

GfK RETAIL REPORTS

Q2 / 2018



GfK. Growth from Knowledge

Every quarter, the GfK Retail Reports summarize the current developments in the biggest non-food markets in Belgian retail. It gives a clear resume of hard facts and sharp analyses of trends, in words and images.

Q2/2018

MARKETS IN DETAIL

We invite you to glance through the Q2 analysis of following markets:

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GfK makes research matter by delivering your window on the future. In a digitalized world, we are the trusted source of prescriptive data and analytics, providing market and consumer information that empowers you to make smarter decisions.

With more than 80 years of data science experience and German heritage, we turn research into business opportunities. Through innovative systems and partnerships, we integrate on and offline data to offer you Growth from Knowledge.

Our goal is simple: enable our clients to create winning strategies to enrich consumers' lives.



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MARKET INSIGHTS INTRODUCTION



Wim Boesmans

Commercial Director

Halfway through 2018, the Belgian non-food market seems to have stabilized in areas, although half of the product categories covered by our panels are in good shape and the other half are struggling.

Overall, Q2 closes on a positive note, with the total value increasing just slightly. However, the increase was not strong enough to put our year to date results back in the green.

At GfK, our aim is to provide relevant insights to the field. Let's work together towards a better understanding of the Belgian consumers, retailers and producers, and the market in which we all operate.

In this Market Insights report, our consultants share their conclusions drawn from the second quarter results and their advice for the rest of the year.

I wish you all the best in the next quarter.



RETAIL IN GENERAL

Non Food growing slowly but steadily



Rachel De Greef
Consultant Retail

It seems to be happening so fast, but we are already halfway through 2018. At the end of the first semester, let's take a look at the Belgian results for the measured Non Food panels. Overall, the Q2 result is positive, but only just – with a growth of 0,4%. Unfortunately, that does not seem to be enough to push up the YTD value, which still shows a small decline of 0,7% compared to the first semester of 2017.

While half of the panels are having trouble upholding their value, the other half have had a great second quarter, which has boosted their YTD results. The categories experiencing the worst declines in Q2 are Books (-7%) and Entertainment (-4,1%). Other categories that declined on YTD, as well as on Q2 results, are MDA (-3,9%), Stationery (-3,1%) and Fashion (-1%). In contrast to these, other panels showed good growth in Q2, with the biggest increase being in CE (+5,1%), DIY (+4,1%) and Telecom (+3,6%). IT (+0,4%) and SDA (0%) were pretty much unchanged compared to Q2 last year.

With a 5,1% increase on CE, we can confirm that the "World Cup effect" boosted sales of Televisions once again. The Red Devil mania, alongside lots of promotional activities in retail, delivered (and even surpassed) the expected growth, making CE the top increasing panel of this second quarter. DIY wins second place, topping its value by 4,1%, most likely thanks to the magnificent weather this spring.

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RETAIL IN GENERAL

Both Books (-7%) and Entertainment (-4,1%) have declined significantly during Q2, as Belgian consumers mentality shift from ownership to access-driven behavior. Streaming services have become part of our everyday lives, and having access to unlimited entertainment is becoming normal. The absence of major bestsellers and hyped books is costing the sector about 5 million euros.

While MDA seemed stable at the start of the year, it had trouble during the second quarter. Enhanced by lower average prices, the sector is losing value at a year-to-date rate of -1,4%. SDA, on the other hand, still shows stability, not losing or winning any value in Q2 (0%). However, this is due to Home Comfort appliances maintaining their value, and counterbalancing the losses seen in Personal Care and Kitchen Appliances.

Although Solden sales delivered some boost to Fashion, the sector is still in minor decline overall, dropping one percent value this trimester. Telecom (+3,6%), in contrast, added some value on top of its extraordinary first semester, still surfing on the popularity of some new releases in the Phablets family.

At the closing of the second quarter, we conclude that the value of the Belgian non-food market is growing however slightly, but we are not yet out of the woods. Let's stay positive as we are only halfway; the best is yet to come!



CONSUMER ELECTRONICS

“World Cup effect” surpasses expected growth rate on Televisions



Chris Renders
Consultant Consumer
Electronics & Telecom

With an absolute number of almost €200 Mio, the CE business managed to end this quarter with a growth rate of 5%!

The greatest part of this growth came from the television market, which pushed the boundaries by closing this quarter with a growth of 30%!

It is obvious that events like the world cup had a very positive effect on television sales, but if, on top of that, your national team beats Brazil and England (2 times) and manages to end third for the first time in history, then you get this kind of numbers!

And, of course, the TV-mount business benefits from the booming television market, growing 11% in value and almost 7% in volume.

The Audio Home Systems category is performing surprisingly badly; it ended this quarter with a downturn of -6% in value. The biggest culprit for this fallback is the Smart Audio group, which suffered from a fast declining average selling price.

There is also the introduction of the Smart Assistant Speakers. Growth here is quite slow, due to some unavailable features and no Dutch language.

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IT & OFFICE

Stable growth in IT due to price effects



Alain Brys

Consultant IT &
Office Equipment

During the second quarter of 2018, the IT and Office Equipment market increased in value by almost +0.4%, for a total value of close to 454 Mio €. The average price of products purchased in the IT and Office Equipment sector increased by almost 9%.

For the first 6 months of 2018, we registered an increase of just over 2% in value or close to 985 Mio €.

IT: positive results thanks to the continued growth in hardware and peripheral categories

Several IT product groups continued to perform excellently during the second quarter of 2018, accounting for an increase in the IT sector of +4% to 358 Mio €.

Products targeting specific gaming enthusiasts increased their share, especially in categories such as mobile and desk computing, gaming monitors and gaming peripherals (mice-keyboards-gaming devices). In some IT categories, more than 30% of all products sold are already targeting these specific gaming customers.

The Media-tablet category also recorded excellent growth figures, indicating the importance of targeting customers depending on their specific digital needs.

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IT & OFFICE

Office Equipment and Consumables: focus on small photo printers and business inkjet systems.

In Q2 2018, the Office Equipment and Consumables sector recorded a significant decrease of -10% compared to Q2 2017, giving a value of 95 Mio €. The average price of products purchased in the Office Equipment sector decreased by almost 4%.

The market for printer and MFD products is struggling to convince customers that printing is still relevant. Sales in both inkjet and laser cartridges have also experienced further decline.

Only the popularity of the small instant photo printers and further developments in technologies such as continuous ink supply systems (CISS) will help brands to introduce these new products successfully in the office market.



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TELECOM

Telecom still reaping the benefits of strong releases



Chris Renders

Consultant Consumer
Electronics & Telecom

With a turnover of 323 Mio € and 2.5 Mio units, the telecom business ended on a positive note, showing a growth rate of 3,6% in value and 1,8% in volume.

Compared to Q2 last year, the Smartphone Market managed to gain 2 points more and closes this quarter with a Value growth of 3%. This growth rate is the result of some strong releases and very aggressive promotions with cashback actions from one of the biggest players in the market.

It is clear that the market is still surfing on the wave of success from high-end devices and the question is how long it will take before this will fade out.

Quite surprisingly, when checking the performance of wearables, the growth rate is relatively small at 5% in value, while volume dropped almost 11%! For the same period last year, the segment realized a growth rate of 88% in value!

Is the market temporary slowing down, or are we heading to saturation already?

MAJOR DOMESTIC APPLIANCES

White goods market turns bearish



Karel Tyberghein
Consultant MDA

A modest uptick of the market was recorded for the first quarter of the year, but in quarter two, both volume and value are down. The combined result of the first 2 quarters is a status quo in terms of growth versus the first half year of 2017. Some surprising conclusions were noted.

The washing family was in a remarkably positive shape over the last few months, with June being a strong outlier. Innovations in washing machines are breaking out and niche products are becoming mainstream. The growth of tumble dryers is still solely energy efficiency-driven. Built-in is pushing up volumes sold in the product group of dishwashers.

The popularity of cooling appliances fell sharply. This is against all odds, considering May and especially June were hot months, which should have spurred sales. Losses were seen in all segments, with even the popular American fridges suffering. The freezer market was also in a sea of red over the last 5 months.

Due to plunging average prices, cooking product groups have been dropping for a while now. The once highly in-demand range cookers are in decline, and induction hobs are, strangely enough, losing ground to vitroceramic, while growth in hobs with integrated hood has been parabolic. This inter-product group cannibalisation has also had a negative effect on the hoods market.

SMALL DOMESTIC APPLIANCES

Stable market for Small Domestic Appliances in Q2 2018



Caroline Cauwenberghs
Consultant SDA

The second quarter of 2018 was quite negative for the main product groups within Kitchen Appliances: deep fryers (-7%) and hot beverage makers (-4%) both declined. Deep fryers are declining for a second time in a row in 2018. Can end-of-year sales boost this product group?

Some product groups, however, are showing quite positive results, such as draught systems (+16%), food preparation (+2%), kettles (+4%) and toasters (+4%).

Personal Care is really suffering in retail value terms. The Haircare segment in particular has suffered a severe decrease in sales value. Hair stylers are down -18%, followed by hair clippers (-8%) and hair dryers (-8%). In addition, shavers returned poor figures, with a decrease of -4%.

The product group that boosted sales within the Personal Care market is Dental care. Oral hygiene trends remain popular with consumers and continue to increase sales (+14%), so Q2 is following the same trend as in Q1 of 2018 in this area.

Within the Home Comfort segment, we see very good results, with Vacuum Cleaners being the real 'star category' with a growth of 5%. Here, handsticks definitely remain the most popular sub segment. Irons also show a positive trend, with an increase of +0.5%.

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MEDIA & ENTERTAINMENT

In home entertainment, the backlog to 2017 decreased during the second quarter, but remains at -4,1%



Conrad Hayen

Senior Market Analyst
Entertainment

The second quarter of 2018 features a major step in the shift from ownership to access, as streaming revenues overtake CDs and downloads for the first time

A strong growth of 22% in streaming boosted the Belgian music market, giving an increase of 1,6% in revenues, despite dwindling download and CD sales. Year-on-year, the turnover of both music media fell by over 15%.

Although vinyl's share within the physical music market rose again (13,5% in Q2 2017 to 15,6% in Q2 2018), absolute sales are lagging 2,9% behind, compared to the second quarter of 2017. This is the first time this has occurred since the revival started around ten years ago.

In the past quarter, Netflix missed its subscriber projections for the first time in five quarters, leading shares to tumble more than 14% at one point. However, this does not mean DVDs or Blu-Rays are benefiting, with these segments showing an overall decline of as much as 21%.

Bestsellers in the last quarter fell far short of their 2017 counterparts, with 'Coca' generating almost 1/3 less turnover than 'Vaiana', and 'The Last Jedi' currently still 14% behind 'Rogue One'.

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MEDIA & ENTERTAINMENT

And yet, not all the blame goes to the bestsellers, as the entire top 20 boxed films (representing 23,5% of all physical revenues) lost “only” -13% in value, as opposed to -23% for all titles outside the top 20.

Shrinking sales in key slices of the video games market had a chilling effect on revenue growth as well. However, a tough comparison with the second quarter of the previous year is at play here, since Nintendo launched its Switch in March 2017.

Nevertheless, Switch consoles sales in quarter two are 20% higher than in the first full quarter, albeit troubled by inventory woes. This does not alter the fact that the Switch is a runaway success. Still, the overall 0,9% growth in console hardware failed to offset the decline of the total gaming industry in the second quarter.

In addition to the gradually increasing loss in PC games (-58%), portable gaming (-47%) and hybrid toys (-76%), home console gaming declined by 6% despite a continuously growing Switch back catalogue and successful releases such as God of War and Far Cry 5.



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BOOKS

At -7% in value, the Belgian book market suffers the steepest decline in years



Conrad Hayen

Senior Market Analyst
Entertainment

In Flanders, the regulated book price has been in force for exactly one year, but, for the time being, it is not bringing any relief

After staying barely out of loss in the first quarter, Flemish book sales were severely hit in the second quarter, shrinking 6,4% in value.

In Flanders, a quarter of a million fewer books were sold than in that same period of 2017, a decrease of no less than 8,8%.

Over the course of 12 months since the regulated book price (GBP) was introduced, the average price increased 1,8% compared to the same period (of non-regulation) one year prior. Whether this is uniquely due to the GBP is uncertain. The rise does not exceed the trend that the average price was already following in recent years and is in line with the general price inflation.

Nor should we (yet) conclude that GBP has directly had a restraining effect on the market development.

On the contrary, by looking more closely at the results of the past 12 months, we find that the average price of a new book (of less than 6 months old) is 14,93 euros, which is exactly the same as in the period July 2016 to June 2017. The average price of books older than 6 months, and no longer subject to the law, did however increase from 12,8 to 13,1 euros.

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BOOKS

Still, the main catalyst of the negative trend of 2,6% that the market has experienced over the past 12 months are the new books, where turnover is down 5,7%. In contrast, the 2% decline in books older than 6 months remains somewhat more limited.

A decisive driver of this decline seems to be the absence of new bestseller successes. In the last 12 months before the introduction of GBP, the top 20 most sold books generated a share of 8% of the total market turnover, compared with only 6,6% in the last 12 months: a decrease of almost 20%.

Alongside the steady 12,1% growth of online sales, independent bookshops were also able to reverse the decline in the past six months and the channel shows a promising growth of 0,7% in turnover.



Home Improvement sector recovers in strong second quarter



Kristof Scheys
Consultant
Home & Living

Following the 2.2% turnover decline in the first quarter, the Belgian Home Improvement sector seems to be picking up the pace. Results of the second quarter show a solid 4.1% turnover growth, which leads to a semi-annual growth rate of 1.4%. The gardening category in particular has made a swift recovery.

Compared to the same period the prior year, turnover of the gardening category increased by almost 15%. High-pressure cleaners, garden chemicals, powered garden tools and garden furniture are key segments that have driven this growth. Looking at Q1 results, it seems that consumers might have just postponed some purchase decisions until later this year. In addition, the transformation of the garden chemicals range – with consumers favoring natural products – presents new opportunities for manufacturers and retailers to help shape the market.

Although it's unclear at this time whether the scorching heatwave will help or hurt DIY summer sales, we believe that the outlook for the second half of the year remains positive for the Belgian Home Improvement sector, with global economic indicators pointing towards solid growth.

Weak June sales set Fashion results back to a status quo



Thalia De Mesmaeker
Consultant Fashion

Where we experienced an extreme rainy second quarter last year, we have now experienced the opposite this year, with warmer and less rainy days. But does this result in a higher revenue?

Unfortunately not, as we ended Q2 2018 with a decline of -1% in value. Although we started this quarter very positively in April, with a growth of +7,8%, May made sure that this growth was blown away fast, with a decline of -9,7%. In June, we experienced a stable result compared to the same period last year.

Does this mean that we can again assume that the Belgian weather has had a big impact on the Fashion retailers measured in our GfK panel? As these are mostly offline players, this might well be an explanation. April was warmer than normal, with pleasant average temperatures of maximum 18°. During May and June, we experienced more extreme weather conditions, where it was much warmer than normal with average temperatures of maximum 22° in both months, together with less rain. If a higher temperature is a reason to shop less at traditional fashion retailers, we could be concerned about what July and August will bring, given the extremely high temperatures.

Looking to the different categories, we see declines across most categories, with Underwear & Legwear showing the biggest decline of -4,4% in Q2 2018. There have also been declines in value in the categories of the Kids/Babies Outerwear and Shoes, especially during May. Shoes for Men and Women and Outerwear for Women experienced more difficulties in value during June, compared to last year.

In next quarter's retail reports, we will see if this warm weather has impacted the important summer months.

COLOFON

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Concept and realisation

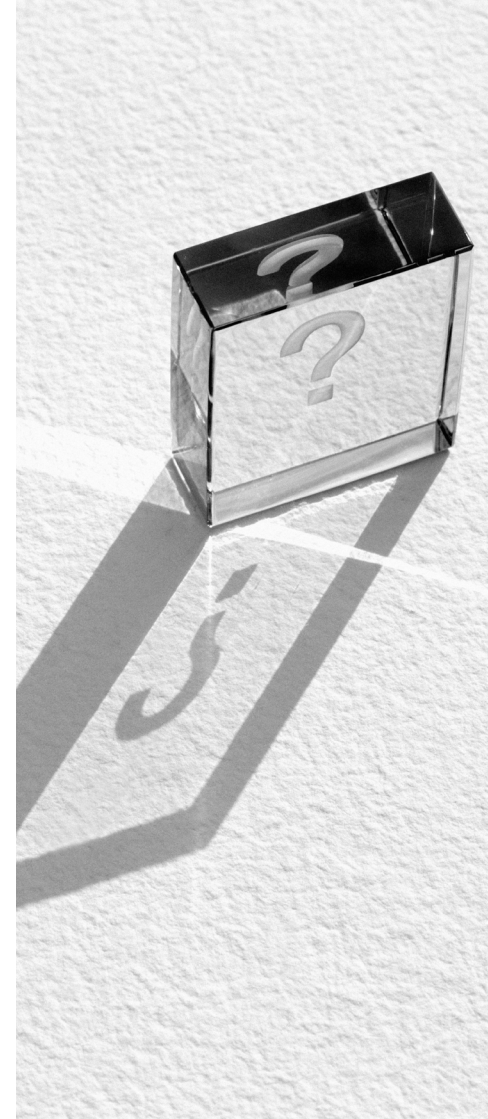
Mark Ralston

Editorial team

Chris Renders, Alain Brys, Caroline Cauwenberghs, Vanessa Theunissen, Karel Tyberghein, Thalia De Mesmaeker, Conrad Hayen, Kristof Scheys, Rachel De Greef

Editorial coordination

Rachel De Greef and Hannah Dymond



EDITORIAL OFFICE

The editorial office of Retail Reports can be reached by email:

be@gfk.com

By post:

GfK

T.a.v. Redactie Retail Reports België

Arnould Nobelstraat 42

B-3000 Leuven

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