

Masterthesis
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Master of Science in Real Estate (CUREM)

*Retailing trends
and possible impact
on the Swiss retail real estate investment markets*

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Ehrenwörtliche Erklärung

Ich erkläre hiermit, dass ich die vorliegende Masterthesis

„Retailing trends and possible impact on the Swiss retail real estate investment markets“

selbst angefertigt habe. Die aus fremden Quellen direkt oder indirekt übernommenen Gedanken sind als solche kenntlich gemacht.

Die Arbeit wurde bisher keiner anderen Prüfungsbehörde vorgelegt und auch nicht veröffentlicht.

Zürich, den 30.07. 2009



Tine B. Mansfeldt

Sperrvermerk

Sperrvermerk

Diese Arbeit bleibt aufgrund vertraulicher Daten und Informationen für 24 Monate für die Öffentlichkeit gesperrt.

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Introduction

This master thesis has been developed as an independent study of the author to complete the Master of Science course at CUREM (Centre for Urban and Real Estate Management), Zürich, Switzerland. The study aims at identifying likely future changes and business opportunities in the Swiss retail- and related real estate markets. It is the intention of the author to use the study as a platform for identification of areas of potential for further and more in-depth study and for business development purposes.

The ultimate goal of the study shall be to identify areas of development- and investment potential for real estate investors, retailers and retail management companies in Switzerland.

The title of the study “Retailing trends and possible impact on the Swiss retail real estate markets” allows for a very wide perspective and a multitude of possible areas and subjects of research. In cooperation with the author’s advisors, based on the initial findings and preliminary conclusions, and in the interest of being able to verify conclusions and present concrete suggestions, it was decided to focus the work on high (consumer) frequency locations and in particular on retail channels associated with travel and tourism. The study does thus by no means represent a complete overview of the Swiss retail and related real estate markets. It is however the author’s conviction that the areas of greatest development potential have been identified.

The services retailing and restaurant / gastronomy operation are closely linked in terms of consumer demand. From a retail real estate management perspective the two are therefore very much complimentary and interdependent, and the study will thus include both areas; sometimes referred to individually, sometimes under the term “retail”.

The study is developed according to two main methods of research. Initial findings and preliminary conclusions were based on study of available market reports and –analysis published by international and Swiss financial institutions, associations, advisory firms and research companies. Further valuable information and verification of conclusions

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and potential was gathered via interviews of individuals from financial institutions, retail- and food service operators, associations, real estate investors / landlords and tourist destination developers.

The focus of the author's work has been on drawing relevant conclusions from the gathered material, on looking ahead and on the interpretation of consumer- and retailing trends, market- and market player developments in the Swiss retail investment markets.

Real estate serves a purpose and has no real reason for being on its own. Retail real estate serves the purpose of providing an environment for sale and purchase of goods and services, but increasingly also as an environment for socialising and enjoyment – e.g. for “retail therapy” in popular terms. Orchestrating this environment are retailers, restaurant operators, various service providers and landlords / investors or landlord representatives. At early stages of this study it became clear that the analysis of retail real estate is a very complex task. There are many stakeholders involved with interdependence, but also not always quite harmonised interests. This situation demands a review of the individual markets that play a role in the planning, development and management of retail real estate. For the purpose of identifying important trends and related impact the following three markets that combined broadly constitute or influence the retail market are therefore being addressed: Consumer markets – the driver of demand, occupier markets (retailers / tenants) – which are consumer driven, the investment markets (investors / landlords) – which are influenced (among other factors) by constraints on funding and relative asset class performance and only indirectly influenced by trends in consumer behaviour.

It has been an extremely interesting task to develop this study, and the work has inspired a keen wish to continue pursuing some of the identified opportunities in more depth hereafter. It was a real pleasure to work with advisor Mr. Claudio Rudolf of Credit Suisse and co-advisor Mr. Christopher Bahn of Curem. The author is very grateful for all the time, patience, advice and guidance offered by the two gentlemen. The author would also like to extend a warm thank you to all the interviewed individuals who kindly agreed to take valuable time out of their schedules and to share

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of their knowledge and expertise. It has been a true inspiration to meet and get to know all advisors and interviewees, and it is the hope of the author that a foundation for further cooperation or exchange has been established through the work on this study.

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1 Retailing trends

Switzerland with its population of about 7.6 million inhabitants and GDP of about CHF 68,400 per capita (Bundesamt für Statistik, 2007) is considered one of the most stable and secure economies in Europe. As a real estate investment market, Switzerland offers stability, predictability and low risk relative to other markets. On the other hand investment returns are consequently lower than in many markets and hence does not offer all investors optimal investment opportunities.

In the following sections individual markets that influence and constitute the retail real estate market are being analysed for the purpose of identifying important trends that are likely to shape the future and therefore are important to retail and gastronomy operators and investors alike.

1.1 The consumer markets

1.1.1 Demographic and socio-economic drivers

Research and interviews have identified three strong tendencies in the population that are likely to influence the retail and gastronomy markets: ageing population, multi-cultural population, increased proportion of women in careers.

As most European countries Switzerland is facing a future with more seniors, an ageing population. According to the Swiss Office of Statistics (Bundesamt für Statistik, Szenario mittel) by 2025 22.2% of the population is likely to be aged 65+ and by 2050 this age group could be as important as 27.9%. In 2004 the 65+ age group represented 15.8% of the population.

The new generation of seniors will influence demand and consequently retailing and gastronomy services. As a consequence of modern society today's seniors are in better health and have a higher income than earlier generations. They thus live an active life, have stronger opinions of what and how they wish to consume, what services they require and generally, how they wish to lead their lives. The importance of the seniors

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as a consumer group will increase and retailers will adjust to demand not only in terms of offer of goods and services, but also in terms of the location and format of retail shops.

Switzerland has a high share of foreign inhabitants. 21.1% of the population are foreigners, dominantly of European origin (Germany, Italy, Spain, Serbia, Montenegro, Bosnia, Herzegovina), but increasingly also non European (Bundesamt für Statistik, 2007). In the labour market the share of foreign inhabitants is as high as 26.2%. A high share of seasonal labour is provided by the foreign working population, important for certain sectors such as construction and tourism. Another important group is highly qualified labour from neighbouring countries who seek the quality lifestyle and relatively higher earnings potential in Switzerland. The influx of nationalities is visible on the gastronomy scene, but also starts to influence the assortment offered by the larger retailers (for example merchandise from Central & Eastern European markets offered in the largest grocery store chains).

In spite of the peculiarity of Swiss women only obtaining the right to vote as late as in 1971, Switzerland has a large share of women at work representing 45.9% of the active labour force (Bundesamt für Statistik, 2008). Only 29.3% of Swiss full time employees are however female whilst women occupy 79.1% of part time positions. The share of women in high profile career positions appears very low, yet according to the Swiss Bureau of Statistics, women occupied 34.2% of managerial positions in 2008. 4.4% of employed women held a management position against 8.5% of employed men. Improvements in training and education have fuelled a significant growth rate of 9.8% more women practising an “intellectual or scientific occupation” in 2008 versus 2007. The trend is positive and likely to continue.

The impact of a high share of households with double income on family life, general life style and consumption is obvious – often manifested via higher demand for services that simplify busy lives and retail offers that help save time, for example through ready made or half ready made meals.

1.1.2 Economic drivers

Economic development influences consumer behaviour in a significant way, however not always quite as directly as one might think or not in the expected areas or in the expected time frame and magnitude. In their publication Retail Outlook 2009 (Swiss Issues Branchen, Credit Suisse Economic Research) the authors describe the apparent low degree of price elasticity in Swiss consumption of basic goods and services such as groceries, housing and transport over time. At least when measured short term, the consumption patterns tend to show limited change due to price increases or decreases.

The current financial and economic crisis is of course a significant influencing factor – not only on consumer markets but on all stakeholders and in all markets related to retailing and real estate. Compared to other countries, Switzerland has been spared in relative terms, but there is no doubt that the situation is severe also here and businesses and individuals are impacted.

Whilst the retail sector in Switzerland so far, and perhaps partly due to the low price elastic consumption behaviour mentioned before, has been holding up in spite of the crisis, there are individual areas that suffer such as fashion and accessories and durable consumer goods such as household goods and furniture. The grocery trade has until now suffered only in limited terms. Strongly affected is the luxury segment where it is not unusual that retailers now experience turnover drops of 30% or more. Consumers are becoming more price sensitive in their buying decision making – at least in certain product categories.

The income gap between rich and poor is expected to increase in Switzerland as in other OECD countries (Detailhandel Schweiz 2015, GDI Studie Nr. 23, GDI 2005). Whilst the current difficult economic environment may dampen income growth in the upper layers somewhat, the number of so called working poor is expected to increase.

Current economic situation aside, the research for this study has identified other economy driven factors that are affecting retail markets.

According to a study by King Sturge (European Retail Property – the squeeze after the crunch, 2009) Switzerland shows one of the highest retail spends per capita comparing European countries (mature and emerging markets). Recent growth rates are however ranked among the lowest and projections for the next ten years indicate that rates will remain at low levels relative to other countries.

Retail spend as percentage of gross income is declining in Swiss households (Detailhandel Schweiz 2008, IHA-GfK AG). An increased share of income is absorbed by non controllable or less controllable expenditures such as taxes, health, insurances etc.. Retailers are also faced with increased competition from non retail based sectors such as leisure and health related activities and services. It is believed that the highest competitive threat to Swiss retailers does not come from other retailers, but from other sectors (Detailhandel Schweiz 2015, GDI Studie Nr. 23, GDI, 2005).

1.1.3 Lifestyle oriented drivers

Research identified the increasing unpredictability and individualisation of consumer behaviour as a strong trend. This phenomenon is described partly by “the hybrid consumers” i.e. consumers shop across traditional price segments and show no stable patterns. Lifestyle drives behaviour more than socio-economic factors; on the same day a person might shop groceries at Aldi and a handbag at Louis Vuitton or have lunch at McDonalds and eat dinner in a Michelin star restaurant.

As part of modern life style time free time has become an increasingly scarce resource and thus more and more valuable. How time is valued and appreciated influences an individual’s behaviour and his or her demands on products, services, social and cultural offers etc. Time can be gained, saved, enjoyed or spent, lost or wasted. Today’s consumers are increasingly conscientious about how their disposable time is allocated. This fact has significant impact on their behaviour and their consumption.

Emotions play an increasingly important role in consumer shopping decision making. Perhaps this is part of the “enjoyment of time” aspect, is it simply a reaction to the strong need for rational behaviour in an increasingly complex world or a reflex response

to the overwhelming flow of information and choice in a consumption environment that becomes more and more un-overseeable and confusing? In his book “Buy-ology, Truth and Lies About Why We Buy” Martin Lindstrom confirms how consumers are influenced by conscious and sub conscious considerations, are very far from rational and are very much emotionally driven - even by the use of senses such as smell and sound - in our purchasing decisions (Buy-ology, Truth and Lies About Why We Buy, Martin Lindstrom, The Doubleday Publishing Group, New York, 2008).

Almost all interviewed persons for this study mentioned the request for authenticity and quality as important consumer trends that they are experiencing in their respective businesses. The trend is interpreted as a “back to true values and basic, natural good quality” as opposed to demand for luxury. Likewise ecology and sustainability in both production methods, ingredients, packaging and materials are considered important long term trends, be it however somewhat opportunistically applied short term.

Nature – real nature – will be valued as a scarce and important resource in future. Swiss Gottlieb Duttweiler Institute, according to Neue Zürcher Zeitung, undertook a survey on behalf of the environmental organisation Pro Natura (NZZ, 26.03.2009). The article describes how the study concludes that in future nature will hold such a high value that there will no longer be a need for organisations such as Pro Natura; businesses will take over their role. Nature will be commercialised and thus protected by businesses who will understand the value of offering pure nature experience to their customers; and people will pay for this rare resource. For a nature rich country like Switzerland pure nature represents an important asset that should be very well managed.

The application of technology in communication has lead to a world of extremely well informed consumers. Two trends have emerged as a consequence: 1) Increasing access to information promotes the emergence of so called “smart shoppers”, consumers who shop around for best bargains – often quality merchandise at attractive discounts (Retail Outlook 2009, Swiss Issues Branchen, Credit Suisse Economic Research, 2008).

2) Consumer confusion; due to huge flow of information and vast choice of products, brands and services it is difficult to filter important from less important, to compare and to make a rational selection. Consumers are overwhelmed with information.

Today's society is faced with increased mobility of people and merchandise. People move to new locations, they increasingly commute to work and they travel more in their free time. This has impact not only on transportation systems, but also on general lifestyle, family life and consumption of goods and services. Travel takes up time, hence there is e.g. less time available for shopping, and people look for retail offers "on the way". More and more even eating is done on the go to or from work, on the way between work and a cultural event etc. Most interviewees had strong opinions about an important market potential in mobile consumers.

Tourists are potentially valuable customers. Switzerland each year receives a high number of visitors - be it skiers in winter, hikers or nature and culture admirers in summer. The profile of visitors may change somewhat over the years and certainly varies with seasons, but if the asset "nature" is well managed, Switzerland has the potential for a thriving tourism for the foreseeable future. Travel and holiday is pleasure, it is relaxation and it is very emotional. Shopping is a part of the experience and as seen in particular at airports it is evident that tourists can represent an important market for gastronomy and retail.

The demand for authenticity and quality is very evident in this consumer group; visitors to Switzerland wish to experience and purchase something other than what they are used to everywhere else. Even in the fast food gastronomy business the demand for authenticity is strongly felt and putting operators under pressure to develop new concepts with a Swiss flair.

1.2 The occupier markets

1.2.1 Swiss retail business – formats and players

The Swiss retail scene is characterised first and foremost by the dominance of two groups originating from the grocery retail trade, the Migros group and the Coop group, both national institutions in the eyes of the population. Their dominance is demonstrated by the figures shown in Table I.

Table I Frequency numbers in the grocery trade - private household purchases per year, month and week. Base: IHA basket, Fresh products, packaged consumer products and near-food articles, 2007.

Retailer	Year	Month	Week
Migros	99%	91%	71%
Coop	99%	79%	50%
Denner w/satellites	78%	40%	19%
Volg	30%	10%	4%
Spar	27%	9%	4%
Manor	40%	9%	4%
Aldi	30%	10%	4%

Source: Detailhandel Schweiz 2008, IHA-GfK AG

Also non-food sectors are influenced by the two large groups. International brands are however – at least statistically – very much present, although often treated by the brand’s headquarters as a low priority in terms of willingness to invest and spend marketing budgets. Often the cost of market entry is considered prohibitive in comparison to the potential of this relatively small market.

In terms of retail formats Switzerland is one of the few markets where traditional department stores appear to survive. There is general consensus that the market is over saturated with shopping centres – mostly located out-of-town. Due to very restrictive legislation with regards to opening hours a new format has developed strongly in the form of “convenience stores” – a small format offering a combination of groceries and kiosk assortment often located at petrol stations, railway stations or even in village

centres and having obtained official suspension from the legislation with regards to opening hours. They represent a very attractive turnover potential due to their competitive advantage at evenings, weekends and public holidays.

1.2.1.1 Migros

Established by Mr. Gottlieb Duttweiler in Zürich in 1925 Migros has become a part of Switzerland's heart and soul. It is organised as a cooperative with 10 independent units all benefiting from a central umbrella structure with a "parliament" of representatives from all cooperatives. Handled centrally are strategic matters, relations with authorities and other stakeholders and provision of central services. The Migros super markets offer primarily own brand merchandise and develop themed Migros brands internally (e.g. organic / ecologic, ethnic or price segment positioned). Over the years the group has grown with the acquisition of other retail brands both in the food and the non-food sectors.

Table II Migros in numbers, 2007

Migros core retail business	Number of units	Turnover CHF mill.	Surface m2	Average turnover per outlet in CHF mill	Average surface per outlet in m2	Average turnover per m2 in CHF
MMM-Migros-Zentren	38	2,939	298,111	77.3	7,608	10,166
MM-Migros-Märkte	206	6,052	429,446	29.4	2,085	14,093
M-Migros Läden	285	2,867	187,352	10.1	657	15,303
Spezialläden	55	958	231,217	17.4	4204	4,143
Total cooperative shops	584	12,816	1,146,126			

Fachmärkte ¹⁾						
Do it + Garden	56	381	113,887	6.8	2,034	3,345
Micasa	31	282	65,540	9.1	2,114	4,303
sportXX	43	242	52,488	5.6	1,221	4,611
m-electronics	59	699	29,951	11.8	508	23,338
Obi-Baumarkt/Garten	9	234	73,179	26.0	8,131	3,198
Total	198	1,838	335,045			

Gastronomy ²⁾	198	670	88,256	3.4	446	7,592
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¹⁾ Specialist shops/markets, integrated above

²⁾ Free standing restaurants and integrated restaurants – partly included above.

Source: Detailhandel Schweiz 2008, IHA-GfK AG

Total Migros group turnover was in 2007 CHF 22.7 billion and grew in 2008 by 13.5% to CHF 25.8 billion. This includes in addition to the numbers shown in Table II Migros shops abroad and subsidiary companies. In the food retailing sector their 2007 market share was 25.1% including Denner, 23.1% excluding Denner. (www.migros.ch)

The Migros group encompasses the following retail brands (2007):

- Denner – discount grocery retail group with 729 outlets and turnover of CHF 2.7 billion (part of the group from 2007);
- Globus – department store group with 34 stores;
- Interio – home decoration and furniture stores, 20 stores;
- Office World – office equipment stores, 18 units;
- Ex Libris – book stores, 119 units;
- Le Shop – internet based grocery sales platform for the Migros brand;
- Migrolino – new convenience shop concept launched in 2008/09;
- Migrol – petrol stations, often incl. convenience shopping under “avec”, “Migrol” or new, “Migrolino” brands.

In addition Migros is a shareholder in a number of other retail brands.

1.2.1.2 The Coop group

The Coop group is a cooperative with over two million members and organised in 5 regional sales areas supported by centrally managed services such as marketing and logistics.

In 2007 Coop achieved a turnover of CHF 15.8 billion and growth of 15.2% to CHF 18.2 billion in 2008. Their market share in the food category was 21.9% in 2008 and in non-food categories 12.8% (www.coop.ch). The Coop group define their core business areas as “Retail” and “Trading” as shown in Table III. The difference in turnover to group totals above is made up by sales to third parties and on-line shopping turnover.

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Table III Coop in numbers, 2007

	Number of units	Turnover CHF mill.	Surface m2	Average turnover per outlet in CHF mill	Average surface per outlet in m2	Average turnover per m2 in CHF
Megastores	14	875	77,492	64.8	5,535	11,291
Supermärkte C	88	2,794	224,092	31.8	2,774	11,447
Supermärkte B	171	3,057	247,607	18.1	1,448	12,346
Supermärkte A	529	3,540	284,881	6.7	539	12,426
Other	1	2	290	-	-	-
Coop Retail	803	10,268	854,362			

Department stores Coop City	33	1,009	138,418	30.3	4,194	7,290
Bau + Hobby	68	685	280,428	10.07	4,124	2,443
Interdiscount	185	976	61,957	5.3	335	15,753
Top Tip / Lumimart	60	262	159,339	4.4	2,656	1,644
Christ Uhren & Schmuck	84	107	6,094	1.3	73	17,558
Import Parfumerie	96	154	8,701	1.6	91	17,699
Other	1	3	150	-	-	-
Coop Trading	527	3,196	655,087			

Coop Pronto ¹⁾	189	470	20,394	2.5	108	23,046
Coop Vitality AG	25	66	6,537	2.6	261	10,096
Bell-Gruppe	26	17	829	0.7	32	20,507
Dipl. Ing. Fust AG ²⁾	152	102	77,836	-	512	-
Diverse	2	76	9,002	-	-	-
Daughter companies	294	731	114,598			

Total Coop ³⁾	1,727	14,195	1,624,047			
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Petrol stations ⁴⁾	12	1,163				
Hotels		32				

¹⁾ Pronto is a convenience store concept of which 151 units are located at petrol stations.

²⁾ Coop acquired Dipl.Ing. Fust AG (electrical household equipment and electronics) per 01.12.07

³⁾ Incl. hotels, but excl. Petrol stations

⁴⁾ Stations only, other petrol station operations included under Pronto numbers.

Source: Detailhandel Schweiz 2008, IHA-GfK AG

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Coop acquired the French supermarket / consumer market chain Carrefour Schweiz in 2007 which as of spring 2008 was fully integrated and converted to the Coop brand.

The Coop food assortment consists of branded products, but the group has in the past years launched a number of private label and exclusive brand initiatives such as Garantie Prix, Fine Food and Pro Montagna and Weightwatchers and Jamie Oliver.

1.2.1.3 Other grocery retailers

In addition to the two dominant grocery retail groups a number of smaller groups and independent retailers operate in the Swiss market. The most important retailers can be found in Table IV.

Table IV Grocery retailers (other than Coop and Migros), 2007

Retailer	Number of outlets	Turnover in CHF billion	Surface in m2
Discounters	489	2.6	224,039
Denner (Migros) excl. Satellites	432		
Aldi	57		
Lidl	New 2009	-	-

Other Groups	2,626	3.8	372,000
Denner Satellites	297		
Groupe Magro	16		
Maxi	170		
Merkur	26		
Pam Gruppe	744		
Spar	154		
Volg Gruppe excl. Petrol stations	769		
Others	450		

Source: Detailhandel Schweiz 2008, IHA – GfK AG

Some of the mentioned retailer groups (e.g. Volg) specialise in village centre locations and serve the convenience markets – sometimes with permitted extended opening hours.

1.2.1.4 Department store retailers

An overview of the Swiss department stores can be found in Table V. With the exception of Jelmoli who promotes tagline “House of Brands” and focus on branded shop-in-shops, the Swiss department stores are conceptualised as traditional department stores offering a mix of international and Swiss brands and own private labels. They

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tend to offer the full typical department store assortment including groceries, household goods, electric products and sports equipment, but there is a tendency to leave some of the non fashion related categories out or to let space to category specialists who can achieve better margins for those product areas (e.g. electrical and electronic goods).

Importance is given to food retailing and the gastronomy offer within the department stores due to important pull-effect. Store operators have invested in upmarket fresh food concepts and trendy foodservice offers (bars, cafés, restaurants).

Table V Department stores, 2007

Retailer	Number of outlets	Turnover in CHF billion	Surface in m2
Total department stores	125	5.2	630,297
Coop City (Coop group)	33		
Globus (Migros group)	12		
Jelmoli	1		
Loeb	7		
Manor	71		

Source: Detailhandel Schweiz 2008, IHA – GfK AG

1.2.1.5 Kiosks

Operationally and logistically a specialised retail category, the market is concentrated with regards to retail companies.

Table VI Kiosk operators, 2007

Kiosk Retailer	Number of outlets	Turnover in CHF billion
Total	1,813	1.4¹⁾
Valora AG (ex Kiosk AG)	1,015	
Naville	190	
SKIV	300	
Coop	308	

¹⁾Excl. Coop

Source: Detailhandel Schweiz 2008, IHA – GfK AG

1.2.1.6 High street retailers in fashion, leather goods and accessories categories

According to a survey by CB Richard Ellis (How Global is the Business of Retailing?, 2009 Edition, Special Report) conducted among 280 leading global retail companies Switzerland ranks high (number 9 after UK, Spain France, UAE, Germany, China,

Russia and Italy) by comparison with other countries in terms of markets where those companies are present. 40% of the companies are present in Switzerland. The main reason is considered to be the strong presence of German retailers, due to cultural and geographic rather than economic reasons. Further-more luxury retail brands are attracted to Switzerland due to purchasing power and prestige; their market entry is however often limited to one store or at best a small number of stores; concepts built on quality and image at high prices require lower volumes to be profitable.

Whether or not Switzerland has the potential of attracting more international retail brands is being debated. In the mentioned survey by CB Richard Ellis Switzerland ranks only 33rd with regards to new international retailer openings. One important reason is competition from emerging markets where consumers are becoming more affluent and have become the strategic focus of many international companies, who are in fact going from international to global. The relatively high purchasing power of the Swiss population is a tempting element for many brands; the image effect of being present in prestigious Swiss locations such as the Zürich Bahnhofstrasse, the Geneva Rue du Rhône, in St. Moritz or in Zermatt is an additional important driver for the luxury brand segment. Prestige brands are paying substantial sums in so called key money in order to get access to the right location in the main cities. For low price to mid range positioned brands the cost of entry can be prohibitive as volume is required to justify investments in shop fitting and marketing. Such volume can only be generated through a multiple of locations and outlets and / or in high traffic locations – both of these individual criteria can be difficult to fulfil in a small market.

Some examples of retailers with a certain presence in Switzerland - the list is not exhaustive (Source: Schweizer Detailhandel 2008, IHA – GfK AG):

- Fashion: Beldona, Benetton, Blackout, Bonita, Brunschwig / Grieder / Bon Genie, Calida Shops, Chicorrée, C&A, Esprit, H&M, Herren-Globus, Kookaï, New Yorker, Orsay, Perosa, PKZ, Schild, Switcher, Tally Weijl, Charles Vögele, WE, Yendi.
- Shoes: Bally, Bata, Dosenbach-Ochsner, Charles Vögele, La Halle, Navyboot, Pasito-Fricker, Reno, Tschümperlin, Walder.

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In the luxury segment most important international brands are present, but limited to a few prestigious locations. Switzerland being a very important manufacturer of watches (and also jewellery) naturally features a vast selection of retail offers in this category, some stand-alone branded boutiques such as Swatch or Omega and other operated by local independent retailers or groups such as Türler and Bucherer.

1.2.1.7 Travel retail operators

Switzerland is home to two of the world's most important travel retailers; The Nuance Group and the Dufry group. The Nuance Group (formerly a Swissair group company, now under Italian ownership) is the dominant retailer in Zürich and Geneva airports holding the main duty free concession as well as a large number of duty paid concessions in both airports. Euro-Airport Basel is the home base of Dufry (formerly known as Weitnauer, now under Spanish ownership). The two companies dominate the airport scene in Switzerland, but have so far not explored other Swiss travel retail markets with the exception of the rail stations at the airports.

In airports there is a presence of some smaller Swiss and international travel retailers as well as a number of local specialist retailers who operate a few concessions in airports in addition to their downtown business e.g. Grieder, Türler.

In the context of the business of serving travelling consumers the two dominant catering providers in Swiss airports, rail stations and along motorways must also be mentioned: Select Service Partner (SSP) and the Autogrill group. Both are international operators of a certain size and Autogrill is, via recent acquisitions, an important player not only in the foodservice market, but also in the travel retail market (acquired Spanish Aldeasa and British companies Alpha and World Duty Free).

1.2.1.8 Other retail

Other retailers of importance in Switzerland can be listed as per Schweizer Detailhandel 2008 as follows:

Interior decoration / furniture:

Diga, Fly, Hubacher, Ikea, Interio, Micasa, Lipo, Märki, Otto's Möbel, Pfister, Top Tip / Lumimart.

Perfumery: Douglas, Import Parfumerie, Mariaunnaud, The Body Shop.

Opticians: Fielman, Pro-Optik, Kochoptik, Visilab, MC-Optik, Optic 2000.

Other specialists ("Fachmärkte"):

Athleticum, Carpet Land, Cats&Dogs, Fressnapf, Jumbo Do it – Deco – garden, Media-Markt, M-Parcs, My Friends, Office World, Qualipet, Toys'R'Us.

Not mentioned are all independent and local retailers in various categories such as gifts and souvenirs, fresh food and bakery products and others.

Pharmacies and drugstores are also not included in this overview, they do however represent important retail turnover as shown in table VII.

Table VII Pharmacies, drugstores and perfumeries, 2007

Retailer	Number of outlets	Turnover in CHF billion
Pharmacies	1,707	4.4
Drugstores	645	0.8
Perfumeries	296	n.a.

Source: Detailhandel Schweiz 2008, IHA – GfK AG

1.2.2 Recent and future developments

Retail internationalisation is expected to continue but at a slower pace than in recent years due to the current economic turmoil.

As part of internationalisation a vertical integration process is taking place; brand owners are becoming retailers in order to control distribution and image. Strong branding and consistent and coherent brand management is crucial for successful inter-

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national expansion. Whether vertical integration is optimal from an operational efficiency and profitability perspective is questionable, at least in connection with entry into smaller markets where sufficient scale is difficult to achieve. Franchising models are of course one answer to this dilemma.

In spite of market entries of international retail brands the Swiss market is in a process of consolidation; the large are getting larger (Coop's and Migros' acquisitions) and are able to use their dominance to influence landlords in their planning of retail and gastronomy mix. There is a general feeling of "sameness"; the same retail brands are seen "everywhere".

In the discount segment important changes have occurred in the past few years by the addition of the two new market entrants from Germany, Aldi and Lidl, and the acquisition of the Denner group by Migros. New is now that there are discount retailers in other product categories emerging in response to the increased consumer price sensitivity.

Currently consumers are trading down, the luxury segment is suffering the most whilst the mid price range retailers are holding up relatively well. Overall retail sales are still holding up with a year-on-year increase of 1% in the first quarter of 2009. Typically consumer demand lags behind GDP developments and it is expected that retail sales will drop during the rest of the year. As a consequence demand for retail space is likely to decline. (Swiss Issues Real Estate, Monitor Q2 2009, Credit Suisse, June 2009).

On-line purchasing is developing at a great pace in Switzerland. Both the largest grocery retailers offer on-line shopping services with home delivery. So far this business is small in absolute terms, but the growth rates are significant. This channel is expected in future to be particularly important for discount shopping and shopping of products that are highly standardized and "unemotional", require low degree of interaction with a shop assistant or for which sufficient quality product information is easily accessible on-line.

1.3 The investment markets

1.3.1 Swiss retail real estate – investors, inventory and supply

Switzerland is in the top league with regards to retail surface per capita; the market with regards to overall retail space is saturated (Retail Outlook 2009, Swiss Issues Branchen, Credit Suisse, December 2008). In the sample survey there appears to be a general consensus that this is the case. The interpretation, when broken down per channel or market, is however differing among the specialists; most are of the opinion that there are sectors that are underdeveloped and others that are over saturated.

1.3.1.1 Retail real estate investors

Swiss retail property returns are historically lower than the average returns in the Eurozone, hence the retail real estate investment landscape is mainly constituted of Swiss investors. There is limited information available that provides a global view of retail real estate investors, but research for this study has identified the following main categories and players:

a) Institutional investors

This group is constituted of banks and pension funds. Whilst pension funds have restrictions with regards to investment in the retail real estate asset class, banks have the possibility via their portfolio of financial products (funds) to invest in retail real estate. In this context retail real estate is seen as an attractive diversification vehicle in a real estate portfolio. Retail property is associated with higher degree of volatility than residential real estate, but with lower volatility than other commercial property. In fact it was stated in the interviews that retail real estate historically and in reality has demonstrated lower volatility than what is the actual impression of most investors.

Credit Suisse is an important investor in Swiss retail property with currently 12 shopping centres in their portfolio. They also own a centre management company in order to control the management and development of their centres.

b) Retailers

The largest grocery retail groups Migros and Coop are considerable real estate investors, mostly in order to control their own supply of real estate for their own retail operations. Migros do however go beyond their own direct needs in their investment strategy and have e.g. invested in shopping centres such as the new Westside (Bern).

Coop have recently divested a large portion of their real estate and pursued a strategy of owning only the property that is not easily replaced, is essential for their operation and where securing a particular location long term is essential.

Another important retail real estate investor is the Jelmoli group, a retailer (department store in Zürich) come real estate company with a considerable portfolio of retail property across Switzerland. There are currently negotiations taking place for a sale of the Jelmoli real estate business to SPS Swiss Prime Site, one of the most important Swiss real estate companies.

Some motorway station retail property is owned by retail- and gastronomy operators, but this is the exception rather than the rule.

c) Real Estate companies

The larger Swiss real estate companies such as PSP and SPS Swiss prime Site invest in retail property or in multi-use property which includes retail.

d) Airports & SBB

Considerable landlords are also the airport companies, primarily Unique Zürich Airport and Geneva International Airport. Both companies manage actively the retail offer in their airports, airside and landside, as well as the connected rail stations. Retail space is mostly let as concessions with a specified duration that are awarded via public tender processes.

The Swiss national rail company SBB (Schweizerische Bundesbahnen) is a large real estate investor and landlord across the country owning and managing some 3,500 buildings, many of which are located on or around the almost 800 rail stations, small and large. With their creation of so called Rail Cities in the top 8 stations they have developed successful retail environments for people on the move. The commercial

offer in the second tier of larger rail stations is currently being extended as part of SBB's strategy for so called "Mehr Bahnhöfe" ("rail stations and more").

e) Private investors

Not to be forgotten, a large proportion of Swiss real estate is owned by private investors, often passed on from generation to generation. The Swiss real estate ownership landscape is very fragmented and lacks in systematic and professional management. In city centres, villages and tourist destinations retail real estate, often multi-use buildings including retail, is to a high degree owned by small companies or individual owners / investors. This situation with considerable numbers of stakeholders with differing interests and know-how makes overall planning and development initiatives - destination management - challenging or even impossible.

1.3.1.2 Retail real estate inventory and supply

Providing a full overview of the Swiss retail real estate inventory is for this study not the purpose, nor possible. Certain types of retail property of importance have however frequently been mentioned in the research and deserve mentioning.

a) Shopping centres

In Switzerland there are more than 100 shopping centres with more than 7,000 square metres surface (ca. 1,773,000 square metres in total) and another 120 smaller centres. The larger centres generated retail turnover of CHF 12.7 billion in 2007 (Detailhandel Schweiz 2008, IHA – GfK AG). The centres are mainly located out of town or on the city edges.

It is the general opinion of both market analysis authors and interviewees that the Swiss shopping centre market is over saturated and that a number of centres are in urgent need of refurbishment and concept revision. Newer centres such as Sihlcity in Zürich and Westside near Bern appear to be struggling in achieving the budgeted visitor frequency and / or retail turnovers. Opinions differ with regards to the main reasons for this and whether or not it is merely due to "teething problems" or rather conceptual and structural issues. There is however consensus regarding the need for upgrading and

stronger profiling of existing Swiss centres as well as the expectation that only the conceptually strongest and well managed will survive long term.

b) Airports and railway stations

Due to their central location and exceptionally high and relatively stable traffic airports and rail stations represent very interesting platforms for retail operation and – development. On the basis of trends in lifestyle, including increased mobility and shopping and eating “on the go”, these channels can be considered of utmost importance for future retail development. Short to medium term landlords plus retail and foodservice operators in rail stations additionally benefit from a competitive advantage related to their extended opening hours compared to other retail.

c) Tourist destinations / resorts

Switzerland is a tourism nation and offers tourists and visitors from an increasing number of countries fantastic experiences in sports and outdoor activities as well as beautiful sceneries. There is however a lack in the overall planning and structuring of the offer to visitors, most evidently lacking are the areas of retail offer and services that compliment the holiday theme / purpose. Several new resorts are under development in Switzerland, mainly in the alp regions; they represent an opportunity to plan a complete concept of holiday adventure and -experience, services and commercial offers. Among existing tourist destinations it appears that only the Weisse Arena Gruppe AG which manages the Flims / Laax / Falera region is attempting to apply a true destination management approach in their development efforts. Other destinations have not yet made this important step forward and operate to varying degrees uncoordinated and fragmented as per traditional and historical development patterns.

1.3.2 Recent and future developments

As earlier mentioned Switzerland is in the top league with regards to retail surface per capita and likewise with regards to retail spend per capita.

In the recent years retail property returns have been generated mainly from rent income, but Switzerland is forecasted to be one of very few markets not to show negative capital

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returns in one out of the coming five years (however only marginal growth of less than 1%). (European Retail Property – the squeeze after the crunch, King Sturge, 2009).

Any new addition in retail real estate surface is expected to either be burdened with considerable risk, or if profiled and positioned successfully, to cannibalise existing retailers and / or centres. The general opinion is that the current financial and economic environment will lead to a clean-up in the Swiss retail market; the strongest and well managed will survive, so will the niche players with an exceptional concept. The mid range in terms of centre- or operation size plus the retail operations with no clear profile are at significant risk and numerous casualties are to be expected.

A significant challenge for any developer going forward will be the restrictions on parking facilities related both to any new builds and to any significant refurbishment projects that involve structural changes of existing shopping centres. In recent years restrictions have been implemented permitting only limited numbers of parking spaces to be planned. The restrictions apply not only to parking spaces, but also to the frequency of private vehicles in and out. Access by public transport is favoured; thus representing a planning element of increased importance for developers to consider.

Surface per retail unit has been increasing in recent years, partly due to branding and image management requirements, and productivity per square metre has been declining. Retail turnover growth is since several years lower than increase in costs due to larger retail space. Higher degree of automation and use of new technology has provided cost savings in personnel, but these savings do not compensate higher rent costs (Retail Outlook 2009, Swiss Issues Branchen, Credit Suisse, Dec. 2008). In light of the current economic situation, the unpredictability of consumer behaviour and the impact on consumer spending, cost and productivity management will be of the utmost importance for retailer performance and competitive ability.

In shopping centres the highest retail turnover per square metre is achieved in exceptionally high frequency locations of which airports and main rail stations are the

best performers (this is retail that can be classified as “travel retail” - retailing to travelling consumers).

Table VIII Retail sales per square metre – top 6 shopping centres

Shopping centre	Turnover 2007 in CHF million	Turnover per m2 in CHF
Shop-Ville Rail City Zürich	415.0	24,103
Zürich Airport shopping centres	435.1	19,777
Glattcenter, Wallisellen ¹⁾	647.6	14,926
Zentrum Oberland, Thun	126.5	14,761
Sälipark, Olten	101.5	13,533
Neumarkt Altstetten, Zürich	108.4	13,506

¹⁾Largest Swiss shopping centre in turnover terms and second largest in surface.

Source: Detailhandel Schweiz 2008, IHA – GfK AG

According to the publication Detailhandel Schweiz 2008 the most retail turnover per square metre productive rail station in Switzerland is Bern with CHF 27,491 per m2 in 2007. All the seven largest rail stations in retail terms achieved turnovers per square metre from CHF 13,100 upwards, four performed above the CHF 20,000 mark.

In shopping centres across Europe, not only in Switzerland, one gets the impression “one size fits all” – the same retail offer in every centre. According to Jones Lang LaSalle (European Shopping Centres: One Size fits All? August 2008) the differentiation and sharper profiling needed to be competitive for the future is likely to come via other means such as the creation of a so called “Third Place” (a place for socialising); a drive for quality and distinctiveness via lifestyle oriented leisure offers / entertainment and catering. Such development is also supported by social and lifestyle changes in the society. GDI in their report “Shopping and the City 2020” (GDI Studie Nr. 26, 2007) suggest that “social shopping” will be more important in future than “lonely shopping”.

Today the most common rental agreement model in Switzerland is based on the concept of fixed rent per square metre, with yearly index adjustments. A model less common,

but applied in some cases, is the turnover related rent payment model where rent is calculated as a percentage of achieved retail turnover and so fluctuates with retailers' sales performance. In airports (concession business) this is the common model combined with a fixed minimum rent according to various calculation models. In shopping centres and high street locations this model is less applied.

Among interviewees it was, with a few exceptions, generally the opinion that a contract based on fixed rent is the better model as it provides predictability and certainty at all times concerning expected rent income or rent payments.

2 Possible impact on Swiss retail real estate investment markets

2.1 Consumers: More demanding

Consumers are expected to be increasingly demanding. The individualisation trend and unpredictability of consumer behaviour will continue; traditional consumer segments will disappear or become more fragmented. Consumers will be more selective in their purchase decisions and will be driven one time by emotions, one time by ethics, the next time price oriented. (Detailhandel Schweiz 2015, GDI Studie Nr. 23, GDI 2005).

The current economic crisis will lead to increasingly price sensitive consumers, but product and price are not the only important elements; in future additional elements such as services / added value, overall experience, leisure activities and entertainment will play important roles in the shopping environment.

Demographic changes (ageing population) and lifestyle changes will influence demand for services as add-ons to shopping. Younger generations are likely to fully benefit from deflationary prices in their preferred products and services such as communication, entertainment, interactive games, travel and fashion. (Detailhandel Schweiz 2015, GDI Studie Nr. 23, GDI 2005).

An attitudinal shift back to values is expected. The demand for authenticity and quality will be strong, so will concerns around sustainability and ecology. Health concerns will additionally influence consumers in their choice of products, services and activities.

2.2 Occupiers: Survival of the fittest

Competition between retailers and between retailers and other sectors is expected to be harsher. Continued internationalisation of important brands will put locals under pressure and the quest for consumers' disposable income will be fierce also in competition with health- and leisure activities.

A price adjustment process is likely to take place forcing Swiss retail prices, which are often considerably higher, in line with other European markets.

Size matters; it is expected to be more and more difficult for independent retailers to survive. Branded retail outlets will dominate; either in the form of mono-brand boutiques or larger group's own store-brands. The exception is likely to be retailers with

a distinct - possibly niche - concept with strong identity. A niche development phenomenon can be expected both in the grocery / fresh food sector as well as in other areas such as locally manufactured and crafted products and ethnic specialities.

2.3 Investors: Active Asset Management

There is general and strong consensus from the sample survey and authors of Swiss market reports that new retail surfaces (new builds) will cannibalise existing surfaces. Another clear expectation is that rents will come under pressure and a shift towards a “tenants’ market” will take place where occupiers are expected to become increasingly demanding with regards to space requirements and the rental deal.

The term “survival of the fittest” will thus apply also in the investment markets. Investors / landlords must to a higher degree engage in active and pro-active asset management built on sound value creating strategies to enhance performance and secure returns. Investors in retail real estate are primarily driven by developments in the financial markets with cost of capital and alternative assets’ performance as important influencing factors in the investment decision making process. Traditionally their role and involvement as “landlord” was limited. In future their role is expected to become more complex as the successful investor will need to build an understanding of and get involved with consumer and occupier markets to a higher extent than before.

Per Jones Lang LaSalle “due to the uncertain economic environment, transparency and relative performance are expected to be key drivers for investors going forward”. Diversified ownership structures are expected for shopping centres and retail property investment specialists are emerging. Investors and institutions that are more generically invested and who take interest in retail property are increasingly supported by strong third party specialist property- and asset managers to gain access to important retailing know-how. (The Big Five, Shopping Centre Investment in Core Western Europe, Jones Lang LaSalle, November 2008).

In the following sections the author attempts an interpretation of the impact of the foregoing market analysis and identified trends and conclusions referred to in this study.

This interpretation of possible impact is reflected in proposals for where and how active and pro-active asset management could be applied in response to market changes, threats and opportunities.

2.3.1 Location, location, location – exploit or generate frequency potential

Environmental considerations and –restrictions plus lifestyle changes dictate a need to bring shops and services closer to the consumers, if possible right on their usual path to and from work or other frequently travelled distances. No doubt access to potential customer volumes is going to be one of the strongest competitive assets going forward. The thriving retail business in well managed airports is an excellent example. Significant volumes of people are caught en route and converted into customers; a phenomenon that continues to grow even after the abolition of duty free prices within the European Region which represented the main price advantage and original reason for shopping in this channel.

Successful investment in retail real estate will require investors and developers that understand how to either create traffic or exploit existing traffic volumes.

High frequency locations are mainly found in urban centres and major agglomerations or along the main routes to and from those. The future is about bringing shops to the people, it is therefore not expected that new retail property development initiatives will take place outside such areas. Greenfield development is most likely a thing of the past. There are already signs in other countries that shopping centres are moving down-town in spite of restricted access to suitable land. Most likely any new shopping centre in Switzerland will be developed in smaller formats in central locations with excellent access to public transport systems.

On-line shopping aside – the ultimate way of bringing shopping closer to people - there are locations along people's regular paths that offer considerable potential for commercial activity and thus should attract investors' attention. Airports have already been mentioned, but there are other locations that most likely offer greater potential due to their potential to capture vast volumes of consumers - and that every day. Travel,

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Transportation and Tourism are business sectors that attract huge volumes of people every day of the year. With growing mobility in the population, more people commuting to work, increased access to public transportation systems which in Switzerland provide excellent reliability and cover, smart investors and retailers will aim to capture this potential consumer volume on their path, responding both to convenience- and timesaving needs as well as emotional and impulse driven shopping decisions.

Railway stations are of course perfectly located in this regard and traffic projections in Swiss rail stations point to continued significant growth. SBB is already exploiting the commercial potential in their stations; the sample survey has revealed a general opinion that unexploited business potential exists in the rail stations that could be developed by applying more specialised retail skill in the asset management of rail station real estate.

Petrol stations are currently attracting a large number of daily visitors; increasingly they thrive on offering convenience retail shopping along their core business of selling fuel. Their competitive advantage due to extended opening hours is unquestionably a major reason for their attraction along with attractive and easily accessible locations along major roads and near cities and agglomerations. Liberalisation of opening hours and initiatives to reduce CO2 output may represent threats to this business. The general opinion is however, that there will always be significant numbers of cars that need petrol (or some other form of future fuel) and an interesting customer base is therefore likely to persist at petrol stations.

Evidence suggests there is a tendency for the petrol companies to team up with professional retailers and move away from their own retail activity. One reason mentioned is that operators for whom retailing is core business, have better access to merchandise at attractive prices, can achieve better margins and thus operate more profitably. Interestingly Migrol, the Migros group petrol company, is making a strategic move towards new forms of energy and fuels as focus of their own Migrol branded business and is teaming up with oil company Shell to manage their - or a large part of – their stations together with the Migros group Migrolino convenience retail brand.

Motorway traffic is potentially another interesting source of consumer frequency for retail- and gastronomy businesses. In discussion with specialists it appears however that the potential for significant retail business along motorways is limited. People simply do not stop unless they need petrol. And when they stop their demand for retail offers is limited compared to fuel and gastronomy. Migrolino, who are currently opening new concepts of combined convenience retail and gastronomy at motorway stations appear so far to be experiencing a somewhat slow take-off for the concept, but seem relatively confident it will be successful. The research for this study indicates that for retailing to be successful in some magnitude along motorways i.e. not only with a convenience grocery shop offer, the location has to be relatively near larger agglomerations and very well connected. In such locations it may be possible to create a “destination” and attract visitors for the purpose of shopping alone.

Border crossings represent another location with exceptionally high traffic volumes. For this study this type of location has not been analysed in any depth, but it is obvious that Switzerland, a non European Union country, could theoretically establish duty free border shops. Such establishment would of course be seen as extremely provocative by neighbouring EU countries and would be a very hot subject politically. The project to establish Swiss duty free arrival shopping in the airports is already pushing limits relatively far. The traffic potential including increased commuter activity across borders, is however significant and with the right product- and price proposition could represent interesting investment potential.

Tourist destinations and tourist resorts attract large numbers of visitors with an attractive spending potential each year. There is general consensus that the tourist destinations represent a very interesting potential in retail, particularly, and gastronomy terms, but there are severe operative challenges that would need to be tackled in order to be successful in these locations. The visitor volumes fluctuate significantly over the year; most evident is the difference between winter and summer seasons, but even within the main seasons there are swings. Additionally the profile of the visitors changes with the time of year; the winter visitor generally has a higher spending power than the summer visitor, but again here, there are swings within each season. Already

the mentioned challenges are considerable in operational- and profitability terms, hereto come the challenge of access to suitable property for retail business and political resistance in the local community. The conclusion so far suggests there is potential for development; the tourists are not (by far) being served to their expectations and to their potential, but there are significant challenges that would have to be overcome in order to capture this market both from an operational and an investment perspective.

2.3.2 Know your market – lifestyle based segmentation

In times of tougher competition those will survive and thrive that manage to establish a clear profile with own identity founded in deep knowledge of their market. The investor must have the courage to define their target market and cater to this market persistently and consistently. Trying to be everything to everyone is a formula of the past, it is time to be specific in terms of the clientele to be addressed and to commit to the chosen positioning through mix of products and services, retail price levels, environment and design, marketing and communication and staff training and -management.

The customer must be regarded as the end and all and should be the ultimate driving force in the operation of retail centres or –agglomerations as well as individual shops and restaurants. Understanding what drives consumer behaviour is essential to successful retail operation and indirectly, to a successful retail real estate investment. Traditionally consumer markets were segmented according to socio-demographic markers such as age, gender, level of education, income groups etc. Today, as described before, not only demographic changes, but the unpredictability of the “hybrid consumer”, the increased mobility of the population, the scarcity of available free disposable time for active people and changes to lifestyle and consequent changes in preferences of products, brands, services and activities must form an important base for any positioning and profiling decision.

It's about time! Time is one of the scarcest and most valuable resources available to modern people. Understanding how consumers prefer to use their time, help them get value out of their free time and make sure they avoid wasting valuable time could represent the key to developing successful retail concepts. The aim should be to create

customer satisfaction and -loyalty through the perceived added value arising from saving time on non preferred activities, thereby gaining time for the customers' preferred activities.

What is shopping? A necessary task, a boring duty, an exciting adventure, a social event? The term "retail therapy" has not occurred out of nowhere; it has been suggested there is research to support the claim that shopping releases endorphins, "happy hormones", in the brain and create a thrilling feeling and uplift to gloomy moods.

The key to time saving and time gaining benefits for consumers could be to define shopping based on the underlying motives for purchasing. What products and services are needs driven and which are wants driven? It has been suggested that people's price sensitivity is much lower in the wants based categories; the "must haves", once fixed in a person's mind, are exactly that: musts. In the German language one can make the distinction between the two basic shopping motives through the worlds "einkaufen" and "shoppen". "Einkaufen", or "to buy" is used for the more functional task of supplying goods for daily use and regular running of a household. "Shoppen", "to shop", suggests a lot more emotion and describes an event, an experience, pleasure.

Functional shopping is in most cases a rather boring and tedious task or duty, but it is necessary and essential for people's existence. Developing concepts that help consumers perform needs based shopping efficiently and hassle free at competitive prices and to adequate quality standards is an interesting opportunity for retailers and investors. The needs based retail market will always exist in some shape or form and is relatively resistant to economic fluctuations. Current developments in so called convenience shop concepts support this claim. Services that add value or save time must be considered as important potential add-ons to the retail offer in serving the needs based consumption market.

Wants based consumption is more unpredictable, but important due to the underlying strong driving emotions and therefore less price sensitive nature. The retailer, the centre manager and the landlord that finds the key to their customers' heart has the winning

formula. This person or this company understands that shopping is about being inspired, about choosing to spend valuable time in a retail environment rather than on cultural, sports or other leisure activities. The successful operator delivers an experience which is competitive in terms of pleasure and enjoyment compared to all other leisure activity alternatives available to a consumer. The consumer selects shopping; it's a conscious choice.

Whether targeting a wants based or a needs based market, the retailer and the investor must invest considerable time and effort in market analysis to establish the optimal offer mix in retail, gastronomy and services, the appropriate price positioning for their clientele and their catchment area and the optimal assortment of brands and products to fit. The suitable environment in architecture and supporting infrastructure and the design of decor and communication must be established to complete and compliment the concept. A fundamental change in approach to new retail centre development has to take place where the concept and target groups should be established first and the real estate be designed to support the concept. In the past real estate has often been designed first, then the commercial concept which consequently has to be fitted into premises that are not optimal for the purpose of activity they are supposed to house. Developers and investors need to get involved with their target consumer market at early stages and, if not available internally, get access to retail and gastronomy competence to support in the development process.

2.3.3 Clear positioning – differentiation and added value

Consumers of the future are extremely well informed due to huge and frequent flows of information everywhere, at all time. Consequently consumers are also confused and unsure about how to select and differentiate one offer from the next. Apart from understanding customers, their motives and their preferences the sample survey has clearly indicated that successful future retail operations are based on strong profiling, creating identity on the basis of clear and consistent concepts that consumers understand. Commercial centres or retail concepts with identity are more visible in a competitive market and make selection easier for consumers.

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An investor in future retail centres must consider how to create their point of difference. The retail offer is of course core, and clever planning and selection of tenants in consistence with the chosen concept is essential. The occupier market does however not always present the optimal mix of brands; the tendency of consolidation and “sameness” is present in most European countries. Other means to create a profile are the addition of added value through interesting gastronomy offers, convenience based services, cultural offers or other forms of entertainment, sports and leisure activities. Additionally the retail real estate architecture can add an important element to the profiling of a centre; careful attention must however be given to balancing design and operative commercial needs. Neither architecture nor swimming pools are guaranteed generators of retail turnover.

As mentioned before, trying to play safe and aiming to be everything to everyone is not likely to be a successful formula for the future. Concept and profile planning will be essential and, once determined, all aspects of commercialisation and communication must consistently reflect the concept to provide the needed clarity for consumers and build a strong profile and reliable image over time. Enough flexibility must however be built into the management of a centre or retail operation to allow for adaption to changes in consumer demand. Change is a future constant and must be taken into account in any business venture.

It is expected that the most important elements in building retail centre profile in future will be the gastronomy offer and elements that add enjoyment to the shopping experience. Successful centres of the future are likely to be those that are able to provide an environment for socialising, a place to be..... and shop. Exactly which means are required to create such socialising platform is debatable; recent developments show that the high pull-effect of culture- / entertainment- or leisure offers may not necessarily benefit the retail business of a centre. The optimal additional offers or features of a centre may not yet have been found in Switzerland.

2.3.4 Increase productivity – mix planning and tenant selection

Two important factors that influence retail surface productivity have been identified: retailers demand larger surfaces per shop and rents are likely to come under pressure due to the current economic downturn.

Active space management will increasingly be needed from landlords, in the planning phase of any new development, but also on an ongoing basis in response to changing market conditions or to handle non performing individual operations (tenants). Tenants should be selected first and foremost in response to consumer demand in the defined target group, and simultaneously, based on their reliability as a competent and performing retailer who, not only serve their customers, but contribute value to the overall image of the centre.

Space planning such as conversion of non-used space into rentable space, optimal placement of complimentary retail outlets, tactical placement of gastronomy offers within the retail areas and careful planning of visitor flows is critical to secure efficiencies and maximised turnover. Efficient centre management must handle space allocation matters on a continuous basis, always aiming to improve or to respond to occurring challenges. Within a centre location in relation to customer flows, other retailers and infrastructure is a critical factor for any retailer's performance and competent centre management must be engaged to make the most of their potential.

Not only existing space must be maximised; pro-active asset management calls for the assessment of potential for expansion - at the right time, in the optimal scale.

Centre management must be informed and competent in the field of consumer trends, brand positioning and brand popularity. Selecting the tried and tested, or e.g. the subsidiary brand of one of the largest grocery retailers may bring a certain sense of security, but is it always the solution that provides the optimal customer offer and ultimately, the maximised returns? Are the selected retailers for example professional enough in their staff management, are they innovative, reactive and pro-active when times are difficult, do they have access to the hottest brands and products in their category and do they apply active assortment management, do they invest in shop fitting, merchandising and marketing to match the overall concept and standards of the

centre, are they financially solid and reliable rent payers? Operational excellence must be demanded from tenants, but likewise the investor must demand such excellence in their own team or from the investor's representative e.g. a centre manager.

Marketing and communication are central in attracting customers and in building and maintaining profile, image and reputation. As part of professional retail centre management a competent marketing team must ensure corporate identity and –design is developed in line with the retail- or centre concept and must initiate and drive activity to attract visitors. The team must work closely with retailers and gastronomy operators to create maximum footfall past the stores and thereby assist them build visitor penetration into stores and perform their role of converting consumers into customers and maximising spend rates. Given the trend of shopping becoming increasingly emotional and traditional media having lost its power due to communication overflow, understanding and applying neuro-marketing techniques appealing to conscious and sub-conscious shopping triggers e.g. via stimulation of senses such as sound and smell provides a fascinating opportunity for those who know how to apply them.

2.3.5 New business models – integrated processes

The standard model in Swiss retail business is rent of premises based on an agreed fixed amount per square metre which is index adjusted annually. Only rarely has a concept of turnover related rent payments or other models that promote sharing of risk and returns between landlord and tenant been implemented.

Investors prefer stable and reliable income streams and are seldom willing to carry any part of eventual downside risk related to the tenants operation. There is a very strict division of roles and responsibilities; the investor's business is real estate and infrastructure provision and maintenance, the retailer's role is to serve customers and pay rent. Evidence suggests however that there might be untapped potential in other models based on sharing of risks and rewards between the parties. Stronger ties between tenants and landlord arising from a contractual relationship based on a partnership concept, where risks and rewards are carried according to performance on both sides, could prove beneficiary to all involved. Roles and responsibilities could be allocated based on each party's skills and competence and ability to influence the

designated area of responsibility. The landlord is e.g. responsible for strategic development, bringing visitors to the centre, providing overall centre standards plus -ambiance and efficient visitor flows in the centre, preferably towards the retailer's shop. The retailer is responsible for attracting the visitor's attention, converting him or her to a customer and creating and maintaining customer satisfaction and -loyalty. A rent model is designed to reflect the performance of each party and includes the necessary flexibility to prevent financial paralysation of the retailer when times are bad in return for landlord participation in retailer's earnings increase when times are good. Further elaboration of this subject will not be made here, but various models exist in the airport world that could provide interesting upside earnings potential to a retail real estate investor in return for alleviating the retailer of some financial pressure when times are less favourable.

The sample survey has identified an untapped retail business potential in tourist destinations and -resorts. Simultaneously significant operational challenges have been identified as the most likely reason for the low degree of response to market demand in these locations: strong seasonal swings in visitor volumes and -profiles, limited access to real estate and local politics / resistance. It appears that professional and well founded destination management could solve some of these problems. Applying a global and elevated perspective to the positioning and strategic development of a destination maximising the natural assets of the location, protecting and promoting local heritage and culture and providing capital and general support to coordinated and consistent development could be a very interesting way forward, not only for any commercial activity in a destination, but for the local community as a whole. Interestingly and surprisingly it seems that only the earlier mentioned Flims / Laax / Falera area, marketed as "Laax" by the Weisse Arena Gruppe, is so far attempting to apply such models.

Efficient destination management would require politicians, businesses and real estate investors to cooperate long term on the basis of a common vision towards common goals. Given Switzerland's location at the centre of Europe, easily accessible from all larger cities, strong image as a safe and politically and economically stable country and

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the phenomenal nature resource it possesses, it should only be a matter of time before more destinations start applying systematic and professional destination management.

3 Selected opportunities

3.1 Identified possible investment areas

Research for this study has revealed potential for retail or combined retail- and gastronomy business development, both in terms of markets, formats and locations. In summary they can be described as follows:

- Extended commercial offers in Swiss railway stations;
- Convenience shopping agglomerations located around new market entrants Aldi and Lidl benefiting from and strengthening their frequency generating power with a complimentary retail offer;
- Local convenience shops in village centres or residential city zones;
- Petrol station convenience shops;
- Motorway station convenience shops and, eventually depending on location and possible catchment area, extended retail and gastronomy offer;
- Refurbishment and repositioning of existing shopping centres;
- Shopping centres with wants based and pleasure oriented positioning in city centres;
- Extended retail- and gastronomy offers in tourist destinations and –resorts.

Some of the identified opportunities will not be pursued in any further detail in this study, the author has selected to elaborate on four possible business development areas. On the basis of the undertaken research and sample survey possible concepts and business models with future potential which could be of interest both from an investor perspective as well as from a retail / gastronomy operator's point of view, will be described. The chosen four areas have been selected due to their uniqueness, their market potential or low degree of general attention so far.

3.2 Needs based shopping – “functional” shopping

3.2.1 Railway stations

Swiss national rail company SBB (Schweizerische Bundesbahnen) operate almost 800 railway stations. A real estate division, SBB Immobilien, is fully integrated in the SBB

organisation and is responsible to ensure that sufficient and appropriate real estate is available and optimally managed and maintained to support SBB's core business; transportation of persons and goods as well as generate important income streams for the group. Over recent years SBB Immobilien have identified and explored additional commercial real estate potential through retail- and gastronomy offers directed at station visitors. Developments in the 8 largest stations where the so called Rail City concept has been implemented confirm the commercial potential. Furthermore SBB have identified some 22 next tier rail stations where their concept of Mehr Bahnhof ("Rail station and more") has been or is about to be implemented.

Railway stations are expected to remain as essential points of departure and -arrival for public transportation and passenger frequencies are expected to grow at significant rates in the years to come. Over 322 million passengers were transported by SBB in 2008 an increase of 5.2% year-on-year (www.sbb.ch). Due to increased mobility, not only in the Swiss population, but also in neighbouring countries, as well as growing environmental concerns rail as important transportation means is expected to continue growing, and SBB has various development projects underway to enable the handling of traveller volume increases.

In particular the segment Mehr Bahnhof has attracted the author's attention as stations with commercial development potential. This potential varies significantly however due to large discrepancies in visitor numbers ranging from about 10,000 visitors per day in Délemont, Lugano and Visp to 45,000 in Biel, 65,000 in Aarau, 80,000 in Olten and 135,000 per day in Zürich Stadelhofen (Brochure Mehr Bahnhof, www.sbb.ch). Whilst volumes fluctuate with time of the day, day of the week and seasons, the regularity and the sheer volume of passing potential customers is second to none. In commercial terms this huge volume of potential customers, represent an incredibly valuable asset which provides rail station retailing with a significant competitive advantage. SBB as investor and landlord have the possibility to provide exactly what market trends dictate: availability of retail, gastronomy and services directly on mobile people's paths.

Real estate facilities vary greatly in the stations; many are old buildings with ample character and architectural heritage, but less suitably structured for today's needs, both as platform for public transportation management and any commercial activity. Other stations are more modern, but not designed for retail purposes. With increased passenger frequency in the years to come, SBB will also require extended space for their rail transport operation purposes. It is evident that rail station buildings present some challenge in the planning and implementation of extended commercial activity, but with flexible concepts and clever planning such obstacles can be overcome in many cases.

Research suggests that a number of possible initiatives could be explored to pursue the retail- and gastronomy business potential in the Swiss rail stations. Some of the ideas mentioned hereafter were developed as part of a case study for the purpose of evaluating a real estate portfolio strategy at Curem during the winter of 2009. The presented ideas were the author's contribution to the group's work.

a) Know your customer and exploit the customer potential in each location

Thorough market analysis should form the part of any new retail development. Rail station visitors will vary in terms of socio-demographic profiles, purchasing power and the mix and weighting of different station user group segments must be understood in order to develop the appropriate offer combination of products and services in each station. Some stations will have large numbers of tourists, some will primarily have commuters who leave in the morning and come back in the afternoon. Each main visitor group will have different needs and the basis for the planning of retail- and gastronomy offers must be a good understanding of the potential customer base in each single location, in each single station.

b) Assess and exploit the value of time

A tourist will not have the same reasons for shopping as a commuter, a commuter will not be motivated by the same reasons for shopping or have the same needs when he/she leaves in the morning as when they return in the evening. An example of how station

visitors could be segmented is shown in table IX with an attempt at identifying the value of time and the amount of disposable time in each segment.

Table IX Customer segmentation in rail stations, an example approach

Potential customers	Commuter “Departure”	Commuter “Arrival”	Travellers / Tourists	“Meeters & Greeters”	Shoppers
Reason for visit	Transportation	Transportation	Travel	Bring / pick-up	Shopping
Shopping motive	Convenience Impulse	Need Convenience Impulse	Convenience (Passing time) Impulse	Passing time Impulse	Need Impulse Socialising?
Dwell time / available time	Time poor	Time poor	Time poor / Time rich	Time poor / Time rich	Time rich
Travel duration	Short	Short	Medium - Long	-	-
Price sensitivity	Medium	Low	Low	Medium	Low
Offer	“Grab & Go”	Pre-order / Pre-packed	“Browsing”	“Browsing”	Complete

Source: T.B. Mansfeldt for Curem Case Study II, Group E, 2009

c) Modular concepts with identity – ideally “one-stop-shop”

According to customer profiling and importance of each segment in the overall mix retail and gastronomy concepts should be developed to respond to each segment’s needs and presence of concepts in a modular system should be planned according to importance of the respective customer segments in the individual station. A minimum offer should be available in all stations and add-on modules should be offered where the potential customer base is large enough. Within each module width and depth of assortment can be adjusted according to the visitor base. Ideally, where real estate structure permits, the retail and gastronomy offer should be presented in a layout and environment as one shop – walk-through concept if possible – providing maximum efficiency with only one point of payment for each customer. The commercial offer should be presented in contemporary style and a design and communication concept must support the overall concept in building image and profile.

The concept should create a point of difference and thereby competitive advantages beyond the extended opening hours currently benefiting rail stations. The attraction of retail and gastronomy conveniently located on commuters’ and travellers’ paths as well

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as the offer of time saving services must be strongly promoted to create long term competitiveness and uniqueness.

d) Time saving and life simplifying services

A future retail concept in rail stations should respond to consumer needs in terms of time saving / time gaining and life simplifying services. Examples of such could e.g. be dry cleaning services; drop off in the morning, pick up on return, pre-order or subscription services such as e.g. Standard pack B (one croissant, one coffee, one newspaper) for “grab & go”, Fr. X.- per month pre-paid.

Rail stations would also be perfectly located to offer a one-stop-shop health / beauty / wellbeing centre with drop-in service or short term booking possibility through one common reception. Services could be doctor’s practice, dentist’s practice, hair dresser, beautician, massages, fitness (space allowing) etc. Extended opening hours should apply like for the retail and gastronomy operations.

e) Operational efficiency

One operation (across all or a number of stations) managed by one major highly professional retailer or combined retail / gastronomy provider would provide the potential for efficiencies in concept development, assortment planning and –buying, staff planning and –management, market research and reporting.

f) Integrated processes

Landlords do not prefer tenants to be too dominant and too important as it is considered high risk to leave too large portions of business in one hand or too difficult to handle poor performance tenants if they are too important. Whilst there is clearly evidence to suggest that such concerns are justified, there could perhaps also be justified reason to consider size as an opportunity rather than a threat? An expression like “many cooks spoil the broth” could be applied in this scenario – many parties to a deal can prevent efficiencies, add complexity and spoil chances of reaching common and overriding goals. Such models will not be elaborated for this study, but there are reasons to believe that it could be worthwhile to explore a model where fewer parties are involved in the operation of commercial activities in rail stations. Such solutions could provide

potential for close cooperation between landlord and operator(s), high degree of professionalism in the operation throughout and flexibility and ability to counter or exploit swings in demand and react to market threats in a coordinated manner, based on partnership principles.

3.2.2 “The local”

An ageing population, hectic lives for the active population and increasing concern with environmental issues such as CO₂ output represent trends that speak in favour of local supply of groceries and household basics. In older times the local store was not only an important supplier of necessary merchandise for households to function, but also the village meeting point where news and gossip was shared. The sample survey signalled a return for “the local”, the “Quartiersladen”, and an interesting potential for a local retail offer to again, serve as a “third place”, a social platform and important service provider for senior citizens on the one side and as convenience outlet for other age groups due to extended opening hours and easy access. Such shops exist already to some extent, and there are numerous examples of locals that have been given suspension from the strict opening hour legislation. With the expected liberalisation of opening hours within the foreseeable future, existing local shops will lose some of their competitive advantage and some of the more traditional shops will struggle to survive. The underlying market potential should still remain however, and grow rather than shrink, so with the right positioning and an offer that includes home delivery service new initiatives in this area should prove successful. It could be argued that the development of a contemporary concept including a light gastronomy offer could have a good chance of outperforming the older and traditional concepts in village centres today and that a potential for more such shops is developing.

3.3 Wants based shopping – “pleasure shopping”

3.3.1 Downtown “pleasure pure” shopping centre

Shopping becoming increasingly emotional, brands and branding growing in importance across all age groups, consumers looking for added value and enjoyment in

their free time, the strong motivational drivers behind shopping for “must haves” all argues in favour of exploring “wants based” shopping. In the following a rough proposal, established on the basis of research and the sample survey, related to the development of a “pleasure shopping” retail and gastronomy centre is elaborated.

a) Location

A shopping centre responding to a pleasure oriented clientele with “wants” as the main shopping motivator should be located in city centres, easily accessible and well connected with high frequency or high frequency potential. The location must reflect the positioning of the centre.

b) Target groups

The centre should aim to attract male and female consumers with active lifestyles, age profile 30 – 60, higher education, above average income groups.

c) Concept: A shopping and socialising venue – a place to be seen.

The “pleasure pure” shopping centre should meet the following wants, and more:

Meet the girls for lunch and shop. Hang out with the guys over a beer whilst the ladies shop and stock up on wine and some nice treats for tonight’s dinner on the way out. Drop in and get some new white shirts, check out the new iMac and grab some lunch on the way. Meet up with our friends for lunch on Saturday and perhaps do some shopping. I simply have to get the new brand A handbag before they get sold out, Lisa got hers at “Pleasure Pure’s”.

The centre must be planned, marketed and managed as a “destination”, a place to spend and enjoy time.

An attempt should be made to create the much debated experience- or entertainment element via the shopping itself and, important, the gastronomy offer, i.e. not via other more or less related offers and activities. The reason for a visit is shopping, browsing and letting oneself be inspired, enjoy meeting other people, enjoy a meal or simply just be there.

Substantial market research and work on profiling should be undertaken to develop the concept and the design, marketing and communication programmes to match. The centre must have a strong identity and offer maximum appeal to senses, impulse and emotions. Price positioning should, given recent economic turmoil, probably be medium / medium high, the exact level dictated by research.

d) The offer

The retail offer should be composed of fashion, fashion accessories and leather goods from strong Swiss and international brands complimented by perfumes and cosmetics retailing. The aim should be to offer well known brands only rarely found elsewhere or provide a platform for new brand launches in Switzerland. The centre must offer a point of difference to other centres and competent retail brand- and assortment management will be essential in achieving this goal.

Interior decoration and household design products, some “useful”, some “not so useful, but nice” could be included in the offer, especially if cleverly presented in connection with the food hall.

The gastronomy offer will be critical for the success of the centre and in the creation of a venue for socialising. The offer should respond to the trends in demand for authenticity and quality, but also newness and variety. A selection of formats should be present from coffee shops to wine/champagne bars to contemporary self service formats and informal dining with table service.

Contrary to most existing Swiss shopping centres, there should be no grocery anchor tenant. A food offer should however be included in a “food hall” with specialist / niche retailers offering fresh food and relevant food supplements. Authenticity, ethnicity and reliable quality should characterise the food offer. Integrated foodservice and food and beverage retailing should be a target e.g. taste the wine, buy it and have it delivered to your home or try the food and book the centre’s catering service for your next party.

A possibility to explore could be to rent a mix of sales and showcasing space to brands that match the centre profile such as e.g. an Apple store, a B&O store, a car brand sales- and showcase platform etc.

Pampering and well being services (beauticians, massages, hair dressing etc.) could be offered as compliments to the perfumes and cosmetics offer.

Childcare whilst most probably not profitable per se, could be an additional service worthwhile, freeing up time for parents to shop and relax. Another possibility if the centre offers parking is to take care of the customer from point of entry via a “butler service”: drop off the car, it will be cleaned by the time it is picked up again, dry cleaning, light tailor services, shoe repair etc. could be offered as part of the service package.

e) Marketing

Marketing management must be professional and competent in applying new and innovative techniques in order to attract consumers who increasingly suffer from information overdose. Clever use of public relations initiatives (use of spokespersons, partnering with brand owners etc.) mixed in with marketing in ways to differentiate (neuro-marketing techniques such as “rent-a-crowd”, sound, smell and vision effects etc.) should contribute to the image of uniqueness for the centre.

f) Real estate

The property housing the shopping centre must be large enough to house the retail and gastronomy offer without feeling cramped, but small enough to create an intimate and pleasant atmosphere. Orientation must be easy and access to and overview of the offer must be facilitated. Architecture is not the principal feature of the centre, it is a stage on which a retail and socialising theatre can unfold and visitors will feel comfortable. Style and design features must match the concept and the general positioning. It might be worthwhile to invest in infrastructure such as toilets for the purpose of strengthening general standards, image and ambiance.

g) Integrated processes

Rather than traditional landlord – tenant relationships it should be explored whether other more integrated or partnership oriented models could be preferable. First and foremost it must be questioned whether individual mono-brand boutiques give the investor the best and most stable returns in the long run. Strong brand presence and branding will be important for the concept, but there may be better ways to feature brands e.g. by engaging fewer retailers who operate multiple stores and are able to run

multi-brand concepts successfully. This would permit active assortment management and adaptability of the assortment in times of economic down- or upturn or in response to fashion trends. Retailers should be involved in the centre development process to ensure optimal retail surfaces are planned to match the operational concept.

Integration of foodservice with the retail offer should be planned where operationally feasible e.g. in the food hall. Tactically located coffee shops and wine/champagne bars mixed in with the retail offer should be the target.

3.3.2 Tourist destinations and –resorts

Evidence strongly suggests that the tourist markets neither are served to their potential nor to expectations. Asset nature pure is already attracting urban population in their valuable vacation time, and Switzerland has a lot to offer in this regard and is easily accessible from European cities. But nature, whilst critical, only serves as the setting, the stage. It is not fulfilling demand on its own. Modern consumers seek activity, adventure and a new or different experience in some form when travelling. And as their free time becomes increasingly precious, they demand value for their invested time and money. What is regarded value differ from consumer segment to segment or even from one individual to another, but common for all is that it is the complete “product” they are enjoying in their vacation time that is assessed and valued. It is apparent that therein lies the key to successful tourist destination management; in product management.

Swiss tourist destinations have developed and grown over many years and many generations. Alpine villages have thrived on tourism since the British and the German started enjoying the alpine nature and established alpine sports and leisure activities. What was thorough hardship for the purpose of surviving the cold winter in narrow valleys has become more or less well functioning holiday machines – X thousand tired urban holiday makers in, hopefully X thousand happy people out a week or two later with all that it takes to keep the machinery going in the form of infrastructure, real estate and commercial activity to go. It works, but it could work better; the hardship of physical survival has become replaced by the hardship of financial survival and not all are coping.

Getting the product right is one of the most important critical success factors. Tourists may come once, but if they have not experienced product value they will go elsewhere next time. The sample survey unfortunately suggests it is questionable whether the naturally grown and developed local communities are capable of delivering the optimal product unless a fundamental change in approach is applied. It is being argued that the lack of coordinated and elevated strategic planning and management of most tourist destinations prevents the destinations from developing their full potential.

An example is Zermatt which is one of the very few destinations fortunate to be able to cater for a year round market. Visitor numbers keep growing year-on-year, some infrastructural development has taken place in recent years, but does the offer justify charging 30-60% more for ski-lift passes than elsewhere? And how come the retail offer has hardly changed in the past 15 years with such impressive growth in visitor numbers? Is the product right, and are visitors experiencing real value for their invested time and significant sums of money? Or does the destination risk pricing themselves out of the market one day?

Another example is St. Moritz, a highly prestigious and glitzy destination in winter, but not attracting enough visitors for many of the retail shops to be open more than four months of the year. How can the destination become a summer alternative for their winter visitors who today prefer to spend summer in St. Tropez? Or is that task so immense that it is better to actively target a completely different market in summer?

Les Diablerets is a thriving destination for families in winter, and has recently started attracting Indian tourists between seasons in spring, but why is such a beautiful place - and many others with it – as good as empty in high summer season July?

Swiss alpine tourist destinations are competing with other ski resorts, European and increasingly locations on other continents. In summer the competition is sea and beach and golf resorts. The competition is not going to become any easier given the high emphasis given to developments in standard and services elsewhere. Getting the product right must be the top priority for Swiss tourist destinations.

The Weisse Arena Gruppe managing the Flims / Laax / Falera destination is aiming to manage their product professionally. For example they are concerned that 60% of their visitors are male and would like to attract more women. They have identified more shopping and improved child care as possible elements to get the product right for women; “après ski” for children is hence a new offer in their pipeline and they are looking into how they can provide an attractive retail offer. The gastronomy mix is furthermore under review to for adaption to provide choice and quality, not only in the skiing area, but also in the villages.

They are constantly working to fill the gaps in the visitor volumes between peaks in the winter season by marketing tactically and managing price and product to appeal to target customers in the respective periods. A database is being built (currently holding about 300,000 names and addresses of previous visitors) that provides the platform for active customer relationship management including the creation of value chains by cross promotion initiatives across the various businesses the group manages.

Based on the undertaken research and sample survey it is suggested that Swiss tourist destinations could improve their competitiveness and customer loyalty by applying professional destination management processes. In the following an attempt is made to identify possible solutions for overcoming the significant challenges in developing the destination potential with a focus on retail and gastronomy as part of the overall “product” offered to tourist.

a) Getting the product right – product management

Tourists are happy shoppers if the offer is right. Why do tourists shop? To fill a need here and now, because they for a change actually have time available for shopping, because it is fun to explore a shopping offer that is different, because it would be nice to bring a reminder of a wonderful experience home, because it is customary to bring a souvenir gift for friends and family back home, because today it is snowing and we have nothing better to do... The list of reasons for shopping is long; the current offer too short.

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Two main areas of potential have been identified: products offering authenticity, a local flair, and branded products in the fashion and accessories categories. A (very) few destinations have the potential to develop the luxury segment, and brand owners are queuing to enter given the right location becomes available in those destinations. Others have development potential in the mid market price segments.

Authenticity and quality are increasingly demanded features, but is a plastic cow bell made in China responding to this demand? Neither are Swiss army knives and fondue cooking pots alone fulfilling this market potential. Around the country there are ample examples of traditional merchandise, crafts and food products which if presented in a setting that mixes new and old in a contemporary way, would appeal to an international tourist market. The presentation, the setting, the shopping ambiance must be right; traditional enough to signal uniqueness, contemporary enough to be trendy....

b) Overcoming seasonal operational challenges – engage a professional

From a retailing perspective the seasonal fluctuations in visitor volumes and varying visitor profiles represent huge operational challenges. Achieving profitability is very difficult. The problem is today somehow solved by small family enterprises where income gaps are filled by family members taking on multiple jobs as the seasons change. It is not unusual that a hotelier, restaurant- or shop owner also works as a ski instructor or mountain guide. The result is however a retail offer that is not professionally managed, the assortment planning is not flexible, access to best selling brands is not available etc.

A retailer specialised in selling to tourists and travellers and of a size that provides the required skill, structure and logistics systems could help provide the optimal retail product in tourist destinations. Scale, systems and structure could help manage the seasonal fluctuations in customer volumes and profiles; develop and manage flexible concepts that evolve with trends and change with seasons. A competent retailer could bring in the required Swiss and international brands and merchandise, but also team up with locals for the development of new and “authentic” retail offers.

c) Local resistance – launch destination management initiatives

Overcoming local politics and local resistance to change and providing access to suitable real estate is a difficult task that would need to be handled by launching initiatives to increase cooperation between politicians, businesses and investors / property owners. The ultimate goal should be to arrive at a situation where destination management principles and -processes are implemented, a destination profile is designed and the product or products of the destination specified and developed. Value chains should be designed to benefit individual businesses as well as the overall image and reputation of the destination. Whether this requires legal structures to be established and supported like e.g. Weisse Arena Gruppe in Laax or whether similar goals could possibly be achieved by changing the way existing local community structures are working is unclear. The need for a new approach to managing tourist destinations is evident, so is unfortunately also the significant challenge in implementing such new approach.

In new tourist resorts the opportunity exists to develop the optimal offer in retail and gastronomy from the start. Andermatt Alpine Destination Company are for example planning to remain the owners of commercial property developed as part of the resort whilst the residential property is intended for sale. One of the reasons is the wish to maintain control of the resort image and -positioning and the recognition of the importance of managing the overall resort offer; the “product”.

Some destinations present opportunities for new development in real estate. Smart investors recognise the demand for extended retail and gastronomy offers in connection with expansion in the availability of hotel- and holiday apartment beds and the opportunity to exploit this market by integrating shop and restaurant surfaces in their real estate projects. Such initiatives can represent ways to improve the overall visitor offer, but are in isolation in many cases insufficient.

4 Summary & Conclusions

Switzerland may be a saturated market measured in retail square metres per capita and potentially offering only low future retail growth rates, but this does not mean there will not be opportunities for new retail initiatives. The current economic climate will put strain on all stakeholders, the competitive climate will toughen and the term “survival of the fittest” will apply throughout. Those with the ability to adapt and innovate will survive, others will struggle and disappear; overall this is most likely a healthy process, both from investor- and consumer perspectives.

Important consumer market trends can not be ignored. Consumers will become more demanding in their choice of products and services and how they choose to spend valuable free time. Time will increasingly become a valuable asset that can be wasted, spent, gained or enjoyed. Demand for authenticity and quality will rise and consumers will be increasingly concerned with ecologic and environmental questions. Consumers being exposed to huge flows of information every day will be extremely well informed; consumers will however be increasingly confused due to information “overdose”. Both retail and gastronomy businesses will be affected by these trends and the successful operators will innovate and find ways to respond to challenges as well as new market potential.

Location will more than ever be important. Customers won't come to you, so you as a retailer or an investor in retail real estate must come to them. Retail offers on the path of commuters or close to people's homes will have the best potential for growth and less centrally located operations will struggle. Excellent public transport connections will be required for any new retail centre development to be successful.

High frequency locations such as airports and rail stations already demonstrate their potential in generating high retail turnover, impressive retail surface productivity and interesting rent income to investors. In particular in rail stations further possibility exists to maximise the commercial potential generated by high footfall and to develop both retail and gastronomy offers as well as provision of services.

Research suggests a critical success factor for the pursuit of future retail development opportunities lie in **understanding the consumer and the increasingly emotional and lifestyle driven influencers of shopping behaviour**. Opportunities have been identified both in the “needs based” market and the “wants based” market – the first responding to needs for functional efficiencies, time saving and life simplifying supply of basic products and services to support a modern household, the latter to the emotional, pleasure and enjoyment motivators behind the conscious decision to “go shopping” or to let oneself be inspired, be pampered. Maximising the potential to serve the needs based demand in high frequency locations such as rail stations and petrol stations but also in village centres i.e. bringing shopping close to where people live or on their daily path is one evident and important opportunity. Appealing to senses and creating a pleasure shopping environment in the very strong and less price sensitive wants based market is another interesting opportunity.

The important tourist market has been identified as under developed in retailing terms. Switzerland is fortunate to possess an incredibly valuable asset – pure nature, and lots of it. Nature alone serves however only as the stage or the setting for a tourist experience; on its own it is not enough to satisfy demand in competition with other international destinations. Significant operational and structural challenges have however been identified which prevent developments. **Introduction of destination management principles and new business models** to overcome such challenges would be required to succeed in these markets.

Tougher market conditions will demand changes in the management of retail operations, the term “survival of the fittest” will apply stronger than before. Retailers must raise professionalism levels in the management of their operations, become more innovative, spend more resource on market research add flexibility in their assortment planning and generally be more proactive in handling market challenges.

Increases in demand for retail space and the related rise in rent costs have in recent years not been compensated by turnover increases or cost reductions elsewhere.

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Consequently productivity per square metre has dropped and retailers will need to focus on managing productivity levels as a priority going forward.

Retailers will struggle going forward and rents will come under pressure. **Best owner principles will increasingly apply to retail real estate. Investors in retail centres will need to engage in active asset management, to a higher degree get involved with consumer- and occupier markets and build or buy in retail management competence.** Successful retail centre development projects will require significant investment of time and resource during planning stages in market research and concept development, commercial mix planning and tenant selection. Architecture and infrastructure must be developed to support the concept, and not the other way around. Active asset management will require highly competent centre management continuously striving for centre optimisation and actively marketing the centre to attract visitors, launching initiatives with the tenants to drive sales, create customer satisfaction and -loyalty.

Generally the changing market conditions will put strain on both retailers and retail real estate investors and demand raised levels of management skill, professionalism, activity and pro-activity. Simultaneously the **changing climate might cause a refreshing kick to a retail scene that otherwise risks becoming boring.**

The Swiss retail market is dominated by two extremely important retail groups, Migros and Coop, both anchored in the grocery trade and both having expanded into other retail sectors via acquisitions or own development of retail concepts and –brands. Whilst important institutions in the heart and soul of the population evidence suggests that their dominance could paralyse landlords from making the optimal choice when centre mix is planned and tenants are selected. New forms of tenant agreements have been identified that could present potential to limit increases in risk arising from changes in market conditions and new retail concepts. **Perhaps it is now time for investors to step away from the relative safety of the tried and tested and dare to give new players a chance, let market dynamics be their guide and explore new formats and new business models?**

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In conclusion interesting retail development opportunities exist in Switzerland, for retail companies and for investors in retail real estate. The successful pursuit of those opportunities will require important changes in both occupier and investor markets characterised by innovation, attitudinal changes, higher levels of engagement, deeper understanding of driving markets, stronger demand for access to specialised management competence - and **a fighting spirit**.

5 Sources

5.1 Market studies, market reports and literature

The following books, reports, studies and web sites have been consulted for information in this study:

- Detailhandel Schweiz 2008, Schweizer Marketing-Forum, IHA-GfK AG;
- Cross Border Retailing in Europe, on-point, Jones Lang LaSalle, 2009;
- How Global is the business of Retail? 2009 edition, Special report, CB Richard Ellis;
- European Retail Property – the squeeze after the crunch, King Sturge, 2009
- The Big Five, Shopping Centre Investment in Core Western Europe, on-point, Jones Lang LaSalle, November 2008;
- Retail Outlook 2009, Swiss Issues Branchen, Credit Suisse Economic Research, December 2008;
- Swiss Issues Real Estate, Monitor Q2 2009, Credit Suisse Economic Research, June 2009;
- Der Schweizer Handel, Konsumenten-trends 2006, Thomas Rudolph, Institut for Marketing und Handel, Universität St.Gallen;
- European Shopping Centres: One size fits All?, on-point, Jones Lang LaSalle, August 2008;
- Airport Shopping 2025, GDI Study No. 24, GDI & Arup, 2006
- Detailhandel Schweiz 2015, GDI Studie Nr. 23, GDI 2005;
- Shopping and the City 2020, GDI Studie Nr. 26, Gottlieb Duttweiler Institut;
- Die Wirtschaft wird die Natur schützen, GDI/pro Natura; Artikel Neue Zürcher Zeitung 26.03.09;
- Die neuen Resorts, Rundgang durch Landschaft, Politik und Projekte, Fortdruck aus Hochparterre Nr. 1-2 2009;
- Buy-ology, Truth and Lies About Why we Buy, Martin Lindstrom, Doubleday Publishing Group, 2008;
- Bundesamt für Statistik, www.bfs.admin.ch
- Corporate web site Migros, www.migros.ch

- Corporate web site Coop, www.coop.ch
- Corporate web site Schweizerische Bundesbahnen, www.sbb.ch

5.2 Interviews

5.2.1 Interviewed persons

The following individuals very kindly agreed to be interviewed and to share their know-how and visions for the purpose of this study:

<u>Date</u>	<u>Interviewed person</u>
19.06.2009	Mr. Rick Stavast, Managing Director Switzerland & Austria, Select Service Partner (Schweiz) AG, Zürich-Flughafen;
24.06.2009	Mr. Peter Fuhrer, Partner, Fuhrer & Hotz AG, Baar;
25.06.2009	Mr. Fredy Hasenmaile, Head Real Estate Analysis, Economic Research, Credit Suisse, Zürich;
25.06.2009	Mr. Marc-Christian Riebe, CEO, Location Retail AG, Zürich;
26.06.2009	Mr. Raymond Rüttimann, Real Estate Asset Management, Head Construction & Property Management, Credit Suisse, Zürich;
26.06.2009	Mr. Ulrich Braun, Real Estate Asset Management, Head Real Estate Strategies & Advisory, Credit Suisse, Zürich;
01.07.2009	Mr. Robert E. Gubler, President, Schweizerische Vereinigung für Standortmanagement, Zürich;
03.07.2009	Mr. Heinz Julen, Designer & Artist, Zermatt;
06.07.2009	Mr. Beat Grau, CEO, Autogrill Schweiz AG, Olten;
08.07.2009	Mr. Raymond Cron, Head of European Operations & Acting MD Andermatt Alpine Destination Company, Orascom Group Holding, Altdorf;
15.07.2009	Mr. Reto Gurtner, President, Weisse Arena Gruppe AG, Laax; Mr. Thorvald Sverdrup, Mitglied des Verwaltungsrats, Weisse Arena Gruppe AG, Laax;

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- 16.07.2009 Mr. Peter Eriksson, Chief Commercial Officer, Unique (Flughafen Zürich AG);
- 17.07.2009 Mr. Hans Zimmermann, Leiter Portfolio Bahnhöfe, Schweizerische Bundesbahnen SBB, Bern;
- 17.07.2009 Mr. Markus Laenzlinger, Geschäftsführer; Migrolino AG, Bern;
- 23.07.2009 Mr. Jean-Philippe Scalbert, Directeur général, Diablerets Vrai Village de Montagne SA, Les Diablerets.

The interviews were conducted based on the questionnaires shown hereafter. Depending on the interviewed person's background and current position the questions were lightly adapted to suit their area of expertise.

5.2.2 Questionnaire A – General version

Consumer market - Switzerland

1. Current consumer trends impacting retail?
2. Main challenges/threats & impact current crisis?
3. Main opportunities

Occupier markets

4. Always the same brands everywhere – does Switzerland present opportunities for new brands?
5. Are there new retail formats / concepts that could/should be introduced in Switzerland?
6. Critical success factors for retail offer mix planning?
7. Tenant selection criteria?

Investment markets

8. Who invests in retail property today / tomorrow?

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9. Retail property investment criteria?
10. Landlord / occupier relationship - important trends?
11. Landlord / occupier relationship – the optimal contract model?
12. CH retail market opportunities (from an investor perspective)?

Sources / Contacts

13. Interesting sources of information (literature/publications/articles/internet ...)?
14. Sources for KPI's?
(Sales per sqm, typical shop sizes, typical rent levels,)
15. Interesting contacts / specialists?

5.2.3 Questionnaire B – Gastronomy version

Consumer market - Switzerland

1. Current consumer trends impacting retail / foodservice?
2. How is the current economic crisis impacting your markets?
3. Main challenges / threats
4. Main opportunities (channels / markets / regions / locations / formats / brands)?

Airports?

Rail stations?

Highstreet?

Shopping centres?

Commercial centres (areas)?

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Motorways?

Petrol stations?

Tourist destinations?

Alpine resorts?

Occupier markets / opinions

5. Always the same brands everywhere – does Switzerland present opportunities for new brands?
6. Are there new retail / foodservice formats / concepts that could/should be introduced in Switzerland?
7. Corporate policies re. channels / locations (current/future)?
8. Critical success factors for retail / foodservice offer mix planning?
9. Location selection criteria? New market / region entry criteria?

Investment markets & Business Models

10. Who invests in retail property today / tomorrow?
11. Retail property investment criteria?
12. Landlord / occupier relationship – the optimal contract model?
13. Landlord / occupier relationship - important trends?
14. Other models of interest for the future (partnerships, cooperation,)?
15. Swiss retail property market opportunities (from an investor perspective)?

Sources / Contacts

16. Interesting sources of information (literature/publications/articles/internet ...)?

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17. Sources for KPI's?

(Sales per sqm, typical shop sizes, typical rent levels,)

18. Interesting contacts / specialists?

5.2.4 Questionnaire C – Tourist destination version

Consumer market - Switzerland

1. Current consumer trends impacting retail?
2. What are visitors to Switzerland looking for in retail / gastronomy and in services terms?
3. Main challenges/threats & impact current economic crisis?
4. Main opportunities

Occupier markets

5. Does Switzerland present opportunities for added retail / gastro / services in tourist areas?
6. Are there new retail / gastro / services formats / concepts that could/should be introduced in Switzerland?
7. How can one ensure that tourists and visitors are served to or beyond expectations?
8. Challenges / opportunities?

Investment markets

9. Who invests in retail property today / tomorrow?
10. Positioning and marketing of tourist destinations – how much is being done and how?
11. Landlord / occupier relationship – are “outsiders” welcome?
12. Landlord / occupier relationship – new business models? Overcoming seasonal challenges?

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13. How can real estate be made available for new retail initiatives in the tourist regions?

Sources / Contacts

14. Interesting sources of information (literature/publications/articles/internet ...)?

15. Sources for KPI's?

(Sales per sqm, typical shop sizes, typical rent levels,)

16. Interesting contacts / specialists?