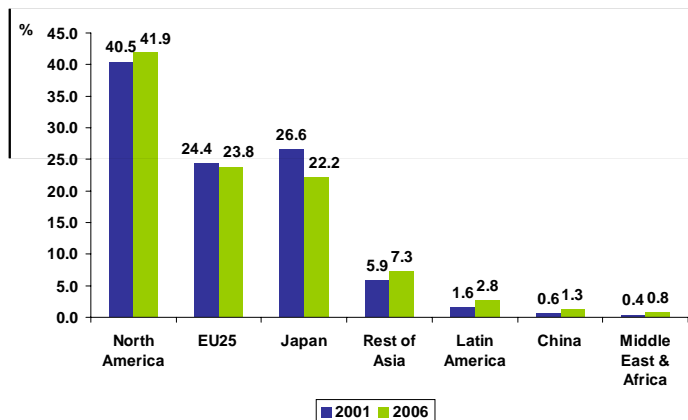


Global Department Store Retailing 2007

Mature markets dominate – but emerging markets produce explosive growth...

Global Report - Published August 2007

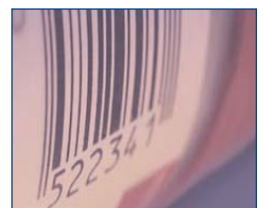
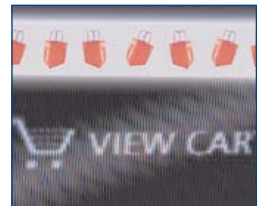
Global department store market regional shares 2001 and 2006



Source: Global Department Store Retailing 2007

"The dominance of the mature market is a fundamental feature of the global department store sector. In 2006, the core market (North America, Europe and Japan) accounted for nearly \$9 out of every \$10 spent through this channel worldwide. Though predominant, the core market is declining in importance. In 2001, it made up 91.5% of the global market and the rest just 8.5%, but a 3.6 percentage point shift in half a decade has reduced its share to 87.9%..."

See order form for further details...



About Verdict Research...

Verdict Research has been producing independent retail analysis and comment on the UK retail marketplace for well over 20 years and is regarded as a key source by BBC, ITV and the leading broadsheets including, the FT, Times, Independent and Daily Telegraph. Many leading trade publications also frequently refer to Verdict's opinion and research including Retail Week, DIY Week, Cabinet Maker and The Grocer.

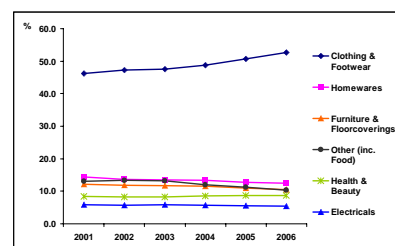
Products and services include:

- **Consumer Research Reports**
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 - Pharmacy Retailers
 - European Clothing Retailing
 - European Department Stores
 - European DIY Retailing
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 - European Grocery Retailers
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 - Out of Town Retailing
 - Town Centre Retailing
- **Retail Futures**
 - Quarterly Forecasts to 2009
 - Annual Forecasts to 2011
- **Retail News & Comment**

Some key findings from this report...

- **Outside the core department stores market, expansion has been rapid, with an increase of 54.6% or \$13.0bn in five years.** Australasia excluding China and Japan is the region that has contributed most to growth in monetary terms, add \$5.6bn, or 34.2% to its sales total in the past five years. This region is dominated by already wealthy economies like Australia, Singapore and Hong Kong, as well as South Korea and Taiwan.
- **In the coming five years Verdict forecasts a period of rapid development in all 'Rest of the World' regions, which will see sales rise \$21.8bn or 54.0%.** The largest contributor will again be Australasia excluding China and Japan, which will add another \$8.4bn, or 35.7%. Once more we expect China to be the fastest growing region of the world, up 94.0% or \$4.6bn.
- **A wave of growth in the Middle Eastern market is driving franchising and licensing activity** by core region department stores like Saks Fifth Avenue, Marks & Spencer and Harvey Nichols. Some local operators like Turkey's Beymen are also moving into nearby markets.

Global department store product category share trend 2001-2006



Source: Global Department Store Retailing 2007

"Clothing and footwear is the predominant product category for the global department store market, with more than four times the turnover of the next category, homewares. The importance of clothing and footwear has grown significantly over the past five years, rising by 6.6 percentage points..."



Global Department Store Retailing 2007

Global department store retailing experienced subdued growth between 2001 and 2006, with the total global market growing by just 8.7% to \$302.6bn. It has been held back in particular by recession in the Japanese market. In addition the German market, which is the second largest in Europe, has also seen declining sales. To add to department stores' difficulties North America, the largest market, saw a slight downturn in 2006, counteracting the recovery in Europe.

Global Department Store Retailing 2007 is a new report published by Verdict that provides comprehensive coverage of the four major regions in department store retailing: Europe, North America, Japan and the Rest of the World (which is further subdivided). It provides regional market values, product share, an overview of the key players and analyses drivers and inhibitors. It also provides comprehensive profiles of the Top 10 performers as well as market value forecasts to 2012.

Benchmark growth performance of regions within the global department store market and that of key players. Use this report to understand the key issues and drivers identify growth opportunities.

This new report will enable you to...

- **Understand the changing nature of global department store retailing, how the market has evolved and what factors will shape its future** using this report's market size and growth rates with 10 years' history and forecast to 2012 as well as key issues affecting the market across the globe.
- **Target the fastest growing geographies in global department store retail**, with the report's overview of major operators and hubs including specific coverage of major geographic regions with subdivisions into important regional markets.
- **Highlight the key issues, market drivers and inhibitors for the sector both globally and regionally** which equips companies to make fully informed decisions on development opportunities and risks using this reports overview of each of the regional markets and their major players.
- **Develop more effective strategic responses** with this report's actionable recommendations for how retailers can cope with the changing global department store retailing market.

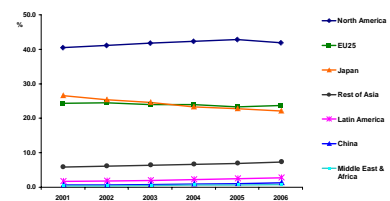
Regional market growth rates by region 2002-2006 and 2006 vs 01

Region	2002	2003	2004	2005	2006	2001-06
	%	%	%	%	%	%
North America	3.4	1.8	3.8	3.5	-0.5	12.6
Europe	2.1	-2.1	2.6	-0.6	3.6	5.7
Japan	-2.7	-2.8	-2.8	-0.5	-0.9	-9.3
Total Core	1.3	-0.5	1.7	1.4	0.5	4.4
China	5.7	14.4	24.5	21.1	27.5	132.4
Rest of Australasia	7.1	3.3	7.2	6.8	5.9	34.2
Latin America	10.2	10.5	16.4	16.3	11.6	83.9
Middle East & Africa	12.4	21.1	17.4	14.7	16.1	112.6
Total Rest of World	7.8	6.4	11	10.5	9.9	54.6
Total World	1.9	0.1	2.6	2.3	1.5	8.7

Source: Global Department Store Retailing 2007

"The Core market has performed badly over the past five years, growing just 4.4%, dragged down by an unrelenting contraction in Japan and a market in Europe that has suffered some severe setbacks as well. Even the North American market has seen growth peter out under pressure from consolidation and increasing consumer concerns about fuel prices as well as a slowing housing market..."

Global department store market split by region 2001-2006



Source: Global Department Store Retailing 2007

"Rates of growth in these regions, though below those in China, are still extremely high, as increased oil wealth in the Middle East and sustained economic growth elsewhere have encouraged consumers to spend more freely and trade up to high prestige products..."



Key issues examined in this report...

- Designers and premium brands.** The increasing number of designer and premium brands setting up their own retail networks, so bypassing the need to sell through department stores is a major problem in the global department store retailing market. This process is already well advanced for brands like Gucci and Burberry and deprives department stores of big name brands.
- Dependence on clothing and footwear.** Department stores are highly dependent on clothing and footwear, which makes up 52.7% of global turnover. Other categories are of much lesser importance, including homewares (12.4%), furniture and floorcoverings (10.5%), health and beauty (8.7%) and electricals (5.4%).
- Price deflation.** One common factor affecting most department stores is price deflation, above all in their most important product category, clothing and footwear. This has opened up room for department stores to be undercut by specialist fashion and general merchandise retailers.

European key players overview 2007

Retailer	Year to	Currency	Turnover	Change Y-o-Y	Op Profits	Op Margin
				%		%
*El Corte Inglés	Feb-07	€m	11,960	7.8	685	5.7
		\$m	15,213		871	
Marks & Spencer	Mar-07	€m	7,667	6.2	1,044	12.2
		€m	11,400		1,550	
		\$m	14,505		1,973	
Karstadt	Dec-06	€m	4,899	3.5	-13	neg
		\$m	6,153		-16	
Galeria Kaufhof	Dec-06	€m	3,609	0.9	82	2.3
		\$m	4,534		103	
John Lewis	Jan-07	€m	2,201	10.6	177	8.1
		€m	3,215		260	
		\$m	4,088		330	

Source: Global Department Store Retailing 2007

"El Corte Inglés has enjoyed the fruits of rapid economic expansion in its home market, with estimated department store sales rising 10.1% in 2005/06 and 7.8% in the following year. It is rapidly diversifying into specialist retail businesses like Sfera, its young fashion chain, and beauty retailer Sephora, which it runs as a joint venture in the Spanish market..."

Your questions answered...

- Which international regions provide the greatest growth opportunities for global department stores?
- What are the main drivers and inhibitors by region for global department stores?
- Which of the leading global department stores has the most productive space, and why?
- What is the growth potential for global department stores over the next five years?
- Which is the leading product category in global department stores, and why does it now represent high risk?
- How have the strategies of luxury brands affected global department stores globally?

Dillard's Benchmarks, year to January 2006 and 2007

Benchmarks		2006	2007	Change %
Sales	(\$m)	7,552	7,636	1.1
Store	(Numbers)	330	328	-0.6
*Selling space	(000 sq m)	3,303	3,309	0.2
" "	" (000 sq ft)	35,540	35,605	0.2
Employees		52,056	51,385	-1.3
Sales per store	(\$m)	22.9	23.2	1.3
*Sales per sq m	(\$)	2,288	2,310	0.9
*Sales per sq ft	(\$)	212	214	0.9
Sales/employee	(\$)	145,074	148,604	2.4

Source: Global Department Store Retailing 2007

"Though a large operator by store numbers and sales space by European and Japanese standards, Dillard's is small in comparison with fellow US retailers like Sears, Macy's, JC Penney and Kohl's. Importantly, its sales densities are lowest of the Top 10 operators - even lower than JC Penney's..."



Sample information from 'Global Department Store Retailing 2007'

Chapter 3: Key Issues

Table 10: Summary – main issues for department store retailers 2007

Direct Issues – Global Department Store Retailing	
Rising incomes in new markets	Economic growth enables spending power of many consumers outside traditional department store markets to catch up
Increasing income inequality	Rising income inequality in many developing markets means the audience for luxury brands is rising even more quickly than average income figures would suggest.
Franchise boom	After many failures with other business models like direct ownership, franchising and licensing have suddenly taken off as the preferred method of entering new markets.
Brands set up own retail networks	International designer brands are continuing to set up their own store networks, threatening to cut the department store out as 'middle man' in selling to consumers.
Price deflation encourages new competition	Both clothing specialists and general merchandise stores have taken advantage of new sourcing opportunities, particularly in Asia, providing new competition.
Internet less of a threat than to other retail channels	Only a few department stores have developed large online businesses, since fashion is has generally been regarded as less suited to this channel. However, customers will increasingly expect it as an extra service

Source: Global Airport Retailing 2007

- Consumers outside the Core market of Japan, North America and Europe are engaged in a catch-up process in terms of buying power as measured by GDP per capita at purchasing power parity (adjusted to take account of local prices of goods and services). The table above shows how a wave of prosperity is flowing through most regions where department stores operate, with those who were furthest behind rapidly catching up.
- Even in the main 'non-Core' region where incomes are already high, Developed Australasia (taking in Australia, Hong Kong, Singapore, South Korea and Taiwan), prosperity has risen rapidly. These markets had seen stagnation at the end of the 1990s and beginning of this decade, due to economic crises and other factors like SARS. They have now shaken off this stagnation and returned to economic growth, though this has not always filtered through to spending in the department store sector.
- Latin America is the second most prosperous region outside the Core areas, with consumers enjoying a purchasing power of roughly one-third of the average of those in Japan, North America and Europe. This average figure hides the reality of highly unequal incomes in such countries as Mexico, which benefits retailers of prestige goods in exclusive environments

Order this report today to find out more...



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