Retail, Wholesale and E-commerce have been vastly affected by the Covid-19 pandemic. The lockdown imposed, along with the social distancing measures, have changed the landscape of how business is done. This newsletter provides a snapshot of how these sectors have performed over the years, how Cyprus and the world were impacted by the pandemic crisis and the challenges and opportunities ahead.

KPMG in Cyprus provides thought leadership on a number of the country’s key industry sectors. This newsletter will be followed by subsequent publications with updates, insights and surveys relating to the retail, wholesale and e-commerce sectors.

Retail sector trends

**Number of retail trade enterprises by size group and turnover value index (2010-2018)**

Both decline until 2013; thereafter turnover increases but number of enterprises remains relatively stable.

Note: Retail trade, except motor vehicles and motorcycles

Source: Statistical Service of Cyprus, KPMG analysis
Wholesale sector trends

Number of wholesale trade enterprises by size group and turnover value index (2010-2018)
Both fluctuate, with turnover reaching 2010 levels and number of enterprises recording an overall increase.

Impact of Covid-19

EU retail trade volume month-on-month growth (March 2020)
Non-necessity goods and related stores were hit hard; food products are increasing.

By product group:

<table>
<thead>
<tr>
<th>Product Group</th>
<th>2019 Turnover Value Index</th>
<th>2018 Turnover Value Index</th>
<th>2017 Turnover Value Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>+4,7%</td>
<td>-21,3%</td>
<td>+10,4%</td>
</tr>
<tr>
<td>Non-food</td>
<td>-16,0%</td>
<td>-161%</td>
<td>-16,1%</td>
</tr>
<tr>
<td>Textiles</td>
<td>+0,2%</td>
<td>-40,0%</td>
<td>-19,3%</td>
</tr>
<tr>
<td>Health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computers &amp; books</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electrical goods &amp; furniture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automotive fuel</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

By sales channel:

<table>
<thead>
<tr>
<th>Sales Channel</th>
<th>2019 Turnover Value Index</th>
<th>2018 Turnover Value Index</th>
<th>2017 Turnover Value Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total retail</td>
<td>-10,4%</td>
<td>-19,3%</td>
<td>-17,8%</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>+4,4%</td>
<td>+10,4%</td>
<td>+10,4%</td>
</tr>
<tr>
<td>Department stores</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>+2,2%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Statistical Office of the European Union
Impact of Covid-19 (cont.)

Cyprus retail trade volume growth by product group (March 2019 vs March 2020)

Global reduction trends are more pronounced in Cyprus.

<table>
<thead>
<tr>
<th>Product Group</th>
<th>March 2020 Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total retail trade (except motor vehicles)</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Food products</td>
<td>+23.3%</td>
</tr>
<tr>
<td>Non-food products (except automotive fuel)</td>
<td>-59.2%</td>
</tr>
<tr>
<td>Textiles, clothing, footwear</td>
<td>-31.2%</td>
</tr>
<tr>
<td>Electrical goods, furniture etc.</td>
<td>-17.4%</td>
</tr>
<tr>
<td>Computers, stationery, jewellery etc.</td>
<td>-24.5%</td>
</tr>
<tr>
<td>Automotive fuel</td>
<td></td>
</tr>
</tbody>
</table>

Source: Statistical Service of Cyprus, KPMG analysis

Consumer confidence indicator

Trends are reflected in the local consumer confidence index vis-à-vis the EU average.

The pandemic has had a significant impact on the global retail and wholesale trade, affecting the respective subsectors at varying degrees. Indicatively, sales data for March 2020 in the European Union shows that:

— The food, beverage and tobacco subsector sales volume recorded significant growth, well above the normal for the period
— The sales volume of pharmaceutical products, cosmetics etc. remained relatively constant
— Non-food sales showed a major decline, with the sales of textiles, clothing and leather products being affected the greatest.

Due to the closing down of the majority of retail stores, with the exception of essential stores (supermarkets, pharmacies etc.):

— Sales in department stores have reduced significantly
— Online and supermarket sales showed significant growth, well above the normal for the period.

— Temporary close-down of the majority of retail trade in department stores, due to the imposed lockdown. The majority of retailers were not prepared for such a disruption of their operations
— Some wholesalers were impacted severely due to the closure of borders and the global reduction in manufacturing output; while others have been unable to channel their stock to end consumers
— A significant number of wholesalers and retailers were forced to enhance their online presence and search for alternative sales channels (online sales through own websites/applications or online marketplaces, telephone sales etc.) in order to remain partly operational
— The reduced consumer confidence combined with the altered consumer behaviour may potentially have an impact on overall consumer spending in the next months, even following the lift of restrictive measures.
E-commerce trends

Share of enterprises having received orders via computer mediated networks (2019)

Cyprus is among the least e-commerce based economies in the EU.

![Graph showing share of enterprises having received orders via computer mediated networks (2019)]

Share of individuals who made online purchases during the year by type of seller (2019)

E-commerce utilisation by Cypriot consumers is low, primarily using online sellers abroad.

![Graph showing share of individuals who made online purchases during the year by type of seller (2019)]

Global e-commerce growth

E-commerce has been on the rise over the last years, contributing a significant share of the total global retail and wholesale sales turnover.

— Indicatively, the share of enterprises which received e-commerce orders in the EU has increased from 15% in 2011 to 20% in 2019, accounting for 18% of total turnover

— Although growing from 8% in 2011 to 14% in 2019, the share of enterprises which received e-commerce orders in Cyprus is significantly lower than the EU average and accounts for 5% of total turnover

— As at 2019, the share of Cypriot enterprises using automated online ordering systems (Electronic Data Interchange - EDI) is significantly lower than the EU average of 6%, at only 2%

— During 2019, 39% of Cypriots made at least one online purchase. However, contrary to the average EU consumer behaviour, Cypriots mainly use sellers abroad for their online orders over national sellers.
E-commerce trends & impact of Covid-19

Share of individuals who made online purchases during the year by age group (2019)

E-commerce is much more popular among younger populations but still lower compared to the EU average.

Volume index of retail sales in the EU via mail or internet (base 2015)

Electronic sales are on an upward trend across the EU.

The pandemic has had a major impact on global e-commerce, although with asymmetric effects, depending on the products offered.

— Global e-commerce showed significant overall growth
— Global online sales of a number of products peaked during the period. This includes among others:
  - Consumer packaged goods (mainly food)
  - Household care products
  - Health and beauty products
  - Baby care products
  - Pet care products
— Sales of a number of other products, including apparel and luxury goods, showed significant reduction
— Multiple global online retailers were forced to implement a number of operational adjustments in order to cope with the increased demand. These include, among others, redeployment of staff, new hires and implementation of customer priority systems
— In order to remain partly operational, some enterprises in Cyprus followed the global trend and developed their:
  - Online presence through websites and apps
  - Online sales through their own websites/applications or online marketplaces
  - Delivery services through their own resources or external service providers
— Based on multiple studies, the pandemic will result in an overall accelerated adoption of e-commerce.
Challenges & opportunities

Based on the current business environment, the following challenges and opportunities can be identified:

**Challenges**

- Demand shock in non-food subsectors, due to lower disposable income
- Supply shock, due to global export restrictions
- Impact on business and operating models from rapid changes in the industry
- Unpreparedness of enterprises for their online transition
- Increased compliance requirements from healthy & safety regulations
- Impact on consumer behaviour and expectations
- Financial viability of stakeholders
- Product pricing challenges, due to changes in consumer behaviour and disposable income.

**Opportunities**

- Business model optimisation
- Opportunities for vertical and horizontal mergers, takeovers and strategic alliances
- Partnership and joint venture opportunities with international and local entities facilitating alternative sales channels
- Enhanced customer data capturing and analysis capabilities from the use of digital channels
- Potential cost savings, through the adoption of technology and alternative sales channels
- Product pricing optimisation
- Potential opportunities for Cyprus as a global alternative sales channel hub, due to its location and business environment.
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