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HOW ACTIVE ARE RETAILERS IN EMEA?

CB RICHARD ELLIS | EMEA RESEARCH & CONSULTING



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KEY FINDINGS

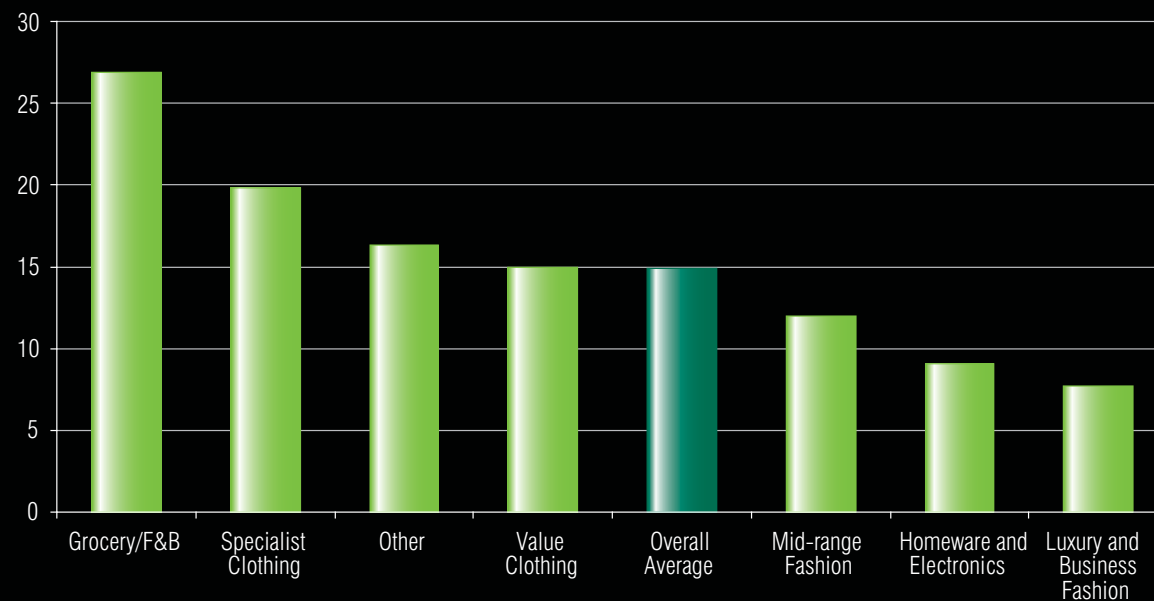
- Far from “battening down the hatches”, many retailers are optimistic about the future. Although cautious with their approach they continue to develop their networks and expand into new markets.
- The prevailing theme of this report is that, despite the economic turmoil which continues to affect the 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 than 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



HOW ACTIVE ARE RETAILERS IN EMEA?

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%

- 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.