



OPINION

European Economic and Social Committee

Digital transformation/Retail

Digital transformation opportunities for retail companies and its advantages
for European consumers
(Own-initiative opinion)

Dossier INT/946

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1. **Conclusions and recommendations**

- 1.1 The European Economic and Social Committee (EESC) welcomes the fact that the retail sector is being considered as a strategic ecosystem for European recovery in the revision of the European industrial strategy recently presented by the European Commission (EC). The EESC considers that the eco-system approach provides an appropriate framework, reflecting on the one hand the complex interlinkages among sectors and businesses in the Single Market in given value chains and, on the other, the need to support them in successfully embracing the digital and sustainability transitions and contributing to the recovery strategy. The EESC notes the importance, diversity and scale of initiatives undertaken by retail companies to support the green and digital transitions by investing in new technologies to respond to new demands from consumers, as well as their needs.
- 1.2 The European retail sector, as the biggest private employer in Europe, is in the middle of a digital transformation that has been drastically accelerated by the COVID-19 pandemic. The digital transformation is fundamentally changing retail business models, but also changing interaction with customers, and the most successful businesses are seamlessly integrating the online and offline environment into an omnichannel. The EESC has noted that two-third of retailers had no online operations before COVID-19, and that the pandemic has shown how important an omnichannel strategy is for many companies' survival, in particular – but not only – the survival of SMEs.
- 1.3 The EESC highlights that one of the main challenges the retail sector is facing is the lack of an online level playing field with third-country traders; this creates unfair competition for EU-based traders that comply with EU rules requiring that products sold to consumers be safe and consumer rights respected.
- 1.4 The EESC agrees that a solid, ambitious digital policy for the retail sector is needed in Europe to take advantage of the opportunities that the digital innovation offers for enhancing Europe's competitiveness. Taking on board the green transition provides an opportunity for the retail sector to help consumers make more sustainable choices in their consumption at the same time. The EESC highlights the fact that a real Single Market and efficient and effective cross-border legislation will enable the retail and wholesale sectors to respond to consumer demands and compete in a globally competitive, more digital environment.
- 1.5 The EESC supports the joint statement in the European Pact for Commerce in Europe issued by the social partners in the retail and wholesale sectors for the EU to help the sector improve its long-term resilience by introducing targeted support measures and accelerating the digital and green transitions, and it recognises the role of retail shops in keeping town centres and rural communities alive. The EESC calls on the EC to reflect on ways to create an integrated recovery and industrial strategy building on recovery plans that reflects the mutually reinforcing role of services and manufacturing in driving growth and the efficient operation of the EU economy and supporting retail digitalisation, with a specific focus on SMEs.
- 1.6 The EESC urges the EU institutions and Member States to redesign employment and skills support measures and to invest in the skill sets of future retail workers through improved

vocational and educational training, individual learning and social economy sector support, accounts geared to new jobs, supporting companies in such a way that they can retain a large portion of their workforce by training them to use digital technologies; re-skilling may enable others to access job opportunities in other sectors. The EESC agrees that artificial intelligence (AI) and robotics will expand and amplify the impact on labour markets of the digitalisation of the economy and that it can contribute to economic and social progress.

2. Introduction

- 2.1 The retail sector, covering retail stores (B2C) and wholesale companies (B2B), is the biggest private employer in Europe, providing one out of every seven jobs and one out of every four European companies. Retailers and wholesalers are the link between producers and manufacturers and the 450 million consumers in the European Union (EU).
- 2.2 Retail is a consumer-demand driven sector. It is a diverse sector of online and brick-and-mortar stores selling food and non-food products to consumers, which are quickly merging into an omnichannel business model for consumers. 99% of businesses in this sector are SMEs that are trying to find their way in the Single Market, surviving in a highly competitive market, offering flexibility to innovate and experiment, and doing what they do best: serving their customers.
- 2.3 The European retail sector is in the middle of a digital transformation. This was drastically accelerated by the COVID-19 pandemic. Numerous consumers had to buy their non-food products online because stores were closed. Food stores were often able to remain open, but were subject to tight restrictions, generating high costs because of the need to keep consumers and employees safe. Many retailers that did not previously have an online web shop had to start offering their products online to be able to reach customers again while in lockdown. Often, online marketplaces were the only way for SMEs to go online quickly and this is expected to increase in the near future.
- 2.4 At the same time, the green transition is an opportunity for retail, as it allows the sector to rethink business models, offer alternative products and support and nudge people in the direction of a more sustainable lifestyle. It is both responding and leading to societal change. Next to the increasing demand from consumers and regulators for more sustainable alternatives, the green transition is an opportunity to rethink the way society produces, manufactures, sells, uses and discards products.

3. Digital transformation

- 3.1 The digital transformation is fundamentally changing retail business models: it is changing interaction with customers, marketing, the supply chain itself, the information flowing through the supply chain and much more. The sector is traditionally a reseller of products, but it is becoming more and more a mixture of support services around reselling, a leading generator and processor of data, and an important user of AI. This is essential to respond to consumer demand and provide more relevant personalised offers.

- 3.2 While many are still talking about online and offline sales channels, the most successful businesses are seamlessly integrating the online and offline environment into omnichannels, thereby offering consumers one experience. This is contributing to increased competition between the different business models and generating more choice and transparency for consumers, jobs and growth.
- 3.3 One of the main challenges the retail sector is facing is the lack of an online level playing field with third-country traders. Some of these issues are already addressed by different Commission initiatives. There are regular reports in the media that non-EU products being sold online by third country traders are not compliant with EU rules or are even unsafe or dangerous. This creates unfair competition for EU-based traders that comply with EU rules that require that the products sold to consumers be safe and that consumer rights be respected. The problem is exacerbated by failing market surveillance and customs controls, topped by high compliance costs for law-abiding traders. For consumers, it is difficult to resist the temptation of lower prices. One study from 2020 suggests that almost 70% of EU consumers that buy cross-border have purchased products sold from China – a figure that stood at about 15% in 2014¹.
- 3.4 Retailers and wholesalers are innovating, adapting and experimenting in order to explore new products, services and business models so as to keep up with customer demand. More than two out of three retailers had no online operations before COVID-19, and the pandemic has shown just how important omnichannels are for many companies' survival, in particular – but not only – SME retailers and wholesalers.
- 3.5 Digital innovation enhances the competitiveness of Europe globally. One in two European customers already shop online, spending EUR 424 billion/year², but the online share of purchases varies considerably per type of product; only 15% of customers currently buy across borders and only 7% of SMEs sell outside their own country. A solid and ambitious digital policy for the sector is needed in Europe to take advantage of these opportunities and ensure that all companies are included in the process, that their workers' working conditions are improved and that consumers perceive a clear benefit from the retail digitalisation process across Europe, maintaining a high level of consumer protection across all sales channels.

4. **Green transition**

- 4.1 The COVID-19 crisis revealed increased consumer demand for sustainable products and ways of conducting business. Retailers and wholesalers acted as a vital interface with end-consumers, playing a key role in anticipating and encouraging demand for more sustainable, recyclable and/or reusable products and packaging. Retailers and wholesalers were active for many years in encouraging sustainable consumption and reducing CO₂ emissions in their operations and supply chains. But they faced challenges in driving this transition in a sector with high fixed costs and low margins.

¹ [E-commerce in Europe 2020](#).

² <https://www.eurocommerce.eu/about-us/the-narratives.aspx>.

4.2 The retail sector contributes significantly to the collection and recycling of waste. Extended Producer Responsibility (EPR) systems are based on the volume of a given waste stream a company puts onto the market in which they are present. This responsibility is not as clear when traders that are not physically established in the EU bring products onto the EU market or when consumers do this through direct import. In these cases, product waste entering the waste stream is recycled or removed at the cost of European retailers. This includes waste created by third-country operators, who pay nothing. Increased cooperation is needed between WEEE (Waste of Electrical and Electronic Equipment) schemes and online sellers established outside the EU, as are steps to make these companies aware of their obligations under EPR schemes. Consumer awareness about recycling processes and costs are also crucial to make more transparent the effects of buying online.

5. Skills

5.1 The EESC supports the joint statement of 8 April³ advocating A European Pact for Commerce, issued by the social partners in the retail and wholesale sector: UNI-Europa and EuroCommerce. This highlighted the unprecedented impact of the COVID-19 crisis on the viability of retailers and wholesalers and the resilience of their workforce. The tradition of social partnership and the prevalence of tailored working arrangements in the sector, often through collective agreements, enabled companies to deal effectively with the sudden and radical adaptation to the 'new normal'. The social partners proposed "A European Pact for Commerce" for EU and governmental authorities to help the sector improve its long-term resilience through targeted support measures and by accelerating the digital and green transitions.

5.2 According to a recent report by the McKinsey Global Institute⁴, COVID-19 and automation combined are putting more than 5 million jobs at risk in retail and wholesale. This could affect the many women and young people employed. As well as stabilising the economy, the EU and Member States need to invest in the skill sets of these workers, e.g. through improved vocational and educational training, individual learning accounts and reskilling. Targeted up-skilling would enable the sector to retain a larger portion of its workforce by training them to use digital technologies, while re-skilling may enable others to access job opportunities in other sectors.

5.3 EU employment and skills support measures therefore need to be redesigned to allow easy and rapid access to funding for the restructuring of this sector and to cope with the changing skills needs driven by the acceleration of market changes caused by COVID-19. Recovery plans must be used to increase skills of both retail and wholesale workers in the same way as for public sector workers.

³ [2020.04.08 - EuroCommerce UniEuropa statement.pdf](#).

⁴ [The future of work in Europe \(mckinsey.com\)](#).

6. **Industrial strategy – retail ecosystem**

- 6.1 The updated Industrial Strategy recently presented by the EC⁵ presents a new focus on essential ecosystems, including retail and agri-food. Retailers and wholesalers play a vital role in the European economy and the functioning of numerous other eco-systems such as the logistics sector. The digital and green transitions must help drive post-COVID-19 recovery, and retailers and wholesalers need to be recognised as an important part of numerous ecosystems, for example, online commerce and logistics. Logistics is an indispensable industrial element for online commerce, symbiotic as neither of the two subsystems can carry out its business without the contribution of the other. For this reason it is in the general interest that the logistics sector grows in compliance with workers, consumers and environment.
- 6.2 The EC recognised that the retail and wholesale eco-system is one of the hardest-hit sectors and comes second in terms of investment support needs. Retailers and wholesalers operate with high turnover, high fixed costs and low margins (1-3%), meaning that they are particularly vulnerable to liquidity shortages. In May 2020, the estimated losses linked to the first wave of the pandemic reached 16-20% of annual turnover (EUR 250-320 billion) in non-food retail. A large number of businesses in the retail and wholesale eco-system have suffered drastically from government restrictions on them directly or indirectly e.g. as a result of their customers being shut down or subject to other mobility restrictions. Those with online operations have been able to mitigate some of the losses, but only in a very limited way. Online sales have grown significantly and are expected to continue to grow as consumers gain experience with buying online.
- 6.3 The eco-systems approach provides an appropriate framework reflecting both the complex interlinkages among sectors and businesses in the Single Market in given value chains, as well as the need to support them in successfully embracing the digital and sustainability transition and contributing to the recovery strategy. With private consumption constituting over 50% of EU GDP, retailers and wholesalers ensure manufacturers' access to consumer and professional markets; customers can buy what they need, and this makes up a continuous and vital supply chain.

7. **Role of retail in keeping town centres and rural communities alive**

- 7.1 Retailers have built up trust with European consumers over many years and provide them with high quality products at competitive prices, constantly looking to create and pass on new efficiencies to help consumers' purchasing power. Retailers create environmentally-friendly products that help sustainable consumption, but more is needed.
- 7.2 Retail shops are also central to keeping town centres and rural communities alive. This also shows how relevant traditional brick-and-mortar shops are and will be for society. Retailers can serve as a post office, bank and pharmacy and help local communities remain vibrant. Empty retail space in shopping streets inexorably condemns towns to a slow decline into vandalism and

⁵ [COM\(2020\) 102 final; communication-industrial-strategy-update-2020_en.pdf \(europa.eu\)](#).

crime, and a village shop can make the difference between a living rural community and one that loses its population.

7.3 European retailers need to be able to increase and accelerate their investment in automation, consumer interface and AI in order to remain competitive. Support for such investment and for expanding online sales, and particularly help for SME retailers and small town-centre operations to go online, would have a transformative effect both on their local communities and on the survival and resilience of many retail companies facing intense – and increasingly global – competition.

8. **A level playing field for retail in Europe**

8.1 The EU, with 450 million consumers, has huge potential as a digital internal market. The European Digital Single Market Strategy was designed to stimulate cross-border e-commerce between EU countries. However, cross-border e-commerce within the EU has not grown as quickly as such e-commerce from third countries. The European digital services market clearly lags behind the US and China, especially when it comes to presence on the global market, and this is reflected in the explosive growth of online sales from some non-EU countries, particularly China, to European consumers. Over the years, we have seen that more and more innovative digital formats and technologies are created there. The EU and its Member States have to step up their efforts to create the right framework in which companies can compete, innovate, serve their customers and ensure consumer protection. The best way to do so is by ensuring that it is more attractive to invest and do businesses in the EU than it is elsewhere in the world.

8.2 Online sales are the fastest growing part of the retail market, and while still relatively limited compared with offline sales, they are starting to become very significant in a number of non-food sectors. Retailers are no longer the sole gateway to customers, with manufacturers also starting to use e-commerce to sell and interact in other ways directly with consumers. Economies of scale and extensive mechanisation of processes, along with network effects and the ability to offer an almost unlimited range of products, have worked to the advantage of large online players and platforms, whose growing market shares are starting to replicate the traditional gate-keeper role of local shops.

8.3 All goods on sale in the EU must be compliant with EU rules, and all traders selling to EU consumers must ensure this. Direct imports have resulted in new challenges of compliance with EU laws, posing health and safety risks to European consumers and exposing EU traders to unfair competition. A strong message has been sent out to the effect that no matter where a company is located, goods sold within the EU – irrespective of their value – must comply with the rules. Among others, the proposed Digital Services Act, the review of the General Product Safety Directive, proper implementation and enforcement of the Market Surveillance Regulation and other EU legislation will be instrumental.

8.4 It is crucial that the Single Market and this sector function properly, as it will enable retail and wholesale to respond to consumer demands and compete in a globally competitive and more digital environment. The EESC believes that action at EU level is of the utmost importance to

prevent further fragmentation of the internal market and to avoid the introduction of new, often protectionist, national rules for products and services, as well as preventing diverging implementation and interpretation of EU law.

9. **AI in retail and wholesale**

- 9.1 Retailers and wholesalers have been using automation for many years in areas such as transport, ordering and stock management or in interactions with consumers. With AI, automation has become much more sophisticated, allowing for better insights and efficiencies. AI impacts the retail and the wholesale sector in many ways. This includes improving interaction with customers, speeding up parcel delivery, predicting customer behaviour, optimising stock, detecting fraud and making the sector more sustainable.
- 9.2 There has been a sharp increase every year in retail uptake of AI. Only 4% of retailers used AI technologies in 2016, while in 2017 this increased to 17%, and in 2018 it rose to 28%. Unsurprisingly, uptake has been highest in large retailers and wholesalers with USD 10 billion or more in annual turnover. AI is being used by retailers in the automotive domain (19%), electronics and home applications (25%), home improvement (26%), food and grocery (29%), apparel and footwear (33%) and multi-category (42%).
- 9.3 As the EESC detailed in its opinion on AI⁶, AI and robotics will expand and amplify the impact of the digitalisation of the economy on labour markets and can contribute to economic and social progress. In recent years, AI has become a focus for businesses, decision-makers and society. AI offers endless opportunities for retail and wholesale companies to grow operationally, improve supply chains, help make decisions, understand consumer needs and improve the customer experience. These are just some of many reasons why so many retailers and wholesalers are exploring and investing in the opportunities offered by AI.
- 9.4 Many AI applications have no impact on individuals. The AI used for medical diagnosis and the AI used for shelf scanning in a warehouse may be similar technologies, making decisions based on complex data sets – but they involve fundamentally different risks and require different safeguards. AI needs regulation that addresses the different levels of risk entailed in the use of AI systems, ensuring that consumers are safe and have trust in the systems.

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⁶ [OJ C 440, 6.12.2018, p.1.](#)