HOW ACTIVE ARE RETAILERS IN EMEA?

CB RICHARD ELLIS | EMEA RESEARCH & CONSULTING

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INTRODUCTION

The effects of the recent turbulence in the financial markets and subsequent global recession continue to ripple through the economies of Europe, the Middle East and Africa. Different parts of the world are being affected to varying degrees, and in different ways, as companies and individuals seek to come to terms with a more uncertain future than has been witnessed for many decades.

Much attention has been focussed on the retail sector – and for good reason. Much of the economic growth witnessed in recent years was driven by increasing consumer expenditure, which was itself in many cases fuelled by cheap debt, and rising house prices. As the economy and financial markets have contracted, so the consumer engine of growth has slowed, or in some places stalled completely. Faced with uncertain employment and income prospects, consumer sentiment has weakened and households have started to save rather than spend.

The potential implications for retailers are clear and, for some, the strain was too much. Gaps have appeared in many high streets, as some retailers have been forced to rationalise their networks or cease trading altogether. High profile collapses of well known retail operators such as Woolworths and Threshers in the UK, Arcandor and Escada in Germany and Icelandic group Baugur have created headlines which fuelled the negative sentiment surrounding the sector.

But does this tell the whole story? Despite weaker consumer sentiment, retail sales figures have held up surprisingly well in many countries. It is true that questions have been raised about the accuracy of this data, and that the figures are being influenced in some countries by temporary measures such as VAT rate cuts and “cash for clunkers” (programmes which subsidise replacement of old cars with newer, greener models). Equally, it remains the case that – thus far at least – retail sales have not been affected to the degree anticipated by many.

1. For a fuller analysis of the take-up of former Woolworths stores in the UK, see “Woolworths – What Happened Next?”, CB Richard Ellis, August 2009. An update on this report will be issued in late 2009.

Furthermore, not every retailer is suffering in the current environment. Some, including many value-led retailers such as Primark, have actually prospered. Others are viewing the difficulties of their competitors as an opportunity to expand. Thus when the collapse of Woolworths in the UK in November 2008 resulted in them vacating over 800 stores across the country, many of the units were quickly snapped up by retailers keen to take advantage. By August 2009, 60% of the former Woolworths stores had been taken on by new tenants, with budget retailers, fashion chains and supermarkets most prominent amongst the incoming operators[1].

In **How Active are Retailers in EMEA?**, CB Richard Ellis sets 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 2009, the report reveals that far from simply "battening down the hatches", many remain optimistic about the future and – whilst proceeding with caution – are continuing to develop their networks and expand into new markets.

"MANY RETAILERS REMAIN OPTIMISTIC ABOUT THE FUTURE"

KEY FINDINGS

- Far from "battening down the hatches", many retailers are optimistic about the future. Although cautious with their approach they continue to develop their networks and expand into new markets.

- The prevailing theme of this report is that, despite the economic turmoil which continues to affect the world, many retailers are still looking to expand their network. Whilst for some this represents a fine-tuning of an already mature sales network, others are looking to pioneer their way into new markets.

- "Success breeding success" has always been an important driver of growth in cross-border retail activity in an emerging market. Most retailers like to see evidence of success, either on the part of competitors or retailers who they would regard as complementary or comparable to their own operations, before committing to new territories. In many cases this is particularly true in the current environment – where they simply cannot afford to make mistakes and need more justification and comfort to support their investment decisions.

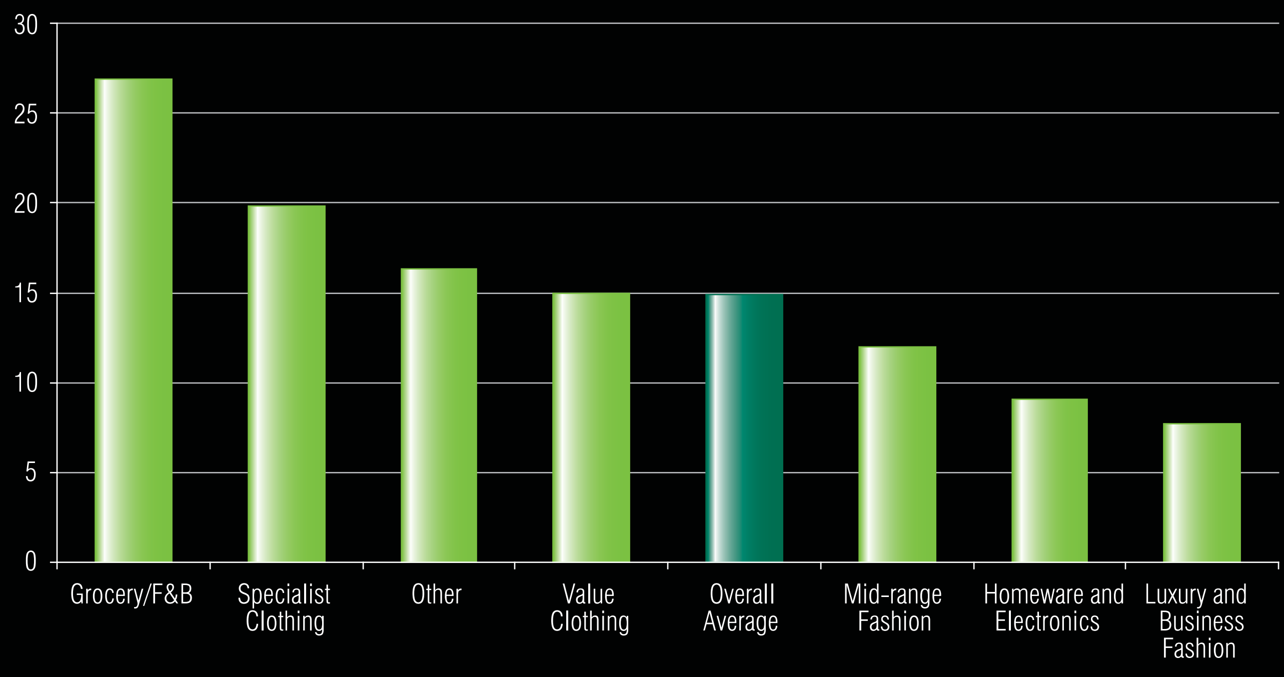
- It is apparent from the results of this survey that a clear, and entirely understandable, "flight to quality" is taking place. Intriguingly, the survey also shows that some retailers are taking the opposite approach, targeting new and previously untried markets in the search for competitive advantage. For some, "first to market" remains the over-riding objective and - with current economic conditions reducing the level of competition – the next couple of years are seen as a time of opportunity.

- Of the 220 retailers analysed, 200 are looking to acquire additional stores by the end of 2010. Around 40% of those that are expanding are looking to acquire no more than 5 stores by the end of next year. However, 73 retailers are looking to open more than 10 stores; 25 of these feel sufficiently confident of the opportunity being offered by the current market to expand more aggressively, looking to open 40 or more stores over the coming year or so.

ACTIVE SECTORS

- At sector level, Grocery/Food & Beverage retailers appear most expansive, with the Specialist Clothing sector (which comprises footwear retailers, accessories retailers, underwear retailers and childrenswear retailers) also more active then other sectors. Over a third of Specialist Clothing, and over half of Grocery/F&B retailers, are looking to acquire more than 20 stores, with significant proportions of these looking for over 40 new units by the end of 2010.

Acquisition Index by Sector



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- Mid-range Fashion and Homeware and Electronics retailers are looking to acquire relatively fewer stores. Perhaps not surprisingly the Luxury and Business Fashion sector appears least expansive in the current economic climate.

TARGET MARKETS

- A total of 56 countries were identified as expansion targets of the 200 retailers who are actively seeking to acquire stores. The most popular targets are Germany, France, Spain, Poland and Italy – the Big 5 of continental Europe.

- Given the economic difficulties still facing most of these countries, this would suggest that a principal driver of current expansion is strategic. Retailers are looking to expand their coverage of Europe's largest markets, positioning themselves for a future upturn in consumer activity in the years ahead.

- Whilst many of the smaller "fringe" European nations rank quite low down in this list at individual country level, grouping some of them together reveals that these regions are not being ignored. Around half of the retailers are looking to open at least one store somewhere in Central and Eastern Europe, and almost a quarter are actively looking in the MENA (Middle East and North Africa) region.

- At an individual country level, it is certainly true that many of these fringe markets are seeing relatively low levels of interest. Equally, some retailers remain aggressive in their plans and are comfortable with a business model that leads them to pioneer entry into new markets such as Egypt, Kazakhstan, Libya, Morocco and Albania.

- Grocery/F&B retailers appear to be targeting many of the "emerging" markets of Europe. They have significant interest, and well above average, in Central and Southern Europe, Russia and MENA. Greater availability of sites at acceptable prices, and the need to secure "first mover advantage" in building a strong market share, are the principal drivers for the sector.

- Specialist Clothing retailers have a level of interest that is equal to or above average in almost every major country or sub-region.

- Value Clothing retailers generally exhibit a similar trend to the overall sample of retailers, but with above-average interest in Germany, Belgium and the UK. By contrast, they are less focussed on Spain and Italy.

- Although the least "expansionist" of all the sectors, the Luxury sector has above-average interest in some markets – notably France and Italy. However, despite the undoubted medium-term growth potential of the emerging markets, these retailers are generally not targeting the fringe markets of the region in the current environment.

OWN VS FRANCHISE

- Of the retailers who indicated their choice of operating model. The clear preference was for owner-operated stores. Only 36% said they were more likely to open franchise outlets.

- Just over 70% of retailers who are likely to franchise are targeting at least one country in Central Europe, compared with just under half of those who are intending to own their stores. In general, it is evident that a far higher proportion of retailers who say they are likely to franchise are targeting the "emerging" markets.

"FOR SOME RETAILERS THE NEXT COUPLE OF YEARS ARE SEEN AS A TIME OF OPPORTUNITY."

Top 15 Most Targeted Countries

Rank	Country	% of all retailers targeting country
1	Germany	47%
2	France	44%
3	Spain	36%
4	Poland	34%
5	Italy	33%
6	Austria	30%
7	United Kingdom	29%
8	Romania	26%
9	Netherlands	25%
10	Russia	24%
11	Belgium	23%
12	Czech Republic	22%
13	Switzerland	21%
14	Slovakia	21%
15	Greece	19%

THE RETAILERS ANALYSED

METHODOLOGY

CB Richard Ellis is in constant contact with retailers of all types around the world. Over the course of the summer of 2009, retail consultancy specialists within the company reviewed the current requirements and activities of 220 retail companies with whom the company has regular dealings. The vast majority of these retailers are leading brands either within their own domestic markets or internationally. Of those companies, only 20 currently have no plans to open new stores before the end of 2010.

Clearly this group is not intended to be entirely representative of the European retail sector as a whole. The sample is deliberately focussed on those retailers who remain active in their search for new markets. It would be inappropriate to mention the specific plans of any individual retailer, and thus this report focuses on aggregate results and overall trends.

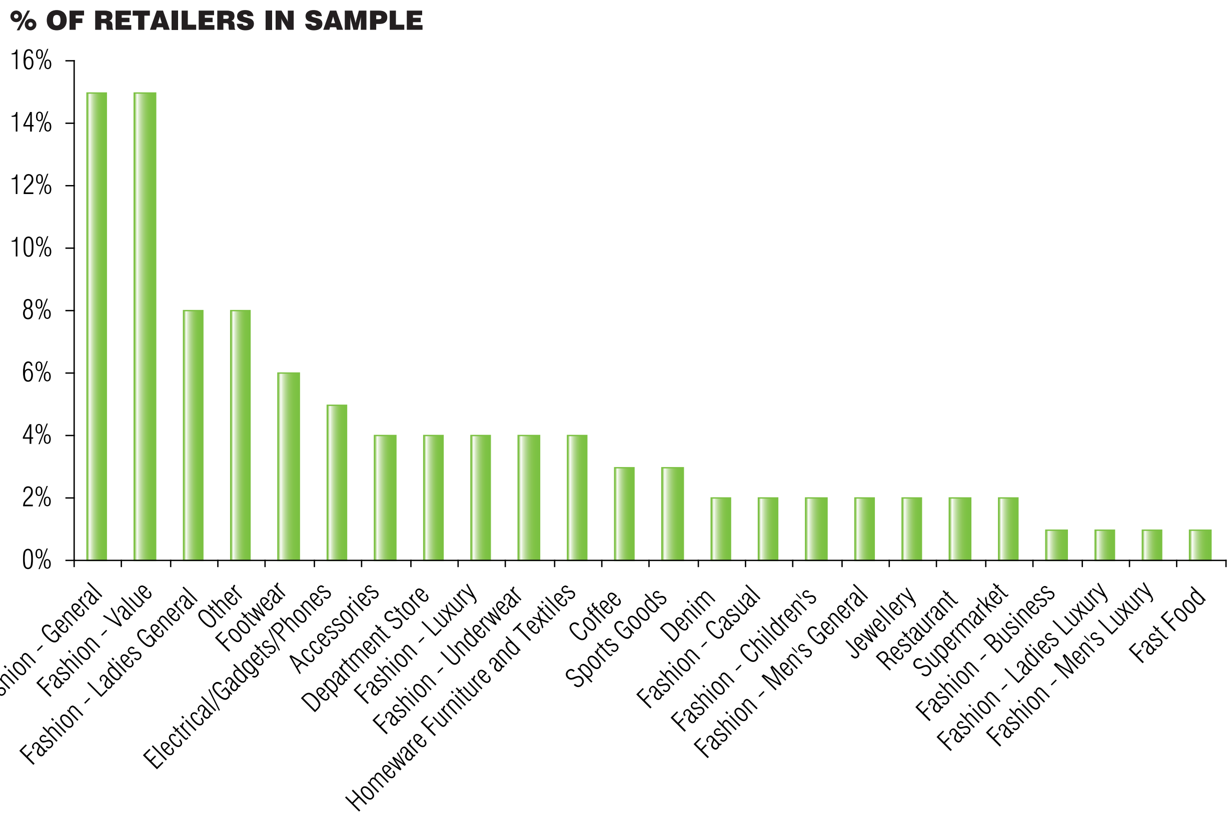
Nevertheless, for those who are interested in what those companies who are active in the market are doing, the survey provides a key insight into the markets they are seeking to target, the operating models they prefer, and their sensitivity to financial considerations in the current, more austere, trading environment.

SECTOR REPRESENTATION

The retailers are drawn from a wide variety of sectors, as shown in figure 1. The majority come from the clothing, footwear and accessories sectors. However, this reflects the dominance of these retailers in the principal shopping locations across Europe. For example, data from Retail Locations shows that such retailers account for over half of all non-food multiple retailers in the UK, and they make up 47% of the retailers included in CB Richard Ellis's annual survey of leading retailers' global footprint[2].

To facilitate analysis of the results, retailers were categorised into a number of broad groups reflecting the type of retailing in which they are engaged:

Figure 1: Retailer Sample by Sub-sector



2. See "How Global is the Business of Retail?", CB Richard Ellis, 2009

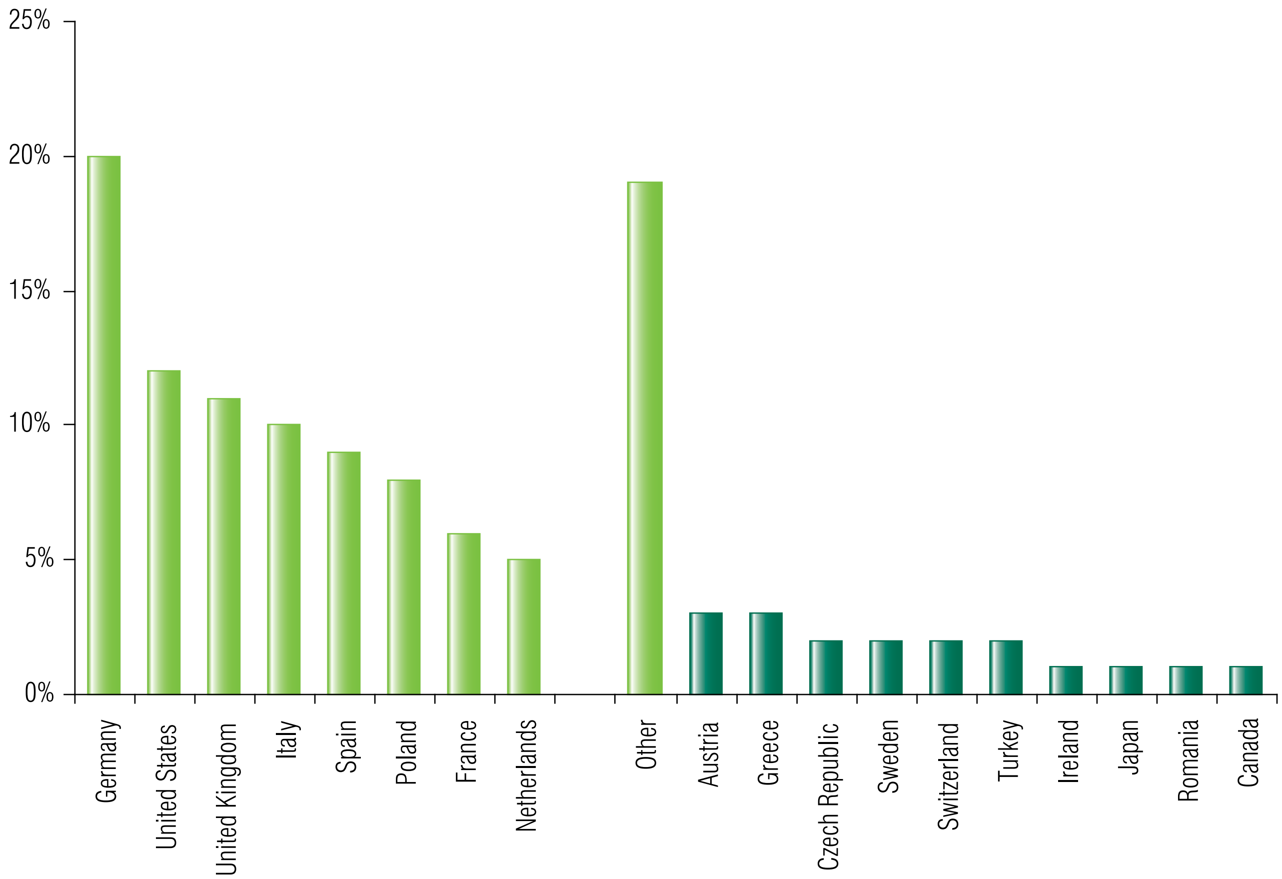
- **Luxury and Business Fashion:** includes men's and woman's luxury clothing retailers, jewellery retailers, and business clothing retailers.
- **Mid-range Fashion:** includes men's and woman's fashion retailers and casual fashion retailers.
- **Value Clothing:** includes value and discount clothing retailers and denim retailers.
- **Specialist Clothing:** includes footwear, underwear, sportswear, childrenswear and accessories retailers.
- **Grocery, Food and Beverages (F&B):** includes fast food retailers, supermarkets, restaurants and coffee retailers.
- **Homeware and Electronics:** includes electronics retailers, DIY retailers, department stores and furniture retailers.
- **Other:** includes all other types of retailers including chemists, pet stores, books, music and dvd retailers.

RETAILER NATIONALITY

The retailers in the survey were from a wide variety of countries. The largest group were the 45 retailers from Germany (20% of the sample), with significant other representation from the US, UK and Italy (over 10% each). Spain, France, Poland and the Netherlands each also contributed more than 5% of the retailers. Overall, 18 nationalities of retailer were represented within the sample.

Analysis of the survey responses suggests that in general the results have not been overly influenced by the responses from any one "nationality" of retailers. It should also be recognised that whilst the retailers may originate from a particular country, many are now truly pan-European or global in their operations and their strategic decision-making takes place within this multinational context.

Figure 2: Retailer Sample by Country of Origin



ACQUISITION INTENTIONS

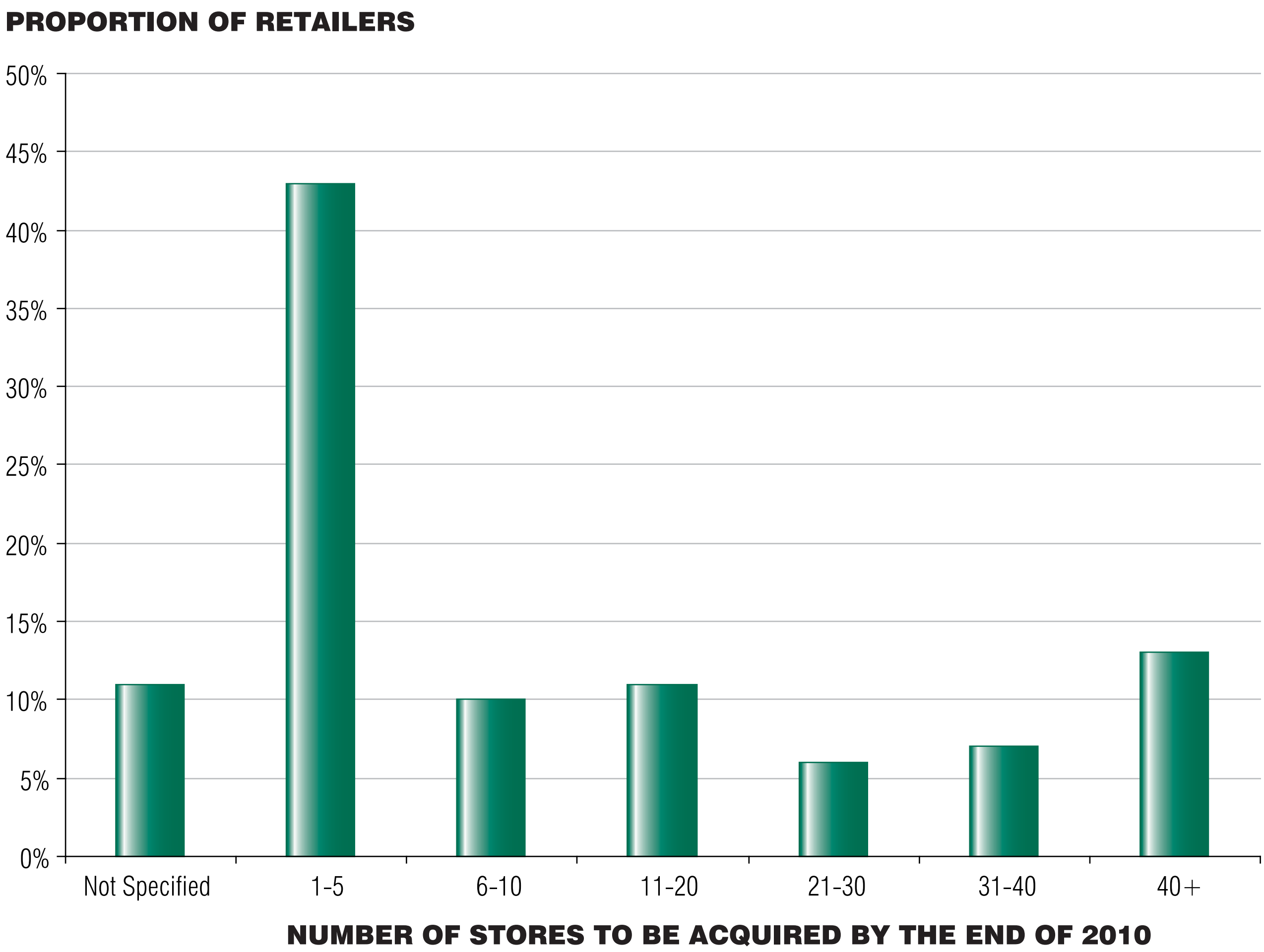
OVERALL EXPANSION PLANS

Of the 220 retailers analysed, 200 were looking to acquire additional stores by the end of 2010. As highlighted previously, this should not be taken as representative of all retailers, as the intention of the survey is explicitly to look at the intentions of those retailers who are actively changing their store network. Nevertheless, this reinforces the fact that whilst some retailers in the market as a whole are contracting, many others are looking to open new stores. For some, this is about fine-tuning their networks, but others are in expansion mode.

Equally, it is true that most retailers have scaled back their expansion plans somewhat. Whilst there is no comparable historic data against which to benchmark this initial survey, this is apparent anecdotally from many of the conversations with retailers. Indeed, 43% of those that are expanding are looking to acquire no more than five stores by the end of next year. It seems almost certain that this is a much more conservative rate of growth than would have been envisaged a couple of years ago – or even last summer in the pre-Lehman period.

However, as figure 3 shows, there are reasonable numbers of retailers looking to acquire a greater number of stores. In total, 73 retailers are looking to open more than 10 stores; 25 of these feel sufficiently confident of the opportunity being offered by the current market to expand more aggressively, looking to open 40 or more stores over the coming year or so.

Figure 3: Retailer Expansion Plans



DIFFERENCES BY TYPE OF RETAILER

There are some significant differences between sectors in terms of the scale of their expansion plans. The retailers were categorised using bands of store acquisition intentions (1-5, 6-10 etc); using the mid-point of these bands it is possible to create a weighted average "Expansion Index" for the group as a whole, and for each sector. For the purposes of this exercise, 45 was used as the mid-point for the 40+ category. The results should not be relied upon as a specific indication of the number of stores being targeted, but does provide a general indication of the relative activity levels in different sectors.

As figure 4 shows, the average Expansion Index "score" was 14.9 across the sample as a whole. At sector level, the Grocery/F&B sector appears most expansive, with an index of 26.9, with the Specialist Clothing sector also scoring above average. Value Clothing retailers were broadly in line with the average for the sample as a whole, whilst Mid-range Fashion and Homeware and Electronics were looking to acquire fewer stores. Perhaps not surprisingly the Luxury and Business Fashion sector appears least expansive in the current economic climate.

This pattern is clearly evident looking at the distribution of responses from these different sectors (figures 5-7).

Figure 4: Acquisition Index by Sector

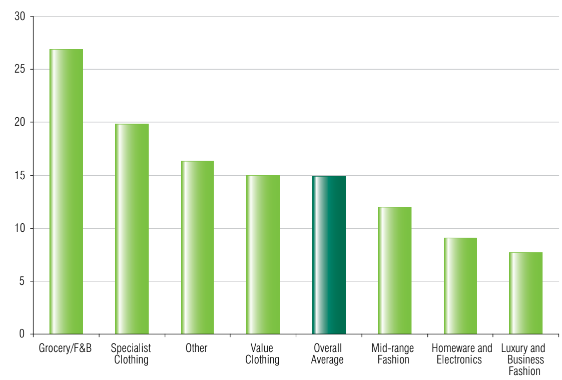


Figure 5: Expansion Plans: Luxury & Homeware

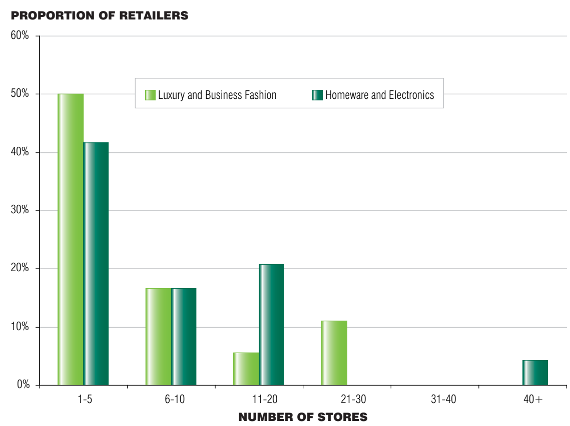


Figure 6: Expansion Plans: Value & Mid Range Fashion

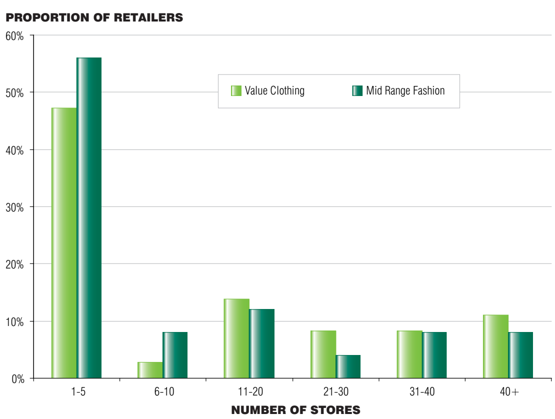
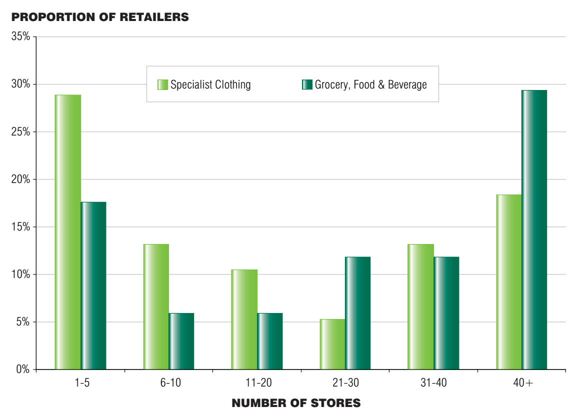


Figure 7: Expansion Plans: Specialist Clothing & Grocery

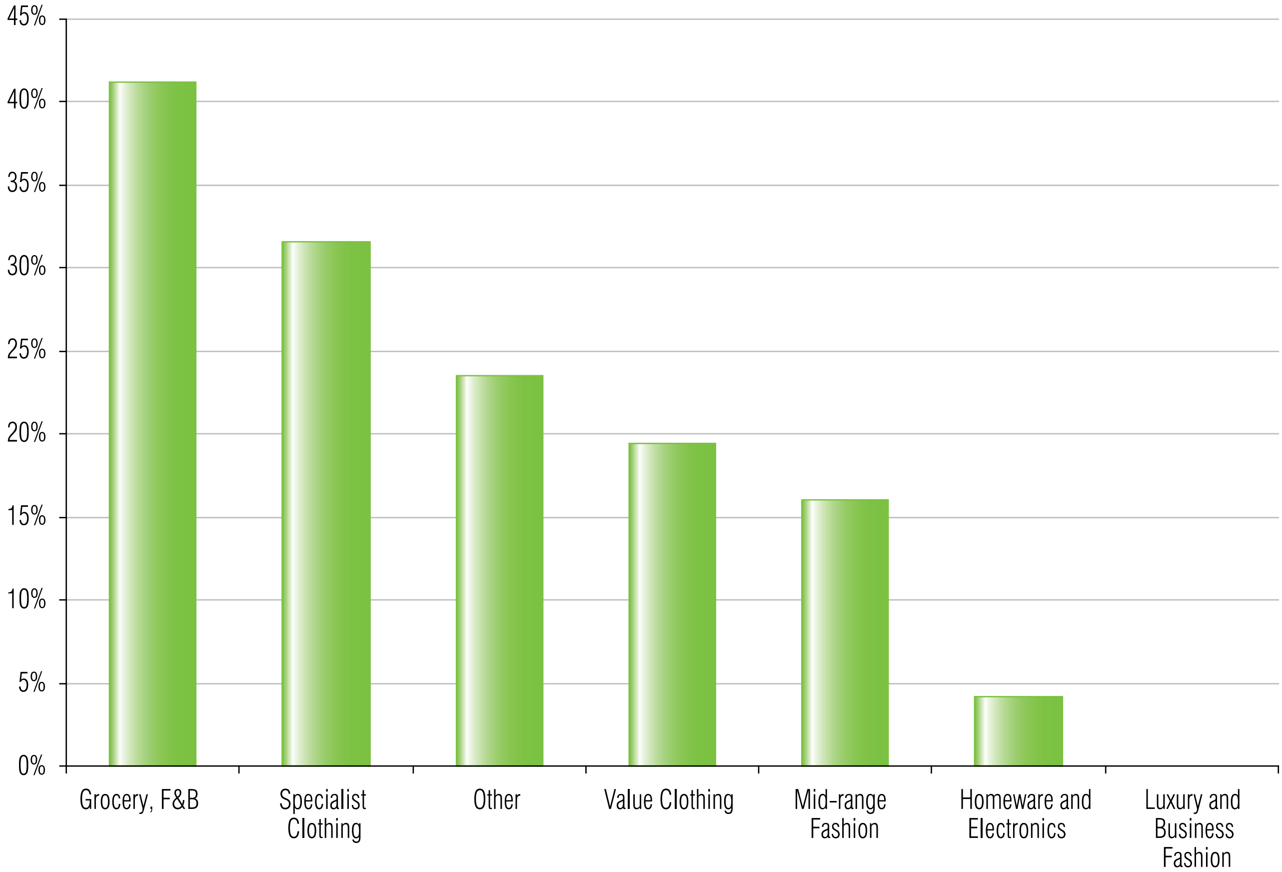


The vast majority of Luxury and Homeware and Electronics retailers are planning relatively modest expansions of up to 10, or at most 20, new stores. Whilst many Value and Mid-range Fashion retailers are also looking to expand by no more than five stores, a large proportion of retailers in these sectors are found within the more expansive categories. The Grocery/F&B and Specialist Clothing retailers appear to be expanding more rapidly; over a third of Specialist Clothing, and over half of Grocery/F&B retailers are looking to acquire more than 20 stores, with significant proportions of these looking for over 40 new units by the end of 2010. It is perhaps noteworthy that in some markets, landlords with vacant units have specifically been targeting grocery chains, offering attractive terms in an attempt to attract them into shopping centres even if historically these chains have always operated standalone stores.

These patterns are broadly replicated when the most active retailers – those looking to open 30 or more stores – are examined (figure 8). Over 40% of Grocery/F&B retailers, and around a third of Specialist Clothing retailers fall into this category. This compares with just 4% of Homeware and Electronics retailers – and none of the Luxury and Business Fashion sector.

Figure 8: Most Active Retailers: "Club 30+"

PROPORTION OF RETAILERS LOOKING TO OPEN 30 OR MORE STORES



RETAILER RESPONSES TO THE RECESSION

In general, therefore, the retailers surveyed are showing marked differences in their response to the recent economic downturn. Even given that the retailer sample is by definition biased towards those who have remained relatively active over the last twelve months, it is clear that based on both the survey results and the comments made by the respondents, some are more active than others.

It should be recognised that some retailers have curtailed their expansion plans significantly, or even abandoned them altogether. This may be due to general uncertainty about the economic outlook, resource availability to fund growth, the trading performance of the existing group or simply the change in circumstances in particular target markets. Some of these may see a relatively rapid return to new acquisitions – for others, it may be some time before they see a return to growth. Equally, there are a significant number who could be termed "opportunistic". For them, weaker competition and more affordable real estate are combining to present opportunities to expand into new markets. In many cases, units in good quality locations that were unavailable in recent years are becoming accessible.

Others are taking the view that they should "stay calm and carry on". Business remains solid, the fundamentals haven't changed and whilst overall expansion plans may be pulled back somewhat, the retailers are holding firm on their strategic intention to move into new markets.

A fourth group would most fairly be characterised as showing "even greater caution". These retailers always adopt a cautious approach to expansion, particularly when entering new countries. Whilst their strategy remains in place, they are being even more careful in their decision-making, preferring to miss out on a short-term opportunity rather than risk making an expensive mistake.

"SHOPPING CENTRE OWNERS WITH VACANT UNITS HAVE BEEN SPECIFICALLY TARGETING GROCERY CHAINS"

TARGET COUNTRIES FOR EXPANSION

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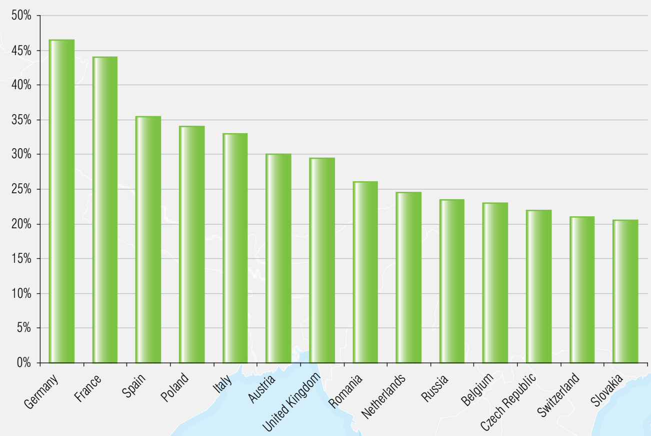
OVERALL PREFERENCES

A total of 56 countries were identified as expansion targets of the 200 retailers who are actively seeking to acquire stores.

The most popular targets are Germany, France, Spain, Poland and Italy (figure 9) – the Big 5 of continental Europe. Given the economic difficulties facing most of these countries, this would suggest that a principal driver of current expansion is strategic. Retailers are looking to expand their coverage of Europe's largest markets, positioning themselves for a future upturn in consumer activity in the years ahead. The UK ranks 7th, just behind Austria and just ahead of Romania, being targeted by 29% of retailers.

Figure 9: Countries Where Retailers Are Looking to Expand

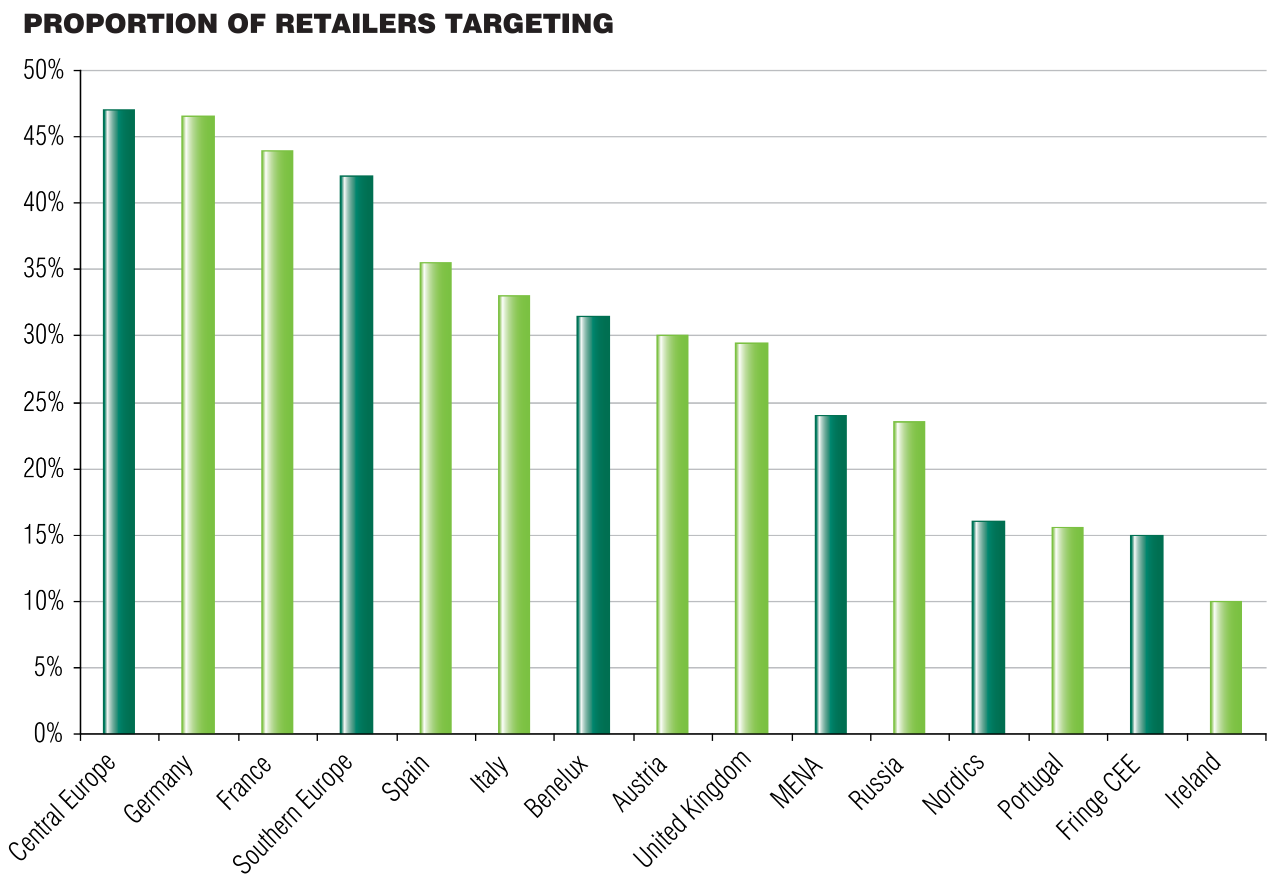


Whilst many of the smaller “fringe” European nations rank quite low down in this list at individual country level, grouping some of them together (figure 10) reveals that these regions are not being ignored. The groupings show that:

- 47% of retailers are targeting at least one country in Central Europe (defined as Poland, Hungary, Czech Republic, Slovakia and Switzerland) – the same proportion as is targeting Germany. Clearly, Poland alone is attracting 34% of retailers, but 39% of brands are targeting at least one of the other countries in this region.
- 42% are looking at one or more of the Southern European countries (Romania, Greece, Croatia, Bulgaria, Turkey, Serbia, Slovakia, Macedonia, Bosnia, Albania, Malta, Montenegro, Cyprus, Moldova and Gibraltar).
- 24% are looking at the MENA region, covering Middle East and North Africa (UAE, Morocco, Saudi Arabia, Egypt, Kazakhstan, Libya, Syria, Armenia, Bahrain, Israel, Lebanon, Oman, Kuwait, Qatar and Algeria). Much of this interest is focussed on the main UAE markets; fewer than 20% of retailers are looking at MENA markets outside the Emirates.
- The Fringe CEE markets are attracting the least interest, being targeted by just 15% of operators (Ukraine, Lithuania, Latvia, Estonia and Belarus).

However, it should be borne in mind that these results are in part influenced by the number of countries included in each group; outside the major Central European markets, no more than a handful of retailers are considering expansion into any one of these “emerging” markets.

Figure 10: Target Markets – With Country Groupings



Overall, the survey results and anecdotal comments made suggest a definite “flight to quality”, benefiting the mature and dominant destinations both in the selection of countries and in the locations chosen within a country. This is evident in lower levels of interest in most Eastern European countries and greater interest in mature Western markets like Germany, France, Spain and the UK.

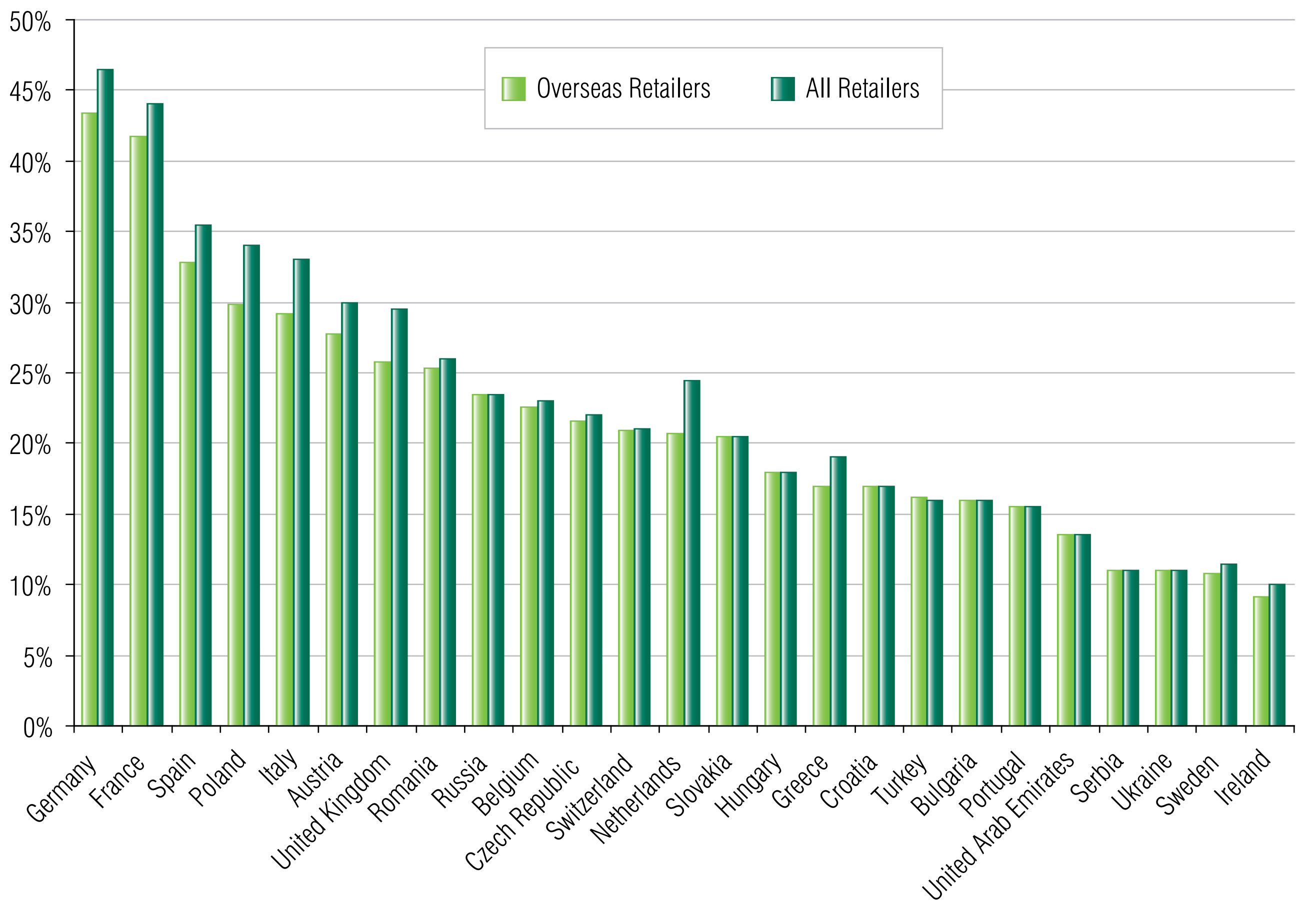
However, some retailers remain aggressive and comfortable with a business model that leads them to pioneer entry into new markets such as Egypt, Kazakhstan, Libya, Morocco and Albania. Indeed, “first to market” remains an important theme for many retailers, especially at the current time when others may slow their expansion.

INTERNATIONAL EXPANSION TARGETS

Although the sample contains a wide range of nationalities of retailer, it is possible that these preferences are to some degree influenced by the composition of the sample. This is particularly true of the responses for Germany, given that 20% of the retailers surveyed were German.

Thus the results were re-analysed to identify only the international expansion targets of the retailers. However, as figure 11 shows, the distribution of responses amongst overseas retailers is very similar to that of the sample as a whole, having virtually no impact on either the “absolute attractiveness” of a country, or its attractiveness relative to other countries. This therefore suggests that this group of retailers remain highly interested in international expansion; whilst “domestic” retailers are more likely to expand in their “own” country than their overseas counterparts, this sample of retailers are certainly not retrenching into their domestic markets at the expense of opportunities overseas.

Figure 11: Proportion of Retailers Targeting a Country



Indeed, whilst one might expect cross-border activity to slow in a difficult economic environment, in many cases the opposite appears to be true. One of the realities for retailers in more mature markets is that to continue to add new stores in their domestic market is not sustainable or profitable. Cannibalisation of sales from the existing store network means that in many cases additional trading in a new store comes largely at the expense of sales in other stores. Moreover, many of the best opportunities in mature markets are in new developments whose trading potential is unproven. Retailers that believe they have "run out of road" in their domestic market are therefore forced to look internationally for growth, with changes to their domestic store network largely a fine-tuning of their existing market presence.

DIFFERENCES BETWEEN SECTORS

In general, the pattern of acquisition preferences by sector tends to mirror their overall level of acquisition activity. Thus those sectors which are generally more expansive, such as Specialist Clothing and Grocery/F&B tend to have above-average interest in most countries/sub-regions of Europe, whilst those which are less acquisitive tend to have below-average interest across most markets.

As figure 12 shows, within these groups there are some individual trends, however:

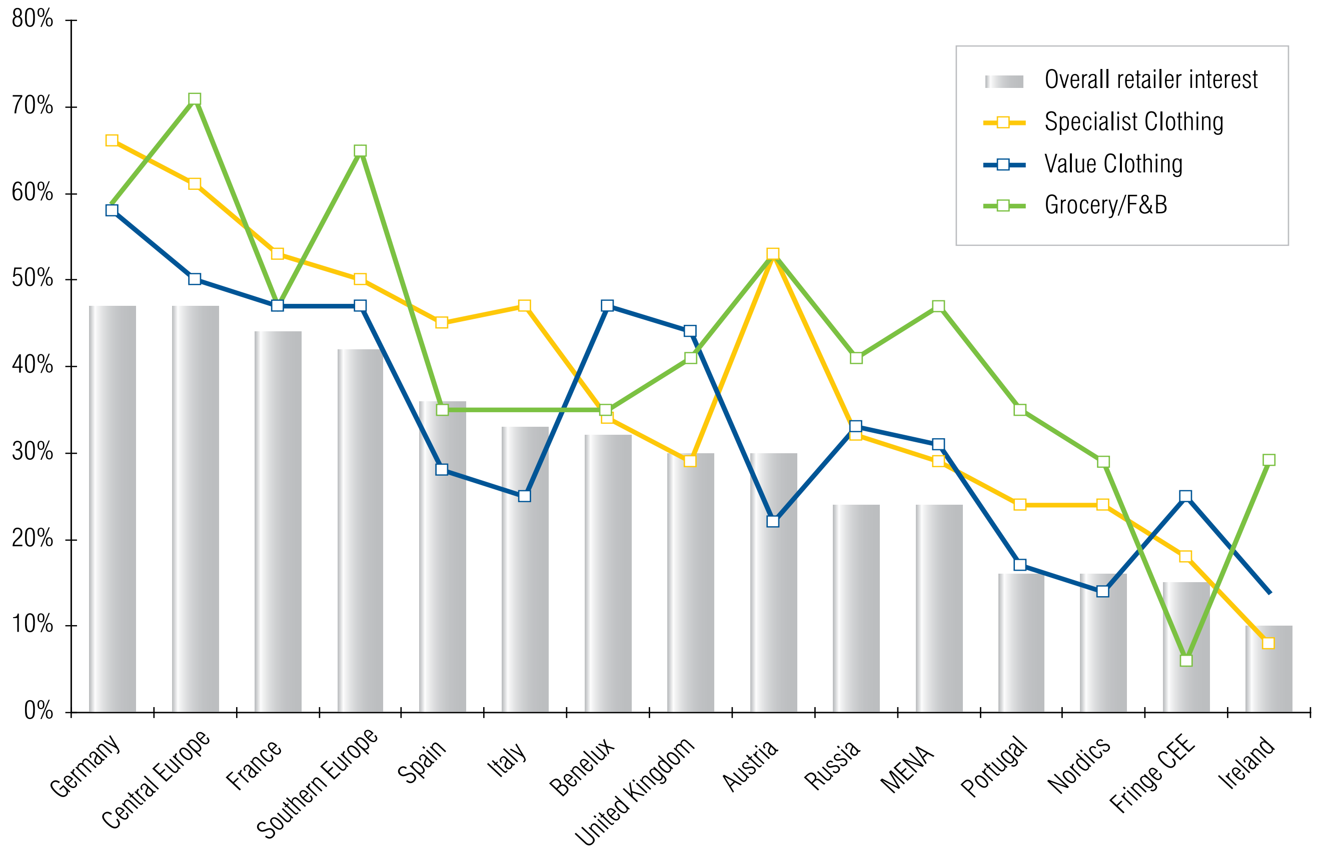
- Specialist Clothing retailers have a level of interest that is equal to or above average in almost every major country or sub-region;

- Value Clothing retailers generally exhibit a similar trend to the overall sample of retailers, but with above-average interest in Germany, Belgium and the UK. By contrast, they are less focussed on Spain and Italy.

- Grocery/F&B retailers appear to be targeting many of the "emerging" markets of Europe. They have significant interest, and well above average, in Central and Southern Europe, Russia and MENA.

Grocery retailers in particular tend to target markets where they can establish early dominance. The nature of their business requires significant investment: fresh produce needs to be sourced, and delivered daily, across a wide range of products. Supply chains may be lengthy and complex, stores need to be large and well located, and strong brand awareness requires expensive marketing campaigns. Such investment is generally only justifiable where the retailer can realistically target a "top 3" position in the grocery hierarchy, leading such retailers to target emerging markets in an attempt to establish a strong brand and dominant physical presence at an early stage.

Figure 12: Country Targets by Sector



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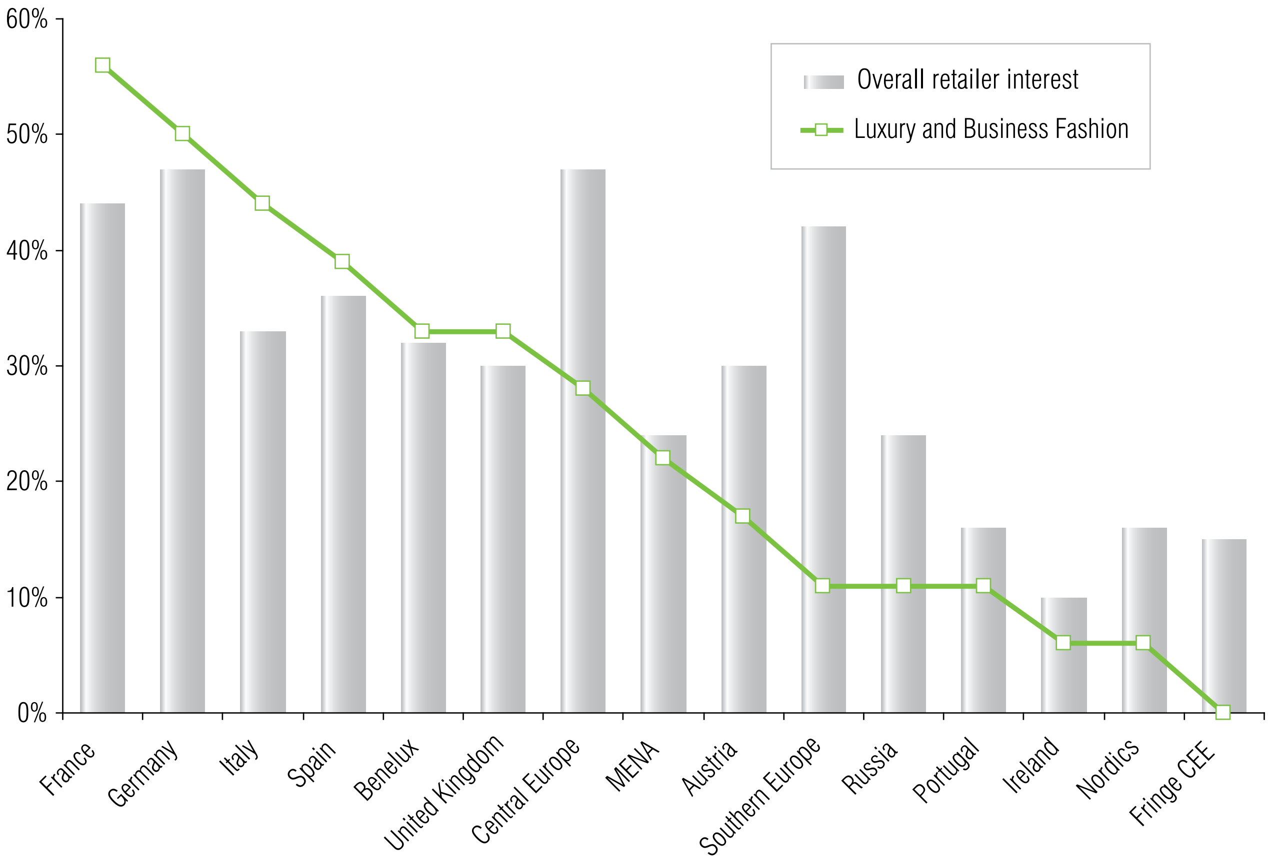
There are some particular differences between the Luxury sector and other retailers. Although the least "expansionist" of all the sectors, they have above-average interest in some markets (figure 13). Notable amongst these is France, which 56% of Luxury retailers are targeting, against an overall average of 44%; and Italy, where 44% of such retailers are looking compared with just 33% of the sample as a whole. More detailed analysis reveals that this is not because there is a high proportion of domestic luxury retailers looking to expand in their own countries. Non-domestic luxury retailers are almost as likely to be targeting France, and are more likely to be expanding in Italy, than their domestic counterparts.

By contrast, whilst 42% of retailers overall are considering expansion in at least one country in Southern Europe, the same is true of just 11% of Luxury retailers. They also currently show well below average interest in Central Europe and Fringe CEE. The economic growth that these regions are still expected to see over the medium term undoubtedly makes them potentially attractive for luxury brands. Rising consumer affluence will help grow the aspirational middle class, and wealthy elite, that these retailers principally target. In the short term, however, the general slowing of the rate of growth in these economies means that they are currently less attractive as expansion targets for "premium" retailers – not helped by the fact that, in many cases, these markets are simply unable to offer the quality of centres and units that such retailers demand.

"HALF OF ALL RETAILERS ARE TARGETING CENTRAL EUROPE"

Figure 13: Country Targets: Luxury and Business Fashion



CHOICE OF OPERATING MODEL: OWN VS FRANCHISE

OVERALL PREFERENCES

Of the 200 retailers indicating that they were looking to expand, 117 indicated their likely operating model for new acquisitions. The clear preference was for owner-operated stores, with 13% saying that they never franchise, and a further 51% saying they were more likely to manage their new stores directly. Only 36% said they were more likely to open franchise outlets.

However, it is apparent that those pursuing a franchise model tend to be more expansive than those who intend to owner-operate; or possibly, that for those who wish to expand significantly in the current environment, franchising is the preferred route as it involves less financial risk. On average, owner-operators had an Expansion Index score of 16.1, compared with the franchisers' score of 20.4. As figure 14 shows, over 50% of those who said they would definitely or probably own their stores were intending to open fewer than 10 new outlets, compared with less than 40% of likely franchisers. By contrast, franchise operators were generally looking to open larger numbers of stores than were owner operators.

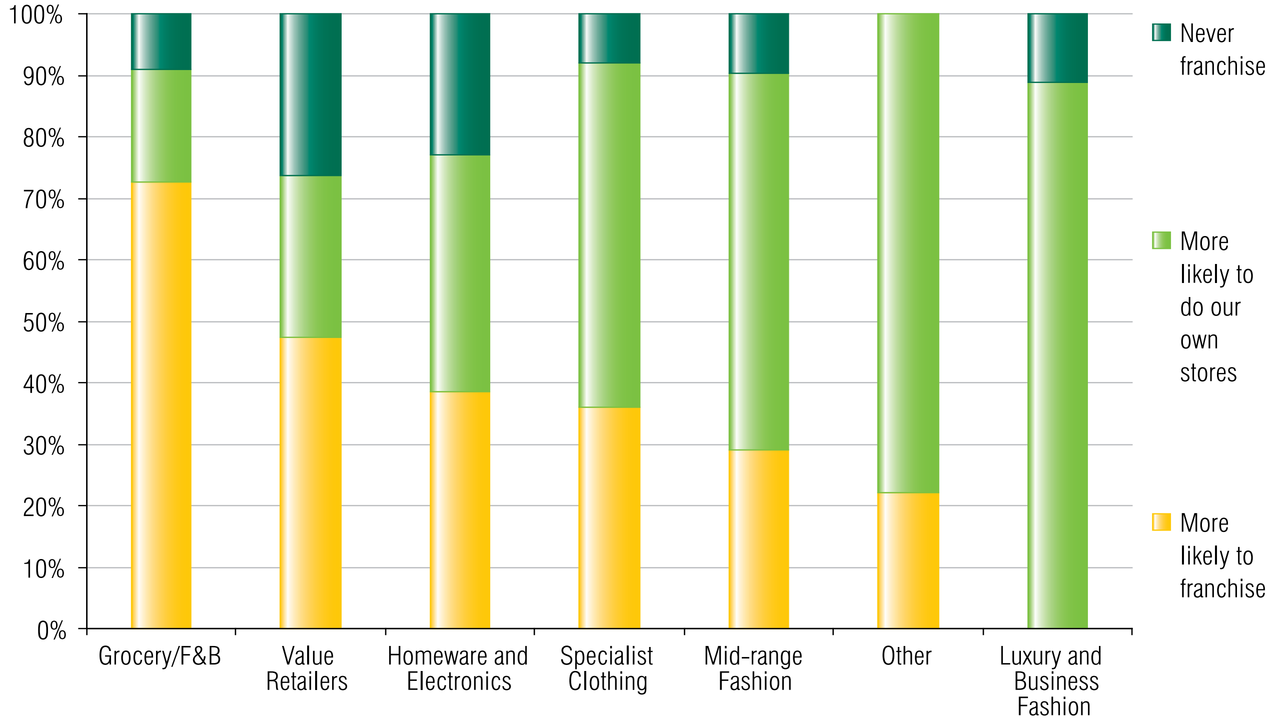
Figure 14: Number of Intended Acquisitions by Operating Model

CHOICE OF OPERATING MODEL BY RETAIL SECTOR

When looking at the operating model the retailers said they were likely to employ in opening new stores, there were some significant differences between the sectors (figure 15). Care should be taken in interpreting these results, however, as the sectors used contain some quite different types of businesses. For example, the Grocery/F&B sector appears most likely to follow a franchise route; however, this includes supermarket chains (who actually tend to prefer an owner-operator model) as well as fast food, restaurant and coffee outlets, all three of which tend to be more franchise-oriented.

Clothing retailers of all types generally showed a greater propensity towards owner operation, probably reflecting the higher level of control that they tend to desire over the supply chain and positioning of their outlets. All of the Luxury and Business Fashion retailers stated that they would definitely or probably own their stores. This corresponds with the findings of previous CB Richard Ellis surveys, which found that such retailers are particularly sensitive to all aspects of the sales environment and their overall retail proposition, meaning that they wished to retain strong control over their operations.

Figure 15: Likely Operating Model by Sector

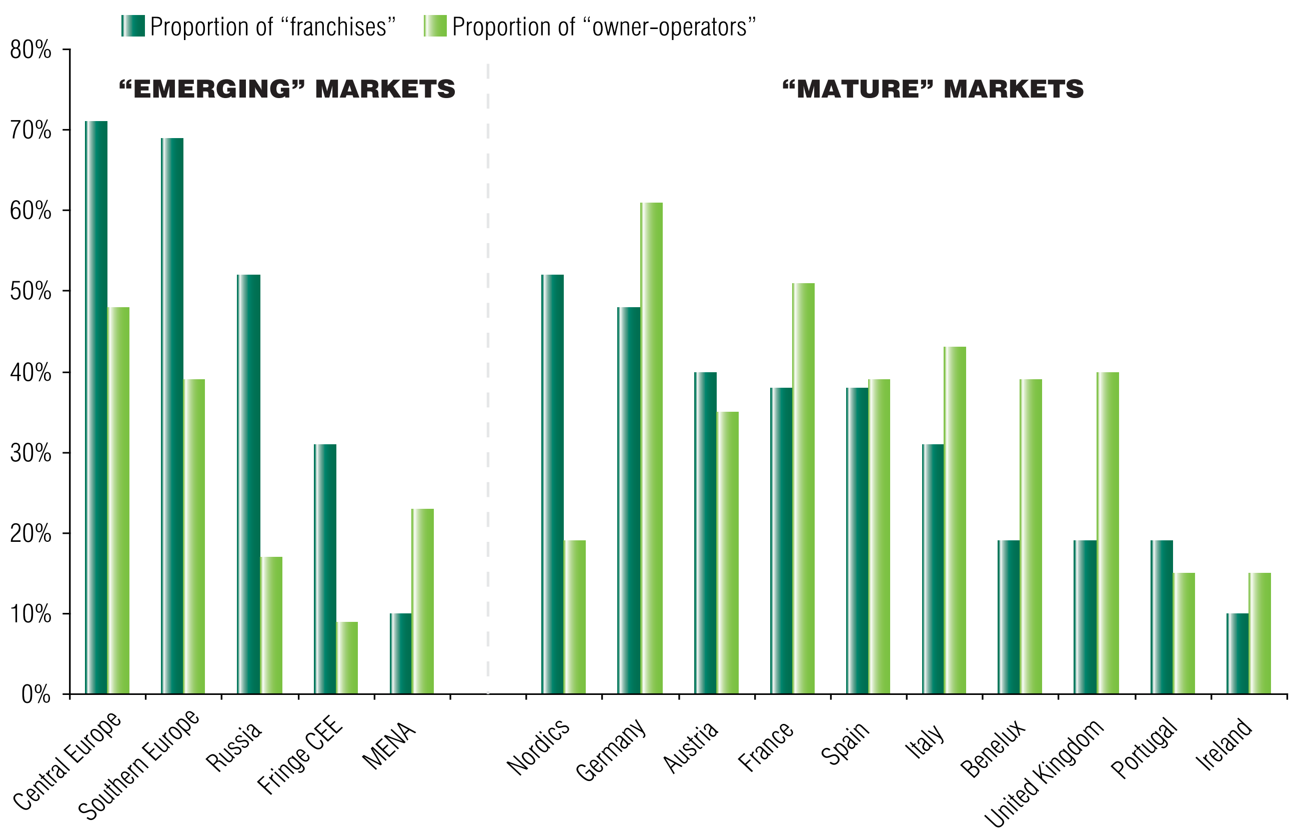


TARGET COUNTRIES BY OPERATING MODEL

Also noteworthy was the difference in the propensity of retailers with different models to target different types of markets.

In figure 16, the target countries/regions are – rather simplistically – split between "emerging" and "mature" markets.

Figure 16: Likely Operating Model by Target Market



The graph shows that, for example, just over 70% of retailers who are likely to franchise are targeting at least one country in Central Europe, compared with just under half of those who are intending to own their stores. In general, it is evident that a far higher proportion of retailers who say they are likely to franchise are targeting the "emerging" markets. The exception is the MENA region, which is perhaps surprising given that in the past the Middle East has been a market in which many retailers have chosen to pursue a franchise option. Perhaps one explanation is that a high proportion of those who would look at franchising in the region have already done so. By contrast, with a couple of exceptions, a higher proportion of owner-operators are targeting the more mature markets. This clearly suggests that franchising is the preferred route for less mature, riskier markets.

OTHER FACTORS IN THE CHOICE OF OPERATING MODEL

In discussions with retailers, it is clear that in some cases the failure of previous franchise operations is leading them to review their existing strategy. The failure of franchisees has had a particularly harmful impact on emerging markets - both in terms of the performance of existing operations, as well as the appetite for new opening stores. A number of major brands have faced difficult decisions when confronted by a struggling franchisee - do they allow their partners to fail, with consequent impact on the brand; or do they finance them or buy them out directly, which entails an increase in risk and resource commitment (both management and capital) to what is already a problem operation? A number of retailers which are present in the Middle East expressed concern about how their brands are being run by their franchise partners, which could in part explain the apparently reduced appetite for franchising in this region noted above.

Franchising remains an important theme. Whilst it is more dominant in emerging markets, it was also the preferred model for many who are targeting mature markets. Could this be the earlier stages of more widespread franchising of operations in Western Europe?

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HOT TOPICS IN RETAIL STRATEGY

MONEY, MONEY, MONEY

In the current environment, one would expect businesses of every shape and size to be very conscious of financial issues – and this group of retailers is no exception. However, they also take a very pragmatic view of the current market, and in many cases are focussed on exploiting the business opportunity that is presenting itself rather than simply on minimising costs. Thus 27% of retailers said that they were "very rent sensitive" – but a similar proportion stated that their rent sensitivity "depends on the location". Equally, whilst some categorically refuse to pay key money under any circumstances, the majority – whilst hoping that it wouldn't be necessary in the current market – are prepared to do so where market practice dictates and it is necessary to secure a strategically attractive unit.

Equally, retailers are well aware of the relatively strong negotiating position that they are now in. Grocery retailers looking for new sites are very active because this is a good market in which to secure land at relatively attractive prices. In shopping centres and high streets across the continent, lease terms are now shorter, more flexible and de-risked, with lower base rents and reduced turnover percentages.

Perhaps the most interesting issue is whether some of these changes will be sustained as the economic environment improves. In some cases, weak trading is causing friction between landlords and tenants – for example, the use of "pre-pack" administrations to escape from lease commitments in the UK is angering many landlords. However, outside these cases, the symbiotic nature of the relationship between landlords and tenants – which is surely more evident in the shopping centre sector than any other area of real estate – means that parties are having to work more closely together to protect each others' interests as well as their own.

Could this herald a decline in adversarial relations between the landlord and tenant, with each working harder in the future to understand how the other makes money? This may be particularly relevant given that some retailers – who are benefiting from the more generous terms and reduced rents currently on offer – are also expressing concern about the reduction in the development pipeline of new centres in most markets. The absence of the right type of units and centres is often cited as a barrier to entering many countries, particularly in the emerging markets. However, without adequate rental levels and the security of longer leases, landlords – and crucially their bankers – will be in no rush to return to development. It may require both sides to work together to help bring to fruition the new schemes that retailers are looking for.

THE ROLE OF THE INTERNET

The role of the internet in a modern retail environment has been a recurring theme in discussions with retailers. In part this is clearly out of a desire to develop less capital-intensive revenue streams, and to ensure that the company does not miss out on a potentially lucrative – and growing – sector of the market. Interestingly, an increasing number of retailers also view the internet as a crucial component of their strategic market research. Establishing an online presence "in" a country can provide crucial insights into the purchasing patterns of consumers in a particular market without the expense of establishing a physical store. The knowledge gained is invaluable in helping the retailer plan their approach to entering the market. Whilst few believe that the internet will result in the death of bricks and mortar retailing, and most retailers talk of multi-channel rather than a wholesale migration to retailing, is the real estate industry ignoring the increasing challenge of the internet?

The impact on some sectors is obvious – Apple's iTunes is now the largest retailer of recorded music in the US, and both books and films are major digital targets. Elsewhere, the "end game" is far less obvious. Each sector will need to find a balance between on-line and in-store, and the solution will probably be different for every retailer. However, it remains to be seen how far from the current situation that equilibrium point will be – and thus what the impact will be on retailer demand for physical real estate, both retail and logistics. The challenge for landlords is to find ways to reinvent the physical store in a way which complements rather than competes with electronic retailing, rather than watching and waiting as the sales turnover on which they depend drains away down a fibre-optic pipe.

COMPETITOR ACTIVITY AND THE IMPORTANCE OF "FIRST TO MARKET"

The prevailing theme of this report is that, despite the economic turmoil which continues to affect the world, many retailers are still looking to expand their network. Whilst for some this represents a fine-tuning of an already mature sales network, others are looking to pioneer the way into new markets.

"Success breeding success" has always been an important driver of growth in cross-border retail activity in an emerging market. Most retailers like to see evidence of success, either on the part of competitors or retailers who they would regard as complementary or comparable to their own operations, before committing to new territories. In many cases this is particularly true in the current environment – where they simply cannot afford to make mistakes and need more justification and comfort to support their investment decisions.

It is apparent from the results of this survey that a clear, and entirely understandable, "flight to quality" is taking place. Intriguingly, the survey has also shown that some retailers are taking the opposite approach, targeting new and previously untried markets in the search for competitive advantage. For some, "first to market" remains the over-riding objective and - with current economic conditions reducing the level of competition – the next couple of years are seen as a time of opportunity.

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