

Concept contest

remedy for
retailers' blues

May 2014

Contents:

Foreword	4
Changes and challenges	
New stores, new markets	6
Newcomers	8
Existing retailers' pool	10
E-commerce	12
Methodology	13
Contacts	14

Foreword

The modern retail environment is truly dynamic and challenging, and steadily adapting to ever changing market conditions. Over the last 20 years the Polish market has undergone a spectacular transformation, affecting all aspects, including supply and quality of floor space, retail formats, the pool of retailers and concepts, and finally, customer needs, expectations and habits.

As a result of globalization, especially since EU accession in 2004, customer awareness of retail products available in more mature markets has increased considerably. An evolving climate in the retail sector market and increasing expectations of smart customers have been forcing retail operators to redefine and adjust their business concepts to new challenges. Particularly, for a couple of years, a blend of new technologies such as social media, smartphone applications and the growing role of e-commerce in the shopping segment have been heavily influencing the picture of modern retailing.

In this report we try to examine and present an insightful review of the major trends and formats that form the backbone of modern retailing.



Kamila Wykrota
*Director,
Head of Consulting & Research*

Changes and challenges

New concepts

- **New formats of stores introduced in order to answer the challenges posed by the ever changing market:**

Larger stores – e.g. Komputronik (electronic appliances, multimedia & accessories) in 2013 introduced a format of large scale store (Megastore) in order to sell a more diversified variety of products;

Smaller formats – a Decathlon sport equipment operator of big-box units introduced the Decathlon Easy concept available at 1,000 sq m stores located within shopping galleries. Similarly Empik has just introduced the concept of Empik Express units occupying approximately 150-200 sq m;

- **New concepts and sales lines** – Saturn Connect focused on a wide selection of new mobile technologies and accessories; a Vobis chain of stores with electronic equipment introduced a store-in-store of Samsung Brand In Stores;
- **Showrooms and pick-up points** – small size units of RTV Euro AGD for showrooming and collecting items ordered via e-store;
- **Pop-up stores** – a specific way of testing market capability and consumer tastes; recent examples include Joanna Kędziorek boutique in Manufaktura, TUTU store in Stary Browar, Klakier Gallery in Galeria Katowice as well as a charitable H&M pop-up store in Factory Outlet Annopol;
- **Concept stores or showrooms** with the offer that combine sales of ready-to-use clothing with bespoke tailoring – e.g. Furelle in Silesia City Center;

Store rearrangements

- Retailers that have operated in the market for many years are extending and re-shaping their offer, and refurbishing stores by adding some **additional amenities** such as Douglas House of Beauty in Arkadia (Warsaw) or a large Rossmann drugstore with a hairstylist and kidsplay in Poznań City Centre;
- Large **food operators are refurbishing** their stores in order to compete with discounters and supermarkets, and consequently fighting to keep their customers – e.g. Carrefour re-adapted the space in a few hypermarkets to create a more shopper-friendly atmosphere;
- Retailers traditionally operating as **discounters** are investing in **new fit-out** of these stores and more elegant exposure of products (Biedronka);
- Extending and diversifying the offer by rearranging stores and introducing **new product groups** – e.g. Duka, Empik, Mango (HE. by Mango, Mango Kids, H&M Home);



Convenient shopping

- A growing number of **mobile applications** offered to customers by retailers (i.e. Zara, IKEA, Tesco) and shopping centre managers (i.e. Arkadia, Galeria Echo, Galaxy, Blue City) - new innovative ways of supporting customers' decisions and stimulating shopping;
- Additional services of shopping centres to make clients feel more pampered - i.e. concierge services in Dom Mody Klif Warszawa or a personal stylist and shopper in Arkadia shopping centre in Warsaw where Loyalty Card holders are entitled to the free advice of a stylist and assistance in carrying shopping bags;

Upmarket offer

- Premium and luxury brands with high-end offers are becoming more popular as the middle-class has burgeoned and a growing portion of Polish society has been aspiring to and willing to purchase branded goods defined as status symbols;
- Widening pool of iconic up-market brands - with Louis Vuitton, Bottega Venetta, Gucci, Michael Kors and Karen Millen entering the Warsaw market over the last two years;
- Multibrand stores like MM Outlet operate as outlets of high-end brands like Max Mara, Marella, PennyBlack, Pollini, Baldinini, Coccinelle, Furla;
- Yes Prestige, Gatta Premium and Sizeer Premium as new store concepts are examples of satisfying customers' needs for more selective, premium goods;



New stores, new markets

Both 2013 and the beginning of 2014 have brought a stable outlook for the region's economy.

Poland remains one of the strongest retail markets in the CEE region and entices many retail concepts to invest as part of broad-based expansion.

Among operators that develop at the fastest pace are both discount stores (eg. Biedronka, Pepco, KiK, NKD) as well as mass-market operators (eg. Hebe, Rossmann, Media Expert, RTV Euro AGD).

Numerous renowned retailers, especially of the popular fashion & accessories segment, continue their expansion. According to H&M's management, Poland is one of the countries where the company opened the

highest number of stores in 2013 and the potential for new openings is still high. Also Polish brands are strengthening their position (brands of the LPP group, CCC, Redan's brands, Próchnik, Simple, Vistula Group) and recording substantial growth in sales volumes. For instance, in 2013 LPP Group's consolidated sales revenue increased by nearly 30% y-o-y.

Given a favourable combination of market fundamentals such as a well established position in the domestic market, the stable situation and good performance across the country, a number of Polish retailers have started to expand operations abroad. A usual expansion strategy is to first enter the neighbouring and thus familiar markets of Central and Eastern Europe, where consumers have similar shopping habits and experience. Among these explorers are LPP group with Reserved, Cropp, House, Mohito and Sinsay brands, CCC, Redan with Top Secret and Textil Market, Solar, Coccodrillo, Gino Rossi, Dominium Pizza, Ochnik, Inglot.

Examples of Polish retailers with abroad operations

Tenant	Countries/regions of expansion
LPP	Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Russia, Slovakia, Ukraine, United Arab Emirates
SOLAR	Belarus, Belgium, Germany, Iran, Lithuania, Luxemburg, Russia, Slovakia, Ukraine, United Kingdom,
BIG STAR	Belarus, Croatia, Germany, Hungary Lebanon, Slovakia
GATTA	Australia, Croatia, EU, Mongolia, Russia, Ukraine
COCCODRILLO	Austria, Bulgaria, Croatia, Czech Republic, Estonia, Germany, Hungary, Latvia, Lithuania, Romania, Russia, Slovakia, Saudi Arabia, Libya, Azerbaijan
SMYK	Germany, Romania, Russia, Turkey, Ukraine
ORGANIQUE	Belarus, Greece, Germany, Hungary, Italy, Norway, Romania, Russia, Sweden, Ukraine
GRYCAN	Czech Republic
INGLOT	Approx. 50 countries, including Brazil, Chile, China, Singapore, USA etc.
CCC	Austria, Croatia, Czech Republic, Germany, Hungary, Kazakhstan, Latvia, Romania, Russia, Slovakia, Slovenia, Turkey, Ukraine
CEREMONY by Wójcik	Czech Republic, Ukraine, United Kingdom



Newcomers

over
140 brands
entered Polish
market over the
last three years

Strategic decisions on whether to enter a given market have to be supported by an insightful analysis of all respective retail business fundamentals, including the quality of a location and a catchment area, project concept and tenant-mix. Newcomers predominantly start their expansion into new territories from major agglomerations and large Polish cities that feature high levels of purchasing power and are springboards for further steps. Prime retail assets with good track record, established position and loyal customer base are clearly preferred over properties with unstable performing.

For the management of the shopping centres new brands in the project's retail offer, allow to distinguish the scheme from the competition.

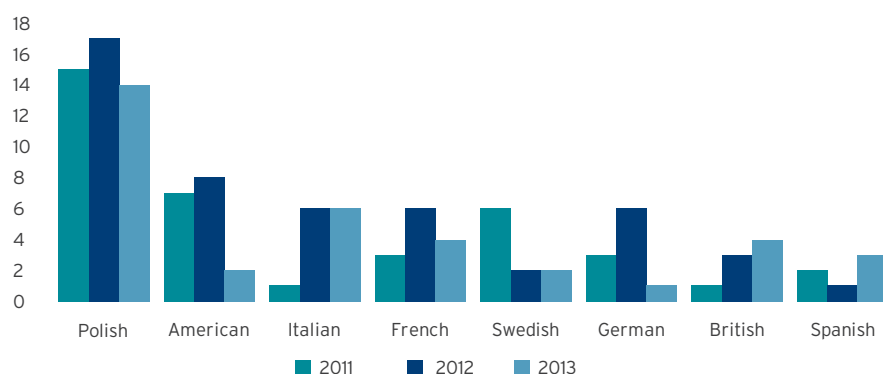
Over the last three years more than 140 new brands started operations in Poland. Not surprisingly, among the most sought-after locations are top tier shopping centres such as Złote Tarasy, Arkadia and Galeria Mokotów in Warsaw, Stary Browar in Poznań, Galeria Krakowska in Kraków, Silesia City Center in Katowice or Galeria Bałtycka in Gdańsk, amongst others. The performance of well-established retail malls was valued more than the physical location. This, however, slightly changed in the second half of 2013 due to the large number of new projects delivered in major agglomerations i.e. Poznań City Center (Poznań), Galeria Katowicka (Katowice) and Centrum Riviera (Gdynia) that created the opportunity to enter the market without having to go through waiting lists to existing shopping malls.

Interestingly, the largest portion of the pool of recently arriving brands belongs to Polish concepts. Many of them are fashion brands, typically selling designer clothes - Kossmann, Mon Amie, Lidia Kalita and Bynamesakke. Frequently, the multi-brand nature of these stores allows operators to mitigate their risk. Brands like answer.com, Harpers Shoes response to the shopping needs of educating customers looking for a wider choice of international brands and higher quality of products. The aforementioned Polish fashion brands are targeted at higher-income customers, both women and men. A growing category within this sector is accessories and jewellery, with brands like Ania Kruk and Brijū. Another popular sector of emerging Polish brands' is leisure and catering - more specifically cafes and restaurants with brands like 7th Street and Loveyo.

The top five countries in terms of the origin of new retailers include the US (Hollister, American Eagle Outfitters, Asics, Bath & Body Works, Michael Kors), Italy (Manila Grace, Original Marines, Ballin, Carpisa, E'Go), France (Celio*, Louis Vuitton, Tape a l'oeil, Jacadi), Sweden (COS, H&M Home, Jula,) and Germany (Karl Lagerfeld Women, Bonita, KiK, Maxi ZOO, NKD).

Well performing Polish chains with established operations, that know the market environment well, decided to introduce some new concepts - examples include Sinsay (a new brand by the LPP Group targeting girls and young women aged 15-24) or Medicine (by Brandbq, the group embracing Answear.com and Reporter as well).

Main origin of new brands entering retail market in Poland



SMYK introduced a large concept of Megastores (around 2,000 sq m) with a wide offer including not only toys but children's clothes, strollers and other equipment as well.

A renowned operator of large furniture stores (Meble Agata) has started to develop an additional segment of the offering - Agata Kids with furniture for children.

Another way of extending the brand is less-risky market test of new lines of products at the e-commerce platform, e.g. Ryłko Dzieciaki.

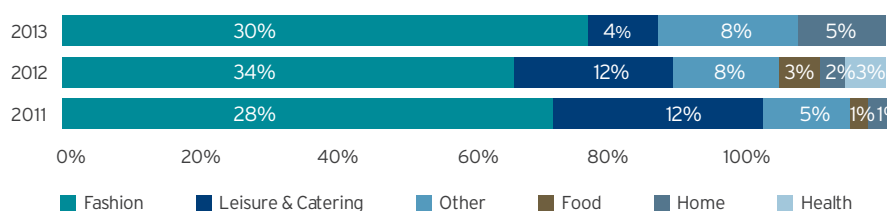
Among the international chains starting their operations in Poland the leading positions take up American brands. GAP, American Eagle, Victoria's Secret, Toys'R'Us, Hollister, Bath & Body Works, Foot Locker. All of these retailers have started to build their presence in Poland from major agglomerations. Prospective newcomers, still assessing the Polish market, include Banana Republic, Debenhams, Urban Outfitters, Primark as well as recently announced Shoe Zone. The market entry is often preceded by testing the strength of potential demand and allowing for online purchase and delivery to Poland or by opening the outlet store (Desigual).

Newcomers typically choose different strategies for market entry. Some of them open flagship stores in prime shopping centres - not always starting from Warsaw. The others make their openings by immediate reach of a strong critical mass of stores such as Sinsay, Kari or Centro. The capital city is usually the first port of call, followed by the other major agglomerations owing to high purchasing power, familiarity of shoppers' behaviours, and a large pool of potential consumers. The East of Poland is showing high potential, however, consumers there are less affluent and focused more on basic goods. In that area retailers concentrate predominantly on Białystok, Lublin and Rzeszów. Some retailers, e.g. Chocollismo, initially started their operations online and then introduced the offer within bricks and mortar shopping centres.

Examples of new entrants to the Polish market over 2012 - Q1 2014

Sector	Brand
FASHION	Agio, American Eagle Outfitters, Armani Jeans, Attr@ttivo, Biju, Carpisa, Celio*, E-Go', H.E. by Mango, Hollister, Joop!, Karl Lagerfeld Women, Karen Milen, Kossmann, Laura Ashley, Louis Vuitton, Manila Grace, Mon Amie, NEO, Only, Original Marines, Rage Age Woman, Sam O-13, Sinsay, SportsDirect, Tape à l'oeil, Victoria's Secret, Zuccastregata
FOOD	Le Roy & Louis
HEALTH & BEAUTY	Bath & Body Works, NYX, Bobbi Brown
OTHER	4Faces, Games Workshop, Helly Hansen, Maxi Zoo, Mountain Warehouse
HOUSEHOLD	F&F Home, H&M Home, Ixina, Tescoma
LEISURE & CATERING	Aroma Espresso Bar, Charley's Philly Steaks, CityFit, La Champagnerie, Leopark Nordsee, Play City, YoYogurt

New brands by sector



Existing retailers' pool

4,100

tenants operate
approx. 16,200 stores
within shopping
centres and retail
parks in 15 major
Polish cities

36%

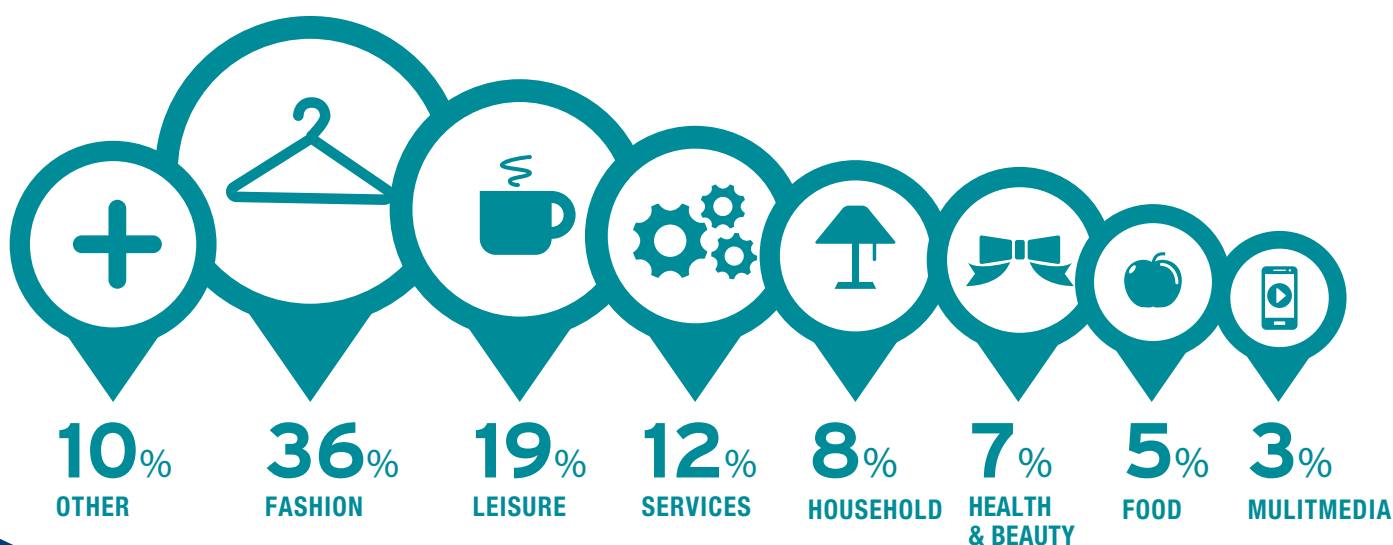
of retailers fall in
fashion category
and almost half of
all operating units
are leased by these
tenants totalling
over 7,600 shops

DTZ estimates that at the end of 2013 there were over 4,100 tenants operating across 15 major Polish cities, with approx. 16,200 stores, within shopping centres and retail parks. Over 2013 nearly 1,200 stores were opened in both newly delivered and enlarged schemes.

The analysis confirms the leading position of the fashion sector in a typical tenant-mix. Over 36% of retail brands fall into this category and almost half of all units are leased by fashion tenants, totalling over 7,600 shops. The leisure and catering sector accounts for almost 20% of the retailer pool, which indicates a paramount role of entertainment amenities in the offer of shopping centres. Moreover, this importance is presumed to grow along with the consolidating trend of the shopping centres evolving gradually into life-style and amusement places, providing - apart from pure shopping possibilities - the additional experience of spending time and entertaining with families or friends in leisure / edutainment centres, restaurants, cafes, cinemas, playgrounds, etc.

Chain retailers - offering 3 or more units under the same brand - account for over 76% of stores. In the multimedia sector the largest number of stores have brands such as Inmedio, RTV Euro AGD and Empik. Leadership in the fashion sector belongs to shoes retailers, which has an 87% share. Among the most popular chains are mass-market brands - CCC, followed by Deichmann, Wojas and Ryłko.

Retail tenants in 15 major Polish cities by sector



Conversely the two sectors - household and leisure & catering - that constitute the highest share of individual entrepreneurs operating under private non-chain brands. Chain operators occupy approx. 50% restaurants and cafes and 60% of food court units.

Over the last couple of years, we have observed a growing role for chain operators in tenants' selection of retail assets, particularly in large and medium-size cities.

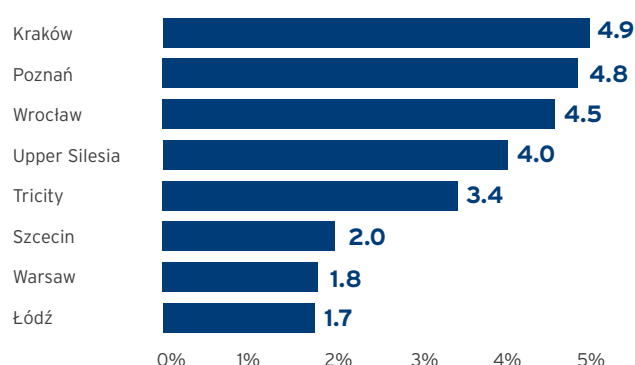
The strong position of international retailers is reflected in the tenant mix of prime retail schemes in Warsaw, even when compared to the highly mature market of London. International brands in the top five shopping centres in Warsaw and London account for 47% and 50%, respectively.

At the end of 2013 the vacancy rates in major agglomeration did not exceed 5%, which reflects a stable situation in the largest retail markets. In fact, in five out of the eight major geographies the ratios span between 2% and 4%.

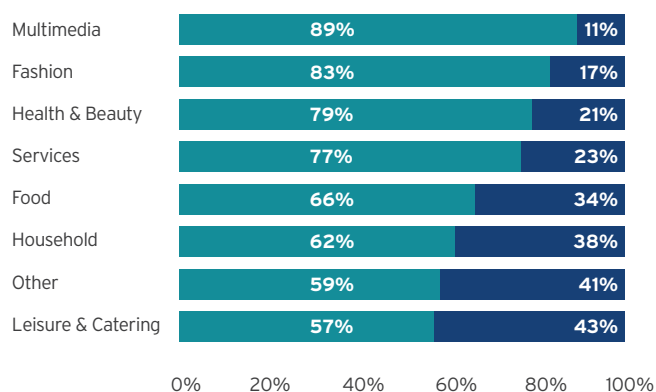
The vacancy levels in secondary cities have a greater disparity, with the lowest ratios recorded in Częstochowa (3%) and Lublin (3.5%).

At the end of 2013 the vacancy rates in major agglomeration did not exceed 5%

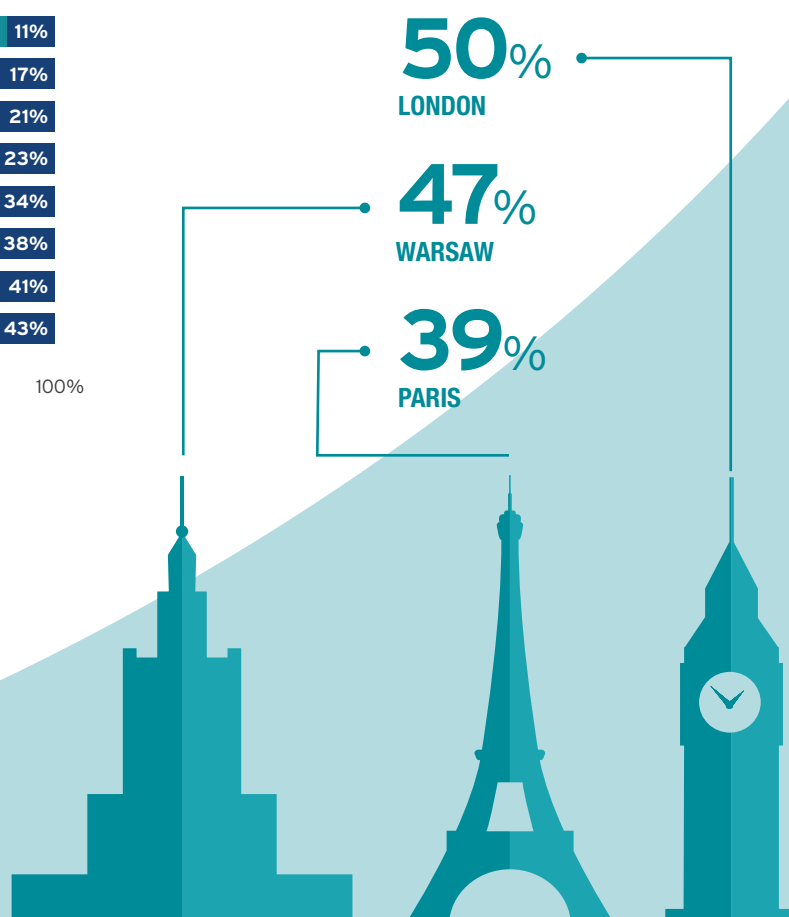
Vacancy rates in major agglomerations, H2 2013



Share of chain tenants in analysed sectors by no. of stores



Share of international retailers in Warsaw, London and Paris (top five shopping centres)



E-commerce

Following the patterns visible in more developed economies, the e-commerce sector in Poland is growing gradually, fuelled by growing familiarisation of the society with new technologies and social media. It is estimated that in 2013 the e-commerce sector transacted approx. 4% of total retail sales volume in Poland, while in the Germany or the UK these figures vary from 10% to 14%. Most popular online sectors are electronics, DIY, home accessories, multimedia and children's products due to lower prices and lack of delivery problems of large electronic appliances.

Grocery e-commerce is a rapidly growing segment, as clients are strongly attracted to the convenience of shopping without visiting bricks & mortar stores. The major retailers - Tesco, Auchan, Alma, Piotr i Paweł and numerous online supermarkets like Fresh24 and Frisco compete by widening their activity range, lowering delivery prices, and expanding product availability. Tesco and E. Leclerc introduced the innovative approach - Click & Collect points - where customers can collect goods purchased and paid online.

The vast majority of brands operating on the Polish market have already launched online sales, including electronics leaders (RTV Euro AGD, Saturn, Media Markt), DIYs (Leroy Merlin, Castorama, Bricoman), furniture & furnishings (Black Red White), fashion anchors (e.g. Zara, Reserved, C&A, Deichmann). Consequently, retailers can reach a wider base of potential customers from the smallest cities where it would not be viable to open physical stores. Multi-channeling distribution allows for intensifying brand presence and awareness on the country-wide scale that may result in higher turnover and better profitability.



Methodology

DTZ has put together information about the existing retailer pool in modern shopping centres and retail parks within the 15 major Polish cities. Among them there are the eight major agglomerations inhabited by over 400,000 people each (Warsaw, Silesia, Tricity, Kraków, Wrocław, Poznań, Łódź and Szczecin agglomerations) and seven further cities with a population numbering between 200,000 and 400,000 - Bydgoszcz, Białystok, Lublin, Toruń, Radom, Częstochowa, Kielce.

Retailers' categories and sectors



Authors:



Patrycja Dzikowska
Associate Director
Consulting & Research
patrycja.dzikowska@dtz.com
+48 22 222 3103 / +48 602 452 549



Agnieszka Stolarczyk
Consultant
Consulting & Research
agnieszka.stolarczyk@dtz.com
+48 22 222 3139 / +48 668 259 424

Contacts:



Alan Colquhoun
Head of Central and Eastern Europe
alan.colquhoun@dtz.com
+48 22 222 31 00 / +48 668 268 103



Kamila Wykrota
Director,
Head of Consulting & Research
kamila.wykrota@dtz.com
+48 22 222 3100 / +48 600 382 322



Renata Kuszniarska
Senior Director,
Head of Retail Agency CEE
renata.kuszniarska@dtz.com
+48 22 222 3070 / +48 606 886 888



Christopher Rasiewicz
Director,
Head of Property Management
christopher.rasiewicz@dtz.com
+48 22 222 3040 / +48 668 268 252



ul. Złota 59
00-120 Warszawa
+48 22 222 3000
info@dtz.pl
www.dtz.com