

Finding retail growth: A view from the corner office

Retailers around the world face unprecedented disruption —
High-performers offer a blueprint for growth



About this report

Finding retail growth: A view from the corner office examines the trends creating rapid change in the retail industry and the initiatives retailers plan to undertake to grow over the next three years. The project was conducted by The Economist Intelligence Unit (EIU) and sponsored by Demandware.

The work is based on a survey of 300 executives conducted in November and December 2015. All respondents were in the retail industry; 75% were C level and 25% were senior vice presidents, vice presidents or directors. Respondents were drawn from companies based in North America (30%), Europe (50%) and Asia-Pacific (20%). Six percent were from companies with annual revenue of \$5b or more; 8% from companies with annual revenue of \$3b-\$5b; 19% from companies with annual revenue of \$1b to \$3b; 33% from companies with annual revenue of \$500m to \$1b; and 33% from companies with annual revenue of \$250m to \$500m.

Our thanks are due to the following executives for their time and insights during the in-depth interviews (listed alphabetically):

Nigel Oddy chief executive officer, House of Fraser

James Speltz former chief executive officer, Brookstone, and
current chief operating officer, Teikametrics

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Introduction

The retail sector is facing disruptions unlike anything it has seen before, requiring retailers to rethink their strategic and operational approaches to achieving growth. A recent Economist Intelligence Unit (EIU) survey of top retail executives around the world—75% of them C-level—offered an in-depth view of what those executives see as the most significant disruptions as well as their tactics for addressing them. The survey, sponsored by Demandware, showed that shifting consumer tastes, increased globalisation and the rise of global online marketplaces are three of the most often cited dynamics affecting retailers' ability to reach their goals over the next three years. While a larger share of senior retail executives see these shifting dynamics as opportunities rather than threats, this optimism may cloud the reality that these

changes do, in fact, pose profound threats to traditional retail models, formats and concepts.

Indeed, many retailers are struggling with such essential elements of retail success as marketing mix, brand building and the value equation. A small group of high-performing retailers, the survey shows, are more optimistic, more focused on growth and more focused on aligning the opportunities they see with their growth initiatives than their lower-performing peers. The steps high-performers are taking show that some retail verities still hold: high-performers are applying technology to evolve the traditional values of offering high-quality products and high-quality service to aid differentiation. These winners are focused on geographic expansion, strategic partnerships and new stores and formats to drive growth.

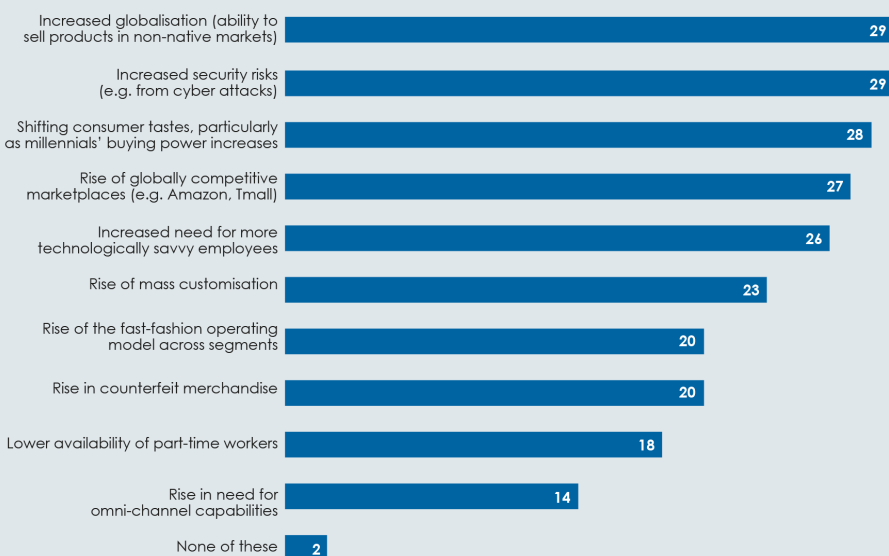
A challenging and changing landscape shifts executive priorities

The survey's C-level retail executives considered increased globalisation, increased security risks (such as from cyber attacks), shifting consumer tastes and global marketplaces to be the most powerful shifts in industry dynamics over the next three years.

Most powerful shifts in retail dynamics

Which of the following shifts in retail dynamics will have the most effect on your ability to reach your strategic goals, for better or worse, over the next three years?

(% respondents)



Numbers may not add to 100% because respondents could choose more than one answer, because of rounding, and because "don't know" responses are not shown. Source: Economist Intelligence Unit survey, 2015.

Globalisation itself isn't news, but digital commerce has accelerated its effects on retailers by reducing the traditional cost, complexity and even importance of physical locations. Under Armour, for example, expects to have 30 different e-commerce experiences covering 80% of their key markets around the world by 2018.

Meanwhile, as channels proliferate and customer information is captured across organisations, security risks have come to the fore. Retailers are tempting targets for hackers given the amount of customer information they retain. Even with increased security standards, just one attack can have a negative effect on sales, margin, reputation and customer loyalty for a significant period.

Dramatic shifts in what consumers shop for, and how they shop, are manifesting themselves in newer categories of retail such as fast fashion and socially conscious brands like Dogeared, Patagonia and Tom's Shoes. At the same time, the fundamental shift to mobile has become the thread that ties together virtual and physical shopping experiences.

Finally, global marketplaces have become a significant intermediary wedged between buyers and sellers, wielding unprecedented power because of their enormous selections, competitive pricing and unparalleled convenience. In many cases, marketplaces such as Amazon and Snapdeal have gone from being simply mass merchants to curated destinations that operate and feel like digital specialty boutiques, deepening the pressure on retailers across the entire industry.

On the other end of the scale, a rise in the need for omni-channel capabilities was cited just 14% of the time. But, with increased investments in technology over the past several years, it's likely that most retailers have at least basic omni-channel capabilities in place and are now focused on perfecting their execution. Indeed, other data indicate that executives have moved beyond setting

an omni-channel foundation and are now more concerned with streamlining processes across channels and ensuring that employees are technologically savvy. As retailers make these additional changes to become truly customer-centric, the organisational and technical structures that have supported them for many years will have to change even more fundamentally.

Nigel Oddy, chief executive officer of House of Fraser, explained, "We have integrated our web business with our bricks-and-mortar business, so online and offline is one individual entity. What we've said is let's make it customer-centric instead of channel-centric." For example, House of Fraser is a leader in click-and-collect—customers can place an online order by midnight and pick up their merchandise in a brick-and-mortar store by noon the following day. The company has also created the position of chief customer officer responsible for a consistent message and experience across every customer touch point. "Having a truly multi-channel business," Mr Oddy noted, is "about being seamless online and offline. Customers don't think about the business by channel, they think about the business by brand."

“Customers don't think about the business by channel, they think about the business by brand.”

- Mr Oddy

Executives go back to the basics for differentiation

Despite the disruption caused by these trends, many retail leaders stress the importance of focusing on the basics. The survey showed that 60% of senior retail executives view product excellence (defined as high-quality, unique or innovative products) as the most important differentiator in the current environment, while 53% view seamless service (defined as high-quality service or service across channels) as such.

“At the end of the day, humans by nature are creatures of habit and we like the knowns,” said former Brookstone CEO James Speltz. “If we’re treated well in a 360-degree fashion from a shopping experience, we like to go back to that.”

While products and service have been at the top of any executive’s checklist throughout retail history, increased consumer access, control and technology can create a significant amount of friction throughout any shopping experience. Mr Speltz, now the chief operating officer of Teikametrics in Boston, acknowledges that traditional tactics can no longer produce seamless service across an increasing number of channels. “Service and customer experience are becoming far more important because the complexity of transactions is growing.”

Competitive differentiators now and in three years

Which of the following characteristics of your offerings is most important to your current competitive differentiation?

(% respondents)



Numbers may not add to 100% because respondents could choose more than one answer, because of rounding, and because “don’t know” responses are not shown. Source: Economist Intelligence Unit survey, 2015.

Looking forward to the competitive differentiators retailers expect to rely on three years from now, the most significant increases in importance are on perceived value for money paid and product excellence—jumps of 6 and 4 percentage points, respectively. The increased emphasis on value, still chosen by relatively few executives, is likely one response to competition from global marketplaces that are quickly claiming share in many categories and geographies. Retailers must emphasise value as well as quality to avoid a race to the bottom on price.

Mr Oddy expects House of Fraser to rely on house brands, or private label, as one important way to provide unique and innovative products that meet customer expectations. “It’s developing a range of house brands that sit alongside brands that may be available at other retailers,” he said. “Customers keep coming back because they know that we’re the only place they can get them. It’s about that house brand and raising that recognition of that house brand.”

“*Humans by nature are creatures of habit and we like the knowns.*”

- Mr Speltz

Executives' optimism may outstrip their ability to change

No matter which dynamic they see as having the most significant effect, C-level retail executives appear to be too confident in their ability to compete, whether with traditional or emerging players. For example, 76% of those seeing the rise of the fast-fashion operating model as a crucial trend said their companies are very or extremely prepared to compete on that basis. And 70% of those concerned about the rise of mass customisation say the same.

Retailers are confident

How prepared are you to compete in an environment driven by each of those important shifts?
(% respondents who chose a given trend as important)



Numbers may not add to 100% because respondents could choose more than one answer, because of rounding, and because "don't know" responses are not shown.
Source: Economist Intelligence Unit survey, 2015.

In addition, significant majorities say they are ready to compete on their chosen competitive differentiators: 79% described themselves as very or extremely prepared to compete in terms of offering perceived value for money paid and 76% each in product excellence, seamless service and operating efficiently.

On the flip side, though, respondents concerned about an increased need for more technologically savvy employees were more dubious: though a slim majority are confident, 42% said they are, at best, somewhat prepared to compete. If companies are indeed moving on from building basic omni-channel capabilities to honing customer-centric operations across the company—including everything from using analytical applications for planning to leveraging mobile point of sale for service—more retailers will need to be well-prepared in this area.

Indeed, of the nine other trends the survey asked about, seven are in one way or another heavily reliant on technology. And in that context, too many retailers seem to be hard-wired to the ways of the past, often literally,

in the form of real estate commitments, supply chain practices and legacy technology investments. This may well be leading them to overlook the realities of competing based on some of these important dynamics.

For example, agile fast fashion retailers such as Primark, Uniqlo and Zara have reimagined the supply chain to launch products in weeks rather than months, a demand-driven approach that most retailers can't easily replicate. Or mass customisation, for which many retailers find themselves ill-equipped to manage the required complex inventory and configuration processes cost-effectively. Or even providing the basics of product excellence and seamless service, which is becoming increasingly more difficult as products and technology merge, service occurs across channels and value is dragged down by price pressure.

On the whole, all of these realities, combined with many retailers' legacy operations and their relative lack of preparedness to compete for tech-savvy employees, make it likely that many senior executives are far more optimistic than they should be.



Reorganisation is key, but the lock is elusive

Retail executives may well also be overly optimistic about their organisational ability to adapt to and embrace change as they prepare to compete. The data suggest that in some cases they have more of a desire for change than a strategic response to changing conditions. Survey respondents most often anticipated that their digital function and their product development and manufacturing function will have to make the most changes over the next three years, with 29% of respondents citing each. These changes align with respondents' concerns about delivering product excellence in an age of mass customisation and crowdsourcing. Similarly, as digital tools and expectations change frequently, so must the functions within retail organisations—thus increasing the demand for skills in mobile commerce, customer intelligence and social media.

Mr Oddy of House of Fraser notes that building digital operations has helped his firm to become “more of a customer-centric business”.

The most often cited organisational changes respondents expect to implement are making operations more efficient (chosen by 29%) and consolidating functions (24%). Consolidation seems likely tied to many retailers' desire to refocus all operations to meet, seamlessly, customer expectations for both product excellence and seamless service. However, the organisational shifts already required to move from product-centric to channel-centric, and now to customer-centric, significantly affect organisational design along with training, incentives and legacy processes.

Little agreement on tactics

(% respondents)

Changing functions

In order to pursue your strategic initiatives, which of your corporate functions will you have to make the most changes to over the next three years?



Changing operations

What are the most significant organisational changes you expect to make as you pursue your strategic initiatives over the next three years?



Numbers may not add to 100% because respondents could choose more than one answer, because of rounding, and because “don’t know” responses are not shown. Source: Economist Intelligence Unit survey, 2015.

While these important tactics bubble to the top, they're not much more often cited than are a broad range of other expected changes. Indeed, there is little agreement among survey respondents on the organisational changes required to execute strategies. The survey

suggests that as retailers struggle to modernise their traditional operations, many see so many potential changes to make that they have trouble focusing on the few that are most crucial to their own strategy.



High-performers see opportunities where others see threats

The high-performing group of respondents takes a very different view on how to drive growth. High-performers, representing just under one-third of all survey respondents, are those organisations that ranked their performance “significantly above” or “somewhat above” their competitors’ on three metrics: same-store sales growth, margin and inventory turn rates.

High-performers have quite different perceptions of which trends are most

important and, crucially, whether these trends offer opportunities or should be considered threats. For example, 69% of high-performers who see globalisation as an important trend also see it as an opportunity, while only 43% of lower performers do so. Likewise, despite the market-share grabs of globally competitive marketplaces, 52% of high-performers who see them as important see their rise as an opportunity versus only 35% of the lower performers. Indeed, similar gaps appear across the board¹.

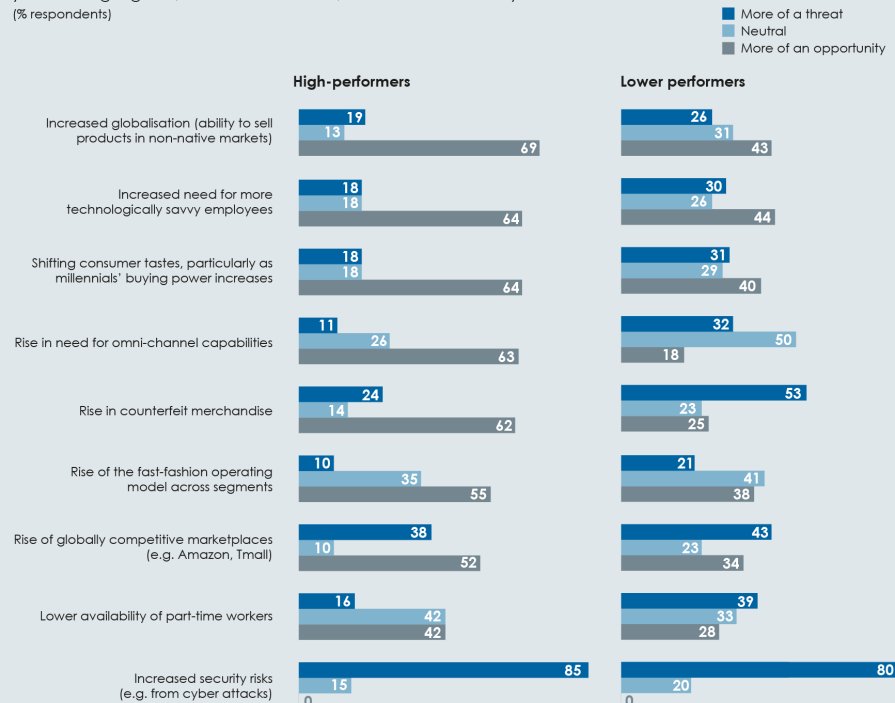


¹The only exception is increased security risks, which no survey respondents saw as an opportunity.

High-performers see more opportunity

Which of the following shifts in retail dynamics will have the most effect on your ability to reach your strategic goals, for better or worse, over the next three years?

(% respondents)



Numbers may not add to 100% because respondents could choose more than one answer, because of rounding, and because "don't know" responses are not shown. Source: Economist Intelligence Unit survey, 2015.

"It's as old as retail to perceive anyone else who is selling something as your competitor," said Mr Speltz. "So, when you see something like an Amazon or this massive marketplace who is transacting with someone who you perceive as your customer, it's common to see it as threat or competition." The reality, he added, is different: Smart retailers are viewing

Amazon and other online marketplaces as partners from a marketing and infrastructure standpoint. "The online marketplace is only a threat if you choose to ignore it," he said, adding that he would advise retailers not to view Amazon as their e-commerce platform, but instead as part of their e-commerce strategy.

“It’s as old as retail to perceive anyone else who is selling something as your competitor.”

- Mr Speltz

High-performers align opportunity and growth initiatives

High-performers focused on revenue growth outnumber those focused on cost management by more than two to one, while the shares are almost equal among lower performers. This suggests that high-performers' plans are particularly focused on driving growth rather than on simple survival and, given their

resources and perceived opportunity, that they likely see more chance to compete on their own terms. It's also notable that, in contrast to the other respondents, high-performers are pursuing more growth initiatives, on average—three vs two.

High-performers are seeking more growth

What are the most important strategic initiatives focused on revenue growth you plan to pursue over the next three years to improve your performance on your chosen metrics?

(% respondents)



Numbers may not add to 100% because respondents could choose more than one answer, because of rounding, and because "don't know" responses are not shown. Source: Economist Intelligence Unit survey, 2015.

High-performers' top three growth initiatives are: geographic expansion, strategic partnerships and new stores and formats. Specifically:

- *Geographic expansion:* This is the top growth initiative, cited by 43% of high-performers compared with 33% of lower performers, a gap that makes sense when looking at the far larger share of high-performers who see globalisation as an opportunity. Columbia Sportswear, a vertically integrated sportswear brand, has relied on globalisation to fuel growth. It expanded its direct-to-consumer presence via a digital strategy—with websites that operate in dozens of geographies around the world—to complement its wholesale and store operations.

- *Strategic partnerships:* Strategic partnerships, such as store-within-a-store models, are cited almost equally by both groups as a growth initiative, but high-performers have more resources to experiment with variety and technological sophistication—again in alignment with the

opportunities they see in more technologically savvy employees and shifting consumer tastes. For example, Under Armour first partnered with and ultimately purchased MyFitnessPal, an app that allows consumers to track activity; as a result, Under Armour can send consumers product information and promotions based on their fitness progress and interests.

- *New stores and formats:* Physical stores are not dead, but they are transforming. New stores and formats are an important initiative for 30% of high performers and 20% of lower performers. Party City, the specialty party supply retailer, for example, establishes hundreds of pop-up Halloween City stores every fall to dynamically extend its footprint for the short holiday period, creating temporary locations without the traditional cost, complexity and time typically needed to establish permanent stores.

These growth initiatives align with opportunities, and underlie many of the spending priorities and organisational changes high-performing retailers plan to make to put the customer at the centre of their business.

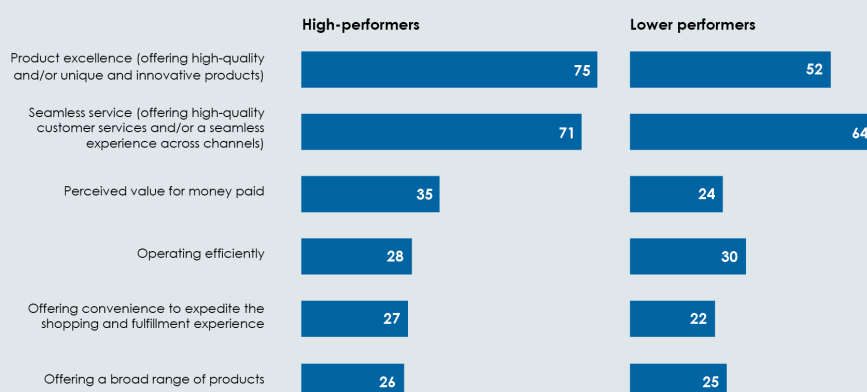


High-performers operationalise technology to enable growth

High-performers' agreement on the importance of seamless service and product excellence and the growth initiatives to get there also translates into more-focused plans for change, channel priorities and overall spending than do the plans of lower performers. This clear vision of how to seize the opportunities they see suggests that these retailers' plans perhaps offer the best road map to growth in this new era of retail democratisation and disruption.

High-performers are more focused

Which characteristics of your offerings will be your most important competitive differentiator?



Numbers may not add to 100% because respondents could choose more than one answer, because of rounding, and because "don't know" responses are not shown.
Source: Economist Intelligence Unit survey, 2015.

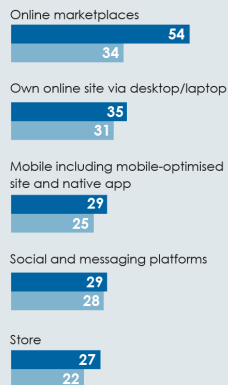
Digging into how and where retailers expect to invest, high-performers are, of course, likely to have more to spend. But they are spending in ways that are clearly aligned with their chosen competitive differentiators and with infusing technology into every area of their operations. Indeed, 82% of high-performers are planning to increase spending on technology compared with only 56% of lower performers.



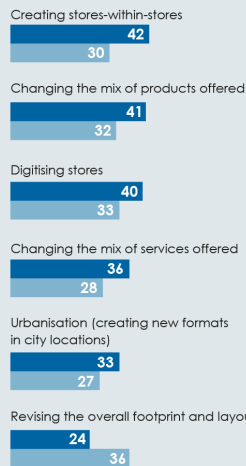
Different strategic and spending priorities

(% respondents)

In order to pursue your strategic initiatives, which of those channels will you have to make the most changes to over the next three years?

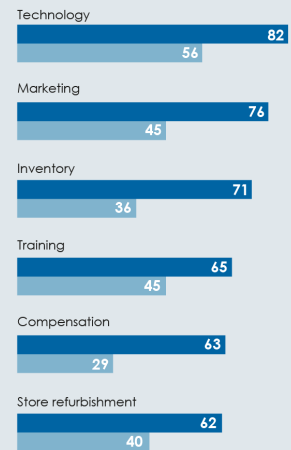


Regardless of the size of your investment in physical stores, what will your investment priorities be for them?



■ High-performers
■ Lower performers

As you invest in your strategic initiatives over the next three years, how will investment in each of the following areas change? (% respondents saying "increase")



Numbers may not add to 100% because respondents could choose more than one answer, because of rounding, and because "don't know" responses are not shown. Source: Economist Intelligence Unit survey, 2015.

Two other priorities highlight high-performers' operationalisation of technology, starting with online marketplaces, which 54% of high-performers see as an area in which they'll have to make the most change (compared with 34% of other survey respondents). Changes are most likely to take the form of integrating and syndicating data to ensure that a retailer's own brand is appropriately represented and that orders are seamlessly fulfilled whatever their source. And marketplaces are unlikely to be limited to today's leaders; new competitors will likely also include messaging platforms such as WeChat and social destinations like Houzz, in which transactions occur directly.

A second important application of technology is in supplementing store growth. A larger share of high-performers are focused on creating specialised and digitised store experiences as their priorities for spending

on physical stores, while the highest share of lower performers are focused on revising the overall footprint and layout. In either case, digital permeates the physical footprint; for example Marks & Spencer's Virtual Rail, True Religion's Endless Aisle or UGG's Magic Carpet.

"The topic of technology in retail is just such an enormous umbrella," said Mr Speltz. But, he noted, "The first place I'd want to make sure my technology is deployed is around customer relationship marketing." Even though "there are so many that haven't done it well," from a transactional standpoint, systems that allow associates to gain access to customers' shopping history and tailor their experience can be invaluable, he said. "When you're greeted by someone who treats you as a friend, an asset, a family member, whatever it might be, you're breaking down barriers to completing that transaction."

Growth: Old truths, tech twists and customers at the centre

The democratisation of retail—with seemingly unlimited consumer access and control—has triggered the next wave of growth for those that adapt and change. Retailers can no longer rely on more store locations and larger footprints, or even a simple transactional website, for growth. Rather, retailers must embrace the reality of reaching customers wherever, whenever, however and with whatever they demand.

Agility and responsiveness are a winning combination, according to Mr Oddy. “Being flexible and being able to make quicker decisions, enabling us to respond to trends and our customers’ needs. We are continuously working to do this and improve further.”

What is clear from the survey responses is that high-performing retailers not only have more focused and optimistic views than do others about the disruptive forces facing the industry, but also about the strategies for addressing them. Their shared priorities and tactics for offering seamless service and product excellence provide guiding principles for growth in today’s challenging environment:

- *Don’t lose sight of the basics* — An emphasis on high-quality products and service is more essential than ever

- *Become fully customer-centric* — Move beyond omni-channel and put the customer at the centre of all retail growth strategies by delivering a unified and consistent experience across all channels

- *Find opportunity in potential threats* — Online marketplaces, for one, can be viewed as opportunities and a source of innovation for e-commerce strategies

- *Focus on priorities that align with opportunities* — International expansion, strategic partnerships and innovative store formats are key sources of growth

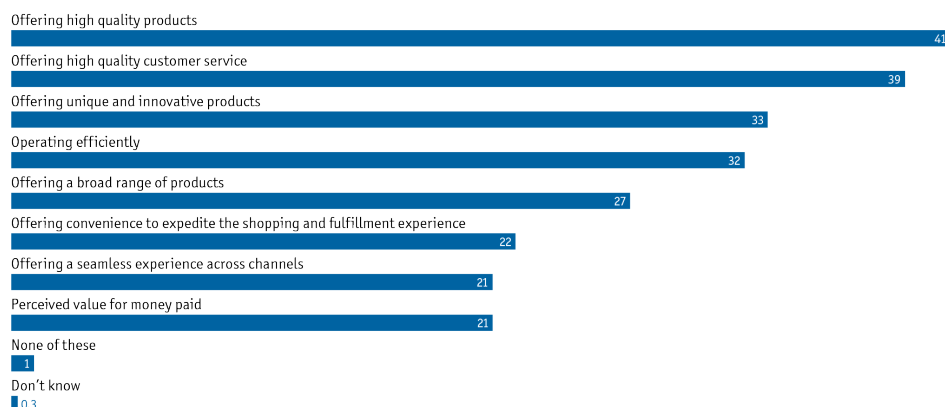
- *Operationalise technology* — Technology offers unprecedented opportunities; coupling investments with organisational training and redesign will allow retailers to turn information into action

Ultimately, the most important message might be that, more than ever, today’s retail world revolves around the customer. Mr Oddy sums up: “From our point of view, we listen to the customer, we understand our customer, and we recognise that our customer is more important than anything else in our business.”

Appendix: Survey results

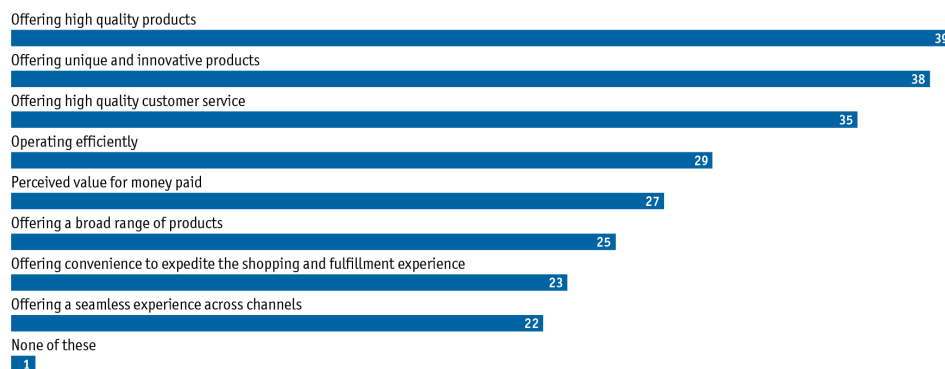
Which of the following characteristics of your offerings is most important to your current competitive differentiation?

Select up to three.
(% respondents)



Which characteristics of your offerings will be your most important competitive differentiators in the next three years?

Select up to three.
(% respondents)

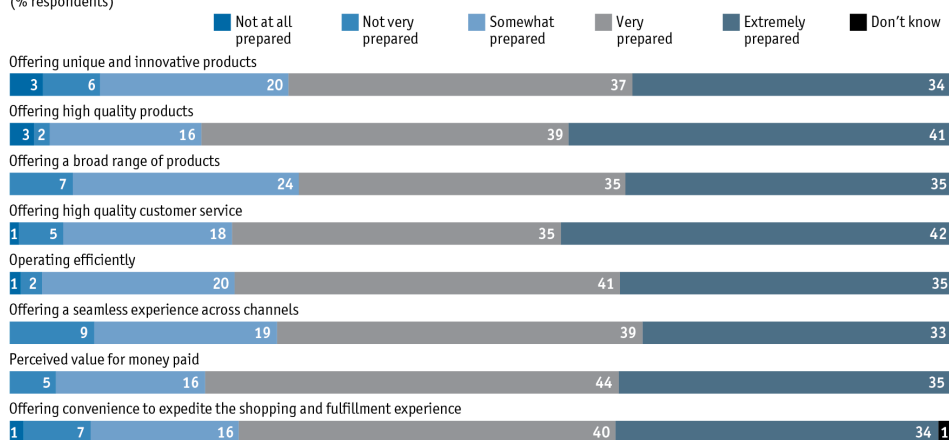


Source: Economist Intelligence Unit survey 2015. Results may not add to 100% because of rounding and/or because respondents could select more than one answer.

How prepared are you to compete in each of the following areas?

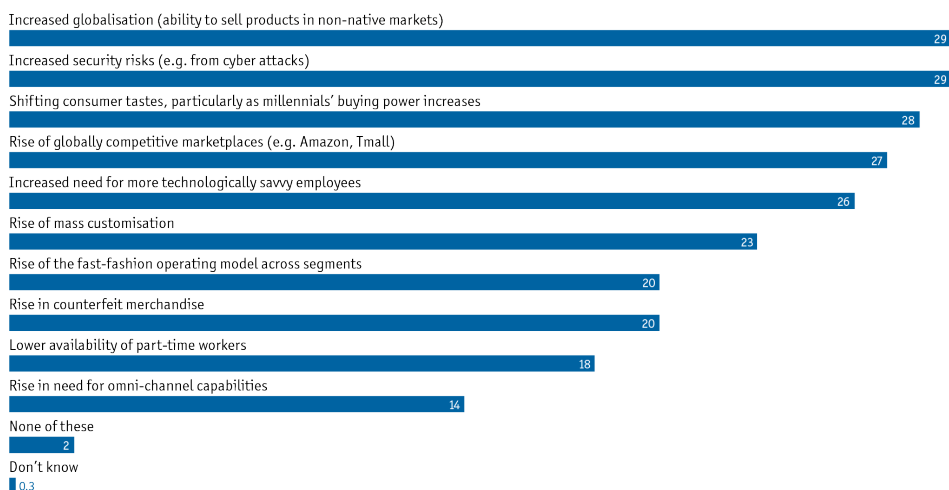
Select one in each row.

(% respondents)

**Which of the following shifts in retail dynamics will have the most effect on your ability to reach your strategic goals, for better or worse, over the next three years?**

Select up to three.

(% respondents)

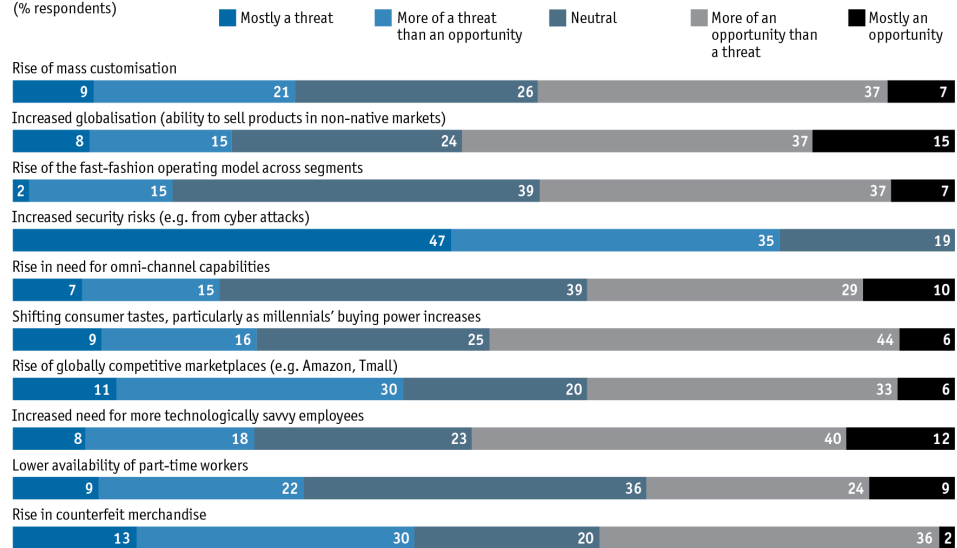


Source: Economist Intelligence Unit survey 2015. Results may not add to 100% because of rounding and/or because respondents could select more than one answer.

Among those important shifts, which are more of an opportunity and which are more of a threat?

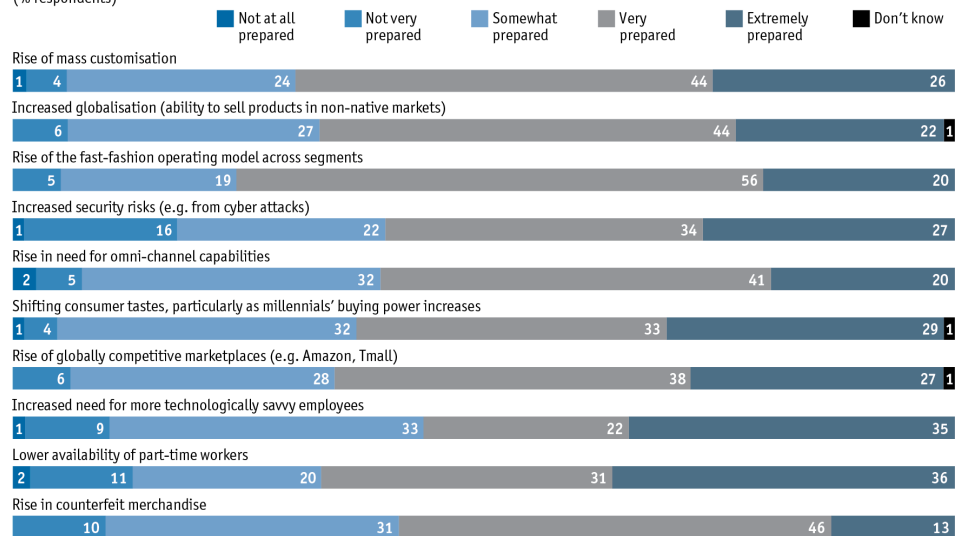
Select one in each row.

(% respondents)

**How prepared are you to compete in an environment driven by each of those important shifts?**

Select one in each row.

(% respondents)



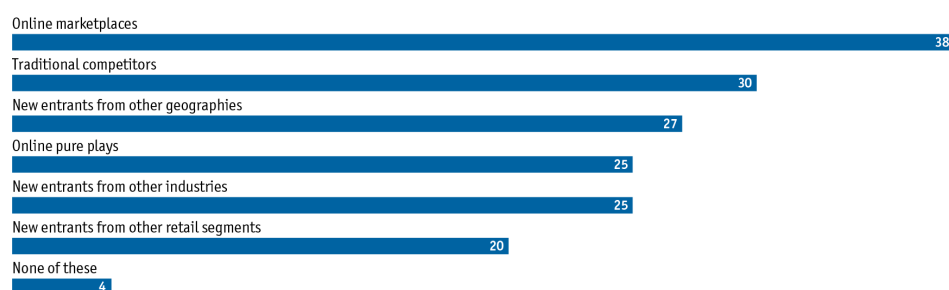
Source: Economist Intelligence Unit survey 2015. Results may not add to 100% because of rounding and/or because respondents could select more than one answer.

Which of the following characteristics of globally competitive marketplaces create their greatest competitive differentiation?

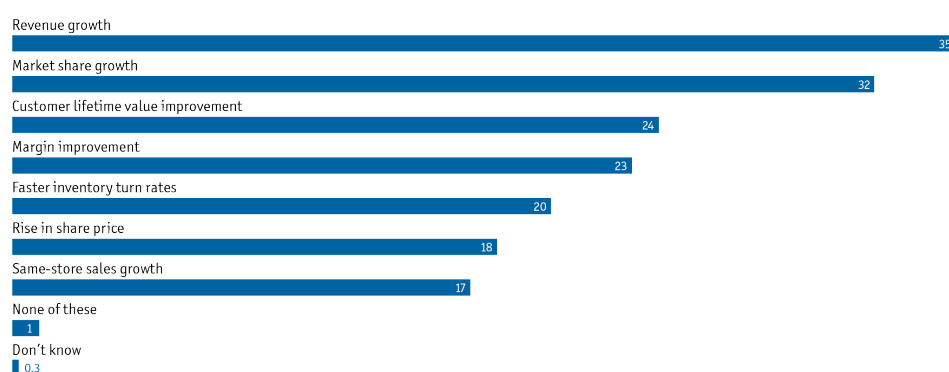
Select up to two.
(% respondents)

**Which of the following types of competitors will pose the most significant threat to achieving your strategic goals over the next three years?**

Select up to two.
(% respondents)

**What are the most important metrics your company uses to measure strategic success?**

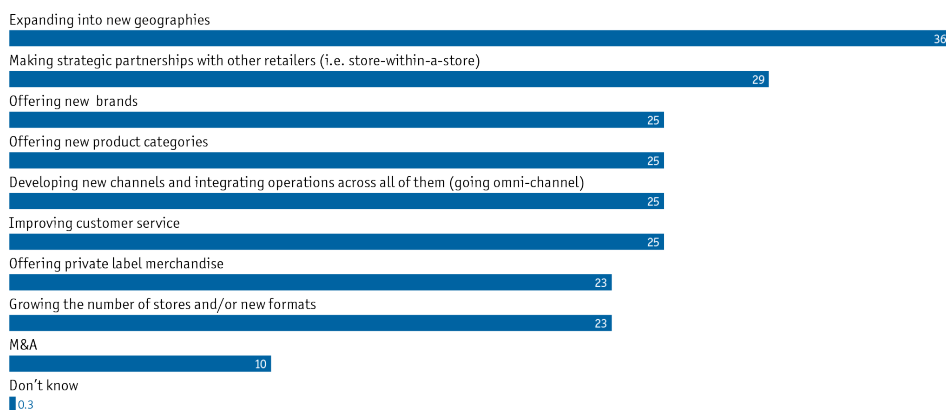
Select up to two.
(% respondents)



Source: Economist Intelligence Unit survey 2015. Results may not add to 100% because of rounding and/or because respondents could select more than one answer.

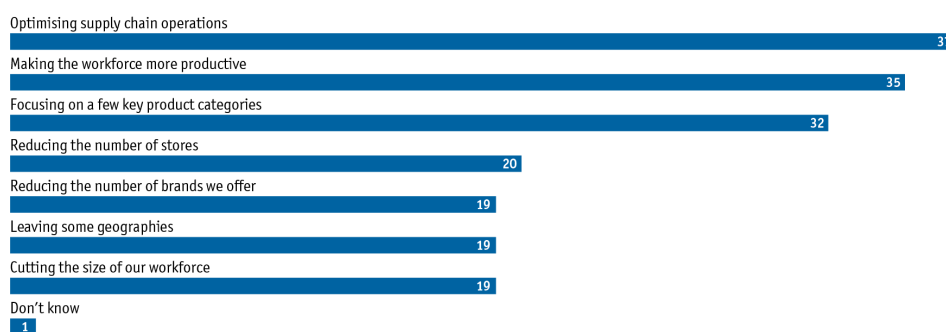
What are the most important strategic initiatives focused on revenue growth you plan to pursue over the next three years to improve your performance on your chosen metrics?

Select up to three.
(% respondents)



What are the most important strategic initiatives focused on managing costs you plan to pursue over the next three years to improve your performance on your chosen metrics?

Select up to two.
(% respondents)



Between revenue growth and managing costs, which is the most important aspect of your strategic initiatives?

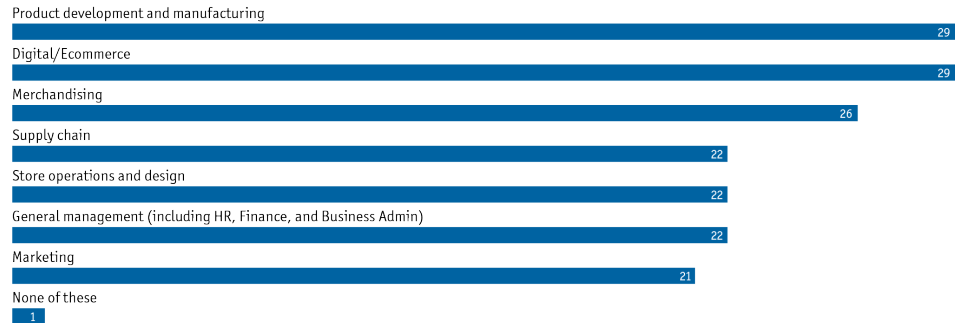
Select one.
(% respondents)



Source: Economist Intelligence Unit survey 2015. Results may not add to 100% because of rounding and/or because respondents could select more than one answer.

In order to pursue your strategic initiatives, which of your corporate functions will you have to make the most changes to over the next three years?

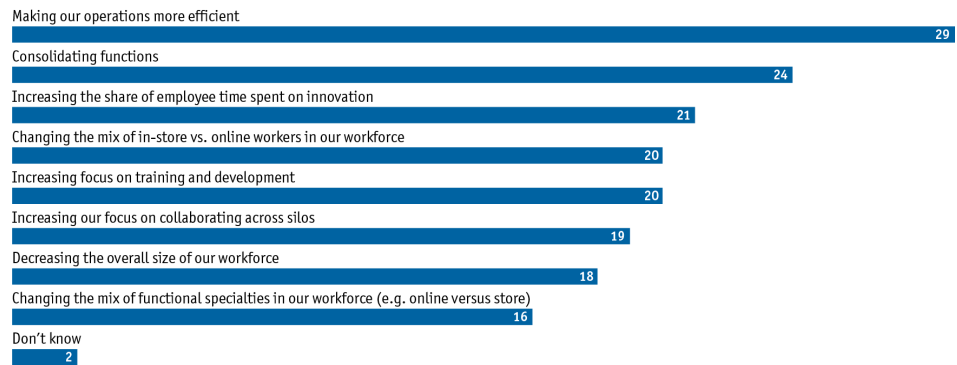
Select up to two.



What are the most significant organisational changes you expect to make as you pursue your strategic initiatives over the next three years?

Select up to two.

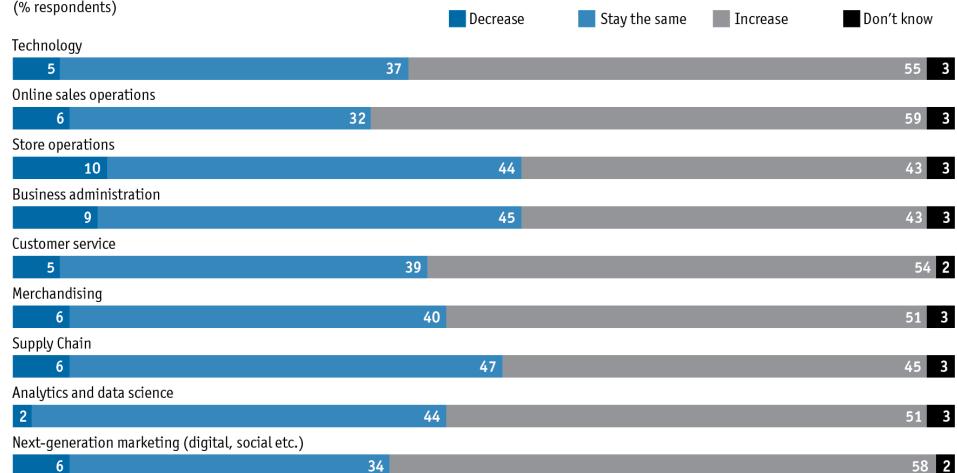
(% respondents)



How, if at all, do you expect your company's need for skills in each of the following areas to change over the next three years?

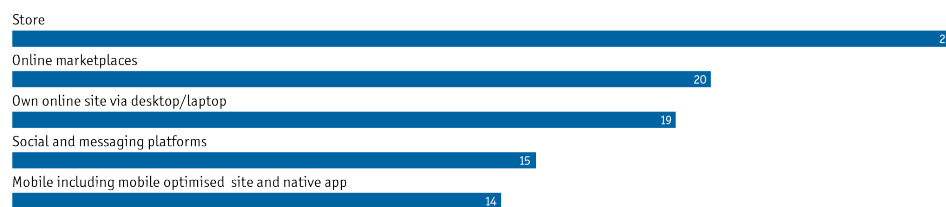
Select one in each row.

(% respondents)



About what percentage of your direct-to-consumer sales (not including wholesale) currently come from each of the following channels?

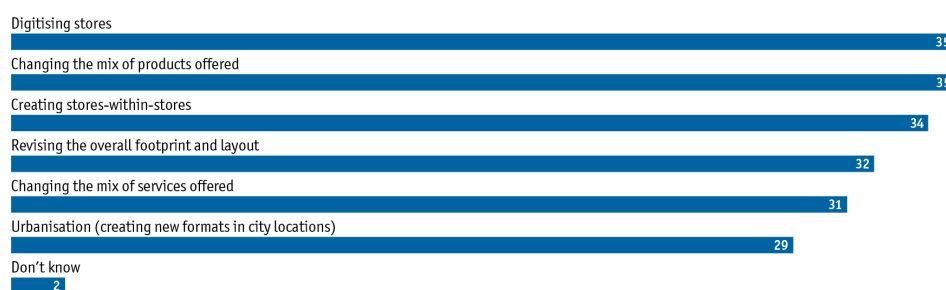
Fill in the blank in each row; percentages must add to 100%.
(Average value)

**In order to pursue your strategic initiatives, which of those channels will you have to make the most changes to (in appearance, operation or staffing for example) over the next three years?**

Select up to two.
(% respondents)

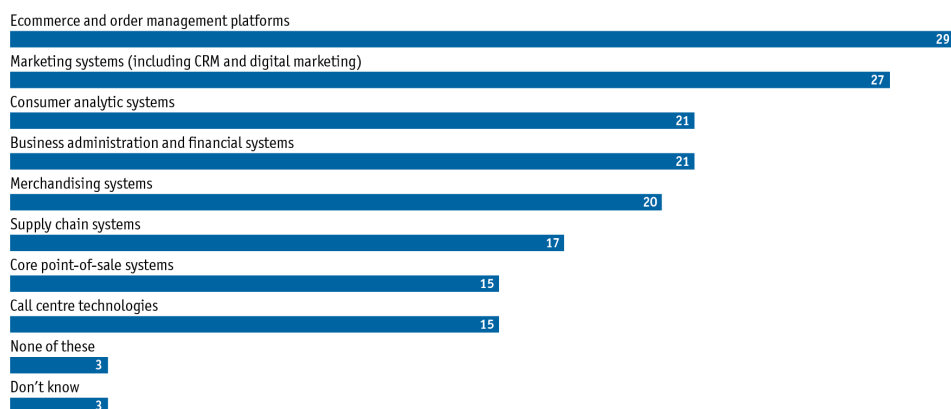
**Regardless of the size of your investment in physical stores, what will your investment priorities be for them?**

Select up to three.
(% respondents)



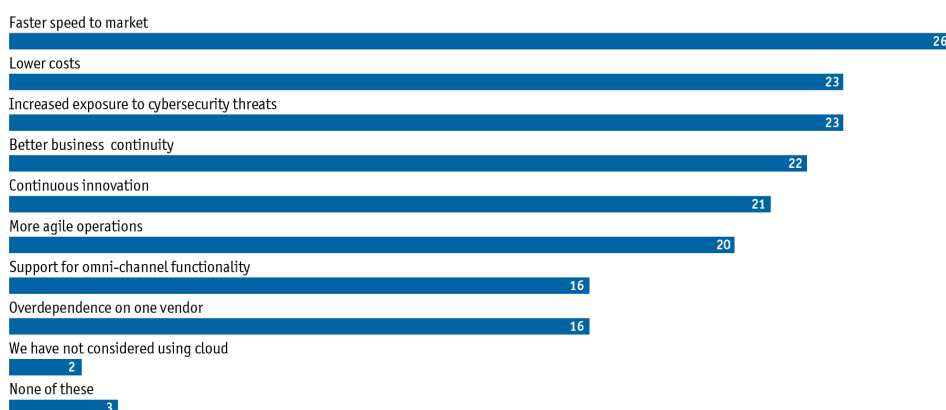
Whatever your specific strategic initiatives are, which of the following types of technology do you expect to invest the most in over the next three years in support of them?

Select up to two.
(% respondents)



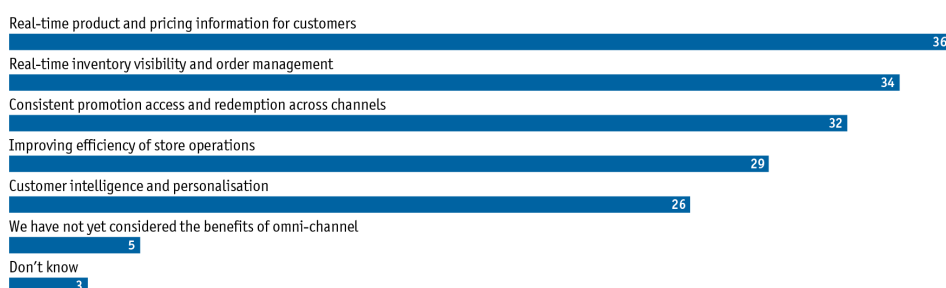
Regardless of your specific technology priorities, what do you see as the most important potential benefits and risks of using cloud in pursuit of your strategic initiatives?

Select up to two.
(% respondents)



Whether or not pursuing an omni-channel strategy is a priority for your organisation, which of the following aspects of omni-channel best define it for you personally?

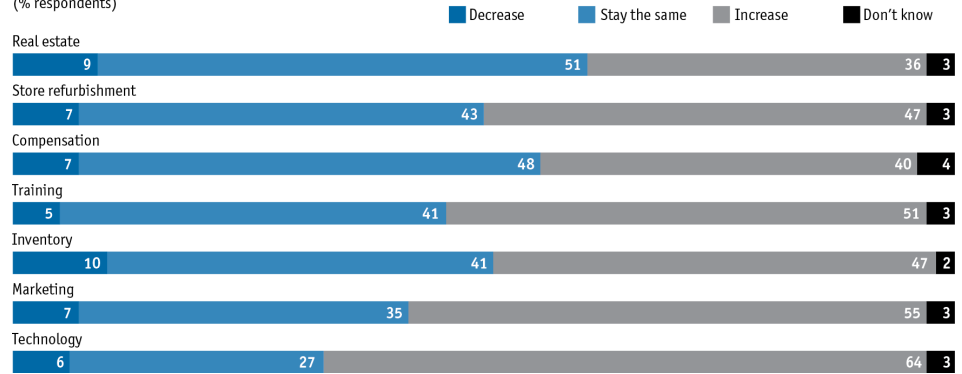
Select up to two.
(% respondents)



As you invest in your strategic initiatives over the next three years, how will investment in each of the following areas change?

Select one in each row.

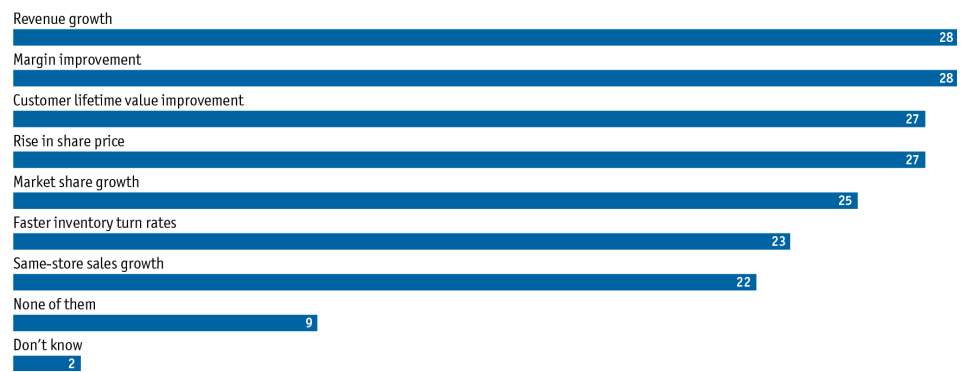
(% respondents)



As you make changes to pursue your strategic initiatives, which metrics, if any, would you be willing to allow performance to deteriorate in the interest of long-term success?

Select up to three.

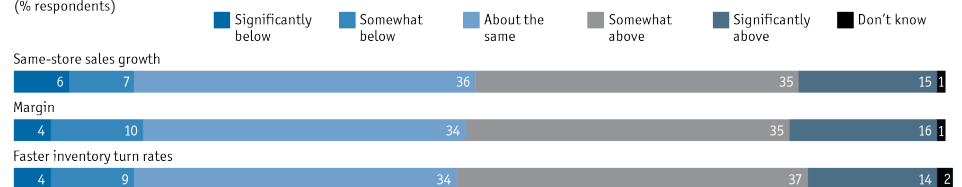
(% respondents)



Compared with the full set of your competitors, how would you rank your performance on your most important metrics over the past three years?

Select one in each row.

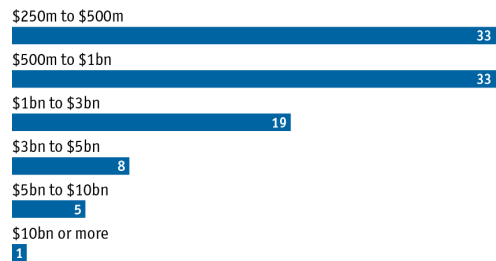
(% respondents)



What are your organisation's global annual revenues in US dollars in your last fiscal year?

Select one.

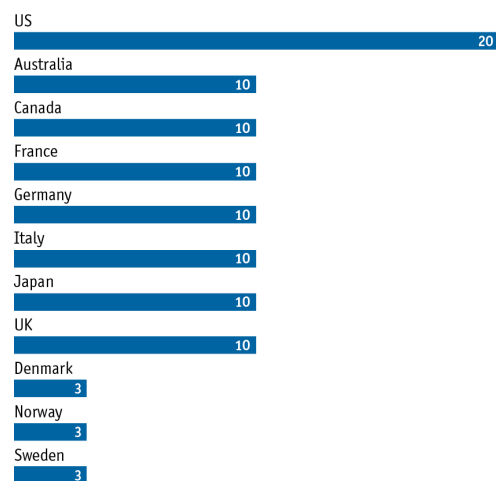
(% respondents)



In which country is your company's headquarters located?

Select one.

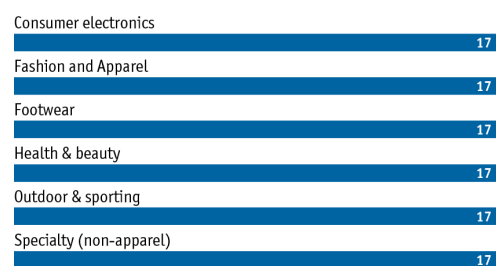
(% respondents)



What is your company's primary sector within retailing?

Select one.

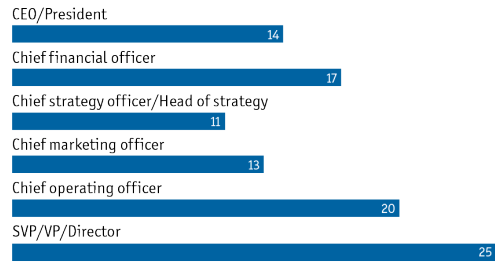
(% respondents)



Which of the following best describes your title?

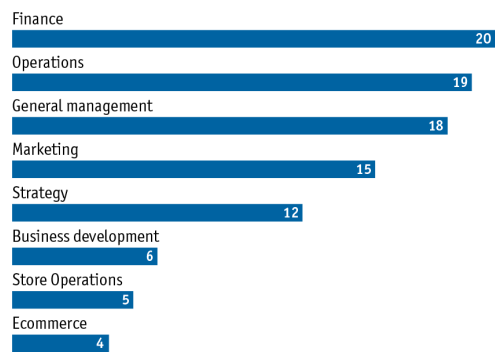
Select one.

(% respondents)

**What is your main functional role?**

Select one.

(% respondents)



Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

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