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Co-creation of a transition pathway for a more resilient, digital and green retail ecosystem

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1. INTRODUCTION

On 10 March 2020, the Commission adopted a new Industrial Strategy¹ to help EU industry lead the green and digital transformations and to drive Europe's competitiveness and strategic autonomy. Following the experience of the COVID-19 pandemic, the update of the EU Industrial Strategy² highlighted the need to further accelerate the green and digital transitions in line with the EU Green Deal³ and Digital Decade⁴ and increase resilience of EU industrial ecosystems.

In the 2021 update of the Industrial Strategy, the Commission has identified retail as one of the 14 industrial ecosystems crucial for the recovery of the EU economy. It has also proposed transition pathways for some of these industrial ecosystems as co-creation processes with stakeholders.⁵ Transition pathways should identify current and future challenges and opportunities in the different ecosystems and accompany the green and digital transition of these ecosystems towards 2030 and beyond.

This Staff Working Document invites all relevant stakeholders (Member States authorities at national, regional and local level), businesses and their associations, social partners, civil society, academia, consumers etc) to take part in the process and co-design a transition pathway for the retail ecosystem. The results from this process should help the retail ecosystem become more resilient, digital and greener.

The document builds on contributions from relevant stakeholders, the ecosystem analysis included in the 2021 Annual Single Market Report⁶ and develops further Commission policy on retail and wholesale as set out in the 2018 Communication “A European retail sector fit for the 21st century”⁷ and the “Facing the Future: Practical guide for fostering the revitalisation and modernisation of the small retail sector”⁸.

It draws initial scenarios for the green and digital transition of the retail ecosystem, using the building blocks developed by the Industrial Forum.⁹ It is structured around five pillars of resilience, digitalisation, greening, skills and a fair and just transition. Each section contains questions to stakeholders allowing them to express their views on the proposed issues. Results of the targeted online stakeholder consultation will be further discussed with relevant parties in dedicated workshops. This co-creation process will lead to the finalisation of the transition pathway for the green and digital transition of the retail ecosystem.

¹ Commission Communication, *A New Industrial Strategy for Europe*, COM(2020) 102 final

² Commission Communication, *Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery*, COM(2021) 350 final

³ European Commission, [A European Green Deal](#)

⁴ European Commission, [A Europe fit for the digital age](#)

⁵ [EU Transition Pathways \(europa.eu\)](#)

⁶ *Annual Single Market Report 2021* SWD(2021) 351 final

⁷ Commission Communication, *A European retail sector fit for the 21st century*, COM(2018) 219 final

⁸ Commission Guide, *Facing the future: practical guide for fostering the revitalisation and modernisation of the small retail sector: #RevitaliseRetail*, 2018

⁹ [Industrial policy dialogue and expert advice \(europa.eu\)](#)

2. THE RETAIL ECOSYSTEM IN THE EU

The retail ecosystem plays a distinctive role among the 14 industrial ecosystems: not only is it the biggest of all ecosystems in terms of employment, number of firms and contribution to EU value added, but also the one that serves daily almost 450 million EU consumers who spend 1/3 of their household budget on shopping.

The retail ecosystem accounts for 11,5% of EU value added. It directly employs almost 30 million people in 5.5 million companies, 99.9% of which are SMEs¹⁰. SMEs account for two-thirds of the ecosystem's employment and generate almost 60% of its value added.¹¹ Retail and wholesale SMEs are also the largest group among all EU-27 SMEs in the non-financial business sectors, accounting for almost 24%.¹²

It is also important globally, as 24 out of 50 world's biggest retail chains come from the EU.¹³

The retail ecosystem covers grocery and non-grocery retail, relevant wholesale and online platforms. It is also closely interlinked with primary producers, manufacturers, importers, packaging, waste management companies, transportation and logistics service providers, postal and courier service providers, fulfilment centres, marketing, financial and payment services and retail real estate. Finally, at the end of the supply chain, the retail ecosystem is in a direct contact with consumers.

The specificity of retail is that it acts as a distribution channel for products and as such, it is interlinked with the majority of industrial ecosystems. However, its strongest links are with the agri-food, textiles, tourism and proximity and social economy ecosystems.

The retail ecosystem is characterised by different business models, such as integrated chains, franchise systems, groups of independent retailers, cooperatives, independent SMEs, social economy actors, etc. Channels of sales range from physical shops, multi and omni-channel players to pure online players, platforms and marketplaces. The retail ecosystem is heterogenous also in terms of its sub-sectors. Physical retail can be divided broadly into grocery (covering not only food, but also other FMCG¹⁴ products) and non-grocery (other non-food products). These sub-sectors can be further divided into channels or segments depending on the type of shop (e.g. supermarket, hypermarket, discounter) or type of product sold (e.g. apparel & footwear, electronics or health & beauty). Figure 1 below presents the structure of retail turnover in 2022. Grocery retail accounted for 56.3% and non-grocery retail for 43.7% of the sales value. Within grocery retail, the biggest share of turnover was generated by the supermarket segment (16.5%), followed by small local grocers (14.6%) and hypermarkets (9.1%). Within non-grocery retail, the largest segments were health & beauty¹⁵ (10.2%) and home products (9.7%), followed by apparel & footwear (6.1%).

¹⁰ Annual Single Market Report 2022, SWD(2022) 40 final (figures calculated based on NACE codes G46 (wholesale), G47 (retail), H53 (postal and courier activities) as well as contributions from a number of horizontal services interlinked with the retail ecosystem based on an input-output analysis)

¹¹ Ibid.

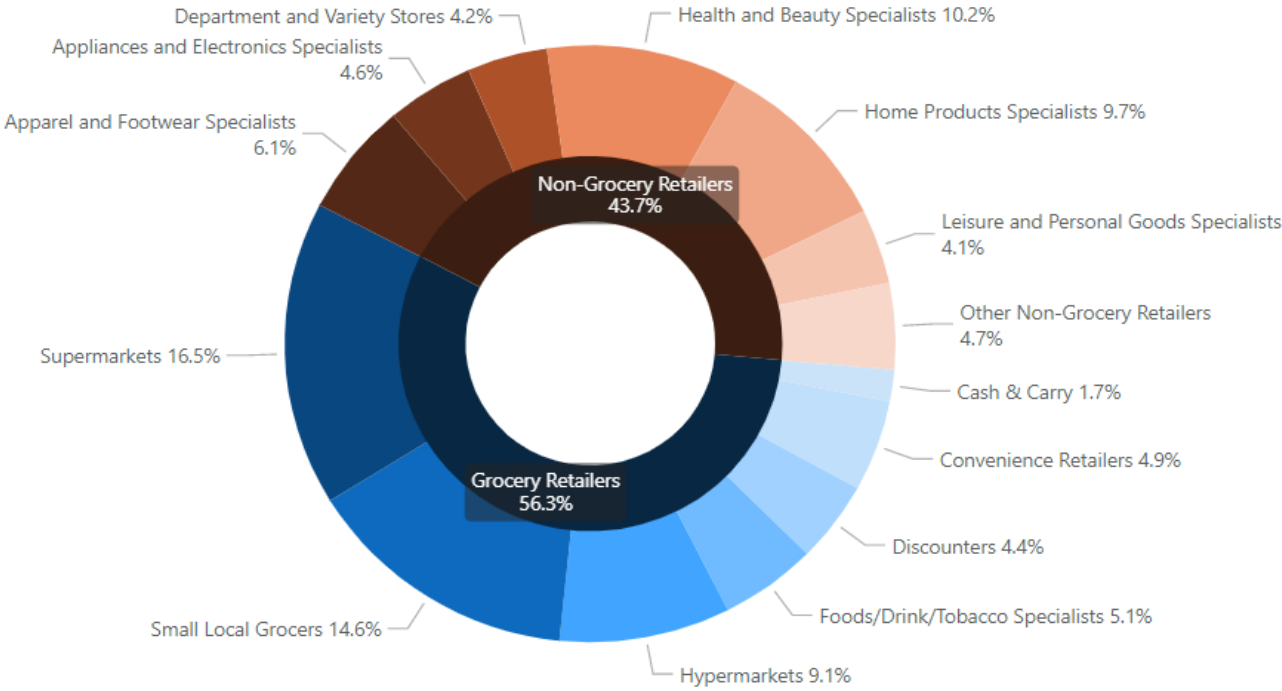
¹² European Commission, *SME Performance Review 2022/2023*

¹³ National Retail Foundation (NRF) (2023) based on Kantar (data for 2022). Available at: [NRF | Top 50 Global Retailers 2023](#)

¹⁴ Fast Moving Consumer Goods

¹⁵ "Health & beauty" includes pharmacies and optical goods shops

Figure 1 Structure of retail turnover in 2022



Source: Euromonitor 2022, Retail value RSP (retail selling price) excl. sales tax.

The grocery and non-grocery sub-sectors have different characteristics, respond to different consumer needs and may face different challenges. Retailers in these sub-sectors may be subject to different rules and requirements which often vary for the sale of food and non-food products. Depending on the segment, retailers may also play different roles in the supply chain. While they act in principle as distributors, some also produce or outsource the production of their private label products and thus control part of the supply chain upstream. In some segments, such as textiles, large retail chains are fully vertically integrated, i.e. they act both as manufacturers and retailers selling exclusively or almost exclusively their own products. This entails that in addition they are subject to rules and requirements relevant to the production of specific types of goods.

Finally, the retail ecosystem is a main driver of Single Market integration. It accounts for 14% of EU cross-border establishment¹⁶ which is the third highest share among the 14 industrial ecosystems.¹⁷ It acts as a distribution channel for EU manufacturing, which is particularly important in the food supply chain where 60% of EU food and drink exports are destined for the Single Market.¹⁸ In addition, e-commerce enables retailers to sell their products abroad and consumers to benefit from the retail offer across the EU.

Within the retail ecosystem, wholesale acts as a provider of key services, such as purchasing,

¹⁶ Measured in value added generated by intra EU-affiliates, i.e. enterprises resident in a Member State over which an institutional unit resident in another Member State has control. See European Commission *Annual Single Market Report 2023*, SWD(2023) 26 final

¹⁷ Energy intensive industries account for 18% of cross-border establishment, Aerospace and Defense for 15% and Energy-Renewables for 14% equally with Retail. Ibid.

¹⁸ Data&Trends, EU Food and Drink Industry, 2022 Edition

storing, developing and selling of goods. As business-to-business actors for many up- and downstream industries, wholesalers contribute significantly to the well-functioning of supply chains and provide added-value services to their customers.¹⁹

Among all services sectors, retail and wholesale provide the highest share of value added in the overall manufacturing output.²⁰ Overall, given the important linkages between the retail ecosystem and other ecosystems, its competitiveness can trigger important (positive) spill-over effects for the whole economy.

Over the past years, the ecosystem has been undergoing a massive transformation, driven by two major factors that are interlinked and mutually reinforcing: technology and changing consumer behaviour. Retailers and wholesalers are embracing digital technology and multi-channel retailing, combining traditional brick-and-mortar shops with online services, and offering new delivery solutions.

In the case of retail, digitalisation does not only modernise or speed up operations, but leads to a complete change of paradigm, shifting sales entirely or partially from the physical to the digital sphere.

These changes have been further accentuated and accelerated by the COVID crisis. The structure of online retail is analysed in detail in Section 4.

Omni-channel retail, merging physical and online interactions of a retailer and offering consumers a seamless shopping experience, becomes reality. More advanced use of technologies such as artificial intelligence, cloud computing or blockchain are gaining on importance and are likely to shape retail in the coming years.

The role of physical stores is changing. They continue to play a key role for consumers, allowing them to see, touch and try on products. However, they are now also acting as entertainment or experience centres integrating digital in-store technologies. Soon, they are likely to play a role as 3D printing centres, indoor farming hubs or circularity hubs, helping to give a second life to products or recycle them.

Retail formats such as hypermarkets and supermarkets are increasingly under pressure of online pure players, discounters developing their business model beyond the low-price offer and rapidly growing formats such as quick commerce. These developments have an even more pronounced impact on the viability of small retailers. While convenience stores and small local supermarkets gain on importance responding to a growing consumer trend of proximity and convenience, small non-food retailers may find it difficult to remain attractive to consumers. In that context, maintaining the vitality and commercial attractiveness of city-centres is a complex challenge for municipalities.

At the same time, the raising awareness of both consumers and businesses about the environmental footprint of production and consumption have induced a sustainability transition in the ecosystem. Retailers have been striving to make their operations greener and increase their offer of sustainable and circular products and services to respond to consumer demand. In the same way, consumers are also more and more concerned about ethical issues and businesses are striving to fulfill their concerns.

¹⁹ Eurocommerce, *Wholesale at the Centre of Europe's Economy*, 2020

²⁰ European Commission *Annual Single Market Report 2023*, SWD(2023) 26 final

To withstand current political and economic uncertainties and possible future crises, the retail ecosystem needs to transform and build its resilience.

For that, the ecosystem needs a well-functioning Single Market and a favourable business environment. It also needs substantial financial investment in infrastructure, technology and skills. Estimates show that the retail sector needs to invest between 0.8 % and 1.6 % of its total revenue by 2030 to transform. This investment would be split between 0.3 % to 0.9 % of retail's total revenue for the green transition, 0.4 % to 0.6% for the digital transition and 0.1 % for skills.²¹

However, due to the unprovoked and unjustified Russian aggression on Ukraine and the resulting energy crisis, the ability of the retail ecosystem to invest in the transition has been significantly reduced. Due to soaring energy prices and high inflation retailers and wholesalers have been confronted, on the one hand, with raising operating costs and the price of products and on the other, with shrinking consumer purchasing power. The retail trade volume index dropped by 4,3% between June 2021 and March 2023.²² Retailers claim to have absorbed at least part of the current inflation by further reducing their already low margins. Consumers, for their part, increasingly went back to price-oriented choices, turning away from more expensive sustainable products. In 2022, 52% of low-income consumers declared that price would be their main decision factor when shopping, an increase of 12 % compared to 2021.²³

While many retailers have already made progress in exploiting the opportunities of the green and digital transition, SMEs find it often difficult to keep pace with the changes. Embracing new technology, adapting to the digital era or introducing sustainable solutions have proven difficult for many of them. Their development is often hampered by the lack of financial resources and/or skills. However, the continued viability of SME retailers is crucial both from an economic and social perspective. As already indicated, SMEs account for a large share of the ecosystem's employment and value added. They are a key element of the social fabric in urban and rural local communities, they offer proximity and contribute to vibrant city and town centres. Retail SMEs in rural areas can boost local supply chains and help maintain the attractiveness of these areas.

2.1. The impact of the COVID-19 pandemic on the retail ecosystem

The pandemic has had a massive impact on the retail ecosystem. In most Member States shops were either closed or had to apply stringent precautionary measures to make sure staff and consumers were safe.

The impact of the pandemic was uneven. Food retailers experienced an increase in their activity as a result of lockdowns when hospitality and catering services were closed and home consumption increased significantly. Similarly, home improvement, gardening and electronics segments recorded an increase in their activity. On the other hand, the shops that remained open saw their operating costs increase due to the adoption of the necessary health and safety measures. Other segments, such as clothing, shoes and accessories retailers as well as wholesalers supplying the hospitality and catering sector (HORECA) have experienced significant losses.

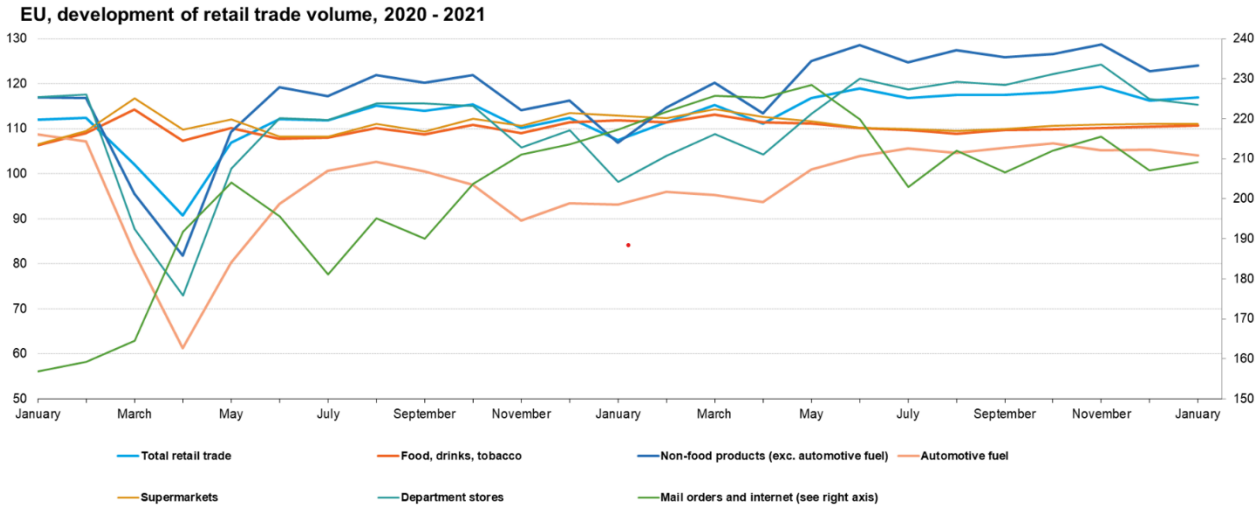
²¹ McKinsey/EuroCommerce *Transforming the EU Retail and Wholesale sector*, 2022

²² Eurostat, Retail trade volume and turnover, monthly data, seasonally and calendar adjusted (2015=100) - Source: Eurostat (sts_trtu_m)

²³ McKinsey/EuroCommerce, *The State of Grocery Retail Europe 2022*

Figure 2 illustrates the dramatic fall in retail sales between February and June 2020 and several subsequent smaller depressions between October 2020 and May 2021. At the same time, non-physical sales (by mail order or online) have boomed, increasing their volume by roughly 25% between March and May 2020 and reaching their peak in May 2021 with a volume increase by roughly 50% in comparison to January 2020 (right axis of the graph).

Figure 2 Development of retail trade volume in the EU 2020-2021



Source: Eurostat (EU, development of retail trade volume, 2020 – 2021, monthly data, seasonally and calendar adjusted (2015=100), (sts_trtu_m))

Monthly developments by product category between March 2020 and January 2022 can be seen in the table below. The total trade volume of retail has dropped by -19.3% between February and April 2020. The values from 2021 show a recovery of 28.8% in July 2021 as compared to April 2020.²⁴

Figure 3 Development of retail trade volume during the Covid-19 crisis, 2020-2022

EU, development of retail trade volume during the Covid-19 crisis, March 2020 - January 2022

	Rates of change																										
	2020												2021												2022		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Apr/Feb 20	Jul/21	Apr/20	"Recovery"
Total retail trade	-9.2	-11.2	17.9	4.9	-0.2	2.9	-1.0	1.2	-4.6	2.2	-4.4	3.7	3.4	-3.6	5.1	1.7	-1.8	0.7	0.0	0.4	1.1	-2.6	0.6	-19.3	28.8	104.1	
Food, drinks, tobacco	4.9	-6.0	2.5	-2.1	0.2	1.9	-1.2	1.9	-1.6	2.2	0.3	-0.4	1.6	-1.5	-0.4	-0.8	-0.5	-0.7	0.7	0.2	0.2	0.4	0.2	-1.5	2.1	101.6	
Non-food products (exc. automotive fuel)	-18.3	-14.3	33.6	9.1	-1.8	4.0	-1.3	1.4	-6.4	1.8	-8.0	7.3	4.8	-5.7	10.3	2.8	-3.0	2.2	-1.2	0.6	1.7	-4.7	1.0	-30.0	52.4	106.1	
Automotive fuel	-23.1	-25.7	31.0	16.3	7.9	1.9	-1.9	-3.0	-8.2	4.2	-0.3	3.1	-0.7	-1.7	7.8	2.9	1.6	-0.9	1.1	0.9	-1.4	0.1	-1.1	-42.9	72.5	97.1	
Supermarkets	6.6	-5.9	2.1	-3.5	0.0	2.7	-1.5	2.6	-1.4	2.6	-0.4	-0.6	1.9	-1.5	-0.9	-1.3	-0.3	-0.4	0.5	0.5	0.4	0.1	0.0	0.3	0.1	101.5	
Department stores	-25.4	-16.8	38.6	11.0	-0.4	3.3	0.0	-0.4	-8.1	3.7	-10.5	5.9	4.6	-4.1	8.6	7.0	-2.1	1.5	-0.7	2.1	1.7	-6.2	-1.0	-37.9	62.6	98.1	
Mail orders and internet	3.3	16.6	6.4	-4.1	-7.4	7.8	-2.7	7.2	3.6	1.2	1.7	2.1	1.8	-0.2	1.4	-3.8	-7.6	4.5	-2.6	2.6	1.7	-3.9	1.0	20.4	5.8	131.3	

Source: Eurostat (EU, development of retail trade volume during the Covid-19 crisis, monthly data, seasonally adjusted, March 2020 - January 2022 (sts_trtu_m))

Along with the drop in sales, the ecosystem has also experienced big losses of the workforce due to the pandemic. A total of 848 000 sales worker jobs were lost in the period from Q4 2019 to Q4 2021, thus making it the most affected occupation by the pandemic.²⁵ However, employment in the ecosystem has now fully recovered.²⁶ Employment losses during the first year of the crisis

²⁴ It is worth noting however that these figures concern the retail sector (Eurostat NACE G47) and do not reflect losses incurred in wholesale activities.

²⁵ Eurofound Report *Recovery from COVID-19: The changing structure of employment in the EU, 2022*; data includes repair of motor vehicles and motorcycles

²⁶ Eurostat, Labour input in wholesale and retail trade - annual data, 2022

were greatest in low wage jobs such as those of sales workers. Employment increased, however, in the mid-high and high wage jobs, showing that growth was skewed towards better paying jobs.²⁷

The pandemic has had an unprecedented impact on the development of online sales. It influenced the way people buy, what they buy, and where they buy. It has put pressure on retailers, but at the same time it opened new markets and new fronts of competition for consumers. Retailers strengthened their online presence to provide consumers with a possibility of safe and contactless shopping (e.g. click & collect). The shops' investments in digitalisation and omnichannel sales, which were originally planned over several years, were often carried out in just a few months. That required significant efforts and investment. However, these efforts are likely to increase the ecosystem's resilience to future shocks.²⁸ The research has shown that companies that invest during a recession emerge far stronger than their peers once the economy rebounds.²⁹ This topic is further developed in Section 4.

Embracing e-commerce was also a crucial factor allowing certain SMEs survive the crisis, retain their customers and offset the losses caused by the closure of physical shops during lockdowns.

During the COVID pandemic, e-commerce grew as fast in two months as in the past 10 years³⁰ with certain categories of products, such as clothing and footwear, apparel, electronics and toys contributing most to this increase. In addition to the new ways of shopping, consumers discovered new shops and new brands. In Germany and France, 32% and 38% of consumers respectively claimed they tried new brands or made purchases with a new retailer, with almost half of them looking for a better price/quality ratio.³¹

2.2 The impact of the Russian invasion of Ukraine and the resulting energy crisis

The unjustified Russian aggression on Ukraine has had a severe impact on EU economy. It has caused a massive humanitarian crisis, hindered exports of certain commodities (e.g. metals, food, fertilisers, oil and gas), disrupted supply chains and pushed up inflation to levels not seen in decades.

The annual inflation in the euro area more than tripled as compared to 2021 and reached the highest level ever measured with 10.6% in 2022. In the third quarter of the year, energy costs rose above 40%. Even if the average inflation rate has dropped in the beginning of 2023, inflation for food, alcohol & tobacco has been steadily rising to reach 15% in March 2023.³²

At the end of the value-chains, the retail ecosystem has been particularly hit by inflation on food products, but also by high energy prices in the logistics chain and in stores, and finally by some shortages of supply of some commodities (e.g. sunflower oil).

The retail ecosystem is a significant user of energy, especially in food retail. High energy prices are increasing its operating costs such as 24/7 heating and cooling of premises, fridges, logistics in delivery of goods to premises and customers and packaging.

²⁷ Eurofound Report *Recovery from COVID-19: The changing structure of employment in the EU, 2022*; data includes repair of motor vehicles and motorcycles

²⁸ OECD 2020, *COVID-19 and the retail sector: impact and policy responses*

²⁹ McKinsey *Retail reimagined: the new era for customer experience*, 2020

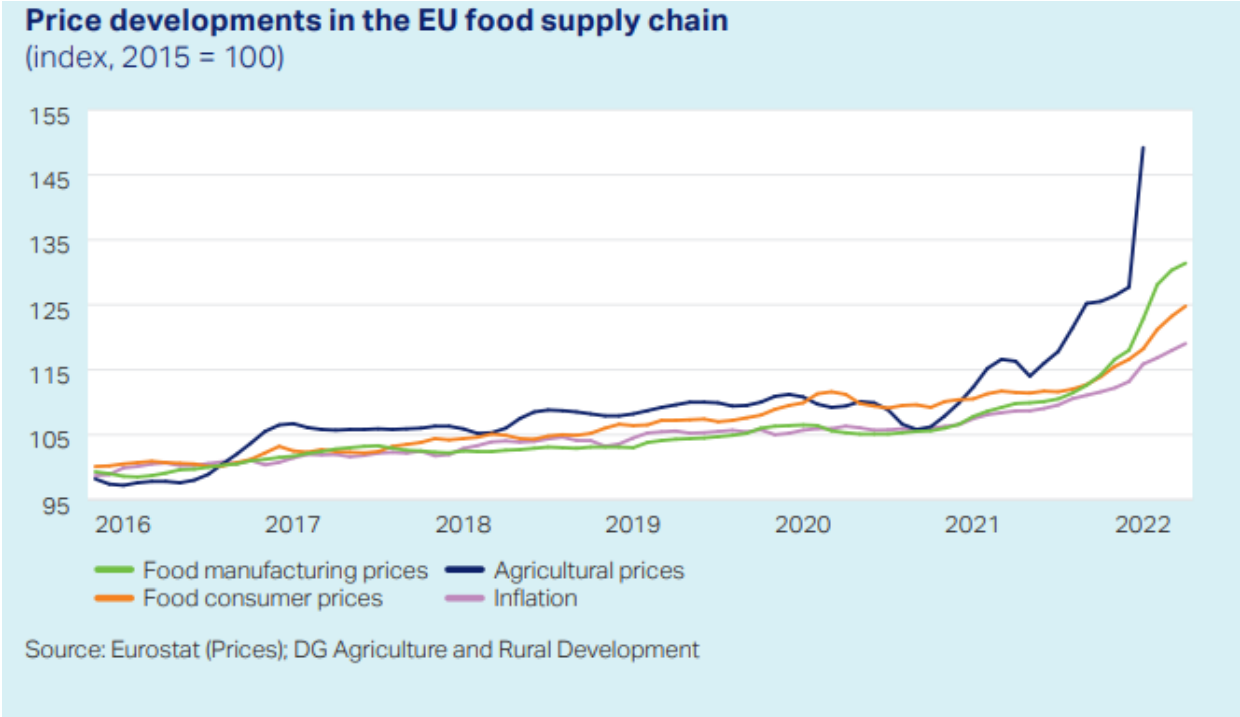
³⁰ Stakeholder contribution: EuroCommerce position paper of 19 October 2021

³¹ McKinsey *Retail reimagined: the new era for customer experience*, 2020

³² Eurostat, *Inflation in the euro area*, ([prc_hicp_manr](#))

However, with a business model typically based on selling high volumes of goods with narrow margins (for example, 1-5% in grocery retail on average, however this can vary depending on the product category), a significant part of retailers have a limited capacity to absorb the extra costs. According to Eurocommerce³³, at the time of the peak in energy prices, the cost of energy for retailers accounted for over 40% of EBIDTA³⁴ and brought a severe risk of bankruptcies, in particular for SMEs. Due to inflation, input costs increased considerably in 2022 for all actors along the value-chain.

Figure 4 Price developments in the EU supply chain 2016-2022



Source: Eurostat, 2022

At the same time, the purchasing power of EU consumers has significantly shrunk. As shown in Figure 5, consumer confidence³⁵, which, after a significant drop during the COVID pandemic, recovered in 2021, fell again sharply in mid-2022 to reach the lowest level since the 1970s. In 2023 it has, so far, only risen slightly above the lowest pandemic level of 2020.

³³ Energy crisis – alarm bells ringing for European retail and wholesale, EuroCommerce press release of 27 September 2022

³⁴ Earnings before interest, taxes, depreciation, and amortisation

³⁵ The OECD Consumer confidence index provides an indication of future developments of households’ consumption and saving, based upon answers regarding their expected financial situation, their sentiment about the general economic situation, unemployment and capability of savings.

Figure 5 Development of consumer confidence 2014-2023



Source: OECD Consumer confidence index (CCI). Amplitude adjusted, Long-term average = 100, Jan 2014 – June 2023

Lack of consumer confidence and shrinking consumer purchasing power are likely to affect the sales of many products and shift consumer demand towards cheaper alternatives such as private label products. In 2023, 53% of EU consumers, as compared to 42% in 2022 and 33% in 2021, declared wanting to look for ways to save money when shopping for groceries.³⁶ In the 2023 edition of the Consumer Conditions Survey, 44% of respondents indicated they are worried not to be able to buy the food products they like. 38% of respondents said that they had to withdraw money from their savings as a result of increased cost of living and almost half of respondents were worried that they would not be able to pay their bills.³⁷

3. A RESILIENT EU RETAIL ECOSYSTEM

Resilience is the dynamic ability of systems to persist in a functional way, despite shocks. It is defined as being able to not only withstand and cope with challenges, but also to undergo transitions, in a sustainable, fair, and democratic manner.³⁸

The ecosystem's resilience is dependent on its economic, environmental and social sustainability and is considered as a cross-cutting objective in this document.

This section looks at how the retail ecosystem has reacted to recent crises and how it has been supported by regulatory and non-regulatory initiatives at EU level.

Further, the section discusses the role of a well-functioning Single Market for a more resilient and competitive retail ecosystem.

³⁶ McKinsey/EuroCommerce, *The State of Grocery Retail Europe* editions for 2021, 2022, 2023

³⁷ European Commission, *Consumer Conditions Survey: Consumers at home in the single market 2023 edition*

³⁸ JRC definition *Resilience*, https://joint-research-centre.ec.europa.eu/scientific-activities-z/resilience_en

3.1 Retail ecosystem's resilience throughout the crises

Throughout the Covid crisis, the retail ecosystem has proven its essential role for consumers. It ensured the supply of food and also of all goods needed in an unprecedented situation of lockdown. It allowed to ensure continuity of economic activity, teleworking and home schooling.

During the pandemic, retailers have shown resilience dealing with multiple problems: health and safety of employees and consumers, precautionary measures put in place by authorities, border closures and disrupted supply chains.

The Commission, on its side, took a series of initiatives to maintain the functioning of the Single Market for goods and services, protect health and preserve the EU-wide operation of supply chains. The flow of goods was maintained, among other things, thanks to the Commission guidelines for border management measures³⁹ and their implementation through Green Lanes⁴⁰. The Commission guidelines on the exercise of the free movement of workers during COVID-19 outbreak⁴¹ allowed the free movement of workers in critical occupations, including those employed in the supply of goods.

The Commission highlighted that only solidarity and Europe-wide coordinated solutions would allow to effectively manage both the public health emergency and the economic shock. It also emphasised the importance of the Single Market as the solidarity instrument to make goods and essential services flow across the EU during the lockdowns.

More recently, the energy crisis triggered by the Russian invasion of Ukraine has pushed the retail ecosystem into a critical situation again, making it struggle between rising costs of inputs and own operations on the one hand and a historical drop in consumer purchasing power on the other. The Commission put forward different tools such as the **exceptional support package in March 2022**⁴² to mitigate the negative consequences of higher agricultural costs for consumer prices and farmers' remunerations and a **Temporary Crisis and Transition Framework** for State aid⁴³ to allow Member States compensate companies for damages directly suffered due to exceptional circumstances. The Commission also drew attention on the possibility to reduce VAT on essential food or to establish vouchers in support of the most vulnerable households. However, some Member States adopted other measures potentially interfering with the functioning of the Single Market and detrimental to retailers as well as consumers and farmers (e.g. price regulations such as price caps on certain food products).

Facing such economic uncertainties, the EU economy has to be prepared for future crisis. The **Single Market Emergency Instrument (SMEI)**⁴⁴ proposes a crisis governance framework aiming to preserve the free movement of goods, services and persons and the availability of essential goods and services in the event of future emergencies, to the benefit of citizens and

³⁹ European Commission *Covid-19 Guidelines for border management measures to protect health and ensure the availability of goods and essential services* (2020/C 86 I/01)

⁴⁰ Commission Communication on the *implementation of the Green Lanes under the Guidelines for border management measures to protect health and ensure the availability of goods and essential services*, (2020/C 96 I, 01)

⁴¹ Commission Communication on *Guidelines concerning the exercise of the free movement of workers during COVID-19 outbreak*, (2020/C 102 I/03)

⁴² Commission Communication on the *Safeguarding food security and reinforcing the resilience of food systems*, COM(2022)133 final

⁴³ Commission Communication on the *Temporary Crisis and Transition Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia* 2023/C 101/03

⁴⁴ Proposal for a regulation establishing a Single Market emergency instrument, COM(2022) 459 final

businesses across the EU.

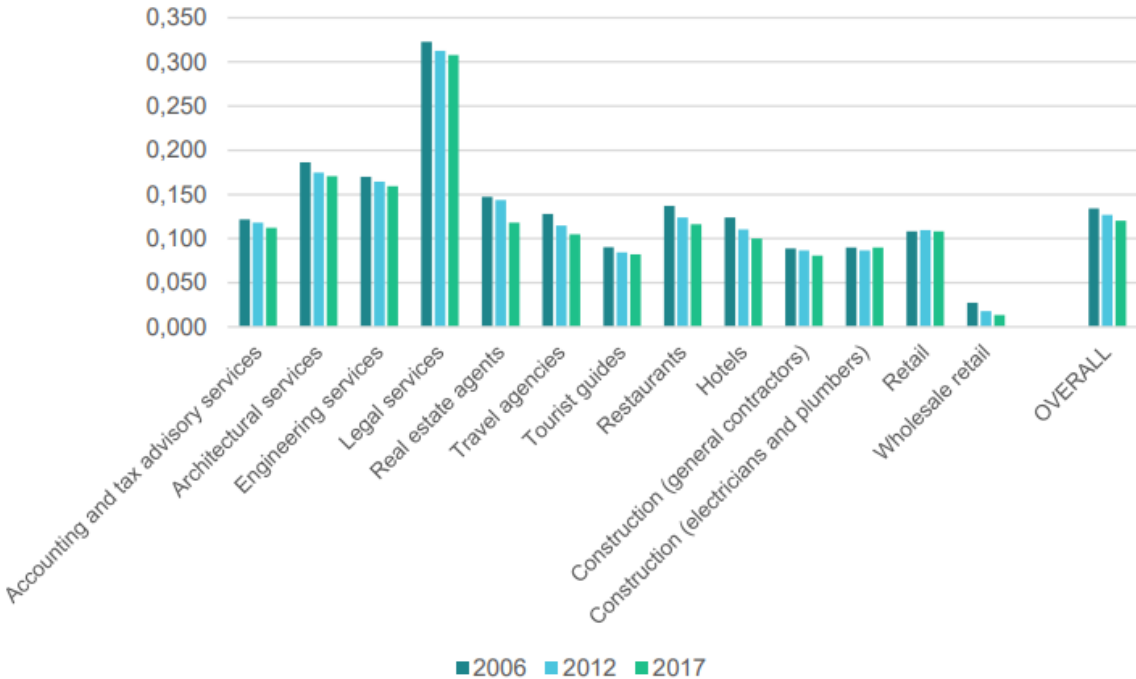
3.2 The Single Market as the main enabler for the resilience and the green and digital transition of the retail ecosystem

3.2.1 Addressing Single Market barriers in the retail ecosystem

The Single Market is one of the greatest achievements of the European Union. It has proven critical in times of crisis. In 2023, it is celebrating its 30th anniversary. The Single Market accommodates 23 million businesses employing around 128 million people.⁴⁵ It allows them to offer their goods and services to almost 450 million citizens.

Barriers at national level are still impeding a proper functioning of the Single Market. This is particularly the case in the services sector as illustrated below based on the barriers identified in the Services Directive. However, while in almost all services sectors the level for these barriers has slightly decreased over the years, in the retail sector, it has remained roughly unchanged since 2006, when the Services Directive was adopted, as shown in Figure 6.

Figure 6 Evolution of barriers identified in the Services Directive in the services sector ⁴⁶



Source: European Commission, 2021

In 2019, a study carried out for the European Parliament⁴⁷ assessed that there was still room for a better functioning of the Services Directive. In retail, because of its size and its linkages in goods and services, and the fact that it tends to be rather restrictively regulated, the benefits of a more ambitious implementation of the Services Directive could be estimated in billions of euros.

⁴⁵ Eurostat, *Celebrating 30 years of EU Single Market 1993-2023*, News Article of 6 December 2022
⁴⁶ European Commission, *Mapping and assessment of removal of legal and administrative barriers in the services sector. Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs*, 2021
⁴⁷ *Contribution to Growth: The Single Market for Services*. Study requested by the IMCO Committee, European Parliament, 2019

Recently, the Commission published a 2022 update of the **Retail Restrictiveness Indicator (RRI)**,⁴⁸ first released in 2018 with the Commission Communication “A European retail sector fit for the 21st century”⁴⁹. The 2022 update of the RRI shows that, on average, the level of retail restrictions remains broadly unchanged as compared to 2018. However, the average score does not reflect the significant disparities between Member States. Some of them have removed restrictions while in other Member States, new restrictions have been put in place.

The RRI reflects the restrictions in place in each Member State without assessing their justification and proportionality. Member States put in place restrictions to fulfill public policy objectives such as, for instance, the protection of the environment, consumers and workers, or town and country planning including protecting the vitality of city-centres. These are legitimate objectives shared at EU level. However, it is important that Member States pursue these objectives in an adequate and proportionate manner. This means that the measures they put in place should be capable of achieving the objectives pursued and not go beyond what is necessary to attain them. They should also be compliant with EU law.

It is particularly important to examine the proportionality of retail establishment restrictions which amount to serious barriers to market entry. The RRI may be inspirational as it provides examples of less restrictive measures tried-and-tested in some Member States. In October 2021, the Commission published an independent study on this issue.⁵⁰ It provides a comprehensive overview of the way Member States carry out proportionality assessment when they adopt retail establishment requirements in the aftermath of the *Visser* judgement⁵¹. It also provides insights of the national approaches and makes recommendations for possible guidelines at EU level.

Restrictions to retail establishment and retail operations have a negative impact on the performance of the retail ecosystem and lead to less dynamic retail markets with fewer entries and exits of retail businesses and lower employment prospects. They hamper innovation, the creation of new business models and have a negative impact on the productivity and competitiveness of the retail ecosystem. Ultimately, consumers are paying the price of a less performing ecosystem.

In its Communication **The Single Market at 30**⁵² the Commission has identified retail together with construction, tourism, business services and renewable energy sector as the EU industrial ecosystems with the greatest economic integration potential. Jointly with Member States, the Commission intends to launch a priority process of addressing barriers to free movement of services for these five ecosystems. A better functioning Single Market would provide an enabling regulatory framework increasing the ecosystem’s resilience and allowing the necessary investments in the green and digital transition.

3.2.2 Further integration of the Single Market

Even if the retail ecosystem is undergoing a huge transformation of its activities and consumers

⁴⁸ The RRI is a composite indicator combining several elements covering key areas of regulatory requirements on retail establishment and operations. The results, including the 2022 update of the Retail Restrictiveness Indicator, are available in this [online dashboard](#)

⁴⁹ Commission Communication on *A European retail sector fit for the 21st century*, SWD(2018) 237 final

⁵⁰ European Commission, *Study on the proportionality assessment by the Member States when adopting the retail establishment related requirements pursuant to Directive 2006/123/EC*, 2022

⁵¹ ECJ judgment of 30 January 2018, *Visser*, C-31/16

⁵² Commission Communication on *The Single Market at 30*, COM(2023) 162 final

expect a multitude of services when they choose to visit brick-and-mortar shops, ultimately, retail is still about distributing goods. This is particularly the case of food retail. In this capacity, retail remains very dependent on the availability of goods and on the **free circulation of goods** in the Single Market.

Border restrictions that retailers faced in the early days of the Covid-19 lockdowns clearly illustrated the need for a proper functioning Single Market to ensure that no shortage of goods would occur in any Member State. **In time of crisis, retailers are often the target of restrictive measures.** This has been the case during lockdowns when certain Member States put in place measures requiring retailers to source or promote food products of national or regional origin to the detriment of food products from other Member States. In the same way in the current situation of rising inflation and shrinking consumer purchasing power, in some Member States, retailers are the target of measures such as regulated retail prices or increased rates of retail-specific taxation which have a strong impact on their turnover and, in certain cases, can threaten their viability. The objectives pursued by the measures may be legitimate. However, the measures need to be adequate and proportionate to the objectives. The Commission is monitoring these measures which may in some cases be in breach of the Single Market freedoms.

Directives, such as the consumer rights Directive⁵³ and the unfair trading practices Directive⁵⁴ provide Member States with the possibility of going beyond the minimum harmonisation rules. In order to avoid a fragmentation of the Single Market which would prevent retailers and other actors from taking advantage of the Single Market, national rules need to be compatible with the Single Market freedoms.

The Single Market may also be fragmented by barriers imposed by private operators that deliberately make it impossible in practice for retailers or wholesalers to buy products in one Member State and resell them in other Member States. An important category of such non-regulatory barriers are referred to as **territorial supply constraints (TSCs)**. They include direct restrictions (e.g. refusal to supply, destination obligations or quantitative limitations) and indirect restrictions (e.g. differentiation of products in terms of content/composition or packaging) in order to impede cross-border trade.

According to a study carried out for the European Commission⁵⁵, such barriers lead to a wide range of retail prices charged across the EU by manufacturers to retailers for the purchase of specific branded products. These differences cannot be fully explained by the factors which typically explain price differences, such as different taxation regimes (including VAT), labour costs, raw material costs, production costs (e.g. related to volumes/economies of scale) or pricing of logistics. TSCs are a widespread problem across the EU. However, they seem more prevalent in certain range of products (branded products with high brand loyalty with consumers) and in some Member States. Smaller and less competitive markets which are situated close to larger and more competitive markets with low prices seem to be more impacted (e.g. Austria, Belgium and Luxembourg). As a result, in such circumstances, consumers in those Member States may be paying higher prices than they would if retailers could source relevant supplies from the manufacturer at the cheapest price offered by the manufacturer in the EU.

⁵³ Directive (EU) 2011/83 on Consumer Rights

⁵⁴ Directive (EU) 2019/633 on unfair trading practices in business-to-business relationships in the agricultural and food supply chain

⁵⁵ European Commission, 2020 *Study on territorial supply constraints in the EU retail sector*;

<https://op.europa.eu/en/publication-detail/-/publication/831c7de4-2a1e-11eb-9d7e-01aa75ed71a1/language-en>

TSCs also prevent retailer's access to sufficient supplies and a broader variety of products which, in turn, deprive consumers of a wider choice and access to products.

However, not every difference of treatment necessarily constitutes a discrimination and the suppliers' freedom to organise their business strategy needs to be acknowledged. Product differentiation and price discrimination do not automatically constitute TSCs and sometimes have objective justifications.

TSCs are in principle dealt with under EU competition rules. However, competition law applies when the TSCs are the subject of agreements or when they are carried out by a dominant operator.⁵⁶ The recently revised Vertical Block Exemption Regulation and related Guidelines⁵⁷ provide further guidance on the types of restrictions in vertical agreements between companies that can infringe competition rules. However, frequently, TSCs are unilateral practices carried out by suppliers which are not in a dominant position. They give instructions to their vertically integrated subsidiaries not to supply retailers located outside their respective Member States. Such practices include e.g. refusals to supply or strategic packaging differentiation. These practices would not fall within the scope of EU competition law because they are not restrictive agreements and cannot be considered an abuse because the undertaking engaging in them does not hold a dominant position in the relevant market.

To realise the full potential of the Single Market, it is important to ensure that private parties do not put in place obstacles inconsistent with Single Market freedoms. The **Geo-blocking Regulation**⁵⁸ aimed to address unjustified geo-blocking by companies by removing certain barriers to the functioning of the Single Market in business-to-consumer relationships. It would only apply to retailers when they are end-users of services but not in a business-to-business relationship. In the same way, in business-to-business relationships, unjustified obstacles put in place by suppliers to block or limit retailers' access to products and services in other Member States need to be addressed. In a period of high inflation and of shrinking consumers' purchasing power, it is important that consumers benefit from a better functioning of the Single Market in terms of price and choice of products.

Retail alliances in the FMCG supply chain are another issue of importance for the ecosystem. Retail alliances are horizontal alliances of retailers, retail chains or retail groups that cooperate in pooling some of their resources and activities, most importantly relating to the sourcing of supplies. Retail alliances usually aim at the creation of a degree of buying power vis-à-vis suppliers, which individual members of the alliance might not attain if they acted independently.⁵⁹

As indicated in the Joint Research Centre policy report,⁶⁰ retail alliances can generate benefits for retailers and increase their competitiveness. As long as there is sufficient competition on downstream selling market(s), it can be assumed that at least some of the benefits they generate, such as lower prices and more variety of products, are likely passed on to consumers. Retail alliances can thus be, under certain conditions, a key component of grocery supply chain

⁵⁶ such as in the case of the Commission fining AB InBev EUR 200 million for restricting cross-border sales of beer https://ec.europa.eu/commission/presscorner/detail/en/IP_19_2488;

⁵⁷ Regulation (EU) 2022/720 on Vertical Block Exemptions and Guidelines on vertical restraints 2022/C 248/01

⁵⁸ Regulation (EU) 2018/302 on addressing unjustified geo-blocking and other forms of discrimination based on customers' nationality, place of residence or place of establishment within the internal market and amending Regulations (EC) No 2006/2004 and (EU) 2017/2394 and Directive 2009/22/EC

⁵⁹ Guidelines for the assessment of horizontal cooperation agreements C(2023) 3445 final

⁶⁰ JRC Policy Report on *Retail alliances in the agricultural and food supply chain*, 2020

competition.⁶¹ Empirical studies suggest that retail alliances can bring lower prices to consumers for food and fast-moving consumer goods such as personal care and household care products.⁶²

Joining retail alliances is particularly important for SMEs to be able to increase their bargaining position with respect to multinational industrial groups, obtain better purchasing terms and thereby remain competitive on the downstream selling market(s) when faced with strong competitors.

Retail alliances may, under certain conditions, also be beneficial to suppliers by allowing them to achieve certain efficiencies (e.g. by reducing transaction costs, by pooling of purchasing volumes which can make logistics more efficient and reduce delivery costs as well as by guaranteeing volumes and therefore providing increased certainty).

European retail alliances are a specific type of retail alliances grouping retailers usually active in different national markets to negotiate with large manufacturers of branded FMCG products. Typically, they do not engage directly with farmers or small producer organisations but only with large-brand manufacturers.

By joining together actual or potential competitors, retail alliances may also lead, in certain circumstances, to restrictions of competition, both upstream towards suppliers and downstream towards consumers.⁶³ Possible concerns arising under EU competition law, the unfair trading practices Directive, and relevant national legal provisions need to be closely monitored.⁶⁴ On the other hand, certain stakeholders indicated that, in some Member States, the legislation may introduce unjustified obstacles that do not allow a proper functioning of European retail alliances to the detriment of actors in the supply chain and consumers.

3.3 Possible pathways towards a resilient retail ecosystem by 2030

As explained above, a well-functioning Single Market is a prerequisite of a resilient retail ecosystem. However, at national level, a number of regulatory obstacles continue to hamper its integration. Non-regulatory barriers also impede a proper free circulation of goods. Such obstacles weigh on the economic performance of retail and wholesale businesses, affecting their competitiveness and transformation potential.

Therefore, in order to shape a transition pathway for the retail ecosystem, the Commission seeks stakeholders' views on their needs and priorities with regard to the resilience of the retail ecosystem.

Questions to stakeholders:

- Based on your experience/knowledge, what are the main challenges to ensure the resilience of the retail ecosystem in your specific sector and country? Which steps are you and other actors taking to address them?
- Could you provide any data or analysis to illustrate these challenges? What ways

⁶¹ Guidelines for the assessment of horizontal cooperation agreements , C(2023) 3445 final

⁶² Molina (2019) *Buyer alliances in Vertically Related Markets* (Bottled Water France shows a 7% reduction in consumer prices); Metro/Auchan (2020) shows between 5% to 7% reduction; Corstjens (2022) *International Retail Buying Groups: A force for the Good? The case of AgeCore/EDEKA* (the INSEAD study has shown that products bought through the European retail alliance under consideration were 12% cheaper than those not bought through the retail alliance)

⁶³ Guidelines for the assessment of horizontal cooperation agreements , C(2023) 3445 final

⁶⁴ JRC Policy Report on *Retail alliances in the agricultural and food supply chain*, 2020

forward/solutions would you propose?

- Would you have any examples or good practices to share in relation to the challenges mentioned above and/or possible ways forward/solutions?
- Which elements are missing or do you find insufficient in the current regulatory frameworks to support the resilience of the ecosystem?
- What should be the actions, roles and responsibilities to reach these objectives respectively for the Commission, Member States authorities (at national, regional or local level), businesses and other stakeholders?
- Based on your experience/knowledge, what are the specific challenges for retail SMEs to become more resilient? Which steps are you and other actors taking to address them? Where do you see the action gaps? What role could relevant authorities and stakeholders play in addressing these challenges in the future?
- Based on your experience/knowledge, could a better use of existing funding possibilities support SMEs becoming more resilient? Where do you see opportunities, gaps or challenges?
- Based on your experience/knowledge, what other issues or barriers to a more resilient retail ecosystem would you propose to be considered for this pathway?

4. A DIGITALLY EMPOWERED RETAIL ECOSYSTEM

Digitalisation, for the past years, has been driving the transition of the economy in the EU and globally, spurring innovation throughout value chains, changing the way products are manufactured and services are offered, changing the way we work and consume. These changes have been particularly significant in the retail ecosystem as they have not only encompassed the introduction of digital technologies into retail operations, but led to a fundamental change in the relationship between businesses and consumers. Today, more and more retailers aim to provide consumers with an omni-channel shopping experience, combining physical and online sales.

The share of online retail trade has been constantly increasing since 2014. Its value in the EU has doubled between 2015 and 2020.⁶⁵ E-commerce represents 10-15% of retail sales in the EU. The share grew on average 13,4% annually between 2016 and 2019 with a sharp increase to 24,4% annually between 2019-2021, illustrating the effects of the COVID crisis and the resulting shift from physical to online sales⁶⁶. Also, the share of internet users who had bought goods or services online has grown from 65% in 2017 to 75% in 2022.⁶⁷

In 2022 fashion, electronics, home and health & beauty products accounted for almost half of all online sales in the EU. Turnover generated by food e-commerce has tripled since 2018 and in 2022 accounted for 13.3% of all sales.⁶⁸

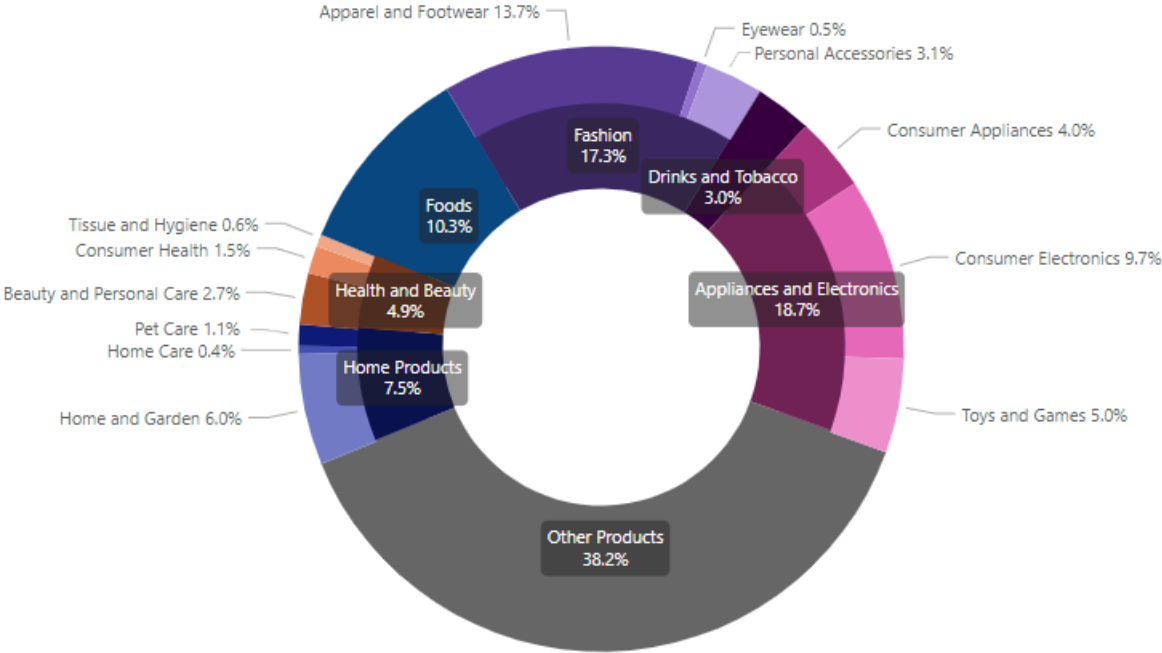
⁶⁵ Eurostat, Development of retail trade volume according to the type of sale, (sts_trtu_m)

⁶⁶ *Study for further evaluation of the Geo-blocking Regulation*, forthcoming

⁶⁷ Ecommerce Europe, Eurocommerce, *European e-commerce report 2022*

⁶⁸ Euromonitor 2022, Retail value RSP excl. sales tax.

Figure 7 Structure of e-commerce turnover by product category, 2022



Source: Euromonitor 2022, Retail value RSP (retail selling price) excl. sales tax.

Online sales enabled retailers to reach new consumers and new markets. Consumers, on their part, are taking advantage of the possibility to shop cross-border. Imported e-commerce, i.e. the volume of consumer online purchases from other EU and non-EU countries has been growing faster than domestic e-commerce over the past years.⁶⁹ In 2022, 54% of EU consumers had purchased from sellers in another EU or non-EU country (19% purchased from a seller in another EU country, 12% from a seller in a non-EU country and 23% from either a EU or a non-EU country).⁷⁰

Through better communication with consumers and enhanced data analytics, retailers can respond to consumer needs more accurately and in a timely manner. In addition, digitalisation helps retailers and wholesalers optimise their processes, increase their scale of operations and efficiency. Digital technologies have infused the retail ecosystem and are used in all segments of the retail value chain, supporting warehousing, in-store retail, e-commerce marketplaces and online sales, the transportation and logistics segments, or meal and grocery delivery.

Using digital technologies will become even more important in the future. Brick-and-mortar retail is likely to continue to play a significant role for consumers, but its role is changing. Physical shops of the future could take on the role of showrooms, offer tailor-made solutions, provide additional services and advice from trained staff, turning shopping into a unique experience. Retailers will need to use innovative in-store technologies to offer this experience to customers. This may include technologies such as contactless payment systems, digital screens that offer in-store shoppers certain features of online shopping, and augmented reality (AR) systems for trying on clothing or testing products.⁷¹

⁶⁹ Study for further evaluation of the Geo-blocking Regulation, forthcoming (based on Euromonitor data)
⁷⁰ Eurostat, 2022 Origin of the seller (% of individuals who used the internet in the previous 3 months) (isoc_ec_ibos)
⁷¹ McKinsey, Retail reimagined: The new era for customer experience, 2020

Physical shops may also increasingly play a role of fulfilment centres, e.g. in case of instant deliveries through quick commerce. Digital technologies have supported the emergence of new business models such as q-commerce (quick commerce). The fulfilment of orders within a very short time requires an efficient organisation of all processes, from supply, through warehouse to last mile delivery where digital tools play a key role.

While some retailers have already made progress in exploiting the opportunities to reach customers by introducing digital technologies, many retailers, in particular SMEs, have not yet grasped the opportunities of digitalisation and they still rely on their physical stores as their only channel. Before the pandemic, 67% of retail businesses had no e-commerce sales⁷², 15% of retail SMEs declared having difficulties to digitalise and 32% lacked financial resources to introduce any kind of innovation.⁷³ More recently, a Eurobarometer survey found that retail start-ups stand out as those claiming to have most problems with digitalisation, innovation and access to data among sectors surveyed.⁷⁴ However, according to Eurostat data, the share of SMEs selling online in the EU27 has increased from 16.6% in 2019 to 19.1% in 2022. In the same period, the e-commerce participation of large enterprises (with more than 250 employees) did not experience a comparable growth: the share of large companies selling online increased from 38.2% to 38.8%.⁷⁵ This could be explained by an assumption that large companies had already engaged in online sales before the pandemic.

While the internet has provided access to a global retail market, this is being used to a large extent by big global players and digital intermediaries. However, online platforms play a substantial role in supporting the competitiveness of small online retailers by helping them enter new global markets and deal with often fragmented legislation across the EU. In a recent OECD survey of retail SMEs selling on e-commerce platforms, 90% of surveyed companies agreed that their online activity has allowed them to increase domestic sales and 85% that it helped them reach new customer groups.⁷⁶ Nevertheless, the conditions of competition on the major platforms must be fair and offer undistorted access to consumers online for all sellers. Data on the activity of third party sellers should not be used to the benefit of major platforms when they act as a competitor to these sellers and the rules of major platforms should not artificially favour the platform's own retail offers or the offers of retailers using the major platform's logistics and delivery services.⁷⁷ The **Digital Markets Act**⁷⁸ has put in place a framework reducing the risk that large platforms act as gatekeepers⁷⁹ and helped to establish a level playing field for a fairer digital environment.

To be visible online and effectively serve local consumers, small retailers can also create local platforms, gathering shops in a neighbourhood or a town. Such solutions enable retail SMEs to share the costs of maintenance of such a platform, organise common deliveries, etc.⁸⁰ They were intensively tested and put in place during COVID-19 lockdowns. However, in comparison to

⁷² Eurostat

⁷³ European Commission, *Flash Eurobarometer 486 (SMEs, Start-ups, Scale-ups and Entrepreneurship)*

⁷⁴ Ibid.

⁷⁵ *Study for further evaluation of the Geo-blocking Regulation*, forthcoming

⁷⁶ OECD (2023) *SMEs in the era of hybrid retail*

⁷⁷ [Antitrust: Amazon \(europa.eu\)](https://ec.europa.eu/antitrust-competition/antitrust-act/antitrust-amazon)

⁷⁸ Regulation (EU) 2022/1925 on contestable and fair markets in the digital sector, 14 September 2022

⁷⁹ The Digital Markets Act defines as “gatekeepers” digital platforms that provide an important gateway between business users and consumers and whose position can grant them the power to act as a private rule maker, and thus create a bottleneck in the digital economy.

⁸⁰ Workshop organised under #RevitaliseRetail have provided some examples of such initiatives, for more information see [Revitalise Retail workshops \(europa.eu\)](https://ec.europa.eu/antitrust-competition/antitrust-act/antitrust-amazon)

major platforms, those local platforms face challenges such as limited product offer, limited data on purchases which offers less opportunities for direct marketing and targeted sales to consumers as well as more expensive delivery due to their small scale.

The **Digital Decade Communication**⁸¹ sets the target of more than 90% of SMEs reaching at least a basic level of digital intensity by 2030⁸². In 2021, only 56% of SMEs have reached the target, which includes elements such as fast internet connection, a minimum share of e-commerce or web sales in turnover, use of Artificial Intelligence (AI) or Internet of Things (IoT), use of social media, etc.

All these new technologies will benefit and also contribute to the increasing usage of data. Eight hundred billion gigabytes of customer data were generated in 2021 across the world⁸³, and there is clear upward trend for the future on this dimension, not only due to e-commerce, but especially due to an omni-channel approach that will enable data collection and exploitation both in physical and digital stores.

Cloud services allow to store this increasing amount of data on assortment, inventory optimisation, warehousing, goods in transit, and sales through all channels (instore, online, social media and marketplace).⁸⁴

The increasing amount of data available can also improve the capacity of AI algorithms to predict and anticipate behaviors and enhance and optimise business processes. There are several dimensions in which AI technology can be of high importance for retail: from predictive and optimisation models to procurement process, to facilities management or consumer-tailored marketing strategies. This has the possibility to improve consumer experiences. The risks from a consumer protection angle, such as loss of autonomy in decision-making or widespread commercial surveillance, will need to be considered.

Also, payment methods will certainly continue to benefit from the digitalisation of the sector and evolving towards more user-friendly and reliant processes, with significant impact on businesses. In particular, the development of instant payments technologies will contribute to make e-commerce transactions more agile and improve cash-flow for retailers, an important factor for their financial viability.

Innovative payments methods also include Central Bank Digital Currencies (CBDCs), which are raising increasing interest worldwide. The European Central Bank is currently evaluating the potential of the **digital euro** with the aim of preserving the monetary anchor role of the common currency as a public form of money also in the digital economy. The digital euro could help in streamlining the customer journey for online payments in e-commerce, but also offer a pan-European framework for payments in absence of connectivity.⁸⁵

Lastly, to fully enter the digital era, the retail ecosystem will need the rights skills. This is further developed in section 6.

⁸¹ Decision (EU) 2022/2481 of the European Parliament and of the Council of 14 December 2022 establishing the Digital Decade Policy Programme 2030

⁸² Stemming from the Digital Decade Communication, the Digital Intensity Index (DII) is a composite indicator, derived from the survey on ICT usage and e-commerce in enterprises.

⁸³ McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

⁸⁴ Skillnet Ireland, *Retail Technologies and Future Skills Report*, 2020

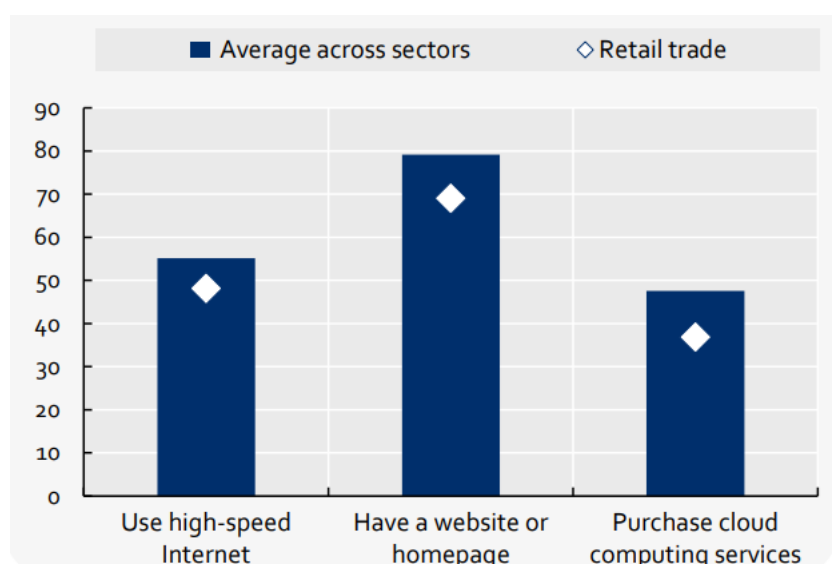
⁸⁵ For more information on the underlying regulatory framework, see section 4.4

4.1. Sustainable competitiveness

Digitalisation is, nowadays, one of the main factors of competitiveness for companies, and it is therefore a critical dimension for their success. It is at the centre of EU political priorities which translates into multiple frameworks and policies with the objective to enhance the competitiveness of the European industry.

The EU faces significant challenges to foster robust and sustainable digital innovation, being able to generate value to businesses. Following a report from the European Investment Bank⁸⁶, labour market regulations, business regulations and the lack of external finance tend to be perceived as the main factors for the low digital adoption rates within the EU. According to the same report, 40% of EU companies active in services, have reported to adopt a least one digital solution, compared to 50% in the United States. Across OECD countries, the use of digital tools in retail lies below the average of all other sectors.

Figure 8 Business use of selected digital tools and services in retail (as a share of businesses with 10 or more employees across sectors, 2021)



Source: OECD ICT Access and Usage by Businesses, data for 2021

Digitalisation strategies require financial investment, both from private and public sectors. However, EU companies tend to structurally invest less than in the United States, which can be a significant drawback for their long-term competitiveness.

It appears that retailers and wholesalers invest 3.6% of their total revenue, with 2.1% of their total revenues going to IT spending.⁸⁷ In North America, 6.7% of retailers' revenue is allocated to investment, with 3.3% allocated to IT investment. This discrepancy is particularly relevant when considering that leading online pure players invest 4.5% to 6% in IT expenses.

The number of retail technology financing deals increased substantially in 2021 when compared to the previous years. Figure 9 depicts that the amount invested worldwide in retail technology related deals in 2021 was more than the double of the average amount between 2018 and 2020,

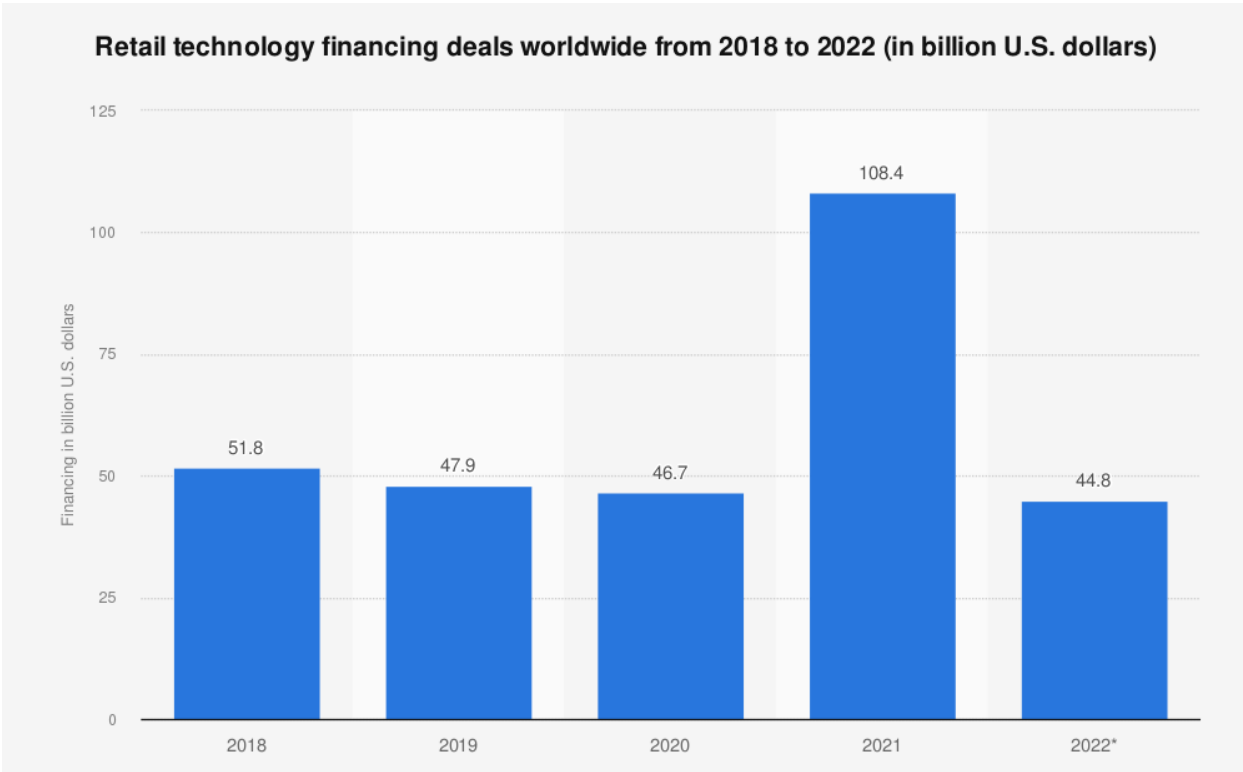
⁸⁶ European Investment Bank, *Who is prepared for the new digital age?*, 2020

⁸⁷ McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

which clearly illustrates the new dynamic which emerged from the Covid-19 crisis.

However, typically, the majority of these deals do not occur within the European Union. In 2021, only 24% of the total amount of deals was undertaken in the EU, while 37% occurred in Asia and 31% occurred in North America.⁸⁸ This indicator is particularly relevant because it reflects two factors that are highly correlated: the existence of innovative technology in the retail ecosystem and the availability of capital to invest in it to generate economic value for businesses, consumers and the economy as a whole.

Figure 9 Retail technology financing deals worldwide 2018-2022 (in bn US dollars)



Source: Statista, 2022

It must be noted that investments in retail tech decreased again significantly in 2022, dropping below pre-pandemic levels. This decline, which may be evident across the entire global venture ecosystem, is attributed to high interest rates, high inflation and uncertain economic conditions. It may also result from the fact that retailers invested heavily at the beginning of the pandemic to keep their business afloat.

4.2. Infrastructure & technological solutions

The development and implementation of innovative and disruptive technological solutions is, indeed, a critical factor for the digital transition of the ecosystem. As previously mentioned, new technologies have the capacity to thoroughly transform the retail ecosystem, across its entire value chain, from its supply and logistical network to the use of new digital channels to interact with consumers.

⁸⁸ CB Insights, *State of Retail Tech 2021*

The pandemic context potentiated the online delivery, shifting the weight from the typical retail infrastructure, i.e. the physical stores, towards reliant, high-tech, strategically located distribution centres/warehouses supporting omnichannel retail, meeting consumer needs for flexibility and comfort. These physical infrastructures must be supported by a digital infrastructure, guaranteeing the connection between all the phases of the process and flexible enough to assure the last-mile delivery to the consumer's address, to a pick-up location or to a typical physical store. Such digital infrastructure must be capable of guaranteeing the required security, data protection and resistance to cyber-attacks.

Despite the increasing importance of online shopping, as already indicated, physical stores still have a role to play in the omnichannel reality. They can provide a more personalised in-store customer experience, including digitally enabled features such as checking real-time product availability, obtaining in-store promotions through the phone, checking waiting times, receiving a virtual guest service or providing location-based services.

In order to meet these challenging consumers' in-store expectations, retailers will have to rely on a robust technological infrastructure, including a reliable and trustworthy Wi-Fi network. This infrastructure will establish the link between the digital and physical experience, powering all the business operations from warehouse management to customer pick-up. The development of 5G will enable a smooth functioning of this infrastructure, including through enabling the Internet of Things.

However, it is important to be aware of the existent asymmetries between rural and urban areas, as well as different geographical parts of the EU. The different population density rates, the access to technological infrastructure, or the availability and quality of communication routes are critical factors that can lead to different infrastructure and technological solutions to be implemented.

4.3. Investment and funding

Supporting investment in the digital transition has been one of the EU most important priorities over the past years. In 2020, the total annual investment gap for the digital transformation of EU economy was estimated at EUR 125 billion.⁸⁹ However the needs have further evolved since then, fueled by the unexpected challenges brought by the Covid-19 pandemic and the unjustified Russian aggression in Ukraine.

Estimates show that the EU retail ecosystem would require from EUR 155 billion to EUR 230 billion through 2030 for the digital, green and skills transition. This represents 0,4 to 0,6% of the sector total annual revenue⁹⁰.

The existing EU funding programmes, such as **Horizon Europe** and **InvestEU** allocate a specific part of the budget to the digital transition (35% of EUR 95.5 billion for Horizon Europe and 10% of EUR 26.2 billion for InvestEU). Furthermore, European Regional Development Fund helps to accelerate the use of digital technologies and supports SMEs in Europe, especially in less developed regions and rural areas (ca. EUR 32 billion). The Just Transition Fund supports digitalisation by ca. EUR 4.4 billion.

⁸⁹ Commission Communication, *Towards a greener, digital and resilient economy: our European Growth Model*, COM(2022) 83 final

⁹⁰ McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

Under the **Recovery and Resilience Facility (RRF)** Member States should allocate at least 20% in digital related expenditures. Measures supporting digitalisation have been an important element of Member States' Recovery and Resilience Plans, however only few Member States have proposed measures concerning the retail ecosystem specifically.

The **Temporary Crisis and Transition Framework for State Aid**⁹¹, last amended in March 2023, has granted further flexibility to national governments in providing aid to business facing the economic consequences of the Russia's invasion of Ukraine.

Retail SMEs can also benefit from the **Single Market Programme (SMP)**. The SMP focuses on strengthening the governance of the Internal market and supporting the competitiveness of industry, in particular of micro, small and medium-sized enterprises. It has a budget of EUR 4.208 billion for the period of 2021-2027 (EUR 2 billion are allocated under the InvestEU Fund, in particular through its Small and Medium-sized Enterprises Window).

However, the sizable amounts of funding required are still a major obstacle for companies to develop and deploy digital solutions. This is particularly the case for many SMEs which see the short-term financial viability of the company as priority and face challenges to plan long-term investments. Embracing digitalisation is often perceived as a cost and not as an investment in valuable assets with the capacity to revolutionise business models.

4.4. Enabling regulatory and policy framework

For a successful digital transition of the retail ecosystem, the regulatory environment needs to ensure a level playing field between all actors in the ecosystem, irrespective of the business model, internal organisation or size, such as between global and EU online players, brick-and-mortar and online retailers and large companies and SMEs. It should also support the development of omnichannel retail, which combines brick-and-mortar and online sales to respond to rapidly evolving consumer preferences.

Barriers at national level still impede actors in the retail ecosystem from embracing the digital transition. A number of regulatory measures have already been adopted or proposed at EU level to provide an enabling regulatory framework adapted to the rapidly changing business environment.

Small retailers selling online benefit from increased transparency, fairness and effective redress possibilities offered by the EU **Regulation on platform-to-business relations (P2B Regulation)**⁹².

In the same way, the **Digital Services Act (DSA)**⁹³ and the **Digital Markets Act (DMA)**⁹⁴ create a safer and more open digital space in which retailers can benefit from a level playing field fostering innovation, growth, and competitiveness in the EU Single Market.

The **Geo-Blocking Regulation**⁹⁵ addresses unjustified online sales discrimination based on

⁹¹ Commission Communication on the *Temporary Crisis and Transition Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia* 2023/C 101/03

⁹² Regulation (EU) 2019/1150 on promoting fairness and transparency for business users of online intermediation services. A Commission report on the implementation of the Regulation is expected in 2023.

⁹³ Regulation (EU) 2022/2065 on a Single Market for Digital Services

⁹⁴ Regulation (EU) 2022/1925 on Contestable and fair markets in the digital sector

⁹⁵ Regulation (EU) 2018/302 on addressing unjustified geo-blocking and other forms of discrimination based on customers'

consumers' nationality, place of residence or place of establishment, thus giving consumers and businesses more opportunities for cross-border purchases.

Affordable and secure payments are important for retailers and consumers. The Commission has put forward a legislative proposal to accelerate the rollout of **instant payments**⁹⁶ in euro. This proposal should help to significantly improve cash flow, and bring cost savings for businesses, especially for SMEs.

Also, recently, the Commission has put forward two proposals within a **'single currency package'**⁹⁷ to set out a framework for a possible new digital form of the euro that the European Central Bank could choose to issue in the future as a complement to cash and to ensure that individuals and businesses can continue to access and pay with euro banknotes and coins across the euro area. The digital euro would introduce an additional payment instrument for users and businesses, streamlining and harmonising user experience and increasing competition in retail payments.

Finally, to make sure businesses have sufficient legal certainty when it comes to vertical cooperation, the Commission has revised the **Vertical Block Exemption Regulation (VBER)** and its guidelines⁹⁸. The new rules allow businesses to assess the compatibility of their supply and distribution agreements with EU competition rules in a business environment reshaped by the growth of e-commerce and online sales. In particular, the VBER rules have been updated as regards the assessment of online restrictions and vertical agreements in the platform economy as well as agreements that pursue sustainability objectives. Similarly, the Commission has recently revised the **Horizontal Block Exemption Regulations** and their guidelines⁹⁹ to make sure rules are adopted to digital developments.

4.5. Possible pathways towards a digitally empowered retail ecosystem by 2030

Given the specificities of the retail ecosystem and its direct contact with consumers, the digital transition of the retail ecosystem is not a choice anymore. It has become a necessity for big and small actors across the ecosystem which need a supportive environment to start or continue to invest in digital solutions and transform their business models to respond to rapidly evolving consumer needs.

Therefore, in order to shape a transition pathway for the retail ecosystem, the Commission seeks stakeholders' views on their needs and priorities with regard to the digital transformation.

Questions to stakeholders:

- Based on your experience/knowledge, is the retail ecosystem on the right track for the digital transition?
- What are the main challenges for the digital transition of the retail ecosystem in your specific sector and country? Which steps are you and other actors taking to address them? Where do you see the action gaps? What should be the actions, roles and responsibilities to reach these objectives respectively for the Commission, Member

nationality, place of residence or place of establishment within the internal market.

⁹⁶ Proposal for a Regulation on instant payments, COM(2022) 546 final

⁹⁷ Proposal for a Regulation on the establishment of the digital euro COM/2023/369 final; Proposal for a Regulation on the legal tender of euro banknotes and coins, COM(2023) 364 final

⁹⁸ Regulation (EU) 2022/720 on Vertical Block Exemptions and Guidelines on vertical restraints 2022/C 248/01

⁹⁹ Regulation (EU) 2023/1066; Regulation (EU) 2023/1067 and the Guidelines for the assessment of horizontal cooperation agreements C(2023) 3445 final

- States authorities (at national, regional or local level), businesses and other stakeholders?
- Could you provide any data or analysis to illustrate these challenges? What ways forward/solutions would you propose?
 - Would you have any examples or good practices to share in relation to the challenges mentioned above and/or possible ways forward/solutions?
 - Have you set specific targets and milestones for the digital transition in your area of activity? Based on your data, how far are you from achieving your goals? What are the challenges you foresee?
 - What are the specific challenges of the digital transition for retail SMEs? Which steps are you and other actors taking to address them? Where do you see the action gaps? What role could relevant authorities and stakeholders play in addressing these challenges in the future?
 - Based on your experience/knowledge, could a better use of existing funding possibilities support SMEs in their digital transition? Where do you see opportunities, gaps or challenges?
 - Based on your experience/knowledge, can the framework conditions for private investments be improved? What would be your concrete suggestions?
 - Which elements do you find are missing or are insufficient in the current regulatory framework to support the digital transition?
 - Based on your experience/knowledge, do you see any risks in the digital transition of the retail ecosystem?
 - Based on your experience/knowledge, what other issues or barriers to the digital transition would you propose to be considered for this pathway?

5. A GREEN RETAIL ECOSYSTEM

Sustainability has become a major priority for the retail ecosystem. It constitutes both an opportunity and a challenge for retailers and wholesalers. Many of them are already in the vanguard of sustainable change. So far, 33% of the 50 leading European retailers and wholesalers have set science-based decarbonization targets.¹⁰⁰

Actors in the retail ecosystem are showing leadership through individual commitments and pledges and/or sector charters or codes of conduct. Numerous retailers have already joined the **EU Code of Conduct on Responsible Food Business and Marketing Practices**¹⁰¹ making individual commitments among others to reduce GHG emissions, support circularity in the supply chain, support sustainable sourcing, prevent food waste, support sustainable and healthy diets and increase training opportunities among retail workers.¹⁰² The signatories report annually on the progress in reaching the targets. Similar pledges for non-food products have been made under the **Sustainable Consumption Pledge**, an initiative which is part of the New Consumer Agenda. Retailers are also contributing to global sustainability targets, for example by joining the UNFCCC¹⁰³ Race to Zero Campaign for Retail¹⁰⁴ which aims to inspire more retailers

¹⁰⁰ McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

¹⁰¹ The European Commission has launched a Code of Conduct to encourage environmentally and socially sustainable practices among food manufacturers and retailers. It comes as one of the first deliverables of the Farm to Fork Strategy which aims to improve the overall sustainability of the European food system.

¹⁰² The Code has been signed by 68 companies (mainly manufacturers and retailers) which have made a total of 488 commitments (state of play 31 July 2022). The signatories and the commitments have been analysed in the European Commission [Study on commitments pledged under the EU Code of Conduct on responsible food business and marketing practices, 2022](#)

¹⁰³ United Nations, *United Nations Framework Convention on Climate Change*, 1992

¹⁰⁴ UNFCCC Climate Champions, *Retailers join forces to tackle climate change in the Race to Zero*, News Article of 7 July

worldwide to set science-based targets aimed at halving greenhouse gas emissions by 2030 and achieving net-zero carbon emissions by 2050 at the latest.

European retailers and wholesalers and their value chains account directly and indirectly for about 40 percent of all GHG emissions in the EU. However, less than 5 percent of ecosystem's total emissions are a direct result of retail operations (Scope 1 and 2 emissions), where the majority of emissions stem from vehicle fleets, refrigeration, and electricity purchased by retailers. More than 95 percent of GHG emissions within the retail and wholesale value chain are generated by other actors in the supply chain, such as food producers, manufacturers but also consumers (Scope 3 emissions).¹⁰⁵ The collaboration between the actors in the ecosystem is therefore key for the success of its green transition.

The environmental and climate impact can be very different depending on the retail subsector. The food, but also home improvement and fashion¹⁰⁶ subsectors are the biggest contributors to the retail ecosystem GHG emissions. In addition, the food, fashion and furniture subsectors account for a large part of land use and can therefore contribute to soil pollution, land degradation and biodiversity loss, while the food, fashion and consumer electronics subsectors also contribute significantly to packaging and product waste generation.¹⁰⁷ The sustainability impact of retail depends also on the role that retailers play in the supply chain. Retailers producing their own products are responsible for the environmental and climate footprint of their manufacturing operations, linked to various causes such as raw material extraction and processing, energy use, waste production, water pollution, etc.

While sustainability and climate action have been high on the political agenda for some time, the energy crisis triggered by the Russian invasion of Ukraine has pushed EU businesses to increase their greening and energy efficiency efforts.

Retailers and wholesalers can contribute to sustainability goals by greening their operations and infrastructure. The environmental performance of thousands of shops and wholesale warehouses is essential for the green transition. Many retail establishments, especially the largest ones, present a significant potential for the deployment of energy efficiency and renewable energy solutions, such as better energy class cooling and heating equipment, double glazing windows, solar panels on their roofs or heat pumps using the surface under their parking space. In addition, physical shops can act as circularity hubs, offering consumers services, such as repairing, refurbishing, collection of used products, options for reuse and recycling of packaging, leasing or renting etc.

The retail ecosystem is also an important player in the greening of goods transport, either through its own fleet or through the transport services it uses. More sustainable mobility systems for logistics and home delivery solutions are key, which can be achieved by means of fleet renewal, efficient urban management systems and last mile delivery, optimisation of routes and service frequency and investment in efficient alternative fuels and infrastructure, especially for heavy duty vehicles (hydrogen for example).

2021

¹⁰⁵ McKinsey/EuroCommerce *Transforming the EU Retail and Wholesale sector*, 2022

¹⁰⁶ Global textiles production almost doubled between 2000 and 2015, and the consumption of clothing and footwear is expected to increase by 63% by 2030, from 62 million tons now to 102 million tons in 2030. With increasing textile production and consumption, the ecosystem has a growing impact on the environment. On average, the textile industry accounts for the fourth highest negative impact on the environment and on climate change and third highest for water and land use from a global life cycle perspective. Source: *EU Strategy for Sustainable and Circular Textiles*, 2022

¹⁰⁷ McKinsey/EuroCommerce *Transforming the EU Retail and Wholesale sector*, 2022

Retailers have an important role in raising consumer awareness about sustainable choices. Through information, marketing, product display and packaging options they can nudge consumers towards greener products and behaviours. As recognised in the Green Deal, consumers can play an active role in the green transition, as they are becoming more conscious about the sustainability of their shopping choices and habits. While an increasing number of consumers take climate concerns into account when making their purchasing decisions, price is still a very important criteria to explain consumer behaviour. According to a recent study from Boston Consulting Group (BCG), despite the fact that 80% of consumers state they are concerned about sustainability, less than 7% are willing to pay a premium for sustainable products and services¹⁰⁸. Also, according to a recent OECD survey, 65% of respondents are willing to make personal compromises to their lifestyles for the benefit of the environment, however 63% agreed that environmental policies should not impose extra financial cost.¹⁰⁹ Other estimates are even lower. According to McKinsey¹¹⁰ only 2% of consumers were willing to pay a higher price for an environmentally friendlier grocery product in 2022. Due to the recent inflationary pressures, it is likely that this share will not grow significantly in the nearest future. However, consumers should be made aware that there are important gains to be reaped from avoiding waste (especially for food¹¹¹ and textiles¹¹²). This could translate into lower costs for consumers and a lower environmental footprint.

Finally, as an interface between consumers and suppliers, retailers have the potential to increase awareness, transparency and coordination between various actors in the supply chain and drive the sustainability change in the whole ecosystem. They can feed consumer demands and expectations back to the actors higher in the supply chain and collaborate with them to increase the range of sustainable products on supermarket shelves. Also, acting as manufacturers, retailers have the ability to introduce on the market sustainable products under their private label.

The green transition leads to the development of new business models in retail, in line with a more circular economy, such as re-designing products to be more sustainable, shifting the focus from products to access (leasing, renting instead of selling), making repair services more available, focusing on the reuse or repair of products and packaging to maintaining them in the economic circuit, facilitating recycling of the waste generated by the goods sold, or working with new external partners (e.g. in delivery).

The sustainability transition can go hand-in-hand and be reinforced by the digital transition. Retailers are already harnessing digital technologies, in particular the use of data (on product flows, consumer purchasing habits etc.) for some environmentally relevant issues, e.g. reducing packaging. Just-in-time production and deliveries help minimise the cost and the environmental impact of excessive warehousing and prevent waste. Digital tools are also likely to facilitate the uptake of green solutions by consumers. They can provide communication channels through websites, apps, QR-codes etc., which enable consumers to discover the sustainable offers of retailers. They can also allow consumers to track their consumption and make more sustainable choices. However, while contributing to more efficient processes, operations and consumer support, it must be ensured that digital technologies are themselves as energy efficient and sustainable as possible. Finally, the growth of e-commerce also represents an opportunity to

¹⁰⁸ BCG, *Consumers Are the Key to Taking Green Mainstream*, News Article of 13 September 2022

¹⁰⁹ OECD 2023, *How Green is Household Behaviour? Sustainable Choices in a Time of Interlocking Crises*

¹¹⁰ McKinsey, *The State of Grocery Retail Europe 2022*

¹¹¹ Eurostat, [Food waste and food waste prevention - estimates - Statistics Explained \(europa.eu\)](https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&plugin=1)

¹¹² McKinsey 2022, *Circular fashion in Europe: Turning waste into value*

develop reuse, repair, upcycling, or DIY markets contributing to the circular economy.¹¹³

The green transition will also need a substantial investment in relevant skills, from consumer advice to energy efficient use of equipment, products and the development of sustainable solutions. This is further developed in Section 6.

5.1. Sustainable competitiveness

Energy costs represent, on average, 10% of retailers' EBITDA¹¹⁴ and between 2% and 4% of their total revenues. This sizable weight of energy costs in retail operations constitutes a challenge considering not only the environmental impact of energy production, but also the need for a reliable supply of energy at an affordable cost, as the energy crisis highlighted. However, this also constitutes an opportunity for retailers to diversify their energy sources reducing the risk of supply shortages and, at the same time, to make their business more sustainable.

Sustainability transformation is highly reliant on digital and technological innovation. Investment in digital technologies can therefore support and accelerate the green transition. However, as mentioned in Section 4.1, on average, European retailers tend to invest less in IT than retailers in North America.

The investments required for the green transition can impact the financial sustainability of companies. This is particularly relevant to SMEs which often lack skills and resources to transform. Access to funding, support to re- and upskilling, awareness, best practice sharing and support from larger actors in the supply chain will be crucial to ensure that SMEs embrace the change and do not miss out on the opportunities it brings. According to a Eurobarometer survey carried out in 2021¹¹⁵, 32% of retail and wholesale SMEs (compared to only 25% of manufacturing SMEs) had not invested in resource efficiency over the preceding 2 years. The investments made had also been low. Only 8% had invested more than 5% of their annual turnover (compared to 11% in services and 14% in manufacturing). However, among all economic sectors, retail and wholesale SMEs were the top third in terms of offering green products or services.

5.2. Infrastructure & technological solutions

Despite the limited share of scope 1 and 2 emissions in the retail sector, compared to scope 3, there is still room for improvement when it comes to investing in new technology and infrastructures with environmentally sustainable purposes. The magnitude of the retail supply chain and its complex operations tend to create room for more efficiencies and a constant need for improvement and refinement of processes throughout the whole value chain, from production to last mile delivery.

The technological solutions impacting the sustainability of the retail ecosystem will most likely tend to affect one of the following four dimensions of the business activity: the energy used, the sustainability of stores and warehouses, the sustainability of the distribution process and the sustainability of the production process (in case, retailers have vertically expanded their operations).

¹¹³ Ecommerce Europe (2021) *Collaborative report on sustainability and e-commerce*

¹¹⁴ Stakeholder Contribution: EuroCommerce position paper of 27 September 2022

¹¹⁵ European Commission, *Flash Eurobarometer 498 (SMEs, green markets, and resources efficiency)*, November-December 2021

Regarding energy sourcing, retailers have a huge potential to explore within their own premises. While overall energy costs differ by type of retail format (between about 4 and 9 percent of in-store operating costs), they also vary widely between premises of the same age, type and size. Differences of up to 40 percent between otherwise similar shops can be found. Energy audits on retail shops stores often identify opportunities to reduce energy consumption by 20 to 30 percent, and sometimes by up to 50 percent.¹¹⁶

However, energy efficiency improvements need to be balanced with their potential impact on store operations and customer perceptions. In a typical grocery shop, about 60 percent of the energy consumed is used to run refrigeration and heating, ventilation and air-conditioning (HVAC) equipment; 30 percent is used in lighting; and the remaining 10 percent to run other equipment like cash registers or multi-media. This means that some improvements of changes, like altering lighting levels or in-store ambient temperatures, could have an adverse direct impact on customers and staff and should be decided carefully.¹¹⁷ However, retailers should reap the opportunities offered in improving the energy efficiency of equipment like refrigerators and heaters, reassess the need to use outdoor heaters or excess outdoor lighting, renovate the building envelope when applicable, etc.

On-site energy generation or storage technologies, such as installation of solar panels on the roofs of shops and warehouses and batteries to stock the energy can increase the predictability and security of energy supply with long-term financial benefits.

The energy produced through renewable energy sources (as solar panels) can also be used to charge electric vehicles (EVs) and contribute to the greening of retailers' fleet. In addition to that, in case of energy production surplus, retailers can sell their energy back to the grid, contributing to increase the availability of clean energy in the market. They can do that as part of local energy communities, involving business actors and citizens, contributing to electrification, lowering energy bills and creating jobs in the local area.

However, the production of energy through renewable energy resources is not restricted to photovoltaic panels. Some large players in the ecosystem have already been diversifying further their energy sources, exploring the production and commercialisation of electricity produced from wind power or clean hydrogen.

In addition to energy sourcing, retailers can increase their energy efficiency by investing in digital solutions that enable a more efficient management of commercial premises. Solutions such as building management software and remote digital management can help optimise and control energy consumption in shops. According to McKinsey¹¹⁸, these new digital solutions can help reduce energy consumption to best-in-class levels (30 to 50 percent below the current EU average).

In addition to energy savings, the process of “decarbonisation” of shops can also contribute to reduce hydrofluorocarbon emissions from old cooling appliances.

5.3. Investment and funding

Estimates show that the ecosystem would require an investment from 135 to 335 billion euros

¹¹⁶ McKinsey, *Turning down the cost of utilities in retail*, News Article of 1 June 2015

¹¹⁷ Ibid.

¹¹⁸ McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

for its green transition. Depending on the ambition of the stakeholders, this would amount to 0,3% to 0,9% of the turnover of the sector.¹¹⁹ SMEs would have to invest EUR 10 to EUR 25 billion and large companies EUR 125 to EUR 310 billion. This figures clearly confirm the need to enable the green transition also from an access to finance perspective.

To achieve the goals set by the European Green Deal, the European Green Deal Investment Plan (EGDIP) will mobilise at least EUR 1 trillion in sustainable investments over the next decade.

The InvestEU assumes a crucial role as a financing mechanism for the European Green Deal, with 30% of the programme devoted to investments that contribute to the EU's climate objectives. It also includes the SME window, which intends to increase access to equity finance for innovative SME's and start-ups that adopt and develop green tech solutions. It will help leverage private funding from investors such as business angels, family offices, venture capital funds, pension funds and insurance companies.

Sustainability is a priority across other financing instruments as well: 30% of the EU's multiannual budget (2021-2028) and the NextGenerationEU instrument have been allocated for green investments. Member States must devote at least 37% of the financing under the Recovery and Resilience Facility to investments and reforms that support climate objectives. Cohesion policy, as the main investment policy of the EU budget, supports climate action and the climate transition with EUR 110 billion during the 2021-2027 period.

In addition, sustainable finance tools, including the **Taxonomy Regulation**¹²⁰ that allows for classifying economic activities that can be considered environmentally sustainable, will contribute to the Green Deal by boosting and directing private sector investment towards green and sustainable projects and activities.¹²¹ The **Commission Recommendation on transition finance**¹²² provides suggestions on the voluntary use of the taxonomy, as well as other tools, including science-based targets where proportionate, to raise private finance for the transition, be it through lending or investments.

5.4. Enabling regulatory and policy framework

The green transition needs to be supported by a regulatory framework facilitating companies' investment in sustainable infrastructure and operations. Retailers and wholesalers have been already actively contributing to the targets set for the EU to become the first climate-neutral continent and transform the EU into a sustainable, fairer and more prosperous society that respects the planetary boundaries.

As already mentioned, the retail ecosystem has a potential to save energy and deploy renewable energy projects to green its operations but also to produce energy beyond its own needs. In light of Russia's war of aggression against Ukraine, the '**REPowerEU Plan**'¹²³ has set out measures to phase out the Union's dependence on fossil fuels from Russia by diversifying gas supplies and accelerating the reduction of the dependence on fossil fuels, including through rolling out

¹¹⁹ Ibid.

¹²⁰ Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

¹²¹ For instance, the Taxonomy includes criteria relevant for retail services such as the increase of energy efficiency of buildings, electricity and heating generation, low carbon transport, as well as services related activities such as sale of spare parts and second-hand goods, preparation for re-use of end-of-life products and components as well as marketplaces for the trade of second-hand goods for re-use, plastic packaging goods.

¹²² Commission Recommendation on facilitating finance for the transition to a sustainable economy (C(2023)3844).

¹²³ Commission Communication, *REPowerEU Plan*, COM(2022) 230 final

solar, wind and heat pumps, decarbonising industry, and enabling faster permitting of renewable energy projects.

For retailers, both as distributors and producers of goods, the transition towards a circular economy offers a unique opportunity not only to reduce their carbon footprint, but also to adopt sustainable operations and processes, develop new business models, access to markets and boost their competitiveness. On 30 March 2020 the European Commission adopted a new **Circular Economy Action Plan**¹²⁴ which aims at making sustainable products the norm, empowering consumers and addressing the issue of waste collection, treatment and valorisation.

Consumers are one of the driving forces behind the green transition while, at the same time, retailers have a leading role in influencing consumers to adopt greener consumption patterns. Recent Commission proposals will boost the green transition of the retail ecosystem. The **Digital Products Passport** and the **Directive on common rules promoting the repair of goods** ('right to repair')¹²⁵ will help consumers and businesses make informed choices when purchasing products, facilitate repairs and recycling and improve transparency about products' life cycle impacts on the environment. In the same way, as regards food, the **Sustainable Labelling Framework**¹²⁶ together with other relevant labelling initiatives, such as the animal welfare labelling¹²⁷, the proposal for a Green Claims Directive and the proposal for a Directive on empowering consumers for the green transition¹²⁸ will provide consumers with information empowering them to make informed and sustainable food choices.

The consumption of textiles in the EU has the fourth highest impact on the environment and climate change. To secure sustainable and circular production and consumption of textiles, the **Strategy for Sustainable and Circular Textiles**¹²⁹ sets out a framework of key actions to make textiles on the EU market more durable and recyclable, free of hazardous substances as well as environmentally friendly and socially produced by 2030. Services for re-use and repair should be widely available and textiles collected at the end of their lifecycle for fiber-to-fiber-recycling. To ensure the success of the Textile Strategy, there is a need for cooperation of all actors along the supply chain, including textile retailers.

A Commission proposal for targeted revision of the **Waste Framework Directive**¹³⁰ puts forward new rules on the responsibility of textile producers as well as targets for food waste reduction. The Commission proposes to make producers responsible for the full lifecycle of textile products and to support the sustainable management of textile waste across the EU. The Commission also proposes that, by 2030, Member States reduce food waste by 10% in processing and manufacturing and by 30% (per capita) jointly in retail and consumption, i.e. in food distribution, restaurants, food services and households.

Shops and warehouses are important assets of physical retailers and wholesalers. The proposed revision of the **Energy Performance of Buildings Directive**¹³¹ proposed under the **Renovation**

¹²⁴ Commission Communication *A new Circular Economy Action Plan For a cleaner and more competitive Europe*, COM/2020/98 final

¹²⁵ Proposal for a Directive on common rules promoting the repair of goods, COM(2022) 155 final

¹²⁶ Part of the Sustainable Food System Framework initiative. European Commission, [Food information to consumers](#)

¹²⁷ [Animal welfare labelling \(europa.eu\)](#)

¹²⁸ See section 7.2

¹²⁹ Commission Communication *EU Strategy for Sustainable and Circular Textiles*, COM (2020) 98 final

¹³⁰ European Commission proposal for a Directive amending Directive 2008/98/EC on waste, COM(2023) 420 final

¹³¹ Proposal for a Directive on the energy performance of buildings, COM(2022) 802 final

Wave strategy¹³² aims to make buildings fit for a greener future. In addition, the proposed recast of the **Energy Efficiency Directive**¹³³ includes ambitious provisions on the energy auditing of larger enterprises (retailers included), the promotion of energy services, and the enabling of more funding for energy efficiency projects and technological solutions.

Goods need packaging to be protected and safely transported, but packaging and packaging waste have a significant impact on the environment and use of virgin materials. Retailers have a role to play in reducing packaging waste, including in e-commerce, and promoting reuse and refill in line with the proposed Regulation on **Packaging and Packaging Waste**¹³⁴.

Finally, as already mentioned in Section 4.4, the 2022 revision of the **Vertical Block Exemption Regulation**¹³⁵ and the 2023 revision of the **Horizontal Block Exemption Regulations** and their **Guidelines**¹³⁶ seek to ensure that competition rules are adapted to market developments and to the digital and green transition of EU businesses. The Horizontal Guidelines include a new chapter on sustainability agreements clarifying how such agreements should be assessed under Article 101 TFEU. In the same way, certain types of sustainability agreements involving agricultural producers where the restrictions of competition are indispensable to attaining a sustainability standard that is higher than what is required under EU or Member State law, benefit also from an exemption under the new Article 210a of the Common Market Organisation Regulation (“CMO”)¹³⁷ as part of the new Common Agricultural Policy (CAP) 2023-2027.

5.5. Possible pathways towards a green retail ecosystem by 2030

In face of the global climate challenges and the current economic uncertainties, the green transition increasingly features on retailers’ and wholesalers’ agendas. However, as it is the case of the digital transition, the ability to embark on this transition, its speed and the particular needs for support differ depending on the subsector, the size of the company, its business model etc.

Therefore, in order to shape a transition pathway for the retail ecosystem, the Commission seeks stakeholders’ views on their needs and priorities with regard to the green transformation.

Questions to stakeholders:

- Based on your experience/knowledge, is the retail ecosystem on the right track for the green transition and for aligning with the EU-wide targets of a 55% greenhouse gas reduction by 2030 and of climate neutrality by 2050?
- What are the main challenges of the green transition of the retail ecosystem in your specific sector and country? Which steps are you and other actors taking to address them? Where do you see the action gaps? What should be the actions, roles and responsibilities to reach these objectives respectively for the Commission, Member States authorities (at national, regional or local level), businesses and other stakeholders?

¹³² Commission Communication, *A Renovation Wave for Europe - greening our buildings, creating jobs, improving lives*, COM(2020) 662 final

¹³³ Proposal for a Directive on energy efficiency (recast) COM/2021/558 final

¹³⁴ Proposal for a Regulation on packaging and packaging waste, COM(2022) 677 final

¹³⁵ Regulation (EU) 2022/720

¹³⁶ Guidelines for the assessment of horizontal cooperation agreements C(2023) 3445; Guidelines on vertical restraints 2022/C 248/01

¹³⁷ Regulation (EU) 2021/2117. For more information see Guidelines on [Sustainability agreements in agriculture – guidelines on antitrust derogation \(europa.eu\)](#).

What role could consumers play?

- Could you provide any data or analysis to illustrate these challenges? What ways forward/solutions would you propose?
- Would you have any examples or good practices to share in relation to the challenges mentioned above and/or possible ways forward/solutions?
- Have you set specific targets and milestones for the green transition in your area of activity? Based on your data, how far are you from achieving your goals? What are the challenges you foresee?
- Based on your experience/knowledge, what are the specific challenges of the green transition for retail SMEs? Which steps are you and other actors taking to address them? Where do you see the action gaps? What role could relevant authorities and stakeholders play in addressing these challenges in the future?
- Based on your experience/knowledge, could a better use of existing funding possibilities support SMEs in their green transition? Where do you see opportunities, gaps or challenges?
- Based on your experience/knowledge, can the framework conditions for private investments be improved? What would be your concrete suggestions?
- Based on your experience/knowledge, which elements do you find are missing or insufficient in the current regulatory framework to support the green transition?
- Based on your experience/knowledge, what risks and opportunities do you see in the green transition of the retail ecosystem?
- Based on your experience/knowledge, what other issues or barriers to the green transition would you propose to be considered for this pathway?

6. A RETAIL ECOSYSTEM EMPOWERED BY SKILLS

The technological progress of the last years, the sustainability objectives as well as the evolving consumer needs and expectations have accentuated the need for a skills transition in the retail ecosystem.

The retail ecosystem is the largest employer of all 14 industrial ecosystems. It counts almost 30 million employees in retail, wholesale and parcel delivery.

Retail is very important for youth employment (more than 10% of retail employees are in the 15-24 age range, compared to just 8 % across all sectors of the EU economy¹³⁸). For many, this is the first job - from all young people employed, 20% worked in retail and wholesale, compared to 14% of people between 25 and 49 years old and 12% for people between 50 and 64 years old. Retail and wholesale are also number 1 in almost all EU countries in terms of providing apprenticeships.¹³⁹ Given that a high number of young Europeans regularly change job, the training they receive when working in the ecosystem is often transferable, enabling their professional development and deploying skills throughout the economy.¹⁴⁰ Women account for around 50% of those employed in retail companies, compared to 45% across all sectors of the EU economy.¹⁴¹ Work in retail can often be combined with other activities, such as studies or household care. Retail also offers career opportunities to people in rural areas where

¹³⁸ Eurostat 2022, Employment by sex, age and economic activity (from 2008 onwards, NACE Rev. 2)

¹³⁹ EuroCommerce/UniEuropa, Large-scale partnership commitment for skills in the retail ecosystem, 2022, [Retail and Large-scale partnerships Retail \(europa.eu\)](#)

¹⁴⁰ [Digital skills package: an opportunity for retail and wholesale - EuroCommerce](#)

¹⁴¹ *ibid.*

employment is scarce and recently, to migrants and refugees.

A successful transition cannot happen without the right skills. With technological progress and continuous digitalisation, labour markets and skills policies need to adapt to the changing nature of today's jobs and make sure employees are equipped with the right skills for the future. Already today, retail and wholesale sectors are training 10 million employees a year.¹⁴² This trend needs to be maintained and even strengthened to support the transformation. To make it happen, it is estimated that 10 to 13 million employees will need to acquire new skills each year and 800,000 to 1.5 million employees per year will need to be recruited.¹⁴³

In this labour-intensive ecosystem, the share of employees with tertiary education level is lower than in other sectors, with only 23.4% of employees having a higher education level. The majority (57.5%) have a medium education level (including upper secondary and post-secondary levels), and 19% a low education level (less than primary, primary, and lower secondary).¹⁴⁴ The employment share of high-tech occupations¹⁴⁵ was of 4.3% in 2020 in EU27. The percentage share of high-tech occupations is foreseen to grow to 4.9% by 2030.¹⁴⁶ Such an increase, coupled with the use of digital tools and implementation of advanced analytics could raise retail productivity by up to 2.6%.¹⁴⁷

In 2021, in the **European Pillar of Social Rights Action Plan**¹⁴⁸, the European Commission has set a target of a minimum of 60% of all adults to acquire training every year. In addition, a minimum of 80% of population aged 16-74 are to acquire digital skills by 2030. For the success of the digital transformation in the retail ecosystem it is crucial that the entire workforce becomes digitally literate. The type of digital skills needed can range from basic ones (e.g. how to use smartphones, tablets or apps) to advanced ones, such as data analytics or programming, depending on the function. Omni-channel operations and click & collect require sales staff to have a good knowledge of the entire 'customer journey' (both online and offline). According to a 2021 Cedefop survey¹⁴⁹, 40% of retail and wholesale employees in the EU who undertook formal or non-formal training did that to develop further the digital skills needed for their job. Digitalisation creates a demand for entirely new professions in retail and wholesale, such as AI specialists, data analysts, blockchain experts, robotics engineers, social media managers, digital marketing specialists, user experience experts, etc. Store managers also need to have ICT skills to make decisions based on data. These roles can help many companies capture the value of digital channels, advanced analytics, and automation. However, the skills gaps in these areas are significant. The number of job postings for data scientists across the economy exceeds now the number of candidates by a factor of three.¹⁵⁰

Technology and automation are likely to replace retail employees in certain routine tasks. For example, the increased use of self-checkout and seamless checkout could reduce the time cashiers spend at the register. Similarly, stock care and replenishment on the sales floor could be largely automatised with robotic shelf replenishment, digital price tags or smart fridges that

¹⁴² McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

¹⁴³ McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

¹⁴⁴ Cedefop, *Skills intelligence* (sector data for retail and wholesale), 2020

¹⁴⁵ This indicator refers to the share of people employed in science, engineering, and ICT occupations either as professionals or associate professionals.

¹⁴⁶ Cedefop, *Skills intelligence* (sector data for retail and wholesale), 2020

¹⁴⁷ McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

¹⁴⁸ *The European Pillar of Social Rights Action Plan*, COM (2021) 102

¹⁴⁹ Cedefop, *2nd European skills and jobs survey*, 2021

¹⁵⁰ McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

check inventory and expiration dates. This, on the one-hand, could free up the workforce from repetitive tasks and allow them to focus more on customer advice, personalisation of customer services and improved customer experience overall.¹⁵¹ On the other hand, this may also lead to job losses among low-skilled workers. Therefore, re- and upskilling will be crucial to ensure that retail employees are supported in the transition.

In warehousing, transport and logistics, there is a potential to further exploit automation, for example for loading and unloading, order picking etc. However, even with this happening, the number of warehouse jobs is expected to rise as e-commerce growth increases the need to fill orders and handle returns. New jobs are also expected to emerge, for example in supply chain management, inventory management systems and last-mile delivery.

All these changes will require new analytical and technical skills and capabilities allowing retail employees interact with the digital tools and automated processes and maintain digital communication channels with customers.

The urgency of digital upskilling programmes has been further accentuated by the COVID crisis. Today, training programmes need to take into account the omni-channel reality of retail and equip retail workers with skills to perform their tasks on a combination of physical and online channels.

Meeting constantly evolving consumer expectations will require retail employees to also develop skills related to the sustainability transition. As consumers increasingly expect retailers and wholesalers to act sustainably, companies need to rapidly adapt and mainstream basic sustainability skills throughout their organisation and workforce. The ecosystem will increasingly need employees trained in repair and waste management, energy efficient use of equipment and products as well as the development and application of sustainable processes and solutions.

Soft skills such as consumer advice and communication will also play an important role, as retail services will increasingly be personalised. Customers may need more support to accommodate digital innovation.

Retail employees therefore need a combination of human, digital, and traditional retail skills to perform effectively in this modern retail environment.¹⁵²

The job vacancy rate in retail and wholesale reached an all-time high of 1.8 percent in 2021, up from 1.3 percent in 2020 and 1.0 percent in 2012.¹⁵³ A challenge consists of skills shortages both in traditional retail jobs, such as butchers and bakers, as well as in hi-tech occupations.

The ecosystem needs therefore efficient re- and upskilling programmes and strategies, both to attract and retain employees. Public authorities and education and training providers can play an important role by offering, in collaboration with businesses, educational paths preparing people for their future careers in retail and wholesale.

It will also be important to make sure that educational paths for young people are adapted to the green and digital transition and the omnichannel reality of retail. Vocational education and

¹⁵¹ Skillnet Ireland, *Retail Technologies and Future Skills Report*, 2020

¹⁵² Skillnet Ireland, *Retail Technologies and Future Skills Report*, 2020

¹⁵³ McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

training providers will need to offer relevant courses, taking into account the imminent changes and providing future retail employees with ‘high tech and high touch’ skills, i.e. combining technology skills with top-quality service based on expert advice and customer service.

The training functions within retail and wholesale businesses will become more important than ever and will need to be staffed by competent individuals who understand technology, skills, and retail. They will also need to effectively collaborate with external education and training providers. Business success will depend on the attraction, retention, and development of talent.¹⁵⁴

The skills transition will require significant investments. It is estimated that businesses in the ecosystem will have to spend 40-60% more on upskilling than they do today.¹⁵⁵ This is particularly challenging for SMEs. While SMEs employ almost two-thirds of the sector’s workforce, their ability to invest remains low. About one in five SMEs cite lack of skills among the barriers to engage in more sustainable practices, digitalise, and innovate.¹⁵⁶ Main constraints are time and resources. In particular in micro-enterprises, i.e. companies with less than 10 employees, off-the-job training may be difficult or impossible. SMEs and micro-enterprises in particular could benefit from public support for training or collaboration with national associations and larger companies to take part in local training platforms, benefit from technical support etc. Funding and collaboration opportunities could also allow these companies outsource certain functions, such as IT tasks, marketing or accounting.

Financial resources however are not always sufficient to ensure the skills transition. Increased need for high-skilled employees coupled with talent scarcity on the labour market as well as high attrition rate in the ecosystem are quoted by companies in the ecosystem as the most significant obstacles to re- and upskilling as well as attracting and retaining talents.¹⁵⁷

On 10 November 2020, the Commission launched the **Pact for Skills**¹⁵⁸, a flagship initiative of the EU Skills Agenda¹⁵⁹, to bring together all the different actors in 14 industrial ecosystems: companies, workers, national, regional and local authorities, social partners, sectoral organisations, education and training providers, chambers of commerce etc. to take concrete action to upskill and reskill EU workforce.

On 29 November 2022, the social partners in the retail ecosystem have set up a **large-scale partnership on skills**¹⁶⁰. The partnership will work on the ecosystem’s most pressing needs in terms of skills and discuss how to support vocational and educational training to prepare people for careers in retail and wholesale, the opportunities for upskilling and reskilling as well as options for attraction and retention of employees.

The **European Year of Skills** launched on 9 May 2023 will give a fresh impetus to lifelong learning, empowering people and companies to contribute to the green and digital transitions, supporting innovation and competitiveness.

¹⁵⁴ Skillnet Ireland, *Retail Technologies and Future Skills Report*, 2020

¹⁵⁵ McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

¹⁵⁶ European Commission, *Flash Eurobarometer 486 (SMEs, start-ups, scale-ups and entrepreneurship)*, 2020

¹⁵⁷ McKinsey/EuroCommerce, *Transforming the EU Retail and Wholesale sector*, 2022

¹⁵⁸ European Commission, [Pact for Skills](#)

¹⁵⁹ European Commission, [European Skills Agenda](#)

¹⁶⁰ EuroCommerce/UniEuropa, Large-scale partnership commitment for skills in the retail ecosystem, 2022, [Retail and Large-scale partnerships](#)

6.1. Possible pathways towards a retail ecosystem empowered by skills by 2030

As stated above, a successful transition cannot happen without the right skills. The green and digital transformation require a solid human resources basis. However, already today the retail ecosystem is confronted with a lack of workforce and a challenge to make the retail and wholesale jobs attractive.

Therefore, in order to shape a transition pathway for the retail ecosystem, the Commission seeks stakeholders' views on their needs and priorities with regard to the skills transformation.

Questions to stakeholders:

- Based on your experience/knowledge, what are the implications of the green and digital transition for the main skills requirements and training needs in the retail ecosystem?
- What are the main challenges of the skills transition of the retail ecosystem in your specific sector and country? Which steps are you and other actors taking to address them? Where do you see the action gaps? What should be the actions, roles and responsibilities to reach these objectives respectively for the Commission, Member States authorities (at national, regional or local level), businesses and other stakeholders?
- Could you provide any data or analysis to illustrate these challenges? What ways forward/solutions would you propose?
- Would you have any examples of initiatives or good practices in relation with the skills transition to share, including at national, regional and local level?
- Have you set specific targets and milestones for the skills transition in your area of activity? Based on your data, how far are you from achieving your goals? What are the challenges you foresee?
- Based on your experience/knowledge, what are the specific challenges of the skills transition for retail SMEs? Which steps are you and other actors taking to address them? Where do you see the action gaps? What role could relevant authorities and stakeholders play in addressing these challenges in the future?
- Based on your experience/knowledge, could a better use of existing funding possibilities support SMEs in re- and upskilling? Where do you see opportunities, gaps or challenges?
- Based on your experience/knowledge, can the framework conditions for private investments be improved?
- Based on your experience/knowledge, which elements do you find are missing or insufficient in the current regulatory framework to support the digital transition?
- Based on your experience/knowledge, what other issues or barriers to the skills transition would you propose to be considered for this pathway?

7. A FAIR AND JUST RETAIL ECOSYSTEM FOR BUSINESSES, WORKERS AND CONSUMERS

7.1. A societal dimension of the retail ecosystem

Retail is at the forefront of the supply chain, in direct contact with consumers. It serves almost 450 million EU consumers on a daily basis.

The importance of retail for consumers came sharply in the spotlight during Covid-19 lockdowns with deserted urban areas due to the closure of shops and other services. On the

other hand, depending on Member States, some shops which remained open (grocery shops, DIY shops etc.) played a crucial role in supplying consumers with the goods and services needed for everyday life and for the continuity of economic activities.

In the context of the Russian invasion of Ukraine, retailers have made efforts to diversify the sourcing of their products and avoid disruption as much as possible. In the same way, with rising inflation, energy costs and shrinking consumers' purchasing power, retailers are playing an important role in keeping products affordable.¹⁶¹

Retail and in particular retail SMEs are crucial for the urban and rural local communities. They are part of the societal fabric of rural and urban areas, an important provider of local employment and economic activity, a contributor to local taxes and local development. They bring proximity, availability and personalised services to customers.

As already indicated in Section 2, revitalisation of urban areas and maintaining the vitality of city-centres is a complex challenge for municipalities. It requires holistic solutions combining issues such as the availability of services important to citizens, traffic management, the design of residential spaces, green areas etc. The Court of Justice of the European Union in the *Visser* judgement¹⁶² recognised that the protection of city-centres is a valid public policy objective. However, if municipalities decide to apply restrictions to the freedom of establishment with this objective in mind, they have to make sure that the measures are proportionate to the objective pursued, i.e. they are suitable for securing the attainment of the objective and they do not go beyond what is necessary for attaining that objective. In the **Guide “Facing the Future”** published alongside the 2018 Communication on “A European retail sector fit for the 21st century”, a thriving small retail sector is essential for keeping European town and city-centres vital and maintaining lively rural areas. Already in the pre-Covid period, many retail SMEs were struggling to embrace new technology and in particular digital transformation. In the “Facing the Future” Guide the Commission gave public authorities practical suggestions on how to foster the revitalisation and modernisation of small retail and build retail communities to bring consumers to city-centres. Vibrant city-centres help raising the attractiveness of local communities for inhabitants and tourists. The suggestions were based on best practices from across the EU. Since 2019, under the **#Revitalise Retail** initiative, the Commission has been organising workshops to encourage exchange of experiences, solutions and success stories, including on how to help shops recover from the Covid-19 crisis. In January 2023, the European Parliament has adopted a motion for a resolution calling on the Commission to create a **European Capital of Small Retail**.¹⁶³ This could further promote the role of small retailers in city-centres.

In its 2021 **Long Term Vision for Rural Areas**¹⁶⁴, the Commission emphasized that retail is one of the sectors essential to rural life and jobs and to ensure no-one and no place is left behind. In 2021 a **#Revitalise retail** workshop was dedicated to retail SMEs in rural areas, showcasing how they can support local farmers in particular through creating new ways to promote and/or sell local food (e.g. in physical stores, online or through collaborative initiatives/partnerships).

The green and digital transition offers opportunities to enhance the cooperation of ecosystem

¹⁶¹ See Section 2.2

¹⁶² ECJ judgment of 30 January 2018, *Visser*, C-31/16

¹⁶³ https://www.europarl.europa.eu/doceo/document/TA-9-2023-0006_EN.html

¹⁶⁴ Commission Communication on *A long-term Vision for the EU's Rural Areas - Towards stronger, connected, resilient and prosperous rural areas by 2040*, COM/2021/345 final

actors at the local level. Local platforms can play an important role connecting local suppliers, retailers and delivery services. This could improve consumer access to the local offer, strengthen local supply chains and allow businesses pool resources, for example organising common deliveries.

7.2. A just transition of the retail ecosystem

The green and digital transition of the retail ecosystem can have broad implications. The transition needs therefore to be just, fair and socially viable.

It can offer **consumers** improved shopping experience and EU-wide access to goods thanks to the technological development. It can also increase the availability of sustainable goods and sustainable food choices¹⁶⁵, but some parts of the society, such as the underprivileged, the less digitally savvy, the elderly or migrants are at risk to be excluded. Consumers are also affected by current economic pressures. The consumer confidence indicator hit a record low in Europe in September 2022.¹⁶⁶ The technological development should empower consumers, however not all of them have equal access to it and they also run a risk of misinformation or fraudulent behaviour of economic operators, as also reported by respondents to the Consumer Conditions Survey¹⁶⁷. The increased use of consumer data may raise concerns as to the privacy and data protection, including data security. A number of legislative initiatives already mentioned in this Staff Working Document aim at remedying this situation.

In the area of consumer protection, the **2019 Directive on the better enforcement and modernisation of Union consumer protection rules**¹⁶⁸ amended the existing instruments strengthening consumer protection in areas such as transparency of consumer reviews, ranking of search results and price discounts. Furthermore, in May 2022, the Commission launched a Fitness Check of EU consumer law on digital fairness: an evaluation of the main consumer law instruments to determine whether they remain adequate for ensuring a high level of consumer protection in the fast-evolving digital environment.

The retail ecosystem has a key role to play to ensure the safety of consumer products, which is essential for the successful implementation of the green and digital transition. The **General Product Safety Regulation (GPSR)**, which will enter into application in December 2024, addresses these challenges. In particular, it aims at protecting consumers equally when they buy products online and in brick-and-mortar shops and it sets out clear obligations for all actors in the supply chain. It also provides for traceability rules (both on the product and regarding the supply chain), for the obligation to notify accidents and for new rules on recalls.

More recently, the proposal for a **Directive on empowering consumers for the green transition**¹⁶⁹ aims to ensure a better protection against unfair commercial practices and better information. It proposes new rules to provide consumers with information on products' sustainability, in particular their durability and reparability, at the point of purchase. It also aims to promote commercial guarantees exceeding the two-year legal guarantee, as well as to ban

¹⁶⁵ This is addressed in detail in the Commission Staff Working Document *Co-creation of a transition pathway for a more resilient, sustainable and digital agri-food ecosystem*

¹⁶⁶ 2023 Consumer Conditions Scoreboard

¹⁶⁷ https://commission.europa.eu/system/files/2023-03/online_consumer_experience.pdf

¹⁶⁸ Directive (EU) 2019/2161 amending Directives 93/13/EEC, 98/6/EC, 2005/29/EC and 2011/83/EU as regards the better enforcement and modernisation of Union consumer protection rules.

¹⁶⁹ Directive as regards empowering consumers for the green transition through better protection against unfair practices and better information, COM(2022) 143 final

false and certain types of premature obsolescence of products and so called 'greenwashing'. The latter is the main objective of the proposed **Directive on Green Claims**¹⁷⁰ which aims to ensure that consumers receive reliable, comparable and verifiable environmental information on products.¹⁷¹

Similarly for **retail employees**, the transition can offer benefits, leading to a creation of multiple new jobs and provide opportunities for re- and upskilling. As outlined in Section 6 on the Skills transition, given the trends accelerated by Covid-19, more than half of low-wage workers in declining occupations may need to shift to occupations in higher wage brackets that require different skills. However, the transition may also lead to workers being displaced. This is likely to concern to a larger extent women, the young and the less educated employees reflecting the predominance of these groups in customer service jobs, including retail.¹⁷² This requires particular attention under the Pact for Skills.

According to Cedefop, 7 in every 10 skilled occupation workers report significant dynamic skill gaps, signaling substantial unmet learning needs. However, over half of workers in elementary jobs or jobs with no or little digital intensity report limited or no skill development needs. Mirroring limited incentives and lacking stimulus for learning in their jobs, many of them do not realise the importance of investing in their skills or have little learning ambition.¹⁷³

An important aspect is the change in mindset: both employers and employees must develop a sense of urgency in terms of up- and reskilling and embrace continuous learning.

Finally, digitalisation in management may pose additional challenges to workers in terms of intensified performance expectations, unpredictable working hours and increased surveillance. Also, some business models fueled by digitalisation, such as quick commerce platforms or “dark stores”, can also, in certain cases raise issues of working conditions and protection of workers.¹⁷⁴¹⁷⁵

The **Sectoral Social Dialogue Committee on Commerce**, set up by the Commission as a forum for workers and employer organisations, facilitates a dialogue and collaboration between the social partners in that respect. As mentioned in Section 6, the social partners have also recently set up a large-scale partnership on skills in the retail ecosystem which, amongst others, aims at helping retail employees embrace the opportunities of the green and digital transition.

Fairness should also concern relations in the supply chain. Recently the Commission has adopted a number of horizontal proposals contributing to fair supply chains and working conditions worldwide. The proposed Directive on corporate sustainability **due diligence**¹⁷⁶ introduces measures for companies to identify, prevent and mitigate adverse impacts on human rights and the environment throughout their global value chains. This is complemented by the proposal for a Regulation prohibiting products made using **forced labour**, including **child**

¹⁷⁰ Proposal for a Directive on substantiation and communication of explicit environmental claims, COM(2023) 166 final

¹⁷¹ Proposal for a Green Claims Directive COM/2023/166 final, [Green claims \(europa.eu\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52023PC166)

¹⁷² McKinsey, *The future of work after COVID-19*, 2021

¹⁷³ Cedefop, *Setting Europe on course for a human digital transition*, 2022

¹⁷⁴ In December 2021, the Commission proposed a directive to improve the working conditions in platform work (COM/2021/762 final).

¹⁷⁵ Uni Europa/FEPS, *Back to the Dark Ages? Q-commerce, Rapid Retail and the Changing Landscape of Retail Work*, March 2023

¹⁷⁶ Proposal for a Directive on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937, COM(2022) 71 final

labour, on the EU internal market¹⁷⁷. By promoting the consumption of ‘deforestation-free’ products and reducing the EU’s impact on global deforestation and forest degradation, the recently adopted **deforestation Regulation**¹⁷⁸ is expected to bring down greenhouse gas emissions and biodiversity loss. These proposals are highly relevant for retailers, wholesalers and their suppliers. When in force, they will increase consumers trust that what they are buying is ethical, safe and sustainable.

Companies can also propose internal corporate social responsibility (CSR) programs, going further than EU requirements and providing for example more transparency, fairer wages or developing stringent environmental requirements. Disclosing CSR activities could also lead to positive outcomes from a business perspective: employee motivations and higher commitment to work and an improved image.

The transition may also entail more difficulties to adapt for **SMEs** than for large companies. In that context, it is important that SMEs can benefit from the support of dedicated networks and associations. The **Enterprise Europe Network (EEN)**, bringing together experts from member organisations such as chambers of commerce, regional development organisations, universities, research institutes and innovation agencies is the world’s largest support network for SMEs helping businesses innovate and grow on an international scale. **The EEN Sector Group Retail** gathers organisations relevant for the retail ecosystem and supports the green and digital transition of SME retailers i.e. through dedicated training or local match-making events. The sustainability advisors of the EEN can provide SMEs with individual support on the green transition. The EEN has also a strong connection to **European Digital Innovation Hubs** which support companies in improving business/production processes, products or services based on digital technologies by providing access to technical expertise and testing, financing advice, training and skills development as well as by helping companies tackle environmental issues, in particular the use of digital technologies for sustainability and circularity.

The Commission supports SMEs with a number of initiatives to create fairer business conditions allowing them to remain competitive. The **SME Relief Package**¹⁷⁹ should complement support measures for SMEs included in the Recovery and Resilience Facility, the RePowerEU plan, the Temporary Crisis and Transition Framework for State aid and the Cohesion Policy. It should include a revision of the Late Payment Directive which aims to foster a culture of fairness in business-to-business transactions. It could also foster the use of digital tools to make prompt payments easy. The Package could also look into the issue of disproportionate compliance costs for SMEs and further ways to facilitate access to finance and skills.

In the same way, the Commission Communication on **Long-term competitiveness of the EU**¹⁸⁰, aims at further streamlining reporting obligations and thus reducing administrative burden for companies. This will benefit in particular SMEs. The aim is to reduce such burdens by 25%, without undermining the related policy objectives.

To drive forward a just transition at all levels, the Commission is engaging actively with

¹⁷⁷ Proposal for a regulation on prohibiting products made with forced labour on the Union market, COM(2022) 453

¹⁷⁸ Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010

¹⁷⁹ https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_22_5653

¹⁸⁰ Commission Communication *Long-term competitiveness of the EU: looking beyond 2030* COM(2023) 168 final

stakeholders on designing, implementing and monitoring just transition policies and related actions including the Just Transition Platform, the Industrial Forum, the Platform on Sustainable Finance or the European Alliance for a Just Transition.

7.3. Possible pathways towards a fair retail ecosystem for businesses, workers and consumers by 2030

The green and digital transition of the retail ecosystem poses challenges and provides opportunities equally for businesses, workers and consumers. A vision for a fair and just retail ecosystem needs to balance the different interests and make sure the developments leave no one behind.

Therefore, in order to shape a transition pathway for the retail ecosystem, the Commission seeks stakeholders' views on their needs and priorities with regard to a fair and just transition and the societal dimension of the retail ecosystem.

Questions to stakeholders:

- Based on your experience/knowledge, what are the main challenges to make the green and digital transition of the retail ecosystem fair and just for consumers in your specific sector and country? Which steps are you and other actors taking to address them? Where do you see the action gaps? What should be the actions, roles and responsibilities to reach these objectives respectively for the Commission, Member States authorities (at national, regional or local level), businesses and other stakeholders?
- Based on your experience/knowledge, what are the main challenges to make the green and digital transition of the retail ecosystem fair and just for employees in your specific sector and country? Which steps are you and other actors taking to address them? Where do you see the action gaps? What role could relevant authorities and stakeholders play in addressing these challenges in the future?
- Based on your experience/knowledge, what are the main challenges to make the green and digital transition of the retail ecosystem fair and just for SMEs in your specific sector and country? Which steps are you and other actors taking to address them? Where do you see the action gaps? What role could relevant authorities and stakeholders play in addressing these challenges in the future?
- Based on your experience/knowledge, what are the main challenges to make the green and digital transition of the retail ecosystem fair and just for supply chain in your specific sector and country? Which steps are you and other actors taking to address them? Where do you see the action gaps? What role could relevant authorities and stakeholders play in addressing these challenges in the future?
- Could you provide any data or analysis to illustrate these challenges? What ways forward/solutions would you propose?
- Would you have any examples or good practices to share in relation to the challenges mentioned above and/or possible ways forward/solutions for a fair and just green and digital transition for consumers, employees, SMEs and supply chains?
- Have you set specific targets and milestones for a fair and just transition in your area of activity? Based on your data, how far are you from achieving your goals? What are the challenges you foresee?
- Based on your experience/knowledge, which elements do you find are missing or insufficient in the current regulatory framework to support a fair transition?
- Based on your experience/knowledge, what other issues or barriers to a fair and just transition would you propose to be considered for this pathway?

8. KEY PERFORMANCE INDICATORS

To support the retail ecosystem in its transition, it is important to gather data on progress in the different areas and analyse certain key performance indicators (KPIs). The Commission will, together with stakeholders, look into such KPIs during the co-creation of the transition pathway and identify which are relevant for the transition.

The indicators to monitor the digital transition could include data on the development of online sales, development of digital skills among retail employees, investment in and the use of advanced technologies, use of data, use of online payment methods, consumer online behaviour and preferences, etc.

The indicators to monitor the green transition of the ecosystem could include GHG emission change, generation of waste, renewable energy use, private investment in circular solutions, technology adoption and supply of skilled professionals.

It would also be important to measure how the resilience of the retail ecosystem evolves. Indicators could include the level of Single Market integration measured through cross-border establishment of retail businesses and their sales across the EU. The Retail Restrictiveness Indicator would allow to measure the level of restrictions for the establishment of shops and their daily operations. It could be further developed to capture regulatory requirements relating to certain aspects of the green and digital transition. It could also be correlated with indicators of economic performance of the ecosystem. Data on expansion and sales outside the EU could provide a basis to measure the level of the ecosystem's global competitiveness.

Questions to stakeholders:

- Are you collecting data and have you developed KPIs to monitor the green, digital and skills transition in your area of activity?
- How could you contribute to the monitoring of the green, digital and skills transition at EU level?
- Based on your experience/knowledge, what additional KPIs would you propose to measure progress on the green, digital and skills transition of the retail ecosystem by 2030 and beyond? Please explain.
- Based on your experience/knowledge, what sources of data would you propose to measure progress on the green, digital and skills transition of the retail ecosystem by 2030 and beyond? Please explain.
- Would you have other comments and/or examples to provide in relation to the proposed KPIs?

9. NEXT STEPS

This Staff Working Document has made an initial outline of some of the key issues and existing EU policy support frameworks for a more resilient, digital, greener and fairer retail ecosystem, supported by the right skills. Retail ecosystem stakeholders (large and small businesses, associations, social partners, public authorities, NGOs, other European institutions and other organisations) are invited to start a reflection on the transition pathway and provide feedback, guided by the questions set out in each chapter. They are invited to widen the analysis on the main challenges, provide examples and suggest relevant actions for the transition at all levels. In addition, they are welcome to share ideas on the relevant KPIs that could be used to monitor progress.

The Commission services welcome responses from retail ecosystem stakeholders through the related targeted online stakeholder consultation. Workshops to discuss the feedback from the consultation and specific topics of the future pathway will follow. Based on the results of this co-creation process, the transition pathway for a more resilient, digital and green retail ecosystem will be drafted, in line with the blueprint for transition pathways, and published.