

THINK RETAIL THINK VERDICT



European Clothing Retailers 2008

**Value sector being shaken
up across Europe**

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About Verdict Research

Authorative analysis...

Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

Rigorous research methodology...

Our in-house retail expertise and rigorous research methodology ensure our reports provide complete and accurate analysis of the major players, issues and trends together with a detailed examination of the strategic implications for the retail market.

For key players in the retail industry, our reports are the first source of information on sector forecasts, retailer performance, store and product portfolio developments and trading strategy.

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.



"Verdict are the company of choice for any research analysis and insight into retailing"

Sir Stuart Rose
Executive Chairman
Marks & Spencer

European Clothing Retailers 2008

Value sector being shaken up across Europe...

More clothing retailers are expanding away from their home markets leading to increased competition throughout the EU. For many retailers the EU offers strong growth potential, not only through the more mature markets of the larger EU states but also through newer entrants such as the Eastern European countries.

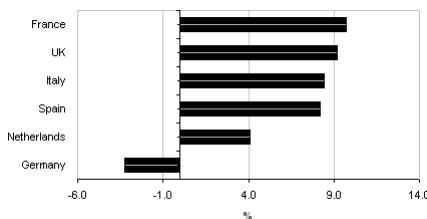
This new report published by Verdict Research provides a detailed and extensive examination of the EU clothing market with data on all 27 countries. It includes comprehensive analysis of the six largest markets and strategic insight into the five largest EU clothing retailers by market share.

Detailed market analysis on

France
Germany
Italy
The Netherlands
Spain
UK

Identify the fastest growing markets and understand the strategic issues faced by retailers with this new report...

Clothing spending growth in leading EU states
2007e on 2002



Source: European Clothing Retailers 2008

“Though France has shown the highest increase in expenditure out of the larger markets, the UK, Italy and Spain are only slightly behind. Despite their large size, these countries continue to attract new retailers to their markets. Primark’s entry into the Spanish market, and C&A’s announcement that it will open its own discount format store there, are examples of the aggressive expansion plans of major multinational retailers...”

- **Identify the fastest growing European clothing markets** with 5 year historical data including market shares, sales, profits, sales densities, space allocations, space growth and store portfolios for 2002-07.
- **Benchmark your competitive strategies using the company profiles contained in this report** for key retailers including C&A, H&M, Inditex, Marks & Spencer and Next.
- **Assess the growth potential and the challenges facing the key European clothing retailers** with this report’s in-depth analysis of market drivers, key issues and outlook.
- **Develop more effective strategic responses** using this report’s actionable recommendations on how retailers must cope with the changing European clothing market.

European Clothing Retailers 2008

This report answers key questions including...

- Who are the leading EU 27 clothing retailers and what makes them successful?
- What EU markets offer the most potential for growth and why?
- Which EU countries have the highest clothing sales densities?
- How are the largest clothing markets changing and what are the key issues affecting clothing retailers in these markets?
- What is the impact of growth in value retailers on the EU clothing market?

Key Market Data

Total EU27 clothing expenditure - split by country from 2001-07

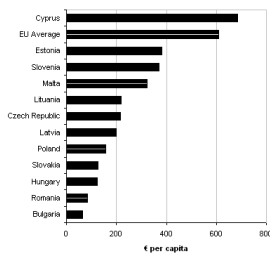
EU27 clothing market shares for the five largest retailers

Five years' historical sales data

Specialist store numbers, space growth, sales densities & per capita clothing expenditure

Key findings examined in this report...

Clothing expenditure per capita new member states 2007e



Source: European Clothing Retailers 2008

“Despite the majority of new member states falling below average EU expenditure per capita, they have seen substantial growth over the last five years, increasing by 36.4% against average growth of 6.5%. This underlines how far these nations have come in a relatively short period of time. With more retailers entering these markets, we expect these figures to continue to grow...”

- **The value sector is strengthening across Europe.** Strong discount sectors in two of the biggest markets, Germany and the UK, have led to extensive price deflation. Though this has driven high volumes in the UK, it makes sales value growth more difficult to achieve. Other EU countries do not have such advanced value sectors, but are being targeted, particularly by value clothing retailers from the UK and Germany.
- **Clothing specialists' sales densities decline as they move to larger stores.** In mature markets specialists have been relying on space to drive sales but are reaching the point where new space is cannibalising existing space and comparable store sales are falling. To combat the slowing growth in clothing, retailers in the mature markets have been widening their ranges into complementary products and moving to larger stores.
- **Central & Eastern Europe has the highest growth rates are in the EU27 countries.** Since 2005, the first full year of the latest major enlargement of the Union, the highest growth rates have predominantly come from the Eastern European and Baltic States. All have very low shares of the overall market at this stage, but Poland and Romania are particularly attractive because of their size.

European Clothing Retailers 2008

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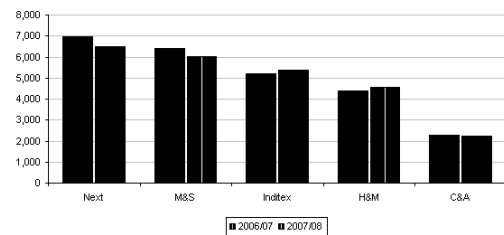
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- UK based retailers, Next and M&S have the highest sales densities among the leaders, with over 90.0% of their sales coming from their home market in the UK. Despite their widespread UK store portfolios and high penetration of their home market, the retailers are still producing impressive sales densities in the European context. In their local currency, sterling, these retailers show much stronger performances but the weakness of sterling against the euro has diluted this trend.
- C&A has a particularly low EU27 sales density in comparison to the other top five retailers, at just €2,257 per sq m. The could be due to its higher average store size of 2,300 sq m, with only M&S coming close at 2,151 sq m. It is more difficult for larger stores to achieve strong sales densities, due to space being less productive. Marks & Spencer is an exception. UK retailers tend to have far higher sales densities than their European counterparts and Marks & Spencer, and the major part of Marks & Spencer's sales are in the UK. It also gets high footfall from its food offer, which helps to drive clothing sales.
- Despite having the highest sales densities those of both Next and M&S fell substantially from the year before. Next has struggled in its home UK market where space increases have led to sales cannibalisation. M&S has also struggled to maintain densities and has suffered due to a general downturn in the UK market as well as focusing too high a proportion of its range on entry level price points. The retailer failed to drive the volumes necessary to achieve clothing sales growth and as a result densities have declined.
- C&A's sales densities have also fallen for the second year running. This highlights the problem for middle market retailers who are being squeezed by value retailers at one end and the premium clothing specialists at the other. A combination of price deflation, markdowns and falling like-for-like sales are all hitting sales and margins.
- In contrast, both Inditex and H&M have raised sales densities. They have avoided cannibalising sales through not solely focusing store openings on their home markets and instead opening outlets all across Europe and worldwide.
- M&S' international franchise stores have seen a substantial improvement in operating margins over the past year, rising from 17.5% to 25.1%. It appears to have taken time for M&S and its franchise partners to understand their markets. However, its efforts have clearly begun to bear fruit, resulting in M&S entering into joint venture partnerships with several franchise partners earlier this year to drive further international expansion. Worryingly though, the retailer has seen operating margins fall in wholly-owned stores located both domestically and internationally.

Table 50: Top Five EU27 clothing retailers sales densities 2006/07 and 2007/08



Source: European Clothing Retailers 2008

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