

Retail in Switzerland – promising but challenging



JUST TO AVOID ANY MISUNDERSTANDINGS: OF COURSE, WE ALL KNOW THAT SWITZERLAND IS NOT A PART OF WHAT IS COMMONLY KNOWN AS THE CEE AND SEE COUNTRIES. HOWEVER, TO SOME IN THE RETAIL AND REAL ESTATE BUSINESS, FACTS ABOUT SWITZERLAND ARE EVEN LESS KNOWN THAN THOSE ABOUT THE MORE EASTERN EUROPEAN COUNTRIES. AND THERE ARE MANY WHO WANT TO ENTER THE SWISS MARKET AND THEREFORE NEED TO KNOW MORE ABOUT THE COUNTRY.

POPULATION, SIZE AND PURCHASE POWER

Like an island in the middle of an ocean sometimes perceived as being hostile, Switzerland – surrounded by EU countries with all their current economic and political problems – seems to be the goal for many looking for a safe haven.

Thus, the Alpine country grew throughout the last years by some 50,000 to 100,000 people or about 1 percent annually, predominantly by immigration, having reached a population of more than 8 million inhabitants in 2012 (starting from 7.2 million in 2000). The country therefore has about the same population like its eastern neighbour Austria, whereas its northern neighbour Germany is about ten times as big as Switzerland. Measured by population growth, Switzerland meanwhile is one of the fastest-growing countries in Europe – which also means stable or growing consumption perspectives and a robust domestic demand securing a promising economic overall situation.

The area of the country is similar to the size of Netherlands (with more than 14 million inhabitants) and Denmark (with less than 5 million inhabitants).



Mentioning Switzerland, most foreigners think of cows on green slopes, producing milk, chocolate and Swiss cheese, with a background of snow-covered mountains. In reality, Switzerland is a highly urbanized, highly developed society with one of the most globalized economies (banking, pharmacy, watches etc). Statistics count 230 towns (140 of them with more than 10,000 inhabitants). More than 50 percent of the total population lives in towns and cities. More than half of the population (4.5 million) lives in one of the five big metropolitan areas:



- Zurich 1.7 million inhabitants (although the City of Zurich has only 373,000 inhabitants)
- Geneva-Lausanne 1.2 million inhabitants (including those in France, City of Geneva 188,000)
- Basle 0.8 million inhabitants (including those in Germany and France, City of Basel 185,000)
- Berne 0.7 million inhabitants (city of Berne 124,000)
- Ticino 0.5 million inhabitants (including those in Italy, City of Lugano 51,000).

In Europe only Luxembourg (due to its finance sector) and Norway (due to its oil industry) dispose of a higher economic power than Switzerland. GDP in Switzerland is around 79,000 USD per capita in 2012 (Austria 47,000, Germany 41,500) – overall private consumption in the country amounts to more than 340 billion CHF or around 58 percent of GDP.

Only less than 30 percent thereof (roughly 100 billion CHF) is the total retail turnover which – on the consumer side – means a retail purchase power of around 12,000 CHF per capita – higher than in all other European countries except Luxembourg and Norway (and twice the amounts of Germany and Austria).

RETAIL SECTOR IN SWITZERLAND

The retail sector in Switzerland comprises about 49,000 outlets and companies with more than 250,000 employees (full-time equivalents). 35 percent of them are working in the food sector, 65 percent in the non-food sector. Within the food and supermarket sector, two groups (Migros, Coop) are the most dominant players accounting for about 2/3 of food retailing or more than 1/3 of all retail sales in the country.

Economic turmoil in all European countries since 2008 led to many problems also in the retail sector. Switzerland, too, was hit by this crisis – the last few years saw

- more or less stable retail turnovers somewhat below the 100 billion threshold (due to the growing population),
- a massive entry of foreign hard discounters (Aldi, Lidl) in the food sector
- a recent tendency towards lower prices (minus-inflation), mostly due to the problems stemming from the rising value of the Swiss currency which resulted in the National Bank's stabilization of the exchange rate of the Swiss franc at 1,20 CHF per 1 Euro
- nevertheless a rising "buying tourism" towards less expensive shopping locations abroad – more and more Swiss are doing large parts of their retail purchases (estimated at 5-6 billion CHF annually) beyond the borders in neighboring Germany, France, Italy and Austria.
- In addition, the Swiss retail sector faces the same challenges as the industry in all other European countries like

- rising importance of online sales intimidating many shopkeepers (and town planners) and
- continuous expansion of sales areas increasing the competition between retail locations.

As a consequence, expansion of retail sales areas slowed down somewhat. Pessimists say that there is some oversupply in food and fashion retailing as growth in these sectors was close to zero or even negative throughout recent months.

Nevertheless, expansion of retail sale areas did not come to a stop: GfK Switzerland estimates about 700,000 sqm of new sales areas in the country for the years 2013-2016 (mostly new or extended/refurbished shopping centres and retail parks, expansion of Aldi/Lidl).

The Swiss shopping centre sector is impressive: currently, there are more than 170 shopping centres (> 5,000 sqm GLA) with 5,300 tenants on about 2,500,000 sqm GLA totaling annual turnovers of around 15 billion CHF (17 percent of all retail sales) corresponding to an average productivity of 6,000 CHF/sqm GLA. Biggest centres are

- Shoppi Tivoli in the Zurich area (67,600 sqm GLA, 419 million CHF turnover in shops in 2012, corresponding to 6,200 CHF/sqm)
- Balexert in Geneva (50,600 sqm GLA, 457 million CHF, 9,000 CHF/sqm)
- Shoppyland in the Berne area (48,800 sqm GLA, 323 million CHF, 6,600 CHF/sqm)
- Glatt in Zurich (43,400 sqm GLA, 620 million CHF. 14,300 CHF/sqm – the undisputed no. 1)
- Sihlcity in Zurich (42,500 sqm GLA, 357 million CHF, 8,600 CHF/sqm).

Although there are currently no really big new openings, the sector grew by 72,000 sqm and five centers annually between 2000 and 2012. Most interesting openings were Sihlcity Zurich in 2007, Westside Berne in 2008 and Stückli Basle in 2009 as well as Europaallee close to Zurich main railway station in 2012.

In addition, there are a few fashion outlet centres in the country – the most interesting example being Foxtown in Mendrisio in the Italian-speaking canton of Ticino, about an hour's drive from the Italian metropolis Milano. 160 stores here usually attract thousands of Italians every weekend producing a total turnover of more than 300 m CHF per year.

NEW RETAILERS ENTERING THE MARKET

Currently, there are good chances for retailers to find good locations in shopping centres, retail parks and inner-city and high-street locations in Switzerland.

Due to the topographic situation, population and economic activities in Switzerland concentrates in a big and a small "banana" – the big banana stretching from Geneva in the southwest via Lausanne-Fribourg-Berne-Zurich-Winterthur to St. Gall in the northeast, the smaller banana stretching from Basle in the northwest via Zug/Lucerne to Lugano in the southern canton of Ticino. In these two banana areas, retailers will find the most attractive and promising locations, with an absolute peak (referring to shop rents, but also to turnovers) in downtown Zurich – the main high street Bahnhofstrasse is one of the most expensive, but also one of the most frequented and most productive shopping locations in Europe. Rents here – if there is a vacancy at all – my reach more than 600 CHF/sqm per month, although rents in other places (which still offer good perspectives) can be very moderate starting 20-30 CHF/sqm.

There were many new retailers which came to Switzerland in recent years, such as Aldi and Lidl (food discount), Bauhaus, Obi and Hornbach (DIY), Takko, New Yorker, van Graaf, Springfield, Calzedonia, Gin Tonic, Footlocker and others (fashion), Imaginarium and maxi-toys (kids) and many others. Swiss consumers are looking for retail innovations, and they are very receptive to new formats. If retailers are willing to adapt to the local specifics, they have good perspectives for a successful performance in a very developed and highly interesting, but also very competitive market. There are only very few examples of foreign retailers which finally withdraw from the market (like French hypermarket operator Carrefour some years ago). ■

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