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# EXPANSION OF INTERNATIONAL RETAILERS IN THE CZECH REPUBLIC

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This paper analyses the penetration of the retail market in the Czech Republic by international retailers. In outlining the development of the market over time, key data on its growth is set out to highlighting key stages in the development process. The paper concludes that most retailers expanded to the Czech Republic from neighbouring countries dominated by German retailers. The retailers were driven by location and property type in their expansion, whereas outer city shopping centers and most populated cities were most preferred expansion targets.

Keywords: retail expansion, retail development, retail investment, shopping centers.

## INTRODUCTION

### The Development of the Retail Market

The Czech retail market has undergone substantial expansion over the last 15 years. This growth has been connected with the transformation from a centrally planned economy to one based on an open market and with the overall growth of the economy. Higher levels of disposable income led to increased consumer demand for a wider range of "western goods" which in turn generated demand from retailers to enter the market and exploit the opportunities.

Figure 1 sets out a series of macroeconomic indicators to illustrate change over time. There was a steady growth in GDP from 1999 peaking at 6.8% in 2006 and slowing slightly in 2007 and 2008. Inflation and unemployment rates were low and stable creating a favourable business climate. Another very encouraging factor to retailers is the GDP growth per capita that tripled over the last ten years increasing the purchasing power of the inhabitants. It was also supported by strengthening of the Czech crown against EURO, which in real terms meant even higher growth of purchasing power. Grocery retailers first entered the market with K mart, Carrefour and Tesco being the pioneers, followed by furniture operators such as IKEA, DIY operators (for example Bauhaus, OBI, Hornbach) and then fashion retailers (for example H&M, C&A, Marks & Spencer). These retailers came mostly from Western Europe and challenged local operators in terms of prices, quality and services. The demand from retailers generated a demand for properties to accommodate their businesses which was met by international real estate investors, developers and consultants who entered the market. The first western style shopping centre, Centrum Černý Most, was opened in 1997 in Prague and a new market has developed since then. Figure 2 lists the largest shopping centres in the Czech Republic by size, measured by number of stores and includes names of the developers and investors of the schemes including their country of origin.

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Figure 2 shows that the developers and investors were mainly western European companies and that they concentrated on the largest cities first. This was a self-reinforcing process as the availability of suitable property further encouraged the entry of international retailers.

	GDP grow %, Y/Y, real changes	GDP per capita CZK	GDP per capita €	Unemployment rate %, average in the year	Real income change %, Y/Y, CZK	Inflation rate %, Y/Y	CZK/EUR average
1993	.			4.3		20.8	
1994	.			4.3		10.0	
1995	.	141,957		4.0		9.1	
1996	4.0	163,183		3.9		8.8	
1997	-0.7	175,772		4.8		8.5	
1998	-0.8	193,929		6.5		10.7	
1999	1.3	202,357	5,487	8.7		2.1	36.88
2000	3.6	213,110	5,985	8.8		3.9	35.61
2001	2.5	230,064	6,750	8.1	3.9	4.7	34.08
2002	1.9	241,593	7,841	7.3	6.1	1.8	30.81
2003	3.6	252,617	7,933	7.8	5.7	0.1	31.84
2004	4.5	275,770	8,644	8.3	3.4	2.8	31.90
2005	6.3	291,561	9,789	7.9	3.0	1.9	29.78
2006	6.8	313,868	11,074	7.1	4.0	2.5	28.34
2007	6.1	342,494	12,337	5.3	4.3	2.8	27.76
2008	3.0	354,410	14,209	4.4	1.9	6.3	24.94

Figure 1 Macroeconomic indicators of the Czech Republic 1993-2008 (Balcar & Karásek 2009 cited Czech Statistical Office, 2009; Czech National Bank 2009)

rank	shopping center	city	opening	developer	investor
1	Centrum Chodov	Prague	2005	Multidevelopment (Holland)	Unibail Rodamco (France)
2	Palladium	Prague	2007	EPD (Germany)	Hannover Leasing (Germany)
3	OC Letňany	Prague	1999	Tesco (UK)	Tesco (UK)
4	Nový Smíchov	Prague	2001	Ségécé (France)	Ségécé (France)
5	Palác Flora	Prague	2003	Africa Israel Inv. (Israel)	Quinlan Private Golub (Ireland)
6	Metropole Zličín	Prague	2002	Portland Trust	CGI (Germany)
7	Olympia Brno	Brno	1999	Tri Stannifer (UK)	Somerston (UK)
8	Galerie Vaňkovka	Brno	2005	ECE (Germany)	HGA Capital (Germany)
9	Plaza Plzeň	Plzeň	2007	Ségécé (France)	Ségécé (France)
10	Olympia Plzeň	Plzeň	2004	Multidevelopment (Holland)	ING Real Estate (Holland)

Figure 2 .Largest shopping centres of the Czech Republic Source: Shopping Centre & Hypermarket 2008 (Incoma Research)

## Key Stages in the Development of the Retail Market

### *Edge of town locations*

Shopping centres started to be built on the edges of especially larger towns starting with the capital city of Prague. This was mainly because it was easier in terms of legislation and less expensive to start in these locations than in city centres, where the development process takes much longer. Initially shopping centres were typically anchored by hypermarkets

### *Shift to urban and residential areas or town centres*

Shopping centres next started to be developed in dense residential areas and the first projects in town centres were started.

### More international tenants

Shopping centres accommodated increasingly larger number of international tenants. The entrance of operators such as New Yorker, Marks & Spencer, Next, H&M, and C&A encouraged the developers to invest in this property segment and also further international retailers came to the market as suitable accommodation became available.

### Extensions of successful shopping centres

Schemes where demand from consumers and retailers was high were seen as low risk by developers and investors and extensions were developed. Examples include Avion Ostrava, Nisa Liberac, Olympia Brno, Metropole Zličín and Centrum Černý Most.

## INTERNATIONAL COMPARISONS

Figure 3 shows the market saturation of modern shopping centre stock in European Union countries. The European Union has an average of 214.2 sq. m of space per 1,000 population compared to 185.7 sq. m per 1,000 in the Czech Republic. This would seem to suggest that there is still potential for further development but other factors need to be taken into account. Norway and Sweden have the highest provision per head, probably since the cold weather makes enclosed centres more comfortable and convenient. The high seasonal temperature variation may also favour this type of shopping provision in the Czech Republic. Germany and Belgium were significantly below the European average since both have had planning regimes which discourage out of town retail development, demonstrating the influence of policy over the future of the Czech market.

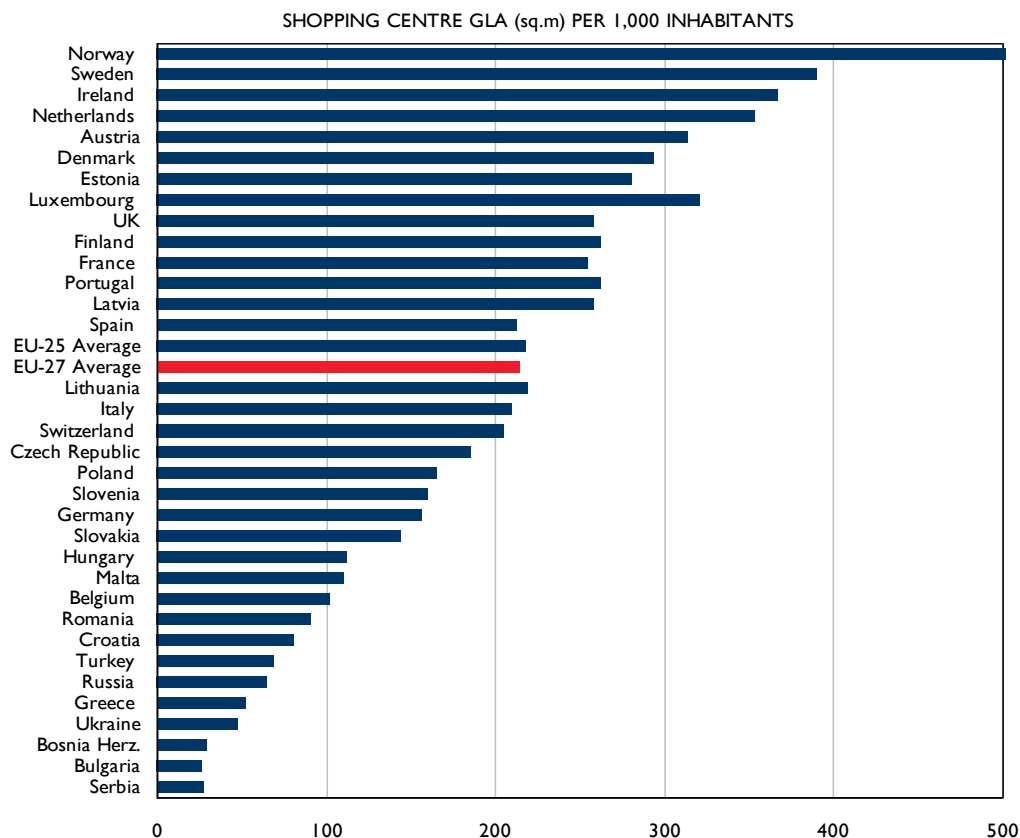


Figure 3 .Shopping centre GLA per 1000 inhabitants across Europe (Cushman & Wakefield, July 2009)

### Distribution of modern retail stock within the Czech Republic

This section analyses the development of retail parks and new shopping centres between 2004 and 2008. Data from Cushman and Wakefield shows that 510,174 sq. m of retail parks was developed

leading to a total of 804,017 sq. m; and 1,420,495 sq. m of modern shopping centre space was developed leading to a total of 1 956 319 sq. m.

Figure 4 shows the future predictions of Cushman & Wakefield (2009). A general picture of the development and distribution of retail parks and new shopping centres was assembled by producing maps of density of provision by sq. m of space per head of population. This process showed that some areas have no modern shopping facilities and some areas have both retail parks but not shopping centres and vice versa. Retail parks are more widely distributed than shopping centres. The initial expectation was that the main driver for the spatial distribution would be population density and this with other causal factors is explored in the analysis section.

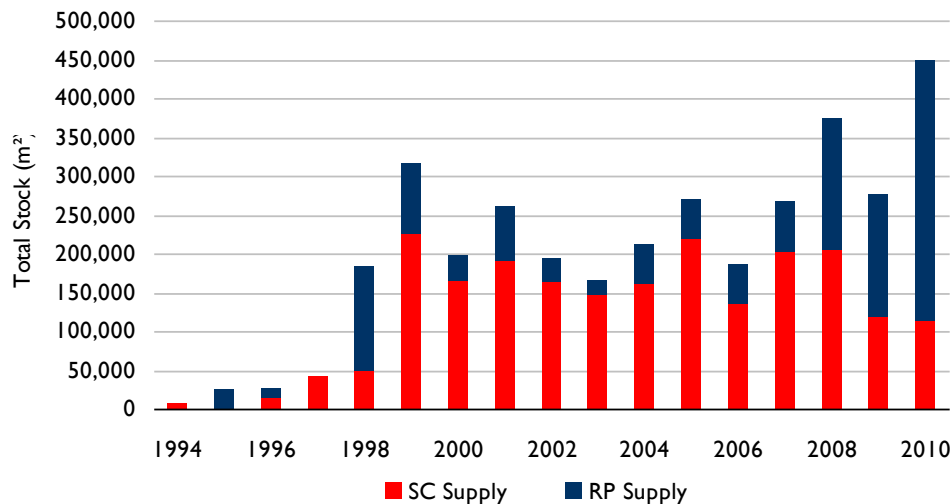


Figure 4 .Retail park and shopping centre development in districts in the Czech Republic (Cushman & Wakefield, 2009)

## LITERATURE REVIEW

International retail expansion has been a recurring theme in the academic literature especially since the 1990's. The main reason was the increasing globalisation of the market place as successful companies exploited the growth potential of other markets. Most of this work concerned the very large Asian markets, primarily India and China. Interest in Central and Eastern Europe will increase as their economies expand, and with the accession of states into the European Union. This study is intended to contribute to an understanding of the dynamics involved. The relevant literature covers the following basic themes in terms of international retail expansion:

- direction of retail expansion
- motivational factors behind international expansion
- branding issues related to international expansion
- entry modes into foreign markets

### Direction of retail expansion

One theme in the literature is that it is considered easier and less risky for retailers to expand to countries which are close geographically or culturally and the entry is then usually more successful. As Robinson and Clarke-Hill (1990) noted, for European retailers, initial foreign expansion was invariably confined to geographically, psychically and culturally close foreign markets. To mention few examples here, the US retailers use the UK as an entry market to Europe, which is an example of cultural proximity. However, expansion into neighbouring or culturally proximate states is typical among European retailers. For example French retailers, especially hypermarket operators, tend to expand to Spain, German retailers expand to Austria and Denmark, whereas Swedish retailers typically expand throughout Scandinavia first. "Core European structure is driven by retailers from the markets of France and Germany" (Myers & Alexander, 2007). This is illustrated in Figure 5.

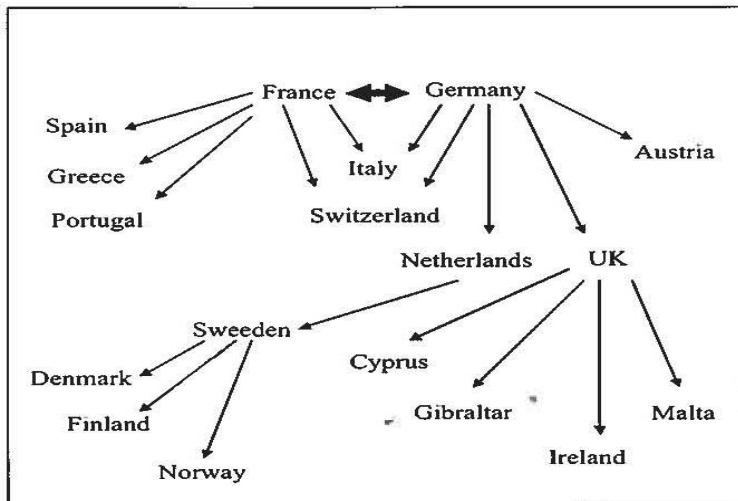


Figure 5 Expansion patterns of European retailers (Myers and Alexander, 2007)

### Motivational factors behind international expansion

The motives for international expansion are usually divided into push and pull factors (Akehurst & Alexander, 1996). Among push factors are saturation of the home market, regulation, legislation, trading conditions etc. The pull factors are mainly concerned with opportunities for the existing offer of the retail operators. Some authors classify motivation as either a reactive or proactive approach (Alexander, 1996). Alexander would characterise the approach described above as reactive, because expansion is a result of either internal or external factors in the home market. A proactive approach is taken by companies who actively seek foreign expansion as an integral part of their strategy. Factors which motivate or inhibit international expansion may also be external or internal. Internal factors could include the negative attitude of senior management towards foreign expansion, internal organisational structure that is not ready to absorb and adapt to foreign expansion, lack of resources, organisational culture or environmental factors. External factors include ownership or taxation issues, exchange rate fluctuations or political instability (Vida 2000). For example Russia has lately seen decreasing trend in shopping centre development and investment partly due to political and economic instability. On the other hand, Slovakia gained its international reputation by becoming member of the EURO zone thus getting rid of the fluctuating exchange rate problem which with favourable tax conditions has attracted more foreign direct investment. During the recent credit crunch crisis the willingness of the banking sector to support companies in their expansion activities has increased in importance.

Akehurst & Alexander (1996) identify aspects of the domestic market such as niche opportunities, growth prospects, market size and the uniqueness of the retail offer which may affect decisions about foreign expansion. International trends encouraging the globalisation of retailing are identified as maturity of domestic markets and consequent limited growth opportunities, technological advances, geo-political rebalancing resulting in the lowering of trade barriers, the internationalisation of financial markets and a trend towards concentration of ownership in the retail sector (Evans & Bridson 2008). The same authors also point out that company strategies and their responses to these forces will change over time.

### Branding issues related to international expansion

The relationship between branding and internationalisation of retail activity is complex. The wider spread of a brand may dilute its aura of luxury and exclusivity but on the other hand may generate much higher income. Moore, Fernie and Burt (2000) show how this has worked out in a study of fashion designers transition from private to public companies. Paswan a Sharma (2004) in their study looked at the country of origin in relation to the brand image. They argued, that "consumer knowledge of brand's country is crucial for this transfer of country of origin image to brand image." Hence a "consumer's perception of the country of origin is likely to influence the perceptions of a brand from that country, only if the consumer is aware of the brand's COO." Paswan and Sharma

(2004) studied the same phenomenon and demonstrated that country of origin can affect international performance.

### **Entry modes**

There can be different modes of entry into new markets, where the following are the most frequently cited ones:

#### *Cross border acquisitions*

The company enters a market by acquisition of a local company a strategy often undertaken by Tesco, such as in the acquisition of K mart in the Czech Republic

#### *Mergers*

The two companies merge into one brand, for example Telefonica and O2 merged into one company that carries the Telefonica O2 brandname in most markets.

#### *Joint ventures*

The development of joint ventures is often used in geographically distant markets where the foreign investor does not have a sufficient level of knowledge of the local market and but has the resources for expansion. For example Marks & Spencer initially founded a joint venture with a local Czech partner and took over the company after a successful launch of the brand and company operations were established.

#### *Franchising*

To offer a franchise is a concept developed by US companies and now used internationally. As Paswan and Sharma (2004) note "international franchising has been suggested to be a key growth area, especially in the context of emerging markets." It is a safe strategy where the risk is taken by the franchise partner. Also, because the franchisee pays for the franchise, it is very cost effective to the franchisor. At the same time, the franchisor does not lose control over the transfer of brand and the brand know-how is part of the franchise.

## **METHODOLOGY**

An objective, quantitative approach based on the analysis of hard statistical data is appropriate to this process testing ideas already generated. A qualitative approach would have been more appropriate to develop explanatory theories and hypotheses (Naoum 2008).

A database of secondary data describing the behaviour of international retailers was created and this was analysed using statistical techniques in order to assess the extent to which those theories can explain the dynamics involved in the Czech Republic. The study was intended to develop the analytical approach as well as providing conclusions in its own right. This quantitative, statistical approach has several advantages over the alternative qualitative approach. It can be expanded in breadth as more factors can be included and further analysis can be carried out of the same material. It is comprehensive, as secondary data for all major international retailers have been collected whereas, a qualitative approach involving interviews would have been partial since interviews concerning every retailer would have been beyond the resources of the study. The approach is also dynamic and will facilitate analysis of change over time by using the current results as a benchmark to be updated.

Data was collected on major international retailers present in shopping centres in the Czech Republic from Cushman and Wakefield's database on Shopping Centres and the Czech Statistical Office which provided information on turnovers. An initial sample of 501 operators was selected. This was refined to 101 by application of two criteria. Retailers with a presence in only the Czech Republic and Slovakia were excluded as not being truly 'international' taking the sample to 166 and operators with less than five stores were excluded as not being 'major' resulting in a total of 101. At interview, four retail experts from the profession suggested a further 5 operators be added to the sample taking the total to 106.

Comprehensive information was collected for each retailer for the aspects set out below.

#### *Fascia*

That is the name of the trading name of retailer by which the concept is known among the customers, sometimes the word brandname is used.

#### *City*

The name of city in the Czech Republic where the store is located.

### *Property address*

Exact property address in the city, this was especially used to identify all the retailers in one property, e.g. shopping centre or retail park.

### *Region*

A name of the administrative region in which the particular city is located. This enables wider geographical look at retailer's presence.

### *District*

A name of the administrative district in which the particular city is located, because some official statistical data (e.g. about unemployment) are published by districts. It is typically the smallest statistical unit used in the Czech Republic.

### *Population*

Number of inhabitants in the particular city according to the Czech Statistical Office.

### *Geographical type of location*

Three location types were: city centre, inner city, out of town. These are used to identify geographical location within particular city.

### *Retail property type*

Further location types were identified as: high street, shopping centre, retail warehouse or secondary high street. This identifies particular location in terms of type of property where the retailer operates.

### *Type of retailer*

Classification used by Cushman & Wakefield (2008) was used to identify the type of retailer's operation. Figure 6 summarises the retailers included the number of stores and number of brands for each country represented in shopping centres in the Czech Republic.

## **ANALYSIS**

The themes from the literature review were summarised as research topics and established statistical techniques were used to analyse the data gathered. The themes investigated were:

- International retailers and country of origin
- Distribution of stores in regions across the Czech Republic
- Distribution of stores in different types of locations
- Distribution of retail sectors
- Comparison of retailers from neighbouring vs. other countries of origin
- Unemployment and number of stores

A hypothesis or hypotheses were set up for each of the themes. These were assessed by comparing aspects of the data to what would be predicted by the hypotheses. Descriptive techniques such as graphs and charts were used to analyse issues of distribution. Correlation analysis was used to probe likelihood of causal relationships. "Correlation is a technique that measures the strength of the relationship between two variables. It establishes the degree to which a change in one of the variables is reflected in the change (or not) of the other" (Mansfield & Hoxley, 2008). It is recognised that this cannot prove that one of the variables is causing the change in the other but it can establish a link without which the existence of causality would be disproved. Furthermore the fact that the hypotheses were drawn from the literature may be seen as triangulation of research with the research from one source being tested by a different technique in another context.

## **RESULTS**

### *Country of Origin*

This section provides an overview of where the international retailers have mainly come from to the Czech Republic and who are the most active retailers on the market

The following hypothesis is drawn from the literature review: "Retailers from geographically proximate countries are the most active retailers in the Czech market. "

Figure 7 clearly demonstrates the domination of stores of German retailers in the Czech Republic, where 40% of the stores included originate in Germany. The next highest representation is from



international operators from the Czech Republic. This supports the hypothesis as Germany has the longest border with the Czech Republic. The other significant retailers in terms of number of stores are French, Spanish, British and Americans. The low representation of other neighbours such as for example Polish retailers at 4% is probably due to the 40 mil. population market size and lower willingness or resources of mainly fashion Polish retailers to expand.

	Country of origin	No. of brands	No. of stores
1	Germany	29	953
2	France	11	211
3	United States of America	11	137
4	Italy	10	98
5	Great Britain	7	142
6	Poland	7	107
7	Czech Republic	5	291
8	Denmark	5	73
9	Spain	5	180
10	Austria	4	91
11	Hungary	3	18
12	Australia	2	15
13	Sweden	2	18
14	Switzerland	2	16
15	Belgium	1	11
16	Ireland	1	17
17	Slovakia	1	18
	<b>TOTAL</b>	<b>106</b>	<b>2,396</b>

Figure 6. Overview of international retailers' representation in the Czech Republic (Source: author)

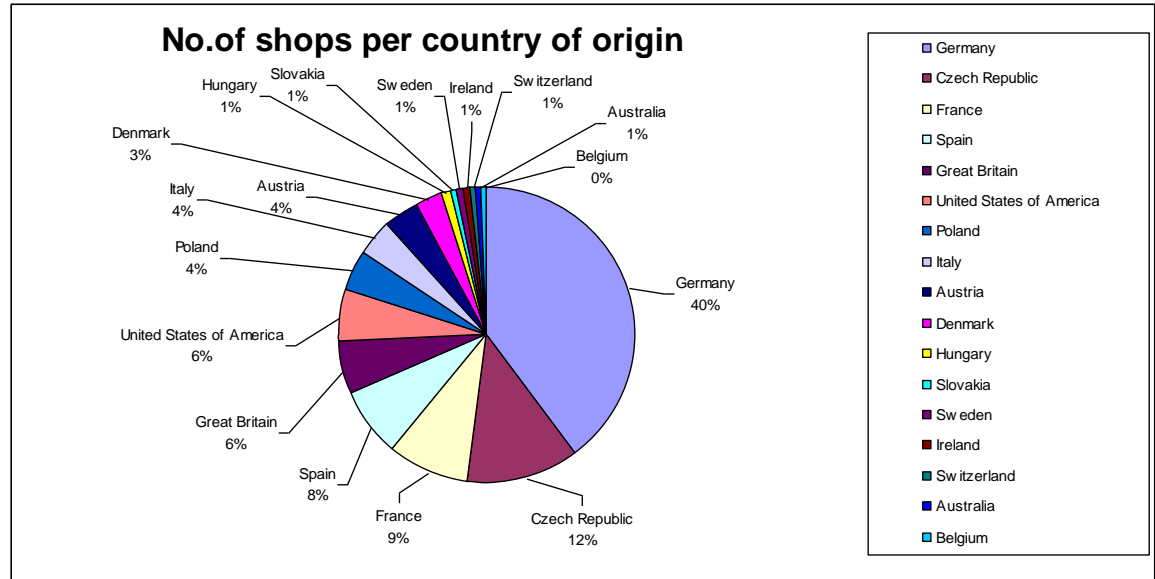


Figure 7. Graph - Shops share per country of origin, whole Czech Republic (Source: author)

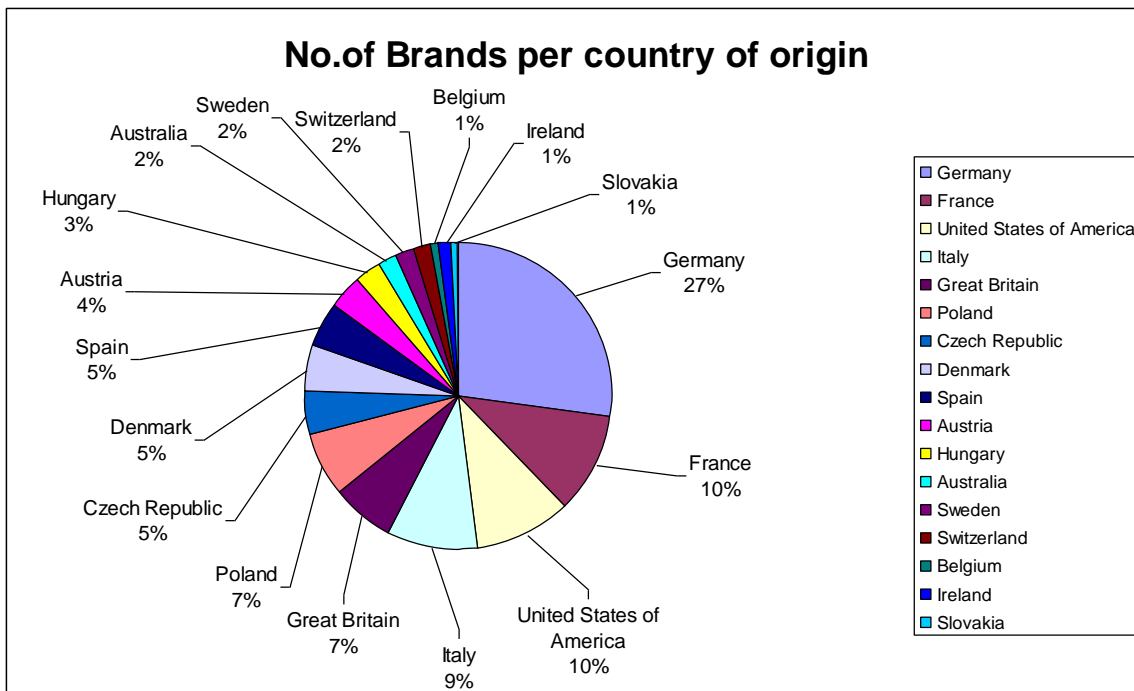


Figure 8 .Brands share per country of origin, whole Czech Republic (Source: author)

Figure 8 tests the extent to which the results are influenced by high levels of activity of a few retailers. The operators that stand out in this respect are DM Drogerie and Rossmann who are chemists from Germany and the Spanish telecommunications operator Telefonica O2. This again generally supports the hypothesis with Germany dominant and France second of European operators. The presence of retailers from the United States does not support the primacy of geographical proximity but the strength of the global American brands may be seen as representing "psychic proximity" as in Robinson and Clarke-Hill (1990).

## Representation of International Retailers in Regions

This section analyses the representation of international retailers in the regions of the Czech Republic. The first hypothesis tested is that different regions attract different levels of international retail activity with Prague being the most attractive region. The second hypothesis is that population is the main attractor of international retailers.

Figure 9 sets out the number of stores per region and the number of stores per 1,000 inhabitants and this is illustrated by the chart. The first hypothesis that different regions attract different levels of international activity is clearly true. The average for the index is that 0.23 stores serve 1,000 inhabitants in the Czech Republic. Correlation analysis was calculated to see the dependency between number of inhabitants and number of stores. It shows that the correlation between number of stores and number of inhabitants is 0.65. This suggests some correlation, but the explanation is not complete. The results indicate, that the region with the highest number of stores per 1000 inhabitants is Prague with 0.61 stores per 1000 inhabitants, supporting the second hypothesis. Other regions are typically in the range of 0.19 stores. The regions with lowest number of stores per 1000 inhabitants are Hradec Kralové and Vysočina. These regions have the lowest penetration of modern retail stock and low population density which probably explains this. The Central Bohemian region has low saturation with 0.13 stores per 1000 inhabitants. This is most probably caused by the proximity of Prague, as a lot of people from this region work and shop in Prague. Also, large regional shopping centres on the edges of Prague attract customers from whole Central Bohemian region. Therefore, there is no reason for developers to develop competing retail schemes in this region.

whole Czech Republic			
Inhabitants	Region	Number of stores	no. of stores per 1 000 inh
636,328	Jihočeský Region	134	0.21
1,147,146	Jihomoravský Region	248	0.22
308,403	Karlovarský Region	72	0.23
554,520	Královéhradecký Region	69	0.12
437,325	Liberecký Region	104	0.24
1,250,255	Moravskoslezský Region	216	0.17
642,137	Olomoucký Region	112	0.17
515,185	Pardubický Region	73	0.14
569,627	Plzeňský Region	146	0.26
1,233,211	Praha	747	0.61
1,230,691	Středočeský Region	160	0.13
835,891	Ústecký Region	161	0.19
515,411	Vysočina	62	0.12
591,412	Zlínský Region	92	0.16
<b>10,467,542</b>	<b>Grand Total</b>	<b>2,396</b>	<b>0.23</b>
<b>Correlation</b>			<b>0.65</b>

Figure 9. Number of stores per 1 000 inhabitants in regions (Source: author)

The relationship between the number of brands and the number of inhabitants was tested by a linear regression model which worked out the dependency between the number of fascias and the number of inhabitants.

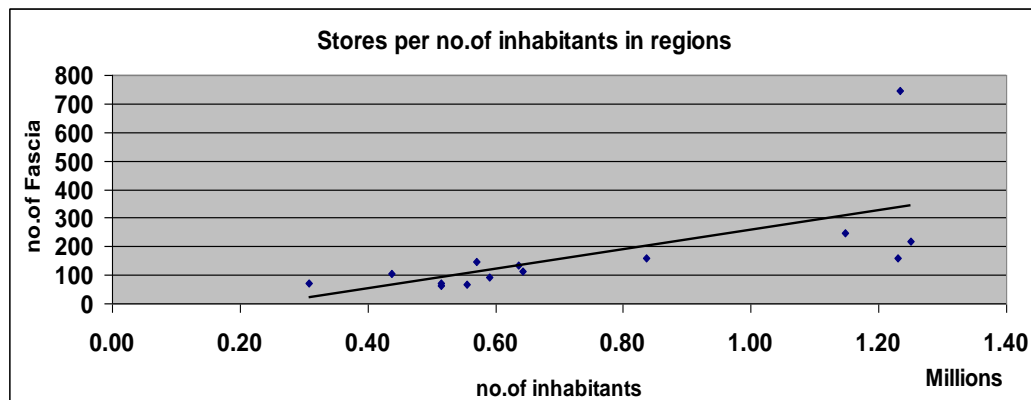


Figure 10. - Number of stores per number of inhabitants in regions (Source: author)

Figure 10 shows a strong relationship between number of stores per millions of inhabitants generally with an outlying figure for Prague which will have affected the results of the previous correlation analysis. This is confirmed by the following descriptive statistics. Descriptive statistic suggests that 95% of the values are in the interval 0.142 - 0.282 with a median value of 0.184 with the sample affected by one extreme value represented by the capital city of Prague. To investigate this further analysis that excluded the capital city of Prague was conducted. Without Prague the average number of stores per 1 000 inhabitants is 0.18 with a correlation coefficient of 0.85 between number of inhabitants and number of stores. This suggests a much higher correlation level when the capital city is excluded. The hypothesis that number of stores depends on number of inhabitants in the regions is supported particularly when the capital city of Prague was excluded from the sample. It perhaps also indicates that Prague is too saturated with retail stock.

Figure 11 demonstrates the comparison with other capitals of Central European cities and indicates that Prague is the most saturated with retail stock of all these capitals and also has high levels of prime rents in shopping centres and on the high streets. The saturation suggests that there may not be scope for more retailers or retail development but on the other hand the high rents suggest a high level of demand. This may be due to income levels in the local economy or spending from tourists. These dynamics could be further investigated in later work. The hypothesis that the locations chosen by retailers from nearby countries would be different from those further afield (Robinson and Clarke-Hill 1990) was tested.

Figure 12 separates the retailers into those from neighbouring countries and others. This demonstrates a fairly even spread of countries of origin for most regions with the exception of Prague which has a higher representation of retailers who are not from neighbouring countries. Further analysis showed that retailers from neighbouring countries and further afield do not differ in their preferences for types of location or within the city or by type of property with two major exceptions. International retailers from Slovakia and Poland tend to occupy almost exclusively premises in Shopping centres. It might have been expected that retailers from neighbouring countries would firstly expand to the regions of the Czech Republic closest to them. However this does not seem to hold true as the spread of neighbouring retailers is quite even in all the regions. For example the German retailers have highly penetrated the North Moravian region despite the fact that it is the most distant region from their border. So geographical distance does not seem to explain the way that the international retailers have expanded on the Czech market.

Country	Slovakia	Hungary	Czech Republic	Poland
Capital city	Bratislava	Budapest	Prague	Warsaw
Metropolitan Area Population	710 000	2 470 000	1 620 000	2 600 000
retail stock in mil. sqm (HS, RP, SC)	0.32	0.75	0.94	1.34
Prime SC rents	35-45 €	50-113 €	50-110 €	58-92 €
Prime HS rents	40 €	100 €	170 €	84 €

Figure 11 .Comparison of CEE capital cities (Cushman & Wakefield, 2009)

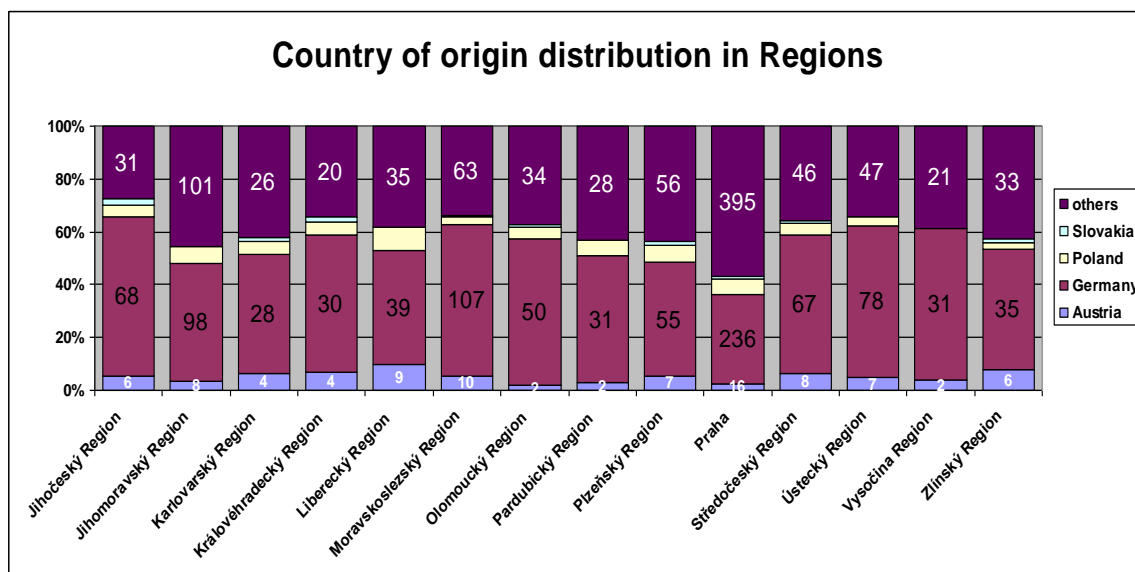


Figure 12 .Distribution of retailers in regions, neighbouring vs. other countries of origin (Source: author)

### Property Type by Region

This section investigates the preferences for types of retail property by international retailers in the Czech Republic as a whole and by region. The graph indicates the clear dominance of shopping centres which accommodate 59% of the stores from the database. It is quite interesting that retail parks represent only 14%. One of the reasons may be that retail parks accommodate operators with large formats and far fewer outlets than shopping centres so the analysis by total area would be probably different. The hypothesis that different regions tend to accommodate different types of property is supported by Figure 13 and Figure 14. It was determined that Prague and the larger cities have a higher proportion of international retailers in shopping centres. It is interesting, that most retail parks are built in cities between 10 000 – 30 000 inhabitants with then a decreasing popularity of the format with city size. The share of shopping centre stock rises from the cities of 50 000 inhabitants.

The high streets are also very popular in smaller cities, between 10 000 - 30 000 inhabitants. The availability of modern stock may well explain these patterns with shopping centres being developed in larger cities and retail parks and warehouses in smaller ones. This suggests that further work investigating the distribution of centres as well as retailers and probing the motivations and forces influencing developers and investors in shopping centres would provide further explanation and could explore the potential for strategically located new shopping centres.

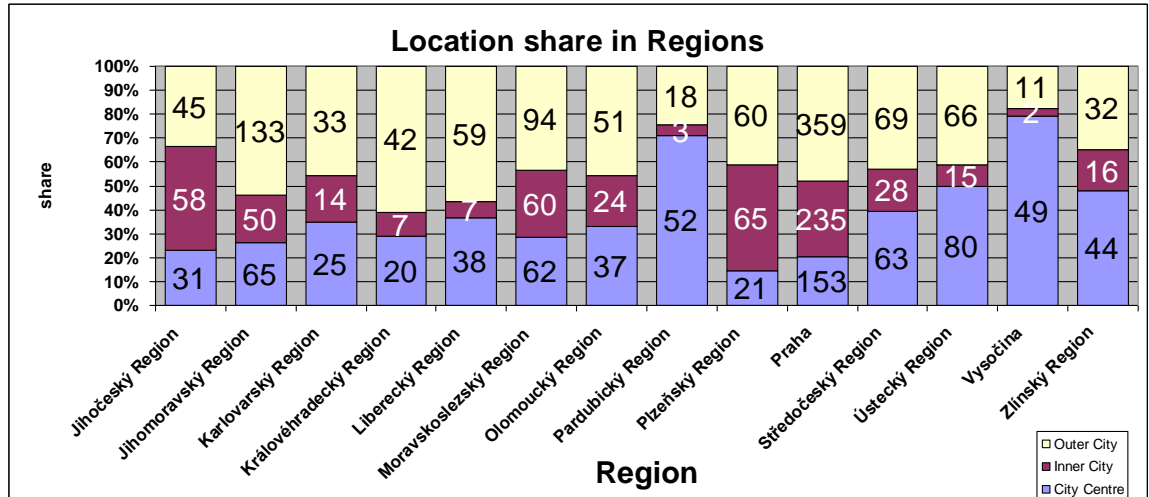


Figure 13 .Distribution of stores into city locations in regions

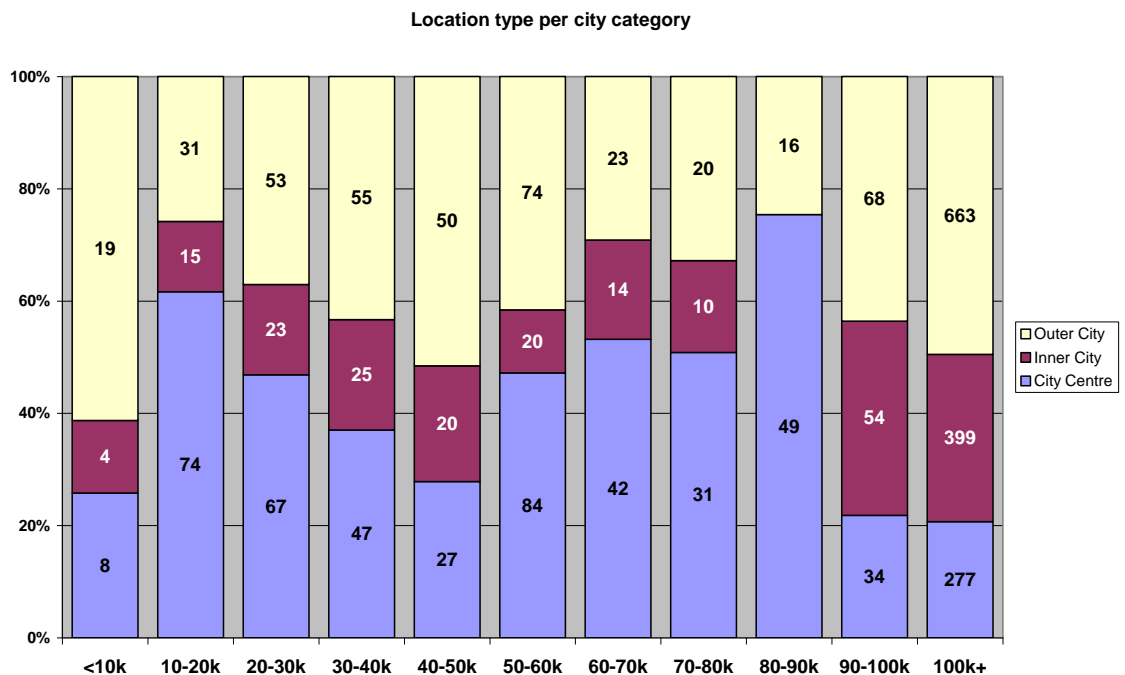


Figure 14 Distribution of stores in city locations per city size and correlation between city size and no. of stores in location (source: Author)

The final part of this analysis was to assess the hypothesis that there is a link between geographical locations and types of properties themselves, and that retail parks and shopping centres tend to be located in the outer city. The analysis (Figure 15 & Figure 16) showed that the highest correlations were between shopping centres and inner city (0.97) and between shopping centre and outer city locations (0.99) suggesting that new centres have tended to be developed in the inner city or on the fringes. There was a surprisingly low correlation (0.63) between the retail park format and the outer city where they may have been expected. This is most probably because in smaller cities, retail parks can be also found in the inner city or city centre. Typically smaller cities are not as densely developed

and it is possible for developers and retailers to find cheap land plots even in locations closer to city centres. The high correlation between high street and city centre (0.86) is logical given that high streets by definition tend to be in city centres. No clear patterns emerged from the other correlations possibly due to difficulties of definitions particularly between high street and secondary high street in the smaller cities.

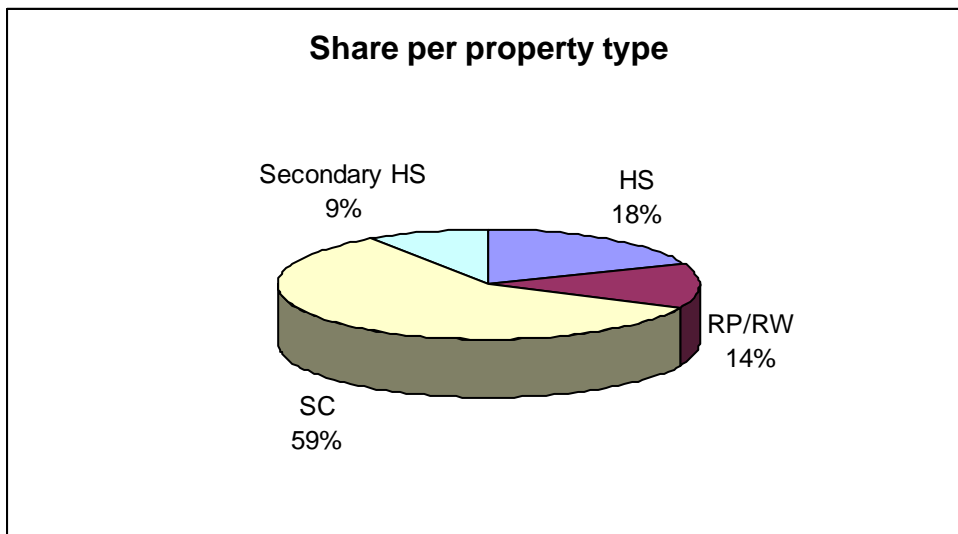


Figure 15 .Penetration of international retailers per property type (Source: author)

incl Prague	City Centre	Inner City	Outer City
HS	0,86	0,67	0,80
RP/RW	0,71	0,61	0,63
SC	0,87	0,97	0,99
Secondary HS	0,86	0,97	0,97

Figure 16 Correlation between property types and city locations( Source: author)

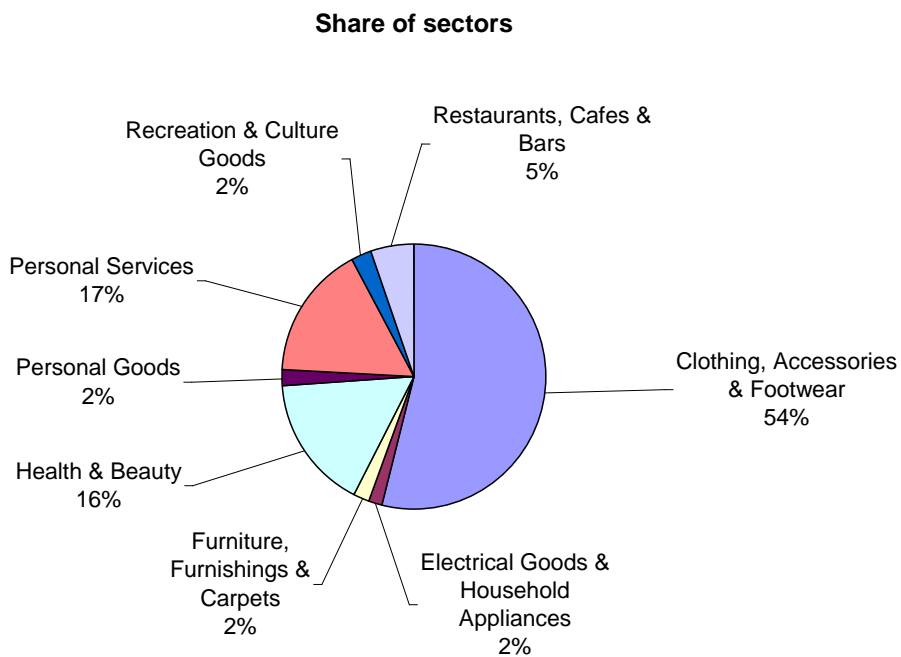


Figure 17 .Graph – International retailers in sectors (Source: author)

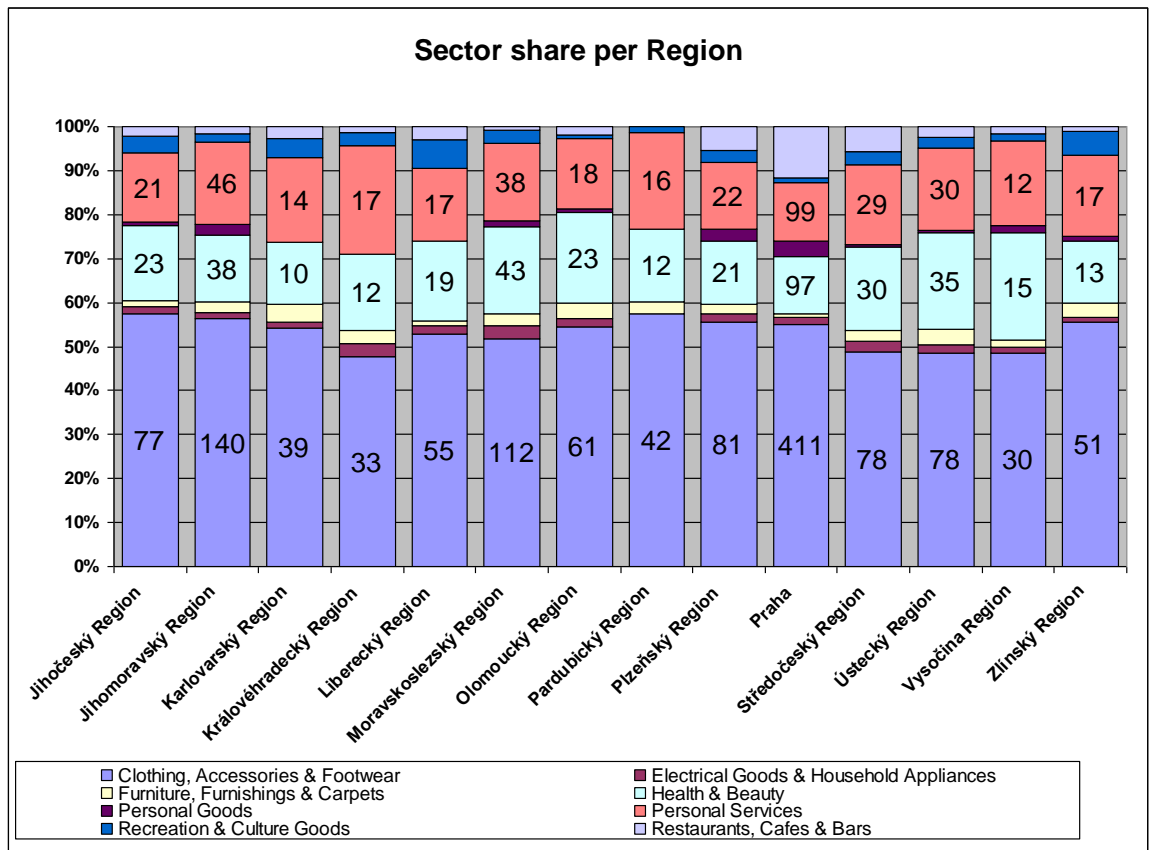


Figure 18 .Distribution of sectors in regions (Source: author)

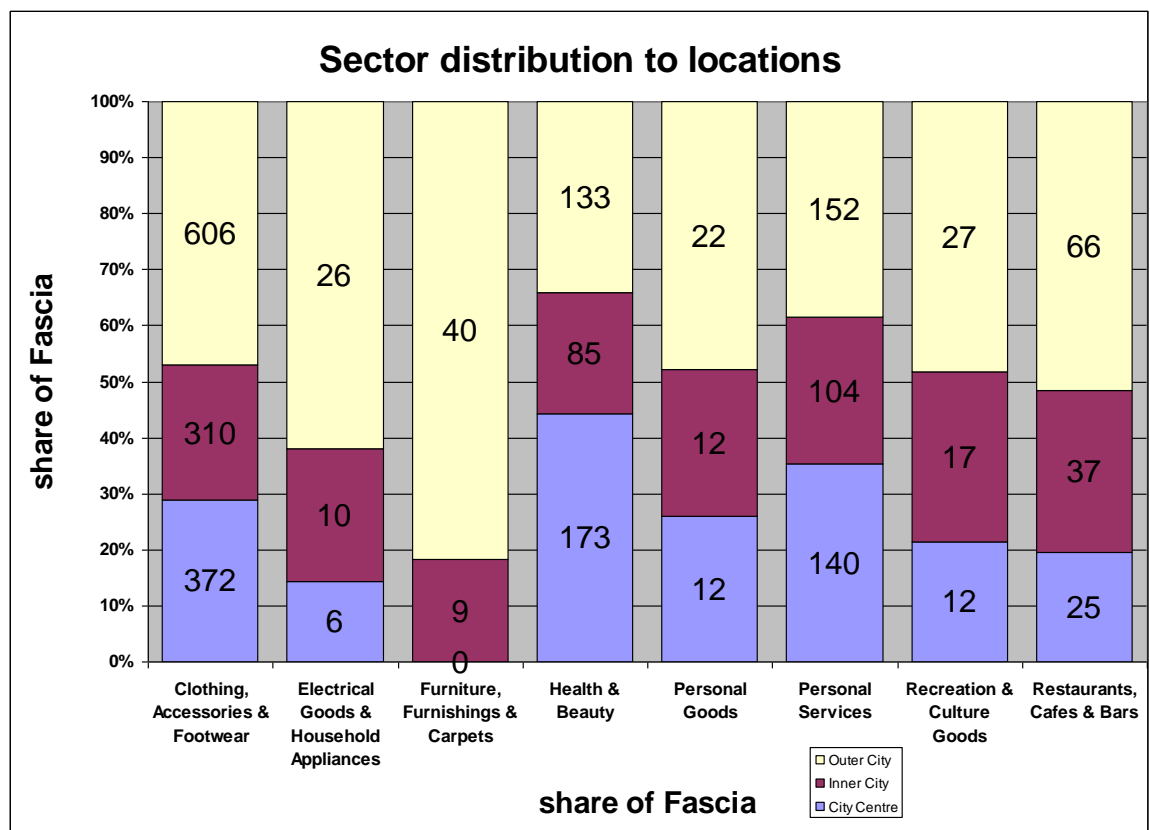


Figure 19 .Distribution of sectors to city locations (Source: author)

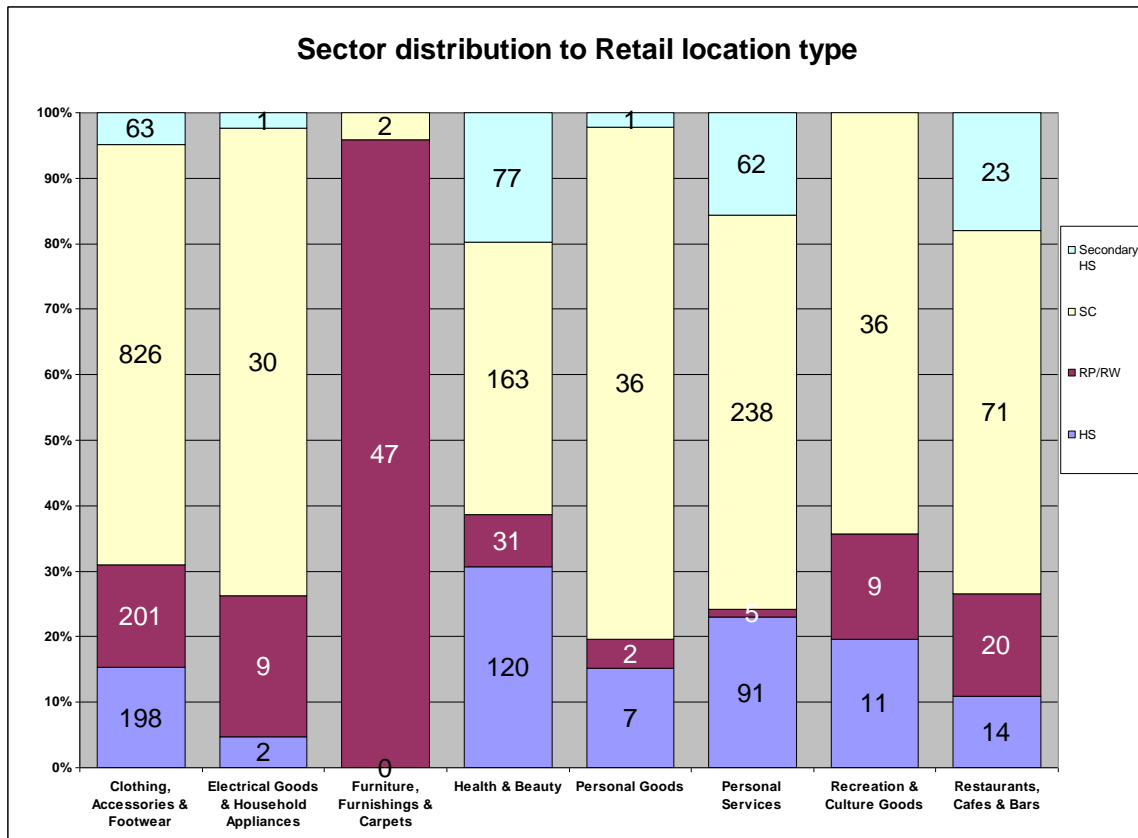


Figure 20 .- Distribution of sectors to property types (Source: author)

### Locational Preferences by Retail Sector

This section investigates whether retailers in different sectors prefer particular types of retail location and whether this varies around the country. It shows the overall representation of international retailers in the Czech Republic by sector. The representation of clothing and footwear stores (54%) is the highest in the data sample. Personal services and health and beauty sectors are also well represented (17% and 16%). Other sectors operate a relatively small number of stores.

The analysis will now concentrate on how particular retail sectors represented in regions and the Czech Republic to investigate the hypothesis that different types of sector are attracted to different regions. Figure 18 shows that the sectors are fairly evenly distributed across the country. A clearer pattern emerged from the analysis of distribution of the sectors by size of the city. This showed a tendency for the health and beauty sector to account for a higher proportion the smaller the city and for clothing etc. to be higher the larger the city. However retailers in the furniture and electrical goods stores are more likely to be present in out of town locations (Figure 19).

Figure 20 provides some explanation of these trends. Furniture tends to be in retail parks and warehouses and electrical goods tend to be in shopping centres both of which tend to be in outer locations. Health and beauty operators tend to occupy high street locations or shopping centres accounting for their presence in the city centre. The surprisingly high proportion of cafes and bars in outer locations is probably due to their preference for shopping centres.

Correlation analysis was used to assess the hypothesis that there is a tendency for certain types of retailers to locate together. The results showed high levels of correlations between electrical goods, clothing and recreational goods. As the previous figures showed these all have a tendency to be in shopping centres. There was also a relatively high correlation between electrical goods and furniture which is explained by their presence in retail parks and warehouses in outer locations. The previous analysis shows that shopping centres are present in both inner and outer locations. It would be an interesting line of further enquiry to assess whether the electrical goods retailers in shopping centres tend to sell smaller electrical goods but the data would need re-classifying to do this. It would also be worth checking whether they tend to occupy shopping centres in outer locations. Finally the



hypothesis that the number of stores in districts is dependent on the unemployment rate in the district was tested. There was a negative correlation of 0.147 between the number of stores in the district and the unemployment rate suggesting that the higher the level of unemployment the less likely retailers will locate in that region.

## CONCLUSIONS

### *Origin of retailers*

The most active expansion on the Czech market in terms of numbers of stores was by retailers from geographically proximate countries. Overall, German retailers dominated by representing about 40% from the sample.

### *Penetration of stores of international retailers correlated with number of inhabitants*

The number of inhabitants of the catchment area was one of the main criteria for expansion. The penetration has been quite even with similar levels of saturation for all regions except Prague which has attracted a higher level, particular of international retailers from further away.

### *Retailers were driven by location and property type in their expansion*

There were discernable patterns between types of retailer and geographical location within city (city centre, inner city or outer city) or retail property type (shopping centre, retail warehouse, high street or secondary high street). Hence, the location and suitability of property are key drivers behind retailer's behaviour.

### *Outer city shopping centres most preferred*

Outer city shopping centre is the preferred location of international retailers in all sectors except for furniture and electrical goods. Most development activity has occurred in outer locations. The fact that retail parks are not typically located in the outer cities is also an interesting finding.

### *Carpets, furniture and electrical goods found in outer city locations*

Carpets, furniture and electrical goods typically occupy outer city locations

Clothing, personal services and health and beauty most active in expansion

Retailers from sectors of clothing and footwear, personal services and health and beauty opened highest number of studied stores on the Czech market. Clothing and footwear were predominant sector with 54% of the sample, whereas personal service represented 17% and health and beauty 16%.

### *Retail warehouse/retail parks mostly found in cities between 10 000 – 30 000 inhabitants*

The highest number from the studied stores in retail parks were found in cities between 10 000 – 30 000 inhabitants.

### *Shopping centres mostly found in larger cities above 90 000 inhabitants*

Shopping centre stores are mostly found in cities above 90 000 inhabitants. This indicates that the retail park concept is a proffered in smaller cities, whereas shopping centres tend to be located in larger cities.

### *Clothing and restaurants and bars and health & beauty and personal services preferred neighbours*

Clothing and restaurants sectors and health & beauty and personal services sectors showed high correlations in their location being mostly found in shopping centres, but also having quite a high representation on high streets. Restaurants more represented in shopping centres with a high number of fast food operators in this category in the sample.

### *Retailers from neighbouring countries show similar behaviour to the other international retailers*

The study did not prove that retailers from neighbouring countries would act significantly differently from other international retailers studied. However, they were more active in expansion and opened higher number of stores (55%).

### *International retailers occupy locations with lower unemployment rate*

The study indicated that the lower the unemployment rate in the district, the higher the number of stores operated by international retailers. Therefore, unemployment rate is one of the decision-making criteria for store location by international retailers.

## Future trends. Implications and Further Research

This section sets out ideas for the way in which these dynamics could be used for future development and how the research could be taken further. Shopping centres are the most popular form of development and attract retailers from all sectors other than furniture. Their location can be in inner or outer areas and tends to be driven by population levels. The regions of Vysočina, Pardubice and Central Bohemia are the least saturated in terms of modern retail stock so strategically placed schemes with access to these markets could have potential. Research into the motivations and influences of developers and investors could shed light on this. Retailers already present in the Czech Republic and especially those currently only in Prague could be a suitable target market. As most development has taken place in the outer cities so far, there may be potential in further development of city centre and high street locations rather than building new schemes outside the city. Clothing dominates outer city and high street locations and is likely to stay an important tenant target group of any successful scheme. (NB supermarket and DIY sectors were not part of the analysis). The study could be taken forward by treating this as a benchmark to be updated by future data and for further areas of Central Eastern European Countries.

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