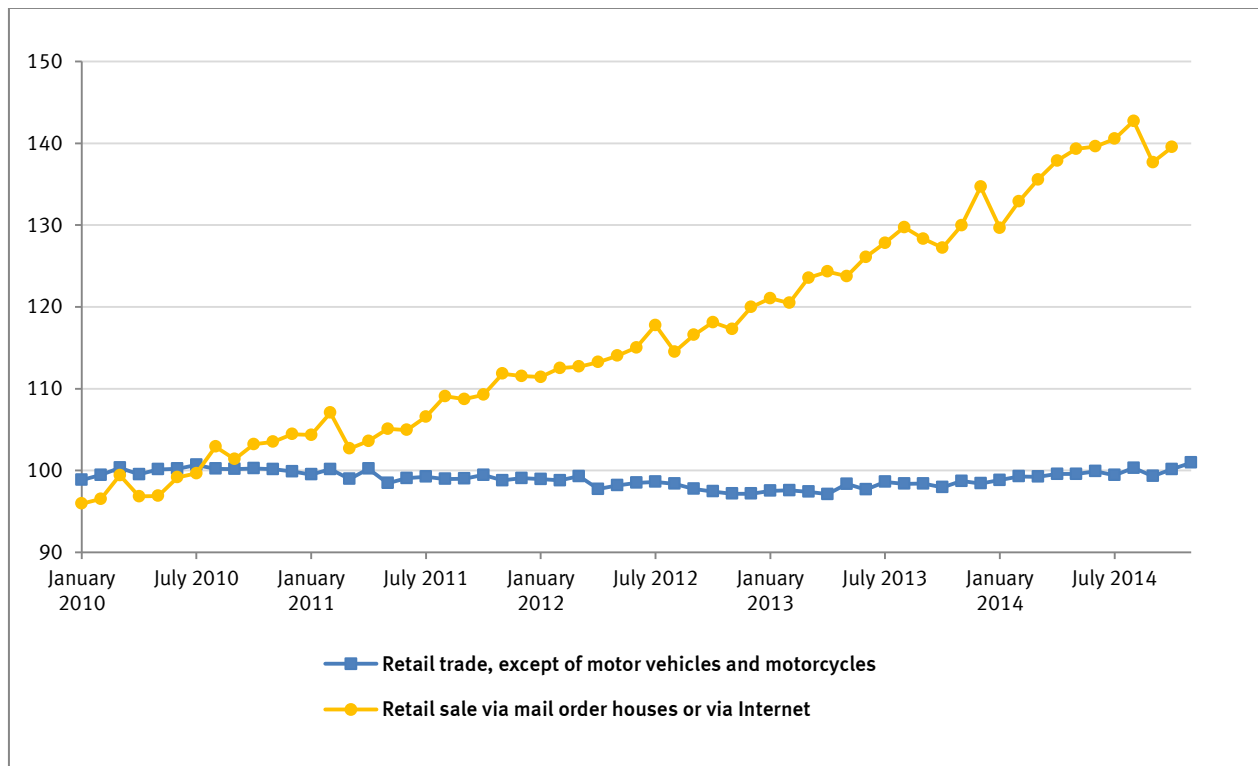
1.2 Development of the retail sale via mail order houses or via Internet in other countries

With regard to the development of the retail sale via mail order houses or via Internet in other countries, statistics of the European Union and the United States of America have been used.

According to the short term statistics of the European Union (28 countries including Germany) the retail sale via mail order houses or via Internet in Europe could achieve a considerably higher turnover gain than the overall retail trade from 2010 up to and including 2014.

Figure 4

Development of sales in the total retail trade (ISIC 47) and in the retail sale via mail order houses or via Internet (ISIC 4791) in the European Union (28 member states) from January 2010 up to and including November 2014:



We therefore assume, that the respective enterprises are – similar to those in Germany – operating in different economic sectors depending on the consumption habits of the national consumers and on the suitability of the products traded for the postal transport. Hence it may also be difficult in other countries, to present data for retail trade according to product groups, as the European countries also use classifications that primarily split the retail trade into sales channels and secondarily according to the range of goods.

For the United States of America a similar situation results as shown in table 3 on the following page. Here the share of sales of „NAICS 4541 Electronic shopping and mail order houses“ increases remarkably more over several years than in many economic areas of the retail trade in stores:

Table 3

Turnover of the retail trade in stores as well as electronic shopping and mail order houses in the United States of America from 2009 up to and including 2012

NAICS Code	Description	Value of Sales							
		2012		2011 Revised		2010 Revised		2009 Revised	
		Total	%	Total	%	Total	%	Total	
	Total Retail Trade	4 344 140	5.1	4 132 996	7.6	3 841 454	5.8	3 630 408	
441	Motor vehicles and parts dealers	894 798	9.3	818 703	9.7	746 120	10.7	674 002	
442	Furniture and home furnishings stores	94 898	5.3	90 124	3.2	87 290	1.2	86 258	
443	Electronics and appliance stores	102 998	2.2	100 792	1.7	99 128	1.1	98 030	
444	Building materials and garden equipment and supplies stores	294 656	5.5	279 402	4.3	267 950	0.4	266 975	
445	Food and beverage stores	631 486	3.4	611 006	5.0	581 929	2.2	569 314	
446	Health and personal care stores	275 645	1.1	272 555	4.4	261 128	3.1	253 245	
447	Gasoline Stations	551 888	4.3	528 937	18.6	445 962	14.4	389 774	
448	Clothing and clothing accessories stores	241 386	5.3	229 327	7.3	213 720	4.3	204 813	
451	Sporting goods, hobby, book, and music stores	85 190	3.3	82 466	1.0	81 657	0.8	81 040	
452	General merchandise stores	649 754	3.0	630 557	3.7	607 989	2.8	591 682	
453	Miscellaneous store retailers	112 966	1.5	111 256	4.4	106 540	3.1	103 384	
454	Non-Store retailers	408 475	8.1	377 871	10.5	342 041	9.7	311 891	
4541	Electronic shopping and mail order houses	322 543	10.9	290 852	11.6	260 644	11.5	233 672	

1.3 Summary

German official statistics currently report the German retail trade based on a classification of economic activities, which itself was derived from ISIC, in order to provide internationally comparable data. It separates – as well as ISIC – the German retail trade into retail sale in stores on one side and retail sale via mail order houses or via Internet on the other side in the first step and only in the second step according to the range of goods. German retail sale via mail order houses or via Internet has, clearly at the expense of the shop-based retail trade, expanded its range of goods and its share of sales during the last years. Due to the possibility to acquire much more clients via the Internet, it is assumed that in future more and more retailers will operate in a Multichannel-Strategy and will therefore (potentially) be reclassified into retail sale via mail order houses or via Internet because of the main clientele. In consequence of this development in conjunction with the statistical representation of retail sale according to sales channels predominantly, a presentation of data concerning German retail trade in terms of product groups is hardly possible anymore. The existing classification items for retail sale in stores in Germany do not provide a basis for a so called industry analysis because they diminish the economic development due to the separately classified retailers in the retail sale via mail order houses or via Internet. As a consequence there is currently no possibility for proper reporting of industry sector results, i.e. of data for retail sale according to product groups, although there is a growing demand for such data.

Statistics of the European Union and the United States of America show a similar development in retail trade. In these countries the presentation of data for retail sale according to product groups may also become increasingly difficult.

2 Considerations on how to proceed

We propose the abolition of the segmentation of retail trade by sales channels **within the classification**. In future retail trade should be classified only by type (range) of goods traded just as in “wholesale trade”, “wholesale on a fee or contract basis” and “sale of motor vehicles”. The abolition of the differentiation by sales channels is the only possibility to provide necessary data for industry sector analysis.

The main reason for the abolition of the classification by sales channels is the Multichannel-Strategy of retail businesses. If a store generates more value added from sales via Internet it will be reclassified into retail sale via mail order houses or via Internet. Statistics will show that a store disappeared – which is not necessarily the case. On the other hand the increasing Multichannel-Strategy also leads to the fact, that retailers in retail sale via mail order houses or via Internet achieve notable turnover from retail sale in stores. The represented turnovers of retail sale via mail order houses or via Internet would then be too high resulting from this strategy.

However a differentiation between retail sale in stores and retail sale via mail order houses or via Internet must be provided by trade statistics also in future. To be able to show the alteration in trade, the shares of sales of retail sale in stores, the catalogue trade and accordingly the mail order trade, the teleshopping and the Internet shopping should be collected in addition to the type (range) of goods traded **within the survey(s)**. If in future the turnover focus changes from e. g. shop-based retail trade of a given range of goods to mail order trade of the same range of goods an enterprise should stay in the same classification item. Thereby both results according to retail sale of a certain range of goods and results according to sales channels would be possible. The current breakdown of retail trade according to sales channels in ISIC prevents this.

The abolition of the breakdown by sales channels in retail trade is somewhat urgent due to the increase in retail sale via mail order houses or via Internet on one hand as well as the lack of internationally comparable statistics on the economic situation of the different areas of the retail trade.