

The store's the star

Internet shopping has created a world of retail without borders. But conversely, most brands still see the physical store as central to their business model and this is driving a new wave of cross-border expansion. Graham Parker reports

TOKYO topped the list of target markets in 2014 with 63 new entrants in CBRE's How Active Are Retailers Globally?. Leasing momentum in core areas remained strong, despite the mixed signals in the economy and an increase in the sales tax to 8% from April 2014. Within Japan, Tokyo continues to be the main focus, particularly for high-end retailers. The increased presence of luxury brands has spurred rental growth and compressed the availability on the main streets in core areas, particularly Ginza and Omotesando. The former have seen prime rents grow by 21% in 2014 and thus, Aoyama and Jingumae, until recently thought of as secondary streets or areas, are now attracting retailers and being seen as increasingly attractive.

Reflecting the diverse global nature of retailing aspirations, other top target cities included Singapore, Abu Dhabi, Taipei, Dubai, Hong Kong, Moscow, Paris, Beijing, Doha, Berlin, Toronto, Manila, Stuttgart and Istanbul.

Last year US retailers were most active internationally, followed by Italy, the UK, France, Spain, Japan, Sweden, Germany, Belgium and the Netherlands.

CBRE's take on the situation is that the core elements of globalisation, technology and demographic change continue to have a dramatic impact on the business of retail. As retailers

look to drive market share and raise their brand profile through increased awareness they will continue to expand beyond their home territory. It says it is seeing further expansion into diverse locations as the stores that have opened prove popular with the local consumers.

"The retail experience remains absolutely fundamental to the shopper"

Peter Gold

continued expansion of brands and development and improvement of shopping locations gives them the opportunity to embrace this." But of course the world is changing. Forrester's European Cross-Channel Retail Sales Forecast, 2015 to 2020, predicts that 53% of European sales will be affected by a digital channel. The study suggests the value of cross-channel retail sales in Europe will reach €704bn by 2020, up from €457bn this year. It defines such purchases as those that consumers begin using a digital channel but do not complete online. It says that, when

The report added: "We are continuing to see consumers viewing the physical store as their preferred mode of purchase and perhaps more importantly as a point of social interaction. We see that consumers view shopping as a leisure activity and the

these cross-channel sales are combined with online sales, they will reach €947bn, or 53% of European retail sales. The shift, the report continues, will be felt more in northern than southern European countries, while the UK will have the largest proportion of web-impacted sales by 2020.

Yet the store remains key to most retail operations, with an increasing number of pure players taking some sort of physical presence, whether through temporary space, concessions or stores. While few have gone into a serious roll-out, most of the big names have experimented with some sort of retail location. Peter Gold, CBRE's head of cross-border EMEA retail, believes that retailers' appetite for new store locations is undimmed. He explains: "Given the ongoing challenges retailers face from cost escalation, the successful delivery of omni-channel and changes in consumer behaviour, it is increasingly important for them to have a strong network of stores to effectively represent their brand."

He adds: "Retailers have recognised the overwhelmingly positive attitude that shoppers have to engaging with the physical store



Retailers

environment and are committed to opening more stores. This gives further credence to the view that the retail experience remains absolutely fundamental to the shopper."

Gold's view is confirmed by CBRE's annual survey, which this year found that international expansion remains a strong focus. Of the global retailers surveyed by CBRE, 21% said they planned to open between one and five stores in the EMEA region during 2015. However, 47% of the respondents indicated that unclear economic prospects and cost escalation, largely due to increases in rental costs and lack of quality retail space, are their biggest concerns. Indeed, the number of large-scale expansion plans with retailers looking to open more than 40 stores has scaled back to 9% in 2015.

This trend has also been observed by James Brown, head of retail research, UK and EMEA, at JLL. "We expect international retailer expansion to continue its momentum across the key retail markets," Brown says. But he warns: "Physical expansion is more careful, more considered and more selective than ever before, as sweeping structural changes further redefine retail and retail places. A consequence of this is considerable churn in retail stores. As a general rule, in Europe in the last

two years, for every two stores opened, one store has closed down as retailers seek to work their stores harder and smarter."

So where are retailers looking to expand? Brown draws a distinction between luxury and mainstream brands, which have very different location strategies. But in general, he says: "For international retailers looking for springboards into Europe, London leads the pack. Its retail-market size, maturity, high degree of market transparency and retail friendliness make it a magnet for international retailers who are willing to pay a premium for the best locations."

He points out that a consequence of this demand is soaring rents — retail space in New Bond Street commands the most expensive headline rents in Europe at €12,300 per sq m per year, up 42% since 2012.

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Brown says that other major global and mature European cities, including Paris, Milan and Rome, have similar appeal. "And the main German retail cities have similarly benefitted from international retailers' thirst for growth," he adds.

CBRE's research shows that last year's move to relax some of the trading restrictions retailers face in France has improved the country's attractiveness to international brands, most notably the increase in the number of Sunday trading days from five to 12 per year in some areas, and the creation of "zones of international tourism", which will allow Sunday opening all year round.

But where are the retailers coming from? JLL research shows the US, driven by expanding premium retail brands, has overtaken Italy as the largest exporter of cross-border retail fascias in Europe. It awards the crown as most expansive retailer to the US premium retailer Michael Kors, followed by the UK's Superdry, Sweden's Cos and the US' 7 For All Mankind. In addition, many European retailers have also shown consistent expansion in the past two years, including Ecco and Hugo Boss. And looking to the future, JLL predicts that an influx of brands from the Asia-Pacific region will enter Europe, with the

ITALIAN LUXURY FASHION RETAILER CONNECTS WITH CHINESE CONSUMER

While LUISAVIAROMA has had a store in the heart of Florence since 1930, it first went online with a membership style approach in December 1999 and launched a Chinese website towards the end of 2011. Dovetailing with this, the company has pushed ahead with classical advertising and marketing, the high end store experience and through engaging with social media to create a buzz in China.

"We started investing in the Chinese marketing almost three years ago and for the last 18 months we have seen incredible growth the Chinese and Asian markets, which represent a third of our revenues," said Tiziana Tini, Greater China, Asian, Russian Fed & CIS Countries Coordinator at the retailer.

LUISAVIAROMA decided to celebrate the 10th Edition of annual event Firenze4Ever by dedicating the whole theme to the Asian market, including using Chinese celebrities and media partners with the main objective to be well known by Chinese fashionistas. "Wherever they go, wherever they are, we want them to know that we can provide them the best choices in designers, the best looks and best suggestions than anyone else, before anyone else," said Tini. "We publish the new season in December for Spring/Summer, in June for Autumn/Winter. You can receive your order in three working days, shipped from Florence."

Anticipating further physical and digital convergence she added: "The plan isn't to open 100 stores in the future or to only limit things to digital. The plan is to bring the two elements together."



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European retailers, including Ecco, have shown consistent expansion

fast-growing Australian stationer Smiggle in the vanguard. Clearly, retailers still see the rewards of international expansion outweighing the potential pitfalls. Perhaps the final word should go to Dr

Tim Denison, director of retail intelligence at Ipsos. "The path to success is becoming easier to follow as more retailers begin to flourish internationally," he says. "But the opportunity to grow internationally can only come

about through being in good shape domestically, having strong cash flows and reserves, and the long-term support of shareholders. Going international should not be seen as a foray; more a colonisation."