

HOW ACTIVE ARE RETAILERS IN EMEA?

CB RICHARD ELLIS | EMEA RESEARCH & CONSULTING



2010 EDITION | EXECUTIVE SUMMARY



KEY FINDINGS

CB Richard Ellis set out to examine the current attitudes and expansion plans of leading retailers across the region. Based on detailed discussions with retailers over the summer of 2010, the report reveals that retailers are more optimistic about the future. However they are taking a different approach to expanding their networks, sticking to what they know as much as possible and trying to minimise risk.

CONFIDENCE RETURNS

- Retailer confidence is growing, with 77% of retailers looking to open more than five stores by the end of 2011. This is a marked increase on last year's survey when almost half the sample were looking to open less than five stores. In addition, more retailers are now prepared to press ahead with substantial expansion plans. The proportion of retailers planning to expand their networks by 40 stores or more jumped to 19% compared with just 13% last year.

ACTIVE SECTORS

- Supermarket retailers are the most active. They are expanding rapidly as they take advantage of cheap land values to boost their portfolios. Coffee & Restaurant retailers are also highly active. There are still substantial opportunities for retailers in this sector to expand, as consumers' appetite for coffee shops and fast food restaurants remains high.
- However, it is the Mid-range Fashion and Value & Denim sectors where the planned rate of growth has increased the most. The planned increase by Mid-range Fashion retailers – 28% were looking to open 30+ stores next year compared with just 16% this year – suggests that retailers are increasingly positive about the outlook for consumer spending in this key fashion segment. At the same time, the Value & Denim retailers are taking the opportunity to gain market share as consumers trade down.



Retailers Expansion Strategy



CONSOLIDATION

- The preferred expansion route by far is to enter new cities in existing markets. Although expansion plans are growing, retailers are still looking to minimise risk in the current economic climate, with just one third saying that they were looking at new markets.
- The exception is Luxury & Business Fashion retailers which typically achieve market coverage through a small number of locations in a particular market and therefore need to enter new markets to grow their business. Overall, however, retailers appear to be consolidating their presence in the markets in which they are already operating. Over half the retailers in the survey are sticking to what they know best and planning to increase penetration in their existing markets.

THE PREFERRED EXPANSION ROUTE BY FAR IS TO ENTER NEW CITIES IN EXISTING MARKETS

TARGET MARKETS

- Retailers intend to expand into 38 EMEA countries before the end of 2011. There was a high level of interest across a wide range of markets, with 10 countries being targeted by at least a quarter of the retailers in the survey.
- Germany retains its number one spot with 41% of retailers looking to open a store there. Strong economic growth and a relative lack of international retailers make Germany an obvious target in the current economic environment. With retailers still focusing on prime locations in the biggest cities, Germany is well placed as it can boast five to six such cities, compared with one or two in other major markets. Domestic retailers have also given a vote of confidence to Germany, with 69% saying they plan to expand in their home market. After Germany, the next most important targets are Poland and the core markets of France, Spain and the UK.
- In Spain less than one third of domestic retailers are planning to open new stores in their own market, as they look to balance their portfolios by moving into new markets. At the same time, other retailers are seeking to enter the Spanish market on the back of cheaper real estate and the demise of weaker retailers during the recession.
- While core Western European markets remain a high priority for retailers, many are also developing their networks in emerging markets, which account for more than half of the top 20 target countries. Poland leads the way, buoyed by one of the strongest economies in Europe and an undersupply of good quality retail provision. Occupier demand is such that, in the absence of finance to build new schemes, developers are refurbishing secondary and older shopping centres to accommodate the growing level of demand. After Poland, the most sought after emerging markets are Russia and the Czech Republic.

Top 20 Country Targets

Rank 2010	Country	% of Retailers Targeting Country
1	Germany	41%
2	Poland	33%
3	France	33%
4	Spain	30%
5	United Kingdom	29%
6	Russia	28%
7	Czech Republic	28%
8	Italy	27%
9	Austria	27%
10	Belgium	25%
11	Netherlands	24%
12	Switzerland	23%
13	Hungary	22%
14	Bulgaria	19%
15	Romania	17%
16	Turkey	16%
17=	Portugal	16%
17=	Ukraine	16%
19	Slovakia	15%
20	Croatia	14%

41% OF RETAILERS ARE TARGETING AT LEAST ONE COUNTRY IN CENTRAL EUROPE

INTERNATIONAL IMPERATIVE

- As Western European markets mature, more retailers will be forced to look at cross-border opportunities, with the emerging markets of Europe high on the list of target countries. Renewed interest in the emerging markets is partly based on the expected bounce back in their economies. At the same time it is clear that cross-border expansion into these markets is less daunting than in the past. Some 41% of retailers are targeting at least one country in Central Europe, and a similar proportion (39%) are targeting Southern Europe.

OWN VS. FRANCHISE

- Retailers prefer to operate their own stores, with only 11% having a clear preference for franchising, and half saying they prefer to operate their stores directly. This is different from last year, when franchising was preferred by those retailers planning to open 20 or more stores. The franchise model has certainly been tested in the current economic environment and retailers seem to be approaching this method of expansion with more caution. It may also be that more retailers are now more comfortable expanding into emerging markets and feel less need to go down the 'less risky' franchise route. Even so, a good proportion (40%) of retailers said they would use a mixture of franchising and own store strategy.
- Expanding organically or via store acquisition is the preferred operating model in all sectors, and particularly for Supermarkets and Consumer Electronics retailers. Only Coffee & Restaurant retailers are much more reliant on franchising.

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ONLINE RETAIL: A COMPLEMENTARY GROWTH STRATEGY?

- Online retailing is the fastest growing sector in retail. Half of the retailers surveyed had plans to expand their existing online platform, with one third saying that they would be looking to “significantly expand the geographical coverage of their transactional capability”.
- The desire to run a multi-channel operating model is growing, with retailers such as Hennes & Mauritz (H&M), Zara and Ralph Lauren all launching sales websites in 2010. Increased retailer activity in this area and the disparity between countries in terms of the level of retail sales performed online – around 7% in the UK and Germany compared with less than 2% in Central Europe – suggest that there is huge scope to grow online retailing in EMEA.
- Multi-channel retailers view their online platform as a complementary service that informs their strategic decisions and boosts the overall turnover of their business. So far this has had little impact on the demand for retail space but this could change. Some retailers have suggested that fewer, but larger stores is the way forward, whilst others have announced that they will downsize their space requirements. It may also lead to the larger, multi-channel retailers taking an ever increasing share of the market. This is a topic that CB Richard Ellis will explore in more detail in 2011.



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