

RETAIL RECAP #1

CONQUERING THE FRENCH MARKET

LOOKING BACK ON FIVE YEARS OF NEW
INTERNATIONAL RETAILERS IN FRANCE

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France has always been a favoured destination for international retailers.

These play a crucial role in the French retail market. **Some are remarkable not only for their large networks of stores, but for the influence they have on French shopping habits.** Since the early 1990s the fashion sector has been deeply transformed by successive waves of fast-fashion giants. But other sectors have also been affected. Several global leaders have left their mark on the French market in sectors as diverse as cosmetics, restaurants, sporting goods and interior décor.

The flow of new retailers is not about to dry up. **Over the past five years¹ 225 new international retailers have arrived in France.** Some of the most successful are Basic-Fit, Flying Tiger, Sostrene Grene and Rituals, which have contributed to the vitality of the French market. **These 225 new retailers currently account for more than one thousand stores** across France.

Although such figures are by no means insignificant, closer analysis reveals several important differences between the current wave of newcomers and previous ones. Openings and closings have accelerated, and expansion is not as steady or consistent as before.

France is still an attractive destination. The problem lies mainly in the significant changes that the retail sector has undergone. Retailers now develop more prudently, or they curtail expansion. They have not only seen other retailers get burned, but also must increasingly contend with numerous structural factors. **The brick-and-mortar store opened on a long-term basis has become just one of many options available to brands for testing new markets.** Pop-up stores, shop-in-shops, dedicated e-shops, etc. provide a wide variety of formats used by retailers to optimise their marketing and adapt their product offers to local market conditions.

The rapid development of online shopping is undoubtedly the most decisive factor. In certain business sectors it provides flexibility for retailers, allowing them to fine-tune their network of sales points and to place their physical stores in the most strategic and profitable locations.

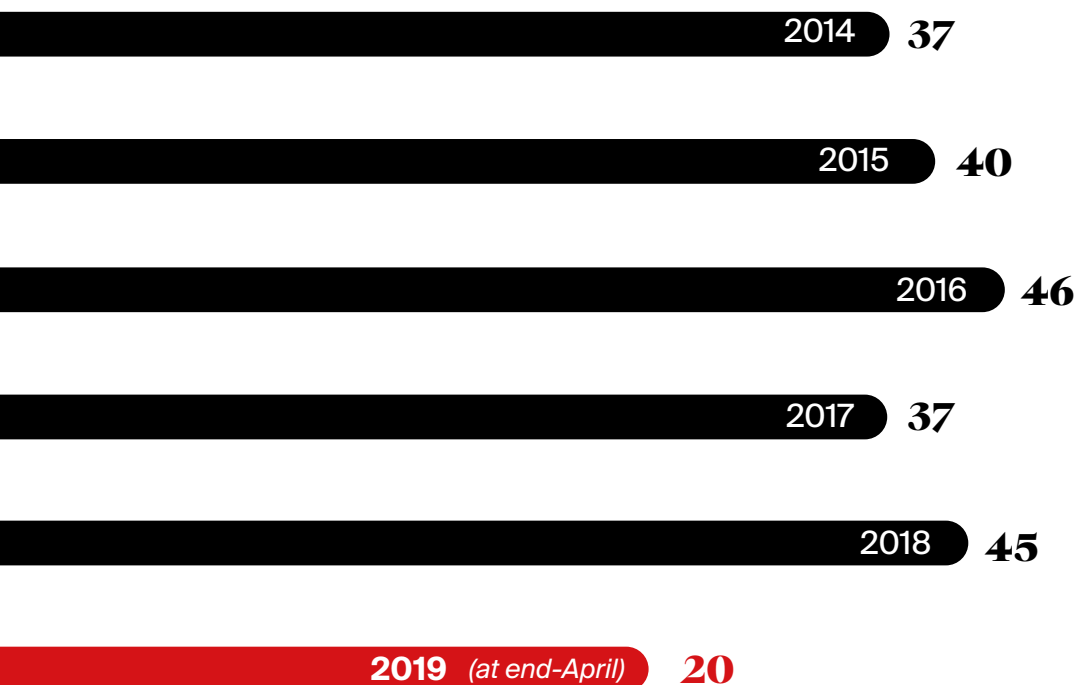
What are the defining qualities of the international retailers which have set up operations in France over the past five years? Which have expanded the most, and how did they choose their formats and locations? Compared with prior waves of new retailers, how does this latest one compare? These are just a few of the questions Knight Frank raises in this first issue of ***Retail Recap*, a new series of illustrated reports which provide an overview of change in the retail sector and its impact on the French property market.**

¹ International retailers which have opened their first sales point in France since 2014.
Includes all retail formats except corners in department stores and pop-up stores.

40 new retailers every year

Annual change in number of new international retailers in France

Source: Knight Frank, data at end-April 2019



225 new international retailers have arrived in France since the beginning of 2014, an average of more than 40 per year. In 2018, 45 international retailers opened their first store in France. Some of them (e.g. Lovisa, Snipes) have ambitious development plans.

The flow of newcomers is expected to remain strong in 2019, with no fewer than twenty already recorded. Eataly, a new concept store for Italian gourmet food has opened in Le Marais, and Icicle, whose future flagship at 35 avenue George V will be the first opened by the Chinese retailer outside its home country.

At a time when many retailers are putting a brake on expansion and lowering ambitions, the contribution of these new international retailers is significant. **The 225 international retailers which have arrived in France since 2014 have opened more than 1,000 stores.**

1,010 Total number of stores opened by the **225 international retailers** which have arrived in France since the beginning of 2014.

Basic-fit far ahead

Although 225 foreign retailers have arrived in France over the past five years, **64% have only one store** while only 14% have opened more than five.

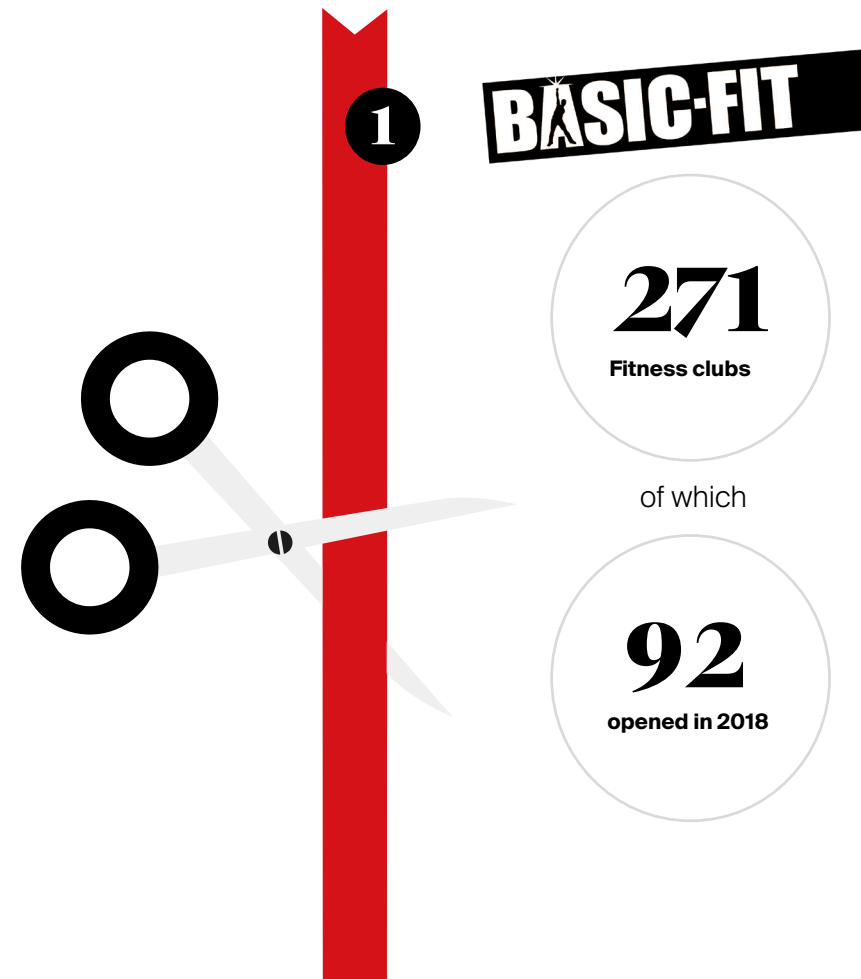
Of these 14%, **five retailers stand out from the pack and account for 46% of all openings**: Basic-Fit, Flying Tiger, Sostrene Grene, Rituals and Punt Roma.

In France since 2014, **Basic-Fit is the undisputed leader**, with 92 openings in 2018 and nearly 20 in Q1 2019, for a total of **271 fitness clubs**. It has succeeded in the fast-growing fitness market, which has also seen the rapid development of numerous French fitness chains (L'Orange Bleue, Keep Cool, Gigafit, Neoness etc.).

The spectacular growth of Basic-Fit echoes that of Dutch discount chain Action, which first arrived in France in 2012. Today it has nearly 450 stores (89 opened last year), making France its largest market worldwide.

TOP 5

Top 5 new international retailers with the largest numbers of stores opened in France since 2014



3



2

flying tiger
copenhagen

4



5

PUNT ROMA

Next come two Danish retailers (Flying Tiger and Sostrene Grene) and another Dutch retailer (Rituals).

Since arriving in France, these retailers have opened between 40 and 60 stores each. They continue to expand their networks, with recent openings of Rituals in the Beaugrenelle shopping centre, Sostrene Grene at 8-10 rue de Rivoli in Paris, Flying Tiger at 15 rue Saint-Rome in Toulouse, etc.

Other retailers may have arrived more recently, but they too are growing rapidly. Take Takko, for instance, a heavyweight in the German clothing market, or Muy Mucho, in France since 2017. This Spanish interior décor retailer has opened numerous franchises, and is aiming to have more than 60 stores in France by the end of 2019.



France – Italy: a special relationship

There are numerous reasons for the significant footprint of Italian retailers in France. Geographically and culturally close to France, and well-known for its savoir-faire in food, fashion and luxury goods, Italy...

...for many years has provided a constant flow of newcomers. Benetton opened its first store outside Italy in Paris in 1969, and a decade ago several other major players (Calzedonia, Kiko, etc.) came to France.

This Italian presence has grown since 2014. The majority of new retailers are in the clothing sector and positioned mainly in the luxury/high-end segment (Twinset, Forte Forte, Herno, etc.).

Italy also stands out in the food sector, e.g. Old Wild West and Eataly, whose arrival in Le Marais was eagerly anticipated.

The North Americans are also key players in the French restaurant market. With nearly 1,500 outlets, McDonald's is one of the uncontested leaders. In 2016, more excitement came with the opening of the first Five Guys in France, at Bercy Village. The chain then opened its largest outlet in the world on the Champs-Élysées.

Large American fashion retailers have also appeared regularly, though in recent years they have experienced setbacks. Several key players (Banana Republic, Forever 21, etc.) have disappeared from the French scene, while others (Gap, Hollister, etc.) have put expansion plans on hold.

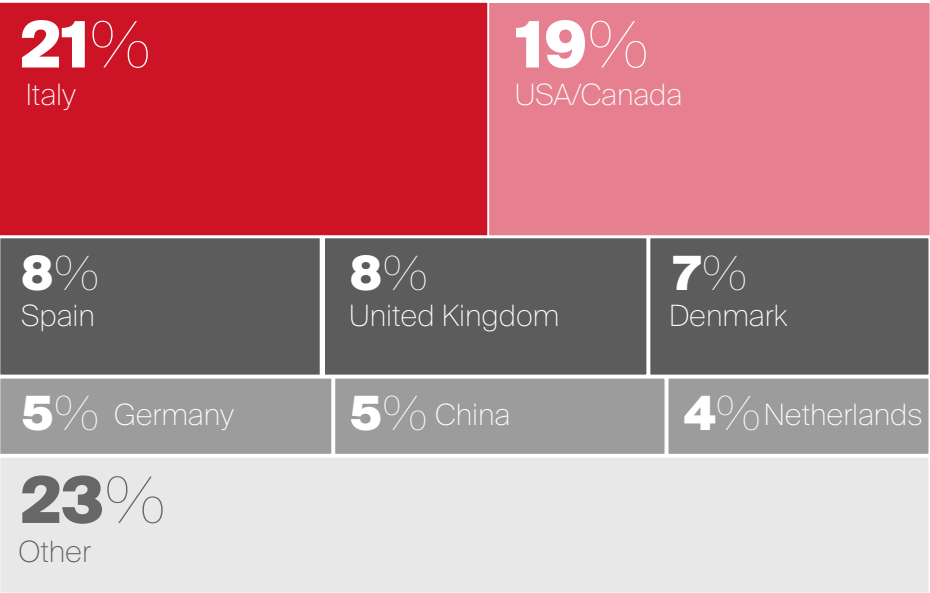
The Danish and Dutch are overly represented because of the success of four retailers: Basic-Fit, Rituals, Sostrene Grene and Flying Tiger, which alone account for 42% of the total number of stores opened by new foreign retailers in France since 2014.

Finally, the Asian retailers (Chinese, Japanese and Korean) are relatively discreet. They are nonetheless well-known in the fashion, cosmetics and (naturally) tech sectors, e.g. Xiaomi and Huawei, which will open its flagship at 9 boulevard des Capucines in Paris at the end of 2019.

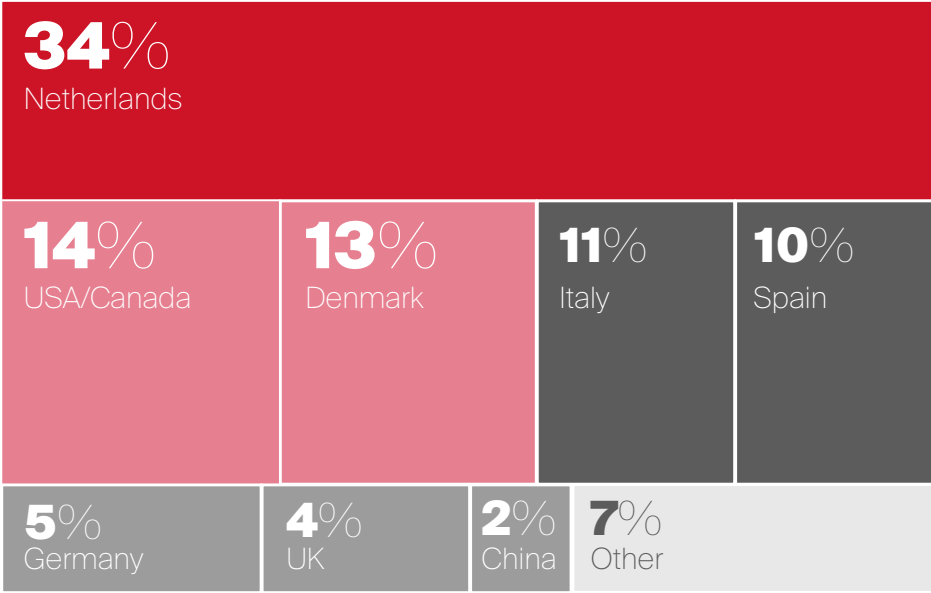
**By country of origin
of new international retailers in France since 2014**

Source: Knight Frank, data at end-April 2019

Number of new retailers



Number of stores



Expansion at a more moderate pace?

The 225 international retailers which have arrived in France since 2014 currently have just over 1,000 stores. The numbers may be significant, **but how can we really measure the importance of this wave of new retailers in the French retail market?** One way is to compare it with the previous five-year period, an exercise which places in perspective the extent of operations since 2014.

Of the retailers which arrived between 2008 and 2013, nine today have a network of more than 50 stores. Five of the nine – Action, Kiko, Calzedonia, Superdry and Pandora – total more than 1,000 stores in France. With rare exceptions, **retailers which have arrived since 2014 are not expected to grow at this scale.** Several of them have already slowed their expansion or begun to close stores, while 10% have left the country altogether or opted for another retail format for the development of their business in France (e.g. corners in department stores, multi-brand stores).

The appeal of the French market has not diminished. Although the pace of openings appears to have slowed, this is attributable mainly to **structural changes in retail which generally incite retailers to proceed with caution** and opt for alternative formats.

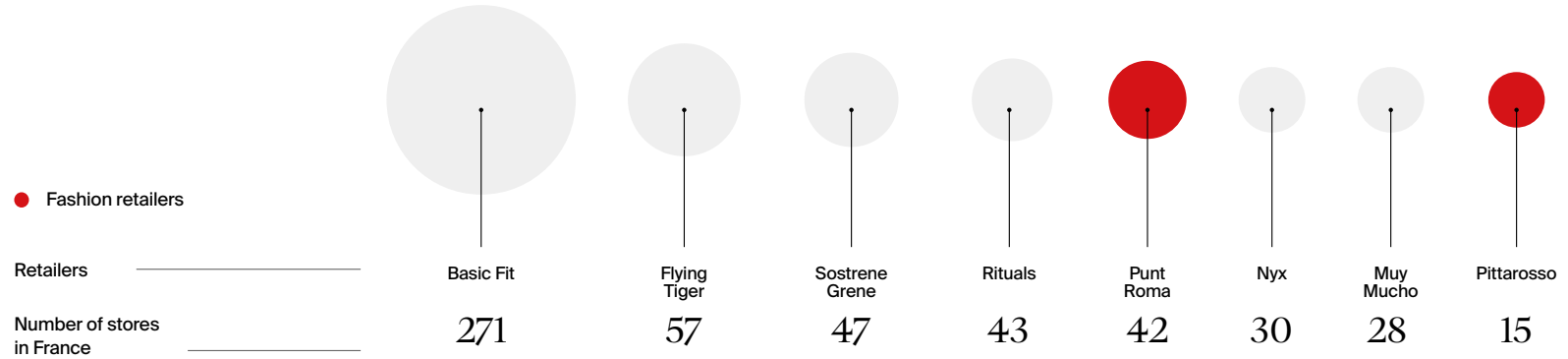
Slower retail business may partly explain the slowdown. The fashion sector has been particularly hard hit – the very sector that traditionally provides the largest number of newcomers. Other factors have played an important role. The **increase in retail and marketing formats** (popup and concept stores, collaborations, shop-in-shops, dedicated e-shops, etc.) has resulted in making **long-term, brick-and-mortar stores but one option among many available to brands for testing new markets.**

Online growth is by far the most decisive factor. In certain sectors, online sales allow retailers to limit the number of stores and focus on developing the most profitable, busy and visible locations.

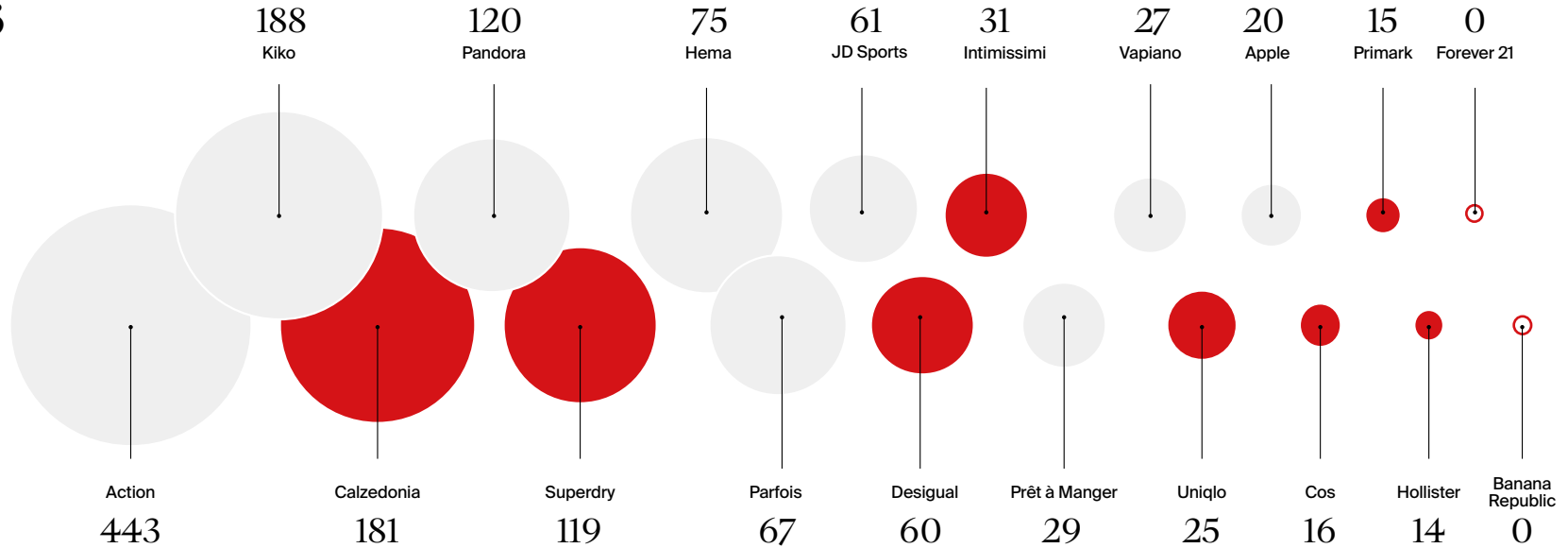
Period 2014-2019

Examples of significant newcomers

Sources: retailers/Codata (excl. pop-up stores and department stores)



2008-2013



Bienvenue à Paris!

Unsurprisingly, 62% of new international retailers in France since 2014 chose Paris for the opening of their first store.

The heart of the richest, most populated region in France, Paris is also (with London) the most visited city in Europe. The city gives retailers **unrivalled access to millions of foreign consumers**.

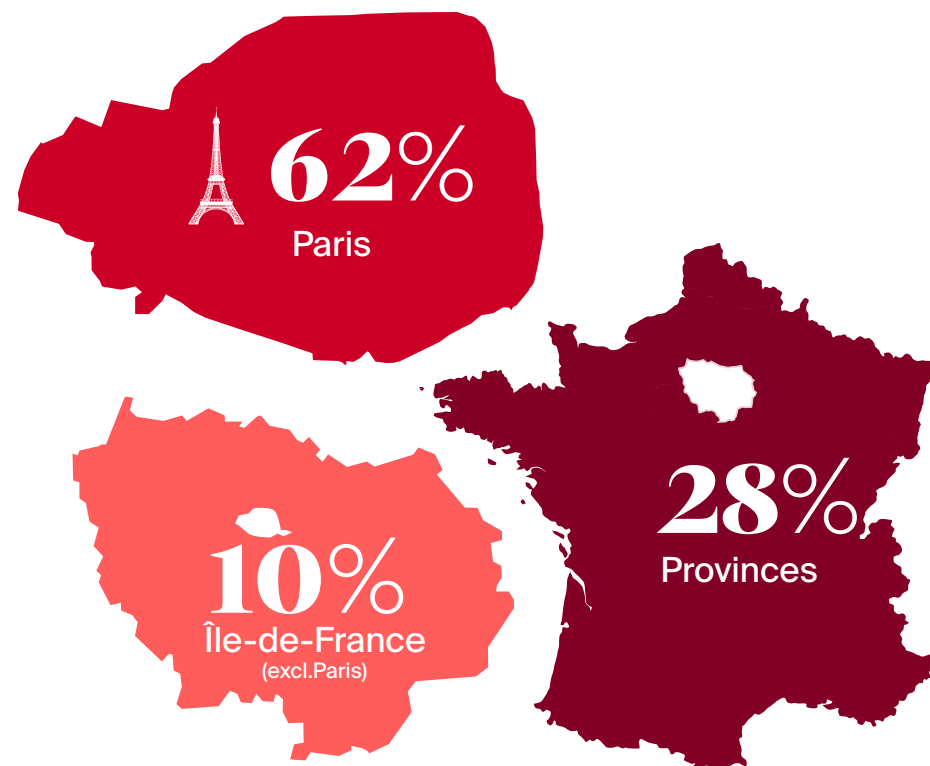
Paris is especially attractive to luxury and high-end retailers. These focus almost exclusively on Paris for their first opening in France before deciding whether to open in one or more other regions.

For other market sectors, Paris is not necessarily the first choice. Before 2014, Primark launched its conquest of the French market in Marseille, while Kiko partnered with Klépierre to open in rapid succession Val d'Europe (Serris), Belle Épine (Thiais) and Millénaire (Aubervilliers).

This trend has been confirmed in recent years. Of the Top 5 retailers which have arrived in France since 2014, and which today account for the largest number of stores, only Rituals chose Paris for its first opening. The others launched their first stores in Île-de-France (Basic-Fit, Sostrene Grene) or the provinces (Flying Tiger in Nice).

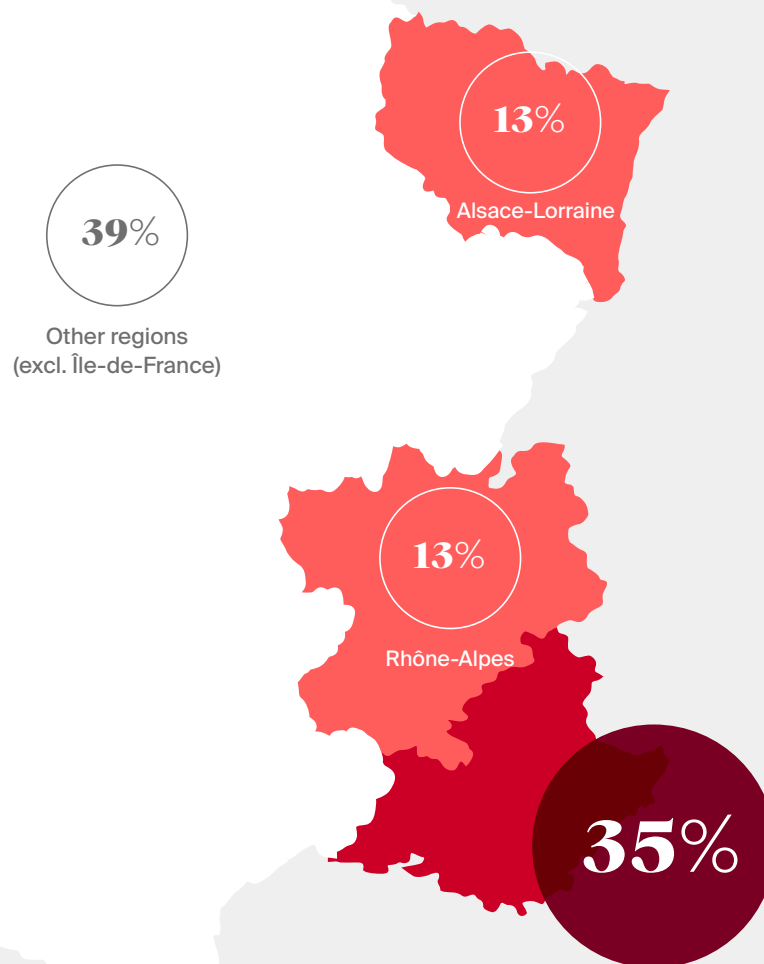
Locations of first stores of international retailers in France since 2014

Source: Knight Frank, data at end-April 2019



**Top 3 regions with the largest number
of new international retailers in France since 2014
(share in %, excl. Paris and Île-de-France)**

Source: Knight Frank



The PACA (Provence, Alpes, Côte d'Azur) region stands out, with one-third of new foreign retailers since 2014 excl. Paris and Île-de-France.

Nice, Cannes and Saint-Tropez account for the largest share, mostly at the high end although the Côte d'Azur has also received mass-market retailers (Flying Tiger in Nice, Steak n' Shake in Cannes). The majority of new arrivals are Italian (Bialetti, Yamamay, Herno, etc.), as the PACA region provides them with an obvious starting point.

Geographic proximity can be seen in other border regions. German retailers tend to choose Alsace-Lorraine to test the French market (Deichmann, Takko, etc.), while northern France logically attracts Belgian and Dutch retailers (Love Stories, Kruidvat, etc.).

PACA

35% of new foreign retailers in the provinces

Leading high streets take the prize

The domination of the Paris market explains the high proportion of high streets.

Three Paris neighbourhoods very popular with tourists account for the majority of first openings on high streets by retailers in the French market since 2014: Le Marais, the rue Saint-Honoré / place Vendôme sector, and Saint-Germain-des-Près. Their popularity is unsurprising. The best locations on high streets provide retailers with optimal visibility while limiting risks associated with first openings. In large provincial cities, preference is shown for several leading high streets, such as rue Alsace-Lorraine in Toulouse (Nyx) and rue d'Antibes in Cannes (Yamamay, Seafolly).

For their first opening in France, several new international retailers have chosen shopping centres, generally the largest and best-known (Forum des Halles, Les 4 Temps, Val d'Europe, Cap 3000, La Part-Dieu, etc.), on the basis of footfall. During the period 2014–2019, several new

sites also welcomed international retailers (e.g. Polygone Riviera, Les Saisons de Meaux, B'Est). For landlords, **the arrival of these names and concepts provides a significant marketing advantage.** Consumers have greater choice, and the new shopping centres become more attractive and easily distinguishable.

Few newcomers choose retail parks. This market **depends on a handful of national leaders** and is rarely chosen for first openings, with the exception of discount retailers, for which peripheral zones are a natural starting point (Takko and Dealz, and of course Action before 2014). Nonetheless, there has been a second phase in which several international retailers have expanded to retail parks in order to gain new customers and enjoy relatively low setup costs.

Types of formats chosen by international retailers for first openings in France since 2014

Source: Knight Frank, data at end-April 2019

- High streets
- Shopping centres
- Retail parks
- Other (airports, railway stations, etc.)

69%

22%

5%

4%

TOP 3

Top 3 high streets

Of all French high streets chosen by new international retailers for first openings since 2014

1

Marais
(20%)

2

Saint-Honoré/
Vendôme (19%)

3

Saint-Germain
des Près (12%)

Discount and midrange: nine openings out of ten

Discount and midrange retailers account for **60% of new arrivals in France since 2014, and for nearly 90% of all stores opened by newcomers over the past five years.**

This high proportion is logical. Expansion on a large scale is the most natural way to grow for these types of retailers, whose products have very broad appeal.

There are few newcomers in the luxury market, which by definition is very exclusive. France is both a breeding ground for a large number of luxury brands and one of the sector's main markets because of the country's status as the world's leading tourist destination. **The world's most famous brands have in most cases been here for a very long time.** During the period 2014–2019, just over 20 luxury retailers opened their first store in France, almost

all in Paris. Several of them were already present in department store corners and multi-marks. **Their “ticket” into France was obtained by opening a directly operated store.** At the beginning of the 2010s there were already several such examples, with major watch brands opening their first single-brand stores (Lange & Söhne and IWC on rue de la Paix). The goal was to enhance direct relations with customers.

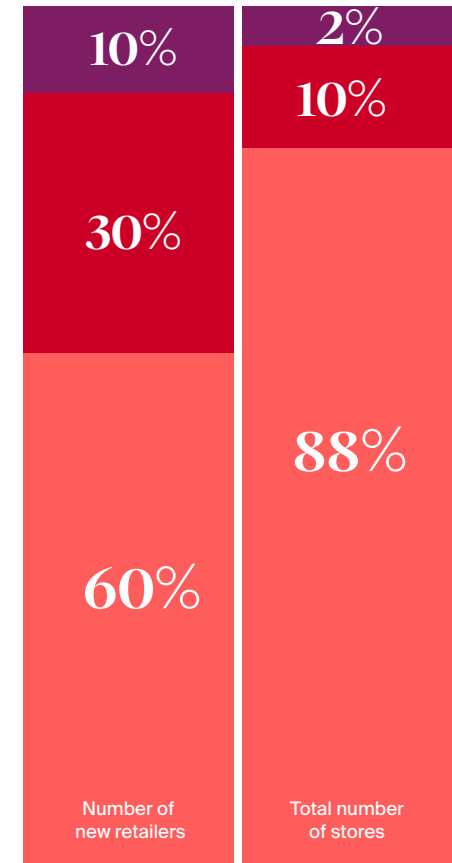
In a less exclusive niche, numerous high-end retailers have arrived on the French market since 2014 (30% of new retailers but only 10% of total openings). Eighty percent of these retailers, **most in the fashion sector**, have chosen to set up shop on Paris high streets.

Locations often depend on the nationality of the retailer. Americans usually choose rue Saint-Honoré (Kate Spade, Coach, Tory Burch, Canada Goose etc.), Asians prefer Le Marais (Bape, Dure etc.) and Italians favour the Left Bank (Twinset, Manila Grace, Forte Forte, etc.).

Product positioning of new international retailers in France since 2014

Source: Knight Frank, data at end-April 2019

Luxury goods ■
High-end ■
Discount/Midrange ■



Fashion, but not only

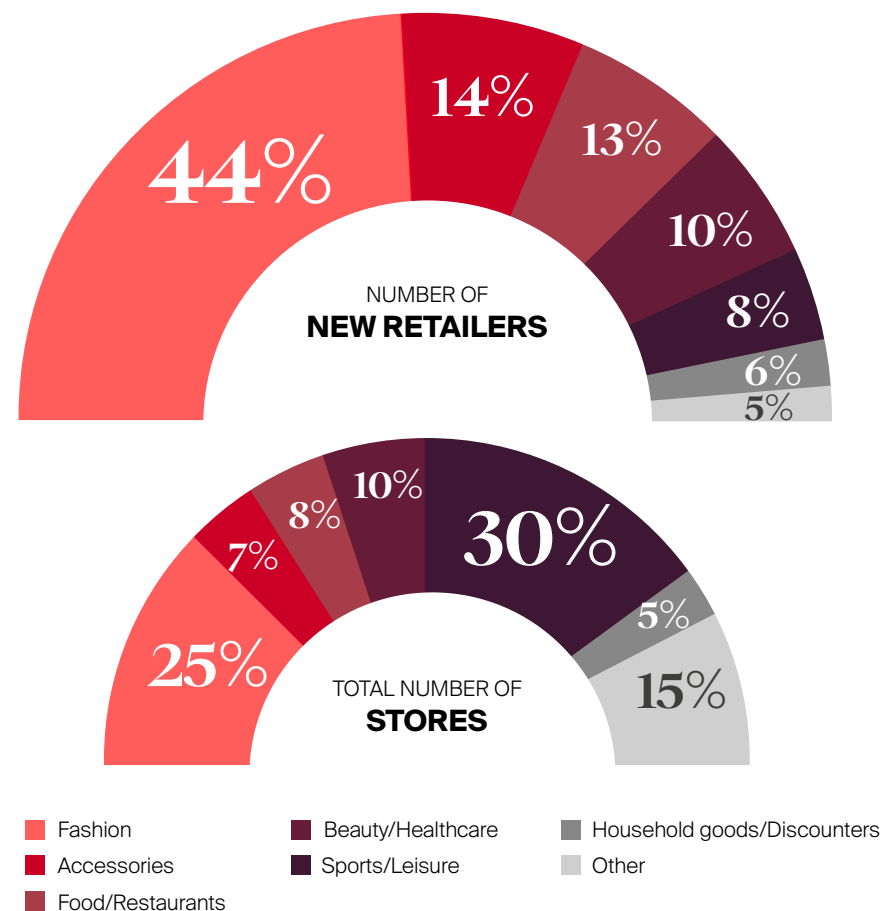
Fashion has attracted the largest number of new retailers in France since 2014.

This domination is hardly surprising. **For many years the sector has sought growth drivers outside home markets.** This international expansion strategy is as timely as ever for some retailers, which see in it a way to face a slowdown in their home markets. While fashion remains a major sector, its importance should be put into context. The sector accounts for 44% of newcomers in France since 2014. However, **these retailers accounted for only 25% of the total number of stores opened by new international retailers over the past five years**, compared with 30% in the sports/leisure sector (due largely to the 271 fitness clubs opened by Basic-Fit).

It is significant that the most important arrivals are no longer in the fashion sector, contrary to trends since the beginning of the 1990s (Zara, Mango, H&M, Gap) and the mid-2000s (New Look, New Yorker). A large variety of sectors now drive the market. Some of them (sporting goods, restaurants, etc.) are gaining in popularity and less exposed to consumer fickleness.

Breakdown by sector of new foreign retailers in France since 2014

Source: Knight Frank, data at end-April 2019



Since 2014, no foreign fashion retailer has outperformed by rapid expansion.

Only a handful have opened more than ten stores during the period, including Pittarosso, Takko and Punt Roma. The latter made a rapid name for itself in France by acquiring the Lewinger portfolio of stores. One explanation for slower expansion lies in the difficulties the entire fashion sector is experiencing. Today the trend is towards general cost-cutting in store networks, and even accelerating store closings of large brands which were once solidly established in France.

More recent retail newcomers are not immune to this fundamental shift. Though fashion may account for the largest number of new retailers since 2014, **it is also the sector that has seen the most business closings in France by recent newcomers.**

TOP 3

Number of new retailers

1



Fashion

2



Accessories

3

Food
Restaurants

Total number of stores

1

Sports
Leisure

2



Fashion

3

Beauty
Healthcare

Restaurants much sought-after

Thanks to new consumer habits, and to strong demand for healthier products and more varied concepts, the French restaurant sector continues to show steady growth (revenue up 5.6% in 2018, after a rise of 7.2% in 2017¹).

However, restaurants account for only 13% of all new international retailers in France since 2014. This relatively small share is no doubt attributable to the structure of the French market. While several foreign chains play a major role (McDonald's, KFC and Burger King, which returned to France in 2012 after having left in 1997), the sector is still dominated by French retailers.

Whether long-established chains or recent, dynamic newcomers (Big Fernand,

O'Tacos, BChef, etc.), the French retailers cover much of the market, thereby limiting development of new international retailers.

Eataly and Wagamama are two of the highest-profile recent newcomers. A concept based on Japanese ramen shops, Wagamama was founded in London in 1992 and came to Paris in early 2019, opening near the Saint-Lazare station. The Top 3 retailers in France since 2014 which have opened the most restaurants are two Americans (Steak 'n Shake, Five Guys) and the Italian Old Wild West, which acquired several El Rancho restaurants in 2018. These new players are in addition to those which arrived in France just before 2014 and continue to develop, such as Vapiano (Germany) and Prêt à Manger (UK).

¹B.R.A. Tendances Restauration



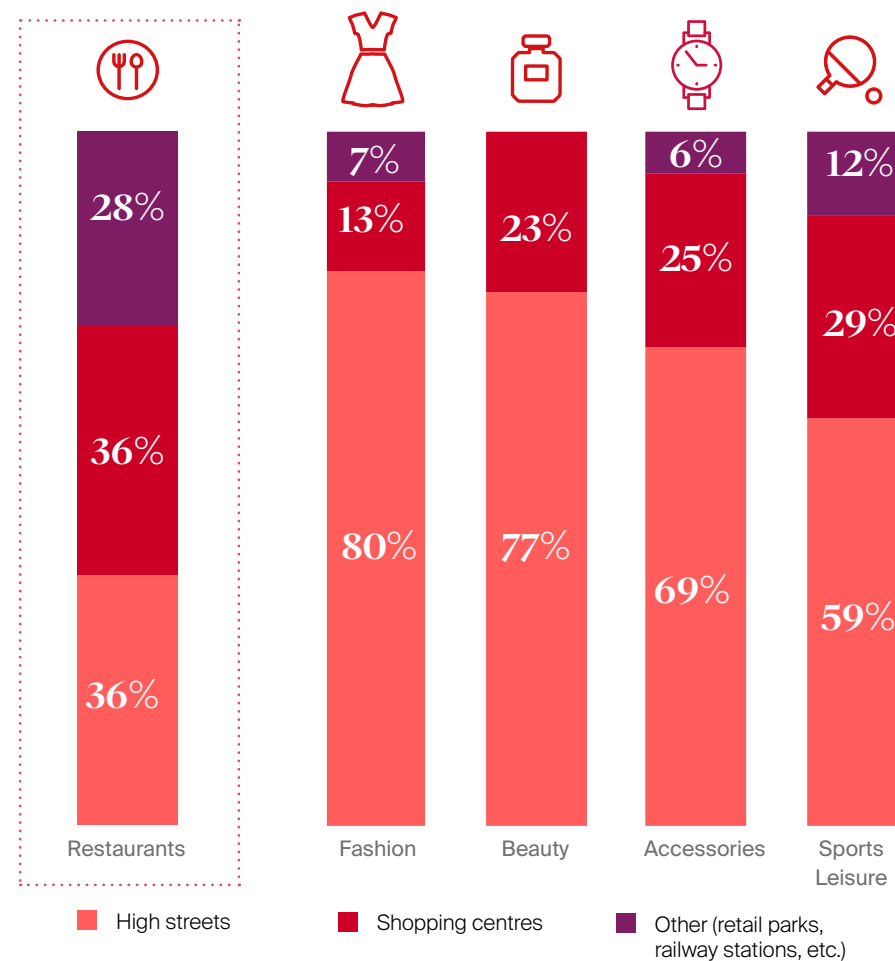
Unlike other sectors, international restaurant concepts do not systematically opt for high streets to open their first restaurant in France.

Since 2014, shopping centres have been just as popular, whether recent projects or existing centres whose food courts may need reinforcement after expansion. International retailers and property-investment firms share an interest in identifying new concepts that attract customers and extend the time visitors spend in shopping centres.

The commercial stakes are equally important in transit areas (railway stations, airports), where improving the quality and variety of restaurants is now the focus. Recent arrivals include MasQMenos (Spain) at the Toulouse airport, and healthy concept La Place (Netherlands) at the Gare du Nord and Gare de l'Est.

New foreign retailers in France since 2014, by sector and format types*

Source: Knight Frank, data at end-April 2019 / *First store in France





Sandrine Mignaux

Rituals
Country Manager, France

Rituals opened its first store in France in 2015, on rue Vieille du Temple in Paris. Why was it important for Rituals to be in France? Why was Le Marais given priority over other neighbourhoods to begin development in France?

After successfully launching Rituals in most European countries, it was obvious that we needed to be in France, a key European market and world leader in cosmetics. It wasn't one of our first targets simply because of the fierce competition in the cosmetics sector and the high property costs (three to four times higher than in Germany, for example). Once the concept had been adapted and refined, the brand was sufficiently strong to face these challenges, so we then decided to approach the French market prudently.

To enhance our brand image we have chosen locations on prime streets and entered into partnerships with market leaders. Fifteen years after the brand was created, the first store in France was opened in May 2015.

At that time Le Marais was THE trendy neighbourhood in Paris and undergoing tremendous change. Every cosmetics brand was opening a store there. The designer, premium vibe fits our image. We chose rue Vieille du Temple for its reputation and its substantial, high-quality foot traffic.

Rituals is one of the most dynamic new international retailers in France. What are your development targets? Does the French market still offer growth potential?

The arrival of Rituals in France came at a time when the French consumer was beginning to open up to international beauty products, and when enthusiasm for wellness and yoga was growing. The goal is to help Rituals grow, but also to present a holistic range of skincare, products for the home, make-up, perfumes, homewear and even tea.

Our strategy is to invest in the four distribution channels: Ritual stores, department stores, e-commerce and

travel retail (airports, hotels). Growth came rapidly, though not without compromise on locations and financial terms.

The launch of the brand in France was one of the most successful for Rituals. We weren't expecting such success, especially given strong competition from all the French cosmetics brands.

Today we have nearly 50 stores and expect 60 by the end of 2019. The consumer context is complicated, however, with online sales growing, severe competition in the cosmetics market, and the "yellow vest" demonstrations. We are fortunate to have solid growth in our existing stores. The brand is rapidly becoming known, we are recruiting, and we are constantly working to develop customer loyalty.

We choose our locations with great care. We prefer to open fewer stores and retain an "exclusive" edge than to open too quickly and hurt our margins. We review our business plan regularly in order to target the best locations. We estimate that we

can open 130 stores in France. However, we are keeping our eyes wide open, as the retail environment changes rapidly.

What is your view of the French market? More specifically, what do you think of the difficulties in terms of property expansion?

Lease rights are specific to France and not found in any other countries. Commercial ownership and renewal rights make eviction of a tenant difficult for the owners. They consider that retailers provide a greater guarantee, which explains the cost of the right to lease. French contracts are also much more complex than in other countries, where the use of fixed contracts has been standardised. In France, negotiations may take up to six months, compared with one week in some countries.

Moreover, French administrative procedures often delay store openings. Construction costs here are 20% higher. Add that to the right to lease, rents and payroll expenses. For example, the cost of

opening one store in France is equivalent to opening three in Germany.

For Rituals, France was a large market where we were virtually unknown in 2015. We had to keep our marketing flexible in order to remain visible in the competitive environment of French and international cosmetics brands. Four years later our brand recognition rate has skyrocketed! Five years from now France should be Rituals' leading market.

Have your stores changed over the years (format, size, address, etc.)? How do you approach the retail experience for your customers, and what are the synergies between your physical stores and your e-store?

The format of our stores has changed indeed, thanks to the brand's success. The sales area of our first French stores was between 45 m² and 50 m². Today we have 90 m² to work with. We are also going to open "premium" stores of 200 m², like the Rituals store in Belgium at the Wijnegem shopping centre.

The shopping experience has always been key to our concept. We were one of the first retailers to have a water island in our stores, where customers can test products. The creation of a Ritual sales ceremony – a warm welcome, tea offered, personalized treatments, excellent service – has contributed to this exceptional experience. Regularly we offer ephemeral collections, new rituals, new products and personalised products too (e.g. the hair temple). The concept is constantly evolving. We are always looking to innovate.

To provide even greater customer satisfaction, we give special attention to our online service. Today online sales are rising sharply. We have also developed new services, such as apps for our e-boutique, yoga and meditation.

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