The European market potential for retail tech services

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2020 was a very hard year for most retail companies. For retail tech, however, the year was very successful. The pandemic boosted the demand for most retail tech segments. The biggest trends are the rise of e-commerce, logistics and contactless paying. "We expect a further acceleration of those trends, providing great opportunities for technology suppliers to collaborate with retailers," says Filippo Battaini, Head of IDC Retail Insights Europe.

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1. Product description

Retail tech refers to the digital tools and innovations used by brick-and-mortar shops and by e-commerce platforms. It concerns their in-store and supply chain operations. It is the heart of the digital transformation of retail.

Retail tech solutions are often powered by automation, Big Data, the Internet of Things (IoT) and Artificial Intelligence (AI). The use of retail technology plays a fundamental role in the customer experience.

There are several retail tech segments:

In-store retail tech

Tech solutions for brick-and-mortar retail companies. For example, smart mirrors, self-checkout and inventory management.

E-commerce

Tech solutions for companies that sell goods online. Excluding food and groceries. Examples are: inventory management, customer base management and offering a smooth retail experience across multiple platforms through Customer Relationship Management tools (CRM).

Loyalty and rewards tech

Tech solutions that allow brands and shops to offer loyalty and rewards programs to their customers.

Cybersecurity for retail

Solutions for protecting digital assets, including identifying vulnerabilities, stopping attacks and training workers. In this study, we do not elaborate on cyber security for retail tech. If you want to know more about this topic, read our cyber security services study.

Supply chain and logistics tech

Tech enabled solutions that deliver services across the supply chain, from freight shipping and warehousing to inventory management and last-mile delivery.

On-demand

Tech solutions that offer immediate delivery of goods and services.

Meal and grocery delivery

Tech solutions for companies that specialise in food delivery, including meal kits, meal and grocery delivery and cloud kitchens.

2. What makes Europe an interesting market for retail tech services?

The European retail sector increasingly relies on technology. Research by McKinsey revealed that around 52% of the work in retail can be automated with current technology. Europe is one of the largest retail tech markets. The region was already steadily investing in retail tech. Then the pandemic transformed customer behaviour and retail tech solutions became more relevant than ever.

The market is growing fast

Europe and North America are currently the two biggest regions for retail tech investment. From 2015 to 2020, the retail tech investment in Europe grew by 10% year on year. In the same timeframe, investments in North America slightly decreased. At the beginning of 2020 retail investments in Europe and North America were pretty much at the same level.

The disruption caused by the COVID-19 pandemic has increased the value of e-commerce in Europe to €331.5 billion by the end of 2020. This number is predicted to grow to €429.8 billion by 2024. This growth is mainly driven by the increasing demand in the retail sector for SMACT technologies (social, mobile analytics cloud) and IoT.

Skills shortage

Most retail tech work revolves around software development. In Europe there are not enough software developers to meet the demand. Because of the rapid developments of high-end technology, such as 5G, IoT and big data.

In 2019, the number of software developers in Europe increased by 7% to 6.1 million. At the same time, demand for IT skills in Western markets was expected to grow by more than 10% in 2020! These trends are expected to continue in the coming years. The demand for skilled IT professionals is growing faster than the increase in the number of software developers.

To fill the gap, many companies in Europe try to hire software developers from abroad. An easier option is to outsource software development tasks to offshore providers like you. The recent increase in remote working due to lockdowns may well accelerate this process, as it lessens the difference between in-house, nearshore and offshore teams.

> **Tips:**
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> Find the right people. Consider hiring people with the necessary talents who still need to attain the required competencies. You can train them on the job. Also make sure you have access to the right people to scale up operations and serve clients at short notice.

Nearshoring countries want to keep their prices competitive

Prices in nearshore countries are rising. This makes nearshore service providers less competitive than offshore service providers. However, if those nearshore providers based in Central and Eastern Europe (CEE) can work together with you, they can keep their price low. This can offer you huge opportunities.

When outsourcing abroad, European companies prefer providers in nearshore locations because of proximity, language, cultural similarities and minimal time difference.

Software development projects (which includes most retail tech services) are often complex, lengthy and variable. This makes good communication between client and developer particularly important. This is why most European companies that decide to work with software developers abroad prefer them to be part of their team. This involves continuous communications between the software developers.

Traditionally, the buyer markets for retail tech services are Western and Northern European countries. The most popular nearshoring locations for these buyers are CEE countries, and especially those that are members of the European Union, as their contracts and payments are governed and protected by the same European legislation as in the buyers' countries.

Tip:

Limit the possible disadvantages of being offshore. You need to be trustworthy, communicative, always reachable, offer availability in the required time zone, and provide good security and privacy measures.

3. Which European countries offer most opportunities for retail tech services?

Northern and Western European countries are traditionally the biggest buyer markets for retail tech services. While the largest countries offer opportunities based on their size, some smaller countries are also interesting because of their advanced economies or their openness to e-commerce. Central and Eastern Europe is a promising market for partnerships with nearshore providers.

Germany – strong performing economy with a retail tech catch-up effect

Germany is the largest economy in Europe, home to 19% of the European Union's population. The German economy is widely considered the stabilising force within the European Union, historically showing a higher growth rate than other member states. German companies are traditionally not very open to outsourcing, but the country made a big leap in this respect during the pandemic. It has softened Germany's generally stiff corporate culture and shown companies what is possible with remote working and outsourcing.

The country's main industries include the automotive, electrical and chemical sectors, but the retail market is also very large. It is a very fragmented market and the highest growth rates are expected in furniture and

fashion (apparel) within the next few years, from 2021 and beyond. Germany increasingly relies on software to optimise production, improve products and remain competitive, a transformation referred to as Industrie 4.0.

The use of digital payment is far below the European average, but Germany is catching up. German consumers increasingly demand digital payment options, so German retailers need to adapt, leading to rapidly growing investments in digital payment solutions.

There could be some language barriers when providing outsourcing services to Germany, as companies generally prefer to work and collaborate in German. Generally, you need an intermediary in Germany to communicate with (potential) clients for you.

The United Kingdom – e-commerce champion and a strong economy

The United Kingdom is the second-largest economy in Europe. It is also one of the most advanced e-commerce markets in the world. The British retail tech market is fragmented, but dominated by Amazon and eBay with a combined market share of 35%.

The biggest threat to e-commerce in the UK are the slow and often untrustworthy delivery services. Players in the market are investing to make delivery windows shorter in order to meet customers' expectations.

In our study about the demand for IT outsourcing in Europe you can read how the United Kingdom's withdrawal from the European Union (Brexit) made British companies more cautious about outsourcing, which contributed to a decline in outsourcing after 2016.

Of all European markets, the United Kingdom is the most open to offshore outsourcing and the least cautious about doing business with developing countries. This openness is due to the nation's cost-saving business culture and historical ties to many countries across the globe.

France – a well-developed retail market

The French retail market is well developed and going through a structural change. E-commerce is expanding, but at the same time there is a revival of local and independent stores in big cities. France is currently the third e-commerce market in Europe with more than 200,000 active websites. The biggest players are Amazon, CDiscount and Fnac.

France is generally a difficult market for providers of IT outsourcing (ITO) and business process outsourcing (BPO) services, as outsourcing services abroad is not very popular with French companies. However, if you have access to a French speaking intermediary, the barrier to outsourcing is much lower.

The Netherlands – innovative and strong

The Netherlands has the sixth-highest GDP per capita in Europe. An impressive 60% of all Forbes 2000 IT-companies have established operations in the Netherlands, making the country a real IT hotspot. It also has the most tech-related start-ups out of the smaller countries.

In 2019, the Dutch software industry was projected to grow from €5.4 billion in 2018 to €6 billion in 2021, at an average annual rate of 3.7. With 19 professional developers per 100,000 inhabitants, the Netherlands has the highest density of software developers in the European Union. However, they also have 26 job vacancies per available tech worker. This shortage could drive many towards outsourcing solutions and makes the country a particularly interesting market, despite its modest size.

Companies in the Netherlands are traditionally fairly open to outsourcing. In fact, 79% of the top IT-spending organisations plan to continue outsourcing at their current rate or even more in 2021 and 2022. Language barriers are generally not an issue, as the Dutch are very proficient in English.

Nordic countries – technological savvy and open to outsourcing

The Nordic markets (Sweden, Finland, Denmark, Norway and Iceland) are smaller than the markets of Germany, the United Kingdom, the Netherlands and France. But their combined spending on retail tech makes them interesting markets to focus on. They have strong economies and are open to outsourcing.

In the Nordic region 11% of the total retail market is e-commerce. In 2020, Sweden was the largest retail and e-commerce market in Europe.

The Danish e-commerce market is also quite large and shows a significant increase. At the end of 2020 it was worth around €21.45 billion. That is an increase of 10% from 2019.

For the Nordic markets, green retail tech solutions (like green logistics and deliveries) are important. The Nordic countries are also facing a significant talent shortage. An increase in investments has fuelled market growth, which has rapidly produced an acute software developer shortage (also for retail tech providers).

Czechia – from outsourcing destination to outsourcer

Czechia is a well-known nearshoring destination in Central and Eastern Europe. It is a relatively small country with a relatively big share of the global tech market. There are almost 100,000 professional software developers in Czechia. Czechia has a good reputation as an ITO and BPO destination. For example, it is amongst the top 10 best-protected countries against cyber-attacks in the world.

Czechia is known as an innovative, software and technology savvy hub and it has the highest number of tech-related start-ups in the region. In addition, Czech consumers are quickly adopting e-commerce. E-commerce penetration was 54% in 2020 and is expected to reach 65% by 2025.

In 2017, 79% of Czech companies with IT-vacancies struggled to fill these positions. This was the highest and fastest growing rate of any European country. Although the COVID-19 crisis temporarily eased shortages on the Czech labour market, Czechia is already seeing an increasing demand for IT professionals, especially in e-commerce and logistics. This may drive Czech software companies towards subcontracting.

Tips:

Select your target market not only based on size, but also by looking at factors such as cultural similarities, time zone differences, historical ties and shared languages.

Use the member lists of relevant industry associations to identify potential buyers, such as Eurocommerce, or if you are a software developer for the retail sector, the Association for Software Testing (AST). Also check out events that are aimed at the retail sector like EuroShop, (Europe's leading retail trade fair) or Retail Expo. But also trade fairs targeted to the technical solutions you offer, like events aimed at VR/AR solutions or software development. Or specific retail tech trade fairs like FUTR.

Make sure you have access to skilled professionals, for example by working with universities, setting up training courses or centres, systematically collecting and analysing CVs and having a partner network of companies and individuals.

Emphasise your professional skills in your marketing, as well as the lower costs you offer. For more ideas, see our tips for finding buyers on the European outsourcing market.

4. What trends offer opportunities or pose threats on the European retail tech market?

The COVID-19 pandemic is accelerating existing trends as shops need solutions to keep their businesses operational, like online sales (e-commerce) and touchless services. Most retail trends rely on Artificial Intelligence and/or the Internet of Things.

Sector experts estimate that 50% of all retail activities can be automated with technology that is already available. Although you should stay up to date on the latest trends and techniques in retail tech solutions, you cannot tap into each trend. Focus on those that suit your business and may enhance growth. For more information, see our study on trends for ITO/BPO.

COVID-19 accelerated the demand for retail tech services

Retail was one of the segments that was hit hardest by the COVID-19 pandemic. It transformed customer behaviour. In the first weeks, customers stopped most of their spending, due to closed shops, but also because of the sudden uncertainty of their lives.

When Europeans were mentally ready to start spending again, most shops were still closed. Later they opened for take away or home delivery. These options required retail technology. Retailers who already used the required retail tech were able to resume business, as were those who managed to respond quickly; these retailers made a strong recovery and ended 2020 on a high note.

In general, many retail companies started investing in retail tech because of the pandemic. For many, it was the only way to stay in business.

On the providers' side, the COVID-19 pandemic disrupted their business worldwide. Clients cancelled non-essential activities, moved their outsourced tasks back in-house, or even ceased trading altogether. However, the crisis has also created opportunities for some providers. While 56% of participants (from developing countries) in a CBI webinar in April 2021 indicated that their business was negatively affected by the crisis, a promising 25% reported a positive effect.

> **Tip:**
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> For more information about guiding your company through crisis situations, see our study on how to respond to COVID-19 in the IT and Business Process Outsourcing sector (ITO/ BPO).

Augmented shopping

In 2019, global consulting firm Gartner predicted that by 2020, more than 100 million consumers would be using augmented reality to improve their shopping experience. But the pandemic has increased these predicted numbers tremendously. The demand for virtual fitting room systems has accelerated during the pandemic. This system imitates the 'try before you buy' approach. It enables customers to interact with products virtually.

Examples of companies that have adopted augmented shopping experiences are: Lacoste, American Apparel, Uniqlo, IKEA and Amazon.

Cashless shops

Cashless shopping was already a trend, but the pandemic has sped it up, because people had to 'socially distance' from each other. Around 87% of the consumers in the European Union said they are willing to shop in

[stores with contactless or self-checkout options](#).

Retail tech solutions for cashless shopping include Radio-Frequency Identification (RFID) tags, computer vision systems, machine learning, IoT devices and facial recognition.

Voice commerce

Voice assisted technologies help make sales through voice recognition technology, both in e-commerce and brick-and-mortar shops. Worldwide, around 60 million people have at least one smart speaker in their homes. [This market is expected to grow by more than 17% from 2019 to 2025, reaching €26.8 billion in 2025](#).

The market for voice commerce is fuelled by the increasing use of smart devices, technological advancements, the need for personal data, safety, security and the use of voice enabled payments and shopping by retailers.

Robotics

In the retail segment, robots can replace human activities such as cleaning and moving and tracking goods. The most used software for robotics is AI. An increasing number of European retailers are using aerial drones, shelf auditing robots and autonomous vehicles to improve operations. [The industry of robotics for retail tech is expected to grow almost 18.5% from 2023 to 2030, reaching a value of almost €292 billion in 2030](#).

High demand for added value partners

There are great opportunities if you want to collaborate with retailers to help them thrive. Just be prepared that doing your job is not sufficient. European buyers want a valuable partner. You need to have an end-customer-focused approach at each stage in the development cycle. Your buyer is looking for quality, communication, technical expertise, domain knowledge and certification.

Tips:

If you consider offering voice and face recognition solutions, make sure you comply with the new European legislation on this matter. You can read more about this in the market entry part of this study.

Trends in the software development industry directly affect the retail tech industry. For information on ITO trends, see our study on [what trends offer opportunities in the European outsourcing market](#).

Also refer to [exporting software development services to Europe](#), to learn more about the European software development sector.

This study was carried out on behalf of CBI by [Globally Cool B.V.](#) in collaboration with Laszlo Klucs.

Please review our [market information disclaimer](#).