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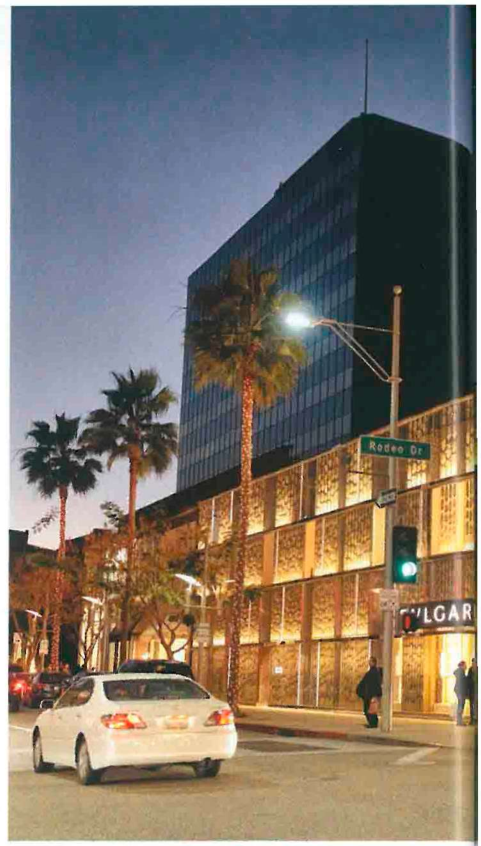

RETAIL

ALL THE WORLD'S A STAGE

Retailers with international ambitions need to adapt to local needs

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Internationalisation among retail occupiers is anything but a new phenomenon. The likes of H&M and Zara are common sights on high streets the world over, while IKEA sheds are an equally omnipresent force out-of-town. However, global retail markets are anything but homogeneous, and the path to international growth is not necessarily paved with gold. Many retailers have successfully made the global transition, others are just starting out in their endeavours. Some retailers are still licking their wounds in the wake of ill-advised or poorly executed overseas forays.

The rewards of successful internationalisation are substantial, but the risks are also manifold. Real estate markets play a fundamental role in the globalisation process and are often the tipping point between success and failure.

THE OCCUPIER RATIONALE

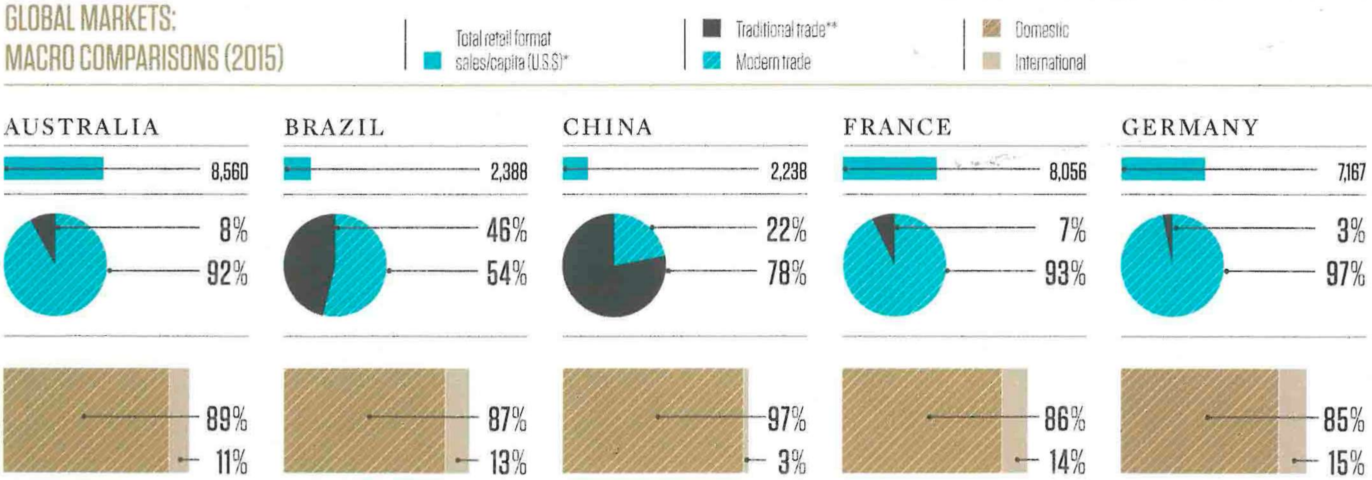
The attraction of internationalisation for retailers is simple: growth. Domestic opportunities may be limited due to market saturation, excessive competition or regulatory issues, such as restrictions on market share. International retail markets may also be on a far higher growth trajectory, while at the same time offering the win-win scenario of being less competitive. This is particularly true for retailers expanding from mature to emerging markets.

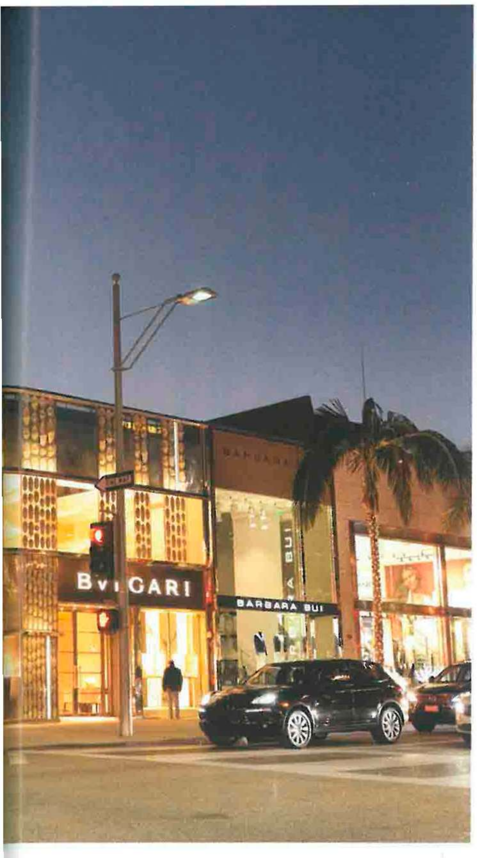
THE OCCUPIER OPTIONS

A retailer with international aspirations has four key options for market entry:

- Organic expansion
- Acquisition of a local operator
- Collaboration with a local player
- Franchising

GLOBAL MARKETS: MACRO COMPARISONS (2015)





Rodeo Drive, Los Angeles, U.S.

There is a direct correlation between the level of risk and potential reward. The financial returns of organic expansion are potentially the highest, but there are also significant downside risks. Organic expansion tends to be a slow, piecemeal process and the lead time to break even can be a long one. At the other end of the spectrum, franchising is a far lower-risk option, but the returns are usually less attractive. The 'middle' options offer a more balanced risk-reward profile, drawing on the know-how and experience of a local operator familiar with the market.

THE PITFALLS

The most common failing by far is an inability to understand and adapt to the local marketplace. Aborted international ventures invariably stem from a retailer rigidly trying to impose its domestic values on its new market, rather than tailor its proposition to meet local demands. Globalisation also brings greater exposure to more volatile economies, with those offering the highest growth often those also with the highest level of uncertainty. Currency fluctuations are another inherent risk, as many U.S. retailers are currently experiencing. Any hard earned growth achieved by international markets can be rendered negative by unfavourable exchange rates.

IMPLICATIONS FOR REAL ESTATE MARKETS

Internationalisation is undoubtedly a force for good for real estate markets on a number of counts.

> "SOME RETAILERS ARE STILL LICKING THEIR WOUNDS AFTER ILL-ADVISED OVERSEAS FORAYS"

Many internationalising retailers are cash rich multinationals, able to pay a rent with solid covenant strength. The arrival of new entrants from abroad also brings a series of holistic benefits. By bringing a sense of diversity, they lay down a competitive gauntlet, which gives an impetus to existing retailers to upgrade their own propositions in response. International brands also have a multiplier effect: where high profile brands venture, others tend to follow. Particularly in emerging markets, a major international retailer can give a scheme credibility and put it on a wider radar screen – among consumers, other retailers and would-be investors. In short, an internationalising retailer is a catalyst for positive change generally – and positive change is invariably a stimulus to rental and capital value growth.

WHAT REAL ESTATE MARKETS CAN DO

Real estate markets can be far more proactive in fostering retailer internationalisation. On the one hand, there is an onus to supply the right property stock, where possible through purpose-built facilities. Traditional stock is often dated, too small or ill-configured for modern-day retailing needs. This issue transcends both emerging and supposedly mature markets – for example, the prime retail pitch in central London (Oxford Street/Regent Street/Bond Street) is no exception and many units are heavily compromised.

On the other hand, the real estate community has a wider role to play, principally by providing transparency and market guidance. Few internationalising retailers will have had first hand experience of local property practices and idiosyncrasies. Lease terms can differ radically from one market to another. Many internationalising retailers are also guilty of having a very blinkered view of a market, often failing to look beyond the prime pitch of the capital city. Attractive and lucrative as these locations may be, there could be far greater potential at lower cost in provincial towns and cities. Retailers may need educating about these opportunities and the property market has much to gain by providing it.

Source: Planet Retail, Knight Frank Research

* Retail sales per capita is a comparable form of spending power

** 'Modern' versus 'Traditional' compares the structure of the local retail market. Modern includes unit shops, shopping centres, and online. Traditional includes market stalls and bazaars.