

Retail Science from CBRE

How **Active** is the **CEE** Retail Market?

CBRE

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Introduction

In the most recent edition of How Active are Retailers Globally we found out that CEE countries register a wide range of attractiveness for international retailers – from a 15th position for Poland to 46th for Hungary. Following this analysis, several questions were additionally raised:

- What is the profile of retailers entering the CEE market?
 - Where do they open shop?
- Which is the difference by country profile?
 - What retail footprint do they occupy?
- How attractive the retail market will be in the future?

In order to answer these questions we made an in-depth research on which retailers entered the following countries in CEE: Czech Republic, Hungary, Poland, Romania and Slovakia for 2014 and 2015. In addition we offer insight into other non-core CEE markets, meaning Croatia and Ukraine.

We included all international brands, with at least one store opened during this time frame, regardless of location (high-street, shopping centres, shopping galleries), in the format of monobrand store. It excludes brands present solely in multibrand stores or department stores, as well as shops within airport retail.

In total, we counted 185 such new brands, which in turn opened a total of 550 stores with plans for at least 75 more during the next 12 months (based on companies press releases' statement).

How Active is the CEE Retail Market?

It is evident that the number of new retailers opening up new stores in core-CEE countries is on the rise. While some markets have a higher penetration of international retailers, with others catching up to the trend, overall CEE region is an attractive region for a variety of retailers. We counted 185 new brands for the last two years, considering a wide variety of brands, the occupied surface, the type of location chosen for first opening.

The brands range from luxury retailers, like Brioni, Moncler, Stuart Weitzman, to affordable luxury, like Michael Kors or Tosca Blu, mass market fashion, in the form of Sinsay and Mohito, to homeware like Tiger, English Home or even coffee and restaurants (Dunkin Donuts, Patisserie Paul).

This record number of new entries is correlated with strong macro-economic indicators, mainly an average annual GDP real growth in the analysed period of 3.3%, substantially above that of many other European countries.

When & Where?

In terms of where the first store was opened there is a pattern of operation – retailers select prime locations (82% go this route), within shopping centres (77%), in the capital city (78%). Second option for retailers, especially those in Luxury and Business sector, is to opt for High Street or Shopping Galleries as the first location.

While in Romania and Slovakia the favourite destination is by far the shopping center, for Czech Republic and Poland the destination choice is more balanced between shopping centers and high street. The capital cities for these countries have an attractive on-street retail environment, with vivid shopping areas and retail real-estate opportunities.

While the capital city clearly is favourite, this doesn't mean that regional cities are ignored – Poland, with its extensive high-quality regional retail stock, attracts up to 40% of new comers into regional locations. This is the highest penetration rate in regional areas out of all core-CEE countries, as for others the range is from 5 to 20%, considerable lower versus Poland. Some of the most attractive regional cities are: Łódź, Wrocław, Poznań for Poland, Timișoara, Iași, Ploiești for Romania, Košice for Slovakia and Debrecen for Hungary.

KEY FINDINGS
RETAILERS SELECT:
PRIME LOCATIONS 82%
WITHIN SHOPPING CENTRES 77%
IN CAPITAL CITIES 78%



Who?

The type of retailers, price-point and type of operation is incredibly varied. While fashion retailers are clearly dominating the ranks, even within this segment there are plenty of models: denim, value fashion, luxury, lingerie, sports stores, mid-range fashion and many others. In total, fashion accounts for almost half of total new entries.

Czech Republic is “the destination” within CEE for luxury tenants – half of new entries from this segment chose Prague as first entry point. While some of the brands (like Michael Kors) choose Prague as the gateway to the entire CEE region, others will limit their expansion to one or two CEE countries. In Poland where the fashion competition is fierce, new entries come from other segments of business: cosmetics, jewellery, kids fashion & toys. The Romanian consumer is a fashion expert and likes to be trendy, cool and in line with the latest fashion; as such, the tenants tend to come from the sectors value and denim and specialist clothing. Rather surprisingly, Hungary is the target for Coffee & Restaurants outlets, especially from the fast food industry.

NEW RETAILERS BY SECTOR FASHION ACCOUNTS FOR ALMOST HALF OF TOTAL NEW ENTRIES



How?

As different levels of risk are associated with markets, alongside different traditional methods of doing business, brands enter a market either direct or through the franchisee system. Poland and Hungary have the highest percentage of direct entry, while Czech Republic, Romania and Slovakia tend to be countries where franchisee system is prevalent.

For all markets food & beverage operators are running the business through a franchise, as to understand the local specificities, brands need an on-site partner. On the opposite side, the highest percentage of direct model business is for Value and Denim tenants (at 66%), almost the same for all markets. For all other sectors, the split is relatively the same – 35 to 45% of brands chose a direct method of entry, the rest being franchisees.

FRANCHISEE OPERATION BY SECTOR DIRECT ENTRY CHOSEN BY 35% OF NEW RETAILERS



Size

In total these 185 new brands to the CEE market opened up over 550 new stores and are planning to open at least 75 new stores in the next 12 months. In total, taking into account the average store size, the new retailers in CEE region occupy a retail space in excess of 90,000 sq m, sufficient to fill two large, regional, new shopping centres.

Exits

Alongside entries, the market experienced a number of resonant exits from the market – in total we have counted for the period analyzed 30 brands, in the Fashion, Shoes & Bags and Homeware sectors. Most notable exits are: bauMax, Charles Vogeles, Bata, River Island, GAP, Centro, New Look, and others. Motives for exiting the countries are varied and mostly reflect either a poor business operation model (mainly linked to promotion and marketing) or a misfit between the brand and consumer preferences.

There are few brands that exit multiple countries at a time, which reflects that some brands make a better fit with the consumer profile of some shoppers, compared to others. By numbers, Czech Republic leads the way with the most numerous exits during the time period (40% of total exits), followed by Poland and Romania.

Non-core CEE

The report extended its scope towards non-core CEE countries, meaning Ukraine and Croatia, where the number of new entries is not-surprisingly quite substantial. Both countries have modern shopping centers, on par in size and quality to those from other CEE markets, plus offer a large customer base (population: 44.4 million in Ukraine, out of which 2.94 in Kiev; 4.46 million in Croatia, out of which 0.68 in Zagreb). Some very big international brands entered Croatia in past two years: Ikea, Decathlon, Burger King, Lego, enriching the retail environment for the country and solidifying the country's attractiveness within SEE.

For Ukraine, the results are even more impressive, despite the turbulent political and economic environment for the country. With entries focused Kiev, mainly within shopping centers, retailers viewed that there is solid ground for development and growth. As such, Ukraine counted 23 new brand entries, 90% in capital city, 70% in shopping centers and 70% via franchise. Most important names are: Oscar de la Renta, Paul Patisserie, Intimissimi, Sinsay, Vapiano.

KEY FINDINGS

APART FROM THE EXISTING 550 STORES, THE NEW RETAILERS EXPECT TO OPEN UP AT LEAST 75 NEW ONES IN THE NEXT 12 MONTHS

185

NEW BRANDS 2014 & 2015

45%

NEW BRANDS ARE
FROM ITALY, USA AND FRANCE

25%

NEW BRANDS
CHOSE POLAND #2

34%

NEW BRANDS
CHOSE ROMANIA #1

59%

ENTERED VIA
FRANCHISE

550

NEW STORES OPENED

Outlook

Looking ahead we expect to see more international brands as the attractiveness of the entire CEE region as a retail destination will increase. This will be factored by strong macro-economic indicators, increase in consumer spending, increase of the quality retail space and increase of income availability for purchases. In terms of type of retailers and type of operation, the existing patterns will mostly continue in the coming period – fashion brands, franchisees, and European names will lead the expansion model in CEE.

What we will see more of in the future is that the status of certain countries as gateways to the entire CEE region to solidify – meaning Czech Republic and Poland to continue to be first choices for major, large retailers, from where they might springboard to other CEE countries. As a hip, trendy and fashion-oriented destination, Romania will continue to attract such retailers. For Hungary it might be that high-street to overrun shopping centers as a preferred destination. Slovakia, with its competitive retail market will be catalyst for strong, renowned, small to medium-sized retailers.

NEW RETAILERS CEE (SELECTION)

Adidas Neo

Apple Shop

COS

Debenhams

Decimas

English Home

Kiehl's

Mohito

Pepco

Pupa

Sinequanone

Sinsay

Sizeer

Sketcher's

Superdry

Tiger

Twin Set

SECTOR DEFINITIONS:

- Coffee & Restaurants: includes fast food, restaurants and coffee shops.
- Consumer Electronics: includes computing, phones, other electronics and electrical retailers.
- Homeware & Department Stores: includes DIY and furniture retailers.
- Luxury & Business Fashion: includes any luxury retailer from all areas of retailing.
- Mid-Range Fashion: includes men's and women's mid-market and casual fashion retailers.

- Other: includes all other types of retailers including cosmetics, accessories, jewellery, chemists, pet stores, toy stores, books, music and DVD retailers.
- Specialist Clothing : includes general footwear, underwear, sportswear and childrens' wear.
- Supermarket: includes grocery/ convenience stores, supermarkets and hypermarkets.
- Value & Denim: includes value and discount clothing, and denim retailers.

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At the heart of the retail environment, lies the intersection of data and the consumer experience.

Where information and analytics come together to reveal market trends.
Where a deep understanding of consumer behaviour informs the physical experience.
Where ideas become actions that directly impact business success.

At CBRE, we are passionate retail experts.

We know how to leverage this powerful combination of data and consumer insight, unifying and mobilising them into outcomes that build true business advantage.

We call this **Retail Science**.