

GLOBAL EMERGING MARKETS SURVEY

CB RICHARD ELLIS | GLOBAL RETAIL RESEARCH



A SURVEY OF INTERNATIONAL RETAILER ATTITUDES TO EMERGING MARKETS

SUMMARY REPORT

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BACKGROUND

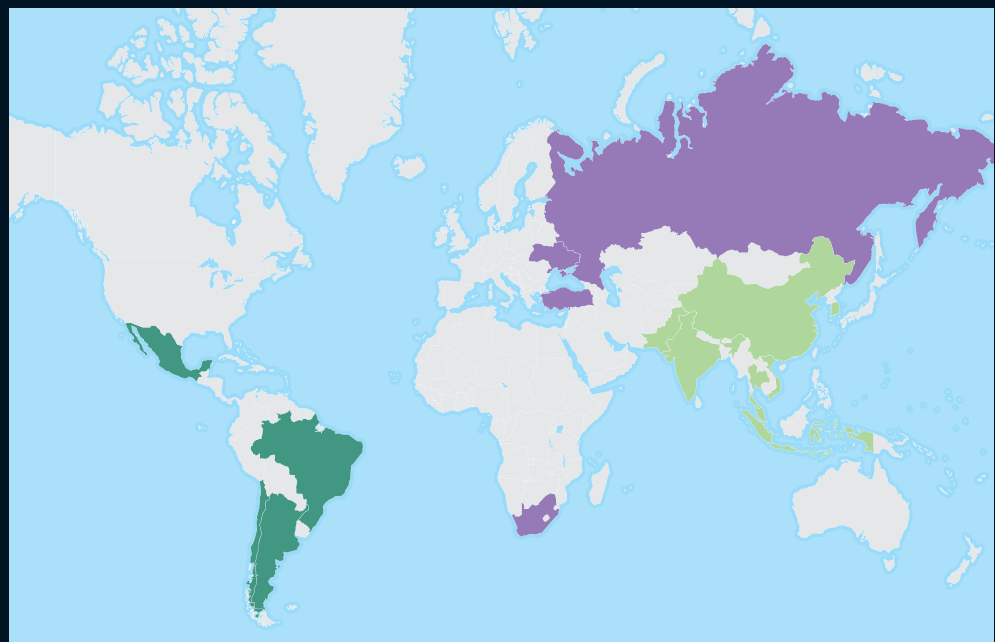
We are committed to improving the understanding of the business of retail, and invest considerable resources in research worldwide. As part of this effort, we have investigated the approach adopted by retailers across the world when expanding into new markets. Some 300 retail companies were analysed between November 2007 and February 2008, representing a global portfolio of 25,000 shops. This research comprised detailed investigations by the CB Richard Ellis Global Research Consulting Team, and an online survey managed by GfK, which was followed by telephone and face to face interviews to probe the attitudes and experiences of senior individuals responsible for setting the retailers' strategies. Responses from the online survey were aggregated to ensure confidentiality. Telephone interviews were conducted in all the major languages.

Respondents from the 300 included:

Aldi	Desigual	Lifestyle Sports
Aldo	Disney Store	Marks & Spencer
Amazing Jake's Food & Fun	Dolce&Gabbana	New Look
Bank of America	East Jean Ltd Taiwan	Palmers Textil
Blitz Megaplex	Giordano	Paperchase
Camãieu	Grupo Pão de Açúcar	Primark
Carrefour	Herringbone	Promod
Comerica Bank	Hugo Boss	Sainsbury's
Cortefiel	Jawad Business Group	Saks Fifth Avenue
Cotton On	Kenneth Cole	Tiffany
Debenhams	Koton	Tous

The research focuses on 16 countries that are among the world's newest destinations for international retailers:

Argentina	Malaysia	Thailand
Brazil	Mexico	Turkey
Chile	Pakistan	Ukraine
China	Russia	Vietnam
India	South Africa	
Indonesia	South Korea	



Emerging markets hold the key to retailers' future growth, but are a challenging environment in which to do business. Retailers developing their expansion strategies will in future benefit from the Global Emerging Markets Survey (GEMS), our collected insight on how to select markets, identify partners and set up new operations in these countries. We hope that by making the expansion process more transparent, GEMS will encourage retailers to venture into new markets and profit from the growth opportunities they offer.

Interest in emerging markets is growing fast. They comprise over half the world's population and are experiencing significant levels of growth. While they have traditionally been the risky investment, their economies are maturing structurally and in many cases are now far more financially and politically stable. Rules on foreign investment in these countries are being relaxed, making it easier to participate in their growth.

Retailers are rapidly focusing their attention on emerging markets. This process is being fuelled by the fast growth of consumer spending and the 'emerging middle class' that these countries offer. Our recent report, *How Global is the Business of Retail*, showed how Russia and China both now feature in the top 10 of countries in which cross-border retailers are most likely to be present.

To support our clients as they expand, we established a process of sharing global opinion and knowledge on the world's emerging retail destinations, and in particular the 16 markets featured opposite. We have invested substantial resource from across our organisation into a process of surveys and interviews – the Global Emerging Markets Survey (GEMS) – which incorporates first hand insight into the views of over 300 leading retailers.

Emerging markets offer rich opportunities, but also present their own unique set of challenges. GEMS investigated what retailers should consider when they choose to expand, how they need to adapt and the best ways of doing business in such markets. It establishes:

- The fact that emerging markets will drive future turnover growth for international retailers
- How India, Ukraine, Russia and Malaysia are the most sought after markets
- Why real estate is the most important operational issue to consider when entering an emerging market

THE FUTURE OF EMERGING MARKETS

- **Retailers increasingly see the appeal of international expansion.** Almost three quarters of retailers that have not yet opened outside their domestic market are considering doing so over the next three years. Factors that have historically been seen as barriers to entry, such as economic instability and limits on foreign ownership, are now falling away.
- **Emerging markets will drive turnover growth for international retailers.** Retailers confirmed this view, with 40 per cent seeing emerging markets as their main source of growth in turnover over the next five years.

'EMERGING MARKETS': A QUESTION OF PERSPECTIVE

Use of the term 'emerging market' within GEMS needs explanation, as there is no accepted definition. Generally, it refers to countries where

- Population, wealth and the economy are all developing rapidly
- Health, education, adult literacy, nutrition and exports of services are growing
- The relative importance of agriculture to the economy is falling

The phrase needs to be treated with caution when referring to retail markets. Here its use is associated with a rapid growth in the presence of international retailers. An 'emerging market' may have successful retailers within its home region, but be a new destination for entrants from overseas.

Retailers in Asia, for example, expressed surprise that we had classified South Korea as emerging. Similarly, Argentina and Chile have a long-established pedigree of domestic retailers and shopping centres, but have a low penetration of international retailers.

COTTON ON: WATCHING THE MARKETS

Cotton On is a young fashion clothing retailer with 300 stores in Australia, New Zealand and Singapore

“We prioritise new markets according to set key criteria, each of which is fundamental to our success. These include economic and political stability, the safety of our workforce, and how well the culture matches our concept. We do consider operational issues such as the distance from our home market, but we think long term and know investment in distant countries is essential for our growth. For example, Brazil is a long way from our home market, but has massive potential and no shortage of real estate.

Unlike luxury brands, we are a high volume retailer, therefore cannot risk being a pioneer in an emerging market. We need to see evidence of fashion being a middle class phenomenon, as we now see in India; in slightly more developed markets such as South Korea, we need evidence of a growing lifestyle sympathetic to the values of Cotton On.

We monitor our competitors’ activity in emerging markets; this is more important than in our home markets Australia and New Zealand. It’s not just about which competitors are entering, but also how they enter. We tend to prioritise markets where we can go alone, so watch with interest when other retailers choose joint ventures or wholesaling arrangements, such as in Indonesia and South Africa.”

THE MOST SOUGHT AFTER DESTINATIONS

- **India, Ukraine, Russia and Malaysia are the most sought after markets.** Over a quarter of the retailers surveyed have opened their first store in India within the last year or are planning to do so imminently. Foreign ownership rules are gradually being relaxed, and the size of its market relative to its low volume of multiple retailers makes for a compelling opportunity.
- **Retailers’ level of interest in specific markets varies according to their product sector and country of origin.** South Africa is currently the most important emerging market for retailers from Asia-Pacific. Retailers from the Americas prioritise Turkey more than other individual markets. India is no longer top priority for clothing retailers, who are now targeting Ukraine and Malaysia.
- **China, Thailand and Malaysia represent a compelling opportunity. 19 out of 20 retailers who first consider these markets later choose to open stores.** These nations are seen as relatively stable and uncorrupt but still with sufficient latent consumer demand.
- **While retailers regularly shortlist Pakistan, Chile and Vietnam, these plans are often rejected.** Pakistan is seen as well located for a retailer already operating out of India, but is also seen as economically unstable, corrupt and lacking in transparency. Chile is perceived as an easy market in which to do business, but boasts strong domestic competition. Restrictions on foreign domestic investment in Vietnam discourage new entrants, despite its high anticipated spending growth and manufacturing base.

REGIONAL AND COUNTRY PREFERENCES

- **International retailers prioritise Asia over the Americas.** Most international retailers are based in Europe. Once they are operating a pan-European business they face the choice of expansion in Asia or the Americas. Asia is preferred by most, as it is usually closer to the point of manufacture and is also seen to be a less competitive retail environment.
- **Latin America and Russia have a better cultural fit with the offer of western retailers than South East Asia.** This is important, as our findings show that retailers are unwilling to adapt their retail environments for new markets. Latin America also scores strongly over South East Asia in terms of its real estate transparency, lower perceived levels of corruption and fewer restrictions on foreign ownership.
- **The activity of competitors is one of the main influences of retailer decision making.** In some cases, retailers are attracted to a market knowing they will trade next to similar international names. Equally, some retailers prefer to avoid trading alongside direct competitors or in markets that already have a high penetration of global retailers.

“THE QUALITY OF REAL ESTATE IS THE MOST IMPORTANT ISSUE FOR A RETAILER TO CONSIDER WHEN PREPARING TO ENTER AN EMERGING MARKET”

Active markets

Most active among Asia Pacific retailers

1	South Africa
2	Malaysia
3	Turkey
4	Russia
5	Ukraine

Most active among Americas retailers

1	Turkey
2	Mexico
3	South Korea
4	South Africa
5	India

Most active among Europe, Middle East and Africa retailers

1	India
2	Ukraine
3	Russia
4	Malaysia
5	Thailand

Rank	Country		
1	India	27%	Most active
2	Ukraine	24%	
3	Russia	22%	
4	Malaysia	19%	
5	Turkey	15%	
6	South Africa	13%	
7	Thailand	12%	
8	China	11%	
9	Mexico	10%	
10	Indonesia	8%	
11	Pakistan	6%	
12	Vietnam	6%	
13	South Korea	6%	
14	Brazil	6%	
15	Chile	2%	
16	Argentina	2%	Least active

Most active among department stores

1	India
2	Ukraine
3	China
4	Russia
5	Malaysia

Most active among clothing retailers

1	Ukraine
2	Malaysia
3	Russia
4	India
5	Thailand

Most active among luxury goods retailers

1	India
2	Brazil
3	Turkey
4	Mexico
5	Russia

Proportion of respondents that are actively looking in each market or first opened there in 2007



ABOVE The growing popularity of Ukraine Fashion Week parallels the importance of the country to international clothing retailers.

COSTCO: ADAPTING TO THE LOCAL MARKETS

Costco is a US-based chain of over 500 membership warehouse clubs, trading in the US, Canada, the UK, Taiwan, Korea, Japan and Mexico

“Our business model is dependent upon the internal configuration of our real estate, with steel racking and concrete floors. But we can compromise on the external appearance: for example, in January we opened a building whose sales floor was constructed entirely underground in Ilsan, an affluent district of Seoul. We certainly don’t expect to equip our stores with bomb shelters, which until recently was a planning requirement of our Taiwanese units. However, we successfully managed to integrate these into our car parks to the satisfaction of local cities and authorities.

Our Korean venture is one of our most successful, and growing fast. The winning angle has been creating an international/American theme as a selling point against the competition – in other words, adapting less than we expected. Our signs still say “Costco,” “Bakery” and “Delicatessen” in the Latin alphabet and not in Korean hangul. Adapting the product to fit the local market isn’t always logical. For example, we knew that in rice-loving Korea, cheese, bread and tomatoes wouldn’t be big sellers. So we weren’t expecting to sell more pizzas per customer than in any other international market. Working to the local seasons is also important: for example, mooncakes are a big seller in Asian markets during Moon Festival.”

THE IMPORTANCE OF REAL ESTATE

Top operational factors for retailers looking at emerging markets

- 1 The quality and range of real estate opportunities
- 2 Presence of franchise and joint venture partners
- 3 Quality information on the retail sector, such as spend and demographics

SOURCE GEMS

REAL ESTATE IS CRUCIAL

- **Retailers stick to their preferred real estate format.** Some prefer shopping centres, others like large standalone units – but four out of five say that they may decide not to enter a market if their preferred format is not available.
- **The quality of real estate is the most important issue for a retailer to consider when preparing to enter an emerging market.** In fact, 56 per cent of retailers base their entry into an emerging market on the availability of suitable property, compared to 46 per cent in developed markets.

DOING BUSINESS IN EMERGING MARKETS

- **Concerns about corruption are more of an issue in emerging markets than other markets in which retailers are present.** While some retailers have experienced outright corruption, in other cases a lack of transparency leads retailers to suspect that corruption exists. In many cases bribes are considered avoidable, if a retailer is willing to work proactively with authorities.
- **Emerging markets could do more to attract international retailers.** While many countries have made positive moves, it is vital that all key barriers to entry are addressed. For example, retailers favour South Korea for its income and property tax incentives, but can be put off by its controls on foreign ownership. Mexico has the most free trade agreements of any country worldwide, but suffers from moderately high import taxes.

THE BENEFITS OF FRANCHISING

- **The franchise model enables retailers to penetrate a market rapidly.** This is the most important reason for retailers to find franchise or joint venture partners, often enabling them to take advantage of a window of opportunity to establish market share without competition. Partners are also asked to assume much of the perceived risk in doing business in emerging markets.
- **Two thirds of retailers that have used franchise partners in emerging markets are happy with the performance of these partners.** However, many retailers are concerned that a poorly operated business overseas will damage their brand, so prefer to retain a level of control. This particularly applies to finding real estate in emerging markets, where 54 per cent of franchisors remain involved.

GEMS was conducted against the backdrop of the unfolding credit squeeze of late 2007 and early 2008. With the majority of western economies facing at best a slowdown, the contrast with emerging markets could not be clearer. Emerging markets in every region appear set for a period of sustained economic growth over the next five to ten years. Crucially, this growth is accompanied by greater transparency and maturity – of their economies, their property markets and their retail structure. The dynamism and excitement surrounding the retail environment in these countries appears set to accelerate, driving a new round of expansion by the world’s leading international retailers.



ABOVE The presence of suitable real estate has a huge impact on retailer decision making. Patio Bullrich shopping centre, Recoleta, Buenos Aires, Argentina.

ALDO: WHY WE LIKE EMERGING MARKETS

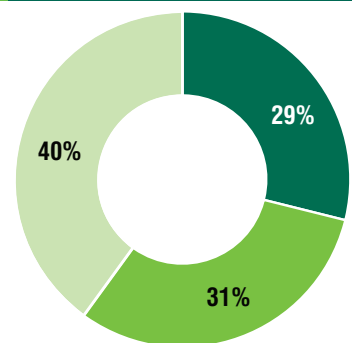
The ALDO Group is a leading global footwear and accessories retailer with approximately 1,300 stores in over 35 countries across North America, Europe, the Middle-East, Africa, Asia, Australia and South America.

“Compared to a developed market, where real estate is often more difficult to access, emerging markets present an opportunity for a newly entering brand to more quickly roll-out stores and develop market share. Often these markets possess characteristics such as new malls opening at a rapid pace and lower key money than those comparably found on high streets in more developed countries. We like to participate in the formation of the retail landscape. In addition, consumption is rising in these markets and customers are demanding more fashionable products which suits our concept very well. The level of inherent market share held by existing local competition is usually also lower.”

“WE LIKE TO PARTICIPATE IN THE FORMATION OF THE RETAIL LANDSCAPE.”

ALDO

Where retailers see their main growth in turnover to 2012



- Home country
- Developed countries
- Emerging markets

SOURCE GEMS

CONTACTS

Across the world, retailers are breaking free of their traditional boundaries, exploring new markets and new territories. The need to understand the potential of these markets – and how to exploit the opportunities they offer – has never been greater. Identifying a gap in the market is one thing, but knowing how to access that country and operate in it successfully is another.

No one understands this challenge better than the CB Richard Ellis Retail Research Team. With over 450 skilled researchers in 300 offices across the globe, we are perfectly placed to work with retailers, investors and developers to identify and act upon new opportunities in the retail sector. *Global Emerging Markets Survey* is part of a regular series of our research publications.

By combining the expertise of our research, consultancy and transaction teams, we are able to provide insight into retail opportunities at any level. Whether you are interested in the characteristics of different national retail markets, analysis of specific city regions or evaluations of detailed trading locations, we can help.

Our recognised skill in retail, married with our global research capability, makes us a powerful partner for all those involved in the business of retail. We welcome the opportunity to talk to you.

Please contact us for a copy of the full report, or others produced by the CB Richard Ellis Retail Research Team.

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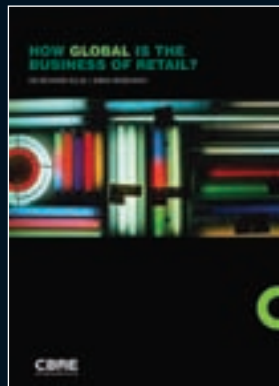
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CB Richard Ellis is proud to be a founder and co-sponsor of the World Retail Congress (WRC), the global platform for retailers to debate the critical issues facing the industry today.



CB Richard Ellis partners with the International Council of Shopping Centres (ICSC) in supporting the professional development of the retail property sector.