outlook

Jeux sans frontiers

By Brendan Dorrian

SIR TERRY LEAHY, CHIEF EXECUTIVE OF TESCO, WAS RECENTLY RANKED AS NUMBER ONE IN A UK RETAIL 'POWER LIST' SURVEY. WELL DONE SIR TERRY! WHEN SIR TERRY AND I FIRST MET, AT A CONFERENCE IN BARCELONA DURING 2007, I ASKED HIM 'WHICH RETAILER, ANYWHERE IN THE WORLD, DO YOU MOST ADMIRE?'. HE ANSWERED 'ALDI' WITHOUT ANY HESITATION, AND WENT ON TO EXPLAIN THAT THE PRIMARY REASON FOR HIS ADMIRATION OF THE GERMAN GROCERY OPERATOR WAS ALDI'S ABILITY TO DELIVER CONSISTENCY ACROSS ITS PORTFOLIO. 'WHEREVER THEY GO' HE SAID, 'THEY ARE ENVIABLY CONSISTENT'.

→ At the time, Aldi had an established presence in the UK but by the following year, in 2008, the Aldi UK chief executive, Paul Foley, committed to opening a store every week until the hard discounter had achieved a target of 1,500 stores across the UK. Today, Tesco and Aldi are toe to toe, competing against each other for market share. In my view, the Mercedes SLK owner is loading their trunk with basic repeater items at Aldi in the morning, before heading to Tesco for a choice of brands and a wider product range in the afternoon.

To be sure, the recent global downturn has witnessed the introduction of the 'Discounter' range in Tesco – mirrored by similar range development across the UK grocery sector – and Aldi's Paul Foley is forecasting growth of no more than 50 stores this year; its current portfolio is of around 460 stores. The simple fact is though that Aldi, a German retailer, is in UK, and they are growing; similarly, Tesco are in multiple markets.

Tesco currently operate in the USA, Malaysia, Czech Republic, Turkey, Republic of Ireland, China, Thailand, South Korea, and Japan, while Aldi operates in Australia, Austria, Belgium, Denmark, France, Germany, Great Britain, Greece, Hungary, Ireland, Luxembourg, Netherlands, Poland, Portugal, Slovenia, Switzerland, and USA.

There are four key considerations for any retailer planning entry to a new international market:

1. Local property prices
2. Import tariffs and supply chain efficiencies
3. Change of hemisphere and concomitant seasonality issues
4. Existing, domestic competitors

All of these, apart from necessary capital expenditure, management time and shareholders' patience.

The capital investment required for a retailer to leave their domestic market, and enter new international markets is high, but nothing compares with the opportunity cost of the management time involved in executing the strategy. And experience has shown that success in a domestic market does not offer any guarantee of success in an international market. Look to Fast Retailing's 'Uniqlo' entry to the UK market: From opening their first store in 2001, it took another six years, a change of local management and a remodelling of the format, before the company opened a store in Oxford Street. Even today, with only 15 stores in the UK, opening in concentric circles around the London conurbation, the company is still to reach Birmingham, Manchester or Glasgow.

Other, well documented, international expansion and subsequent retreat also exist in Wal-Mart entering Germany and Home Retail Group – Argos – entering India. Interestingly, the executive responsible for Wal-Mart Germany at the time, David Wild, now runs Halfords in the UK, whose website states: 'The Directors believe that the Halfords customer offering may be attractive to certain overseas markets and are currently piloting stores in Central Europe. However, international expansion is not a core element of the Group's strategy'. A reflection, perhaps, of lessons learned.

Experience dictates that luxury brands are at the vanguard of retailing in every emerging market, followed usually by fast food, then by mid-market apparel retailers and, finally, if they have a world-class supply chain, apparel retailers trading at the value end of the market. Look to Russia for evidence in Stoleshnikov Pereulok – the equivalent of London's Bond Street – which is home to Dior, Stella McCartney and Alexander McQueen among many others. A couple of blocks away, in GUM, you'll find Hugo Boss, Coach, Camper, Louis Vuitton and Walford. Although, interestingly, the tenant mix in GUM sees these brands sit alongside ice cream carts and a local delicatessen. Finally, in the Maneszh mall, which used to be the royal stables, and sits beneath the Kremlin, hosts Top Shop and Karen Millen, both from the UK.

In the 19th century, it was said that the sun never set on the British Empire; the same is true today of UK retailers, who lead the race to expand internationally. Of the top 20 retailers listed on the FTSE All Shares index, 75 per cent are trading and growing internationally; only four remain solely domestic retailers – Morrison Supermarkets, J Sainsbury plc, N Brown and Carpetright.

What competition though, are UK retailers facing in their own backyard? Who is challenging UK retailers for market share? We conducted a strategic survey of apparel retailers in the heart of London's West End, covering Regent Street and Oxford Street with some surprising results.

Of the 120 surveyed, we found that only 67 were from the UK, 18 from the US, nine each from Italy and Spain, three each from Canada, Germany and Japan, two from Sweden, and one each from Norway and Denmark.

Among the most impressive of recent arrivals is the all-new Ferrari store in Regent Street complete with an authentic Formula 1 racing car immediately inside the front door. The store is also on prime retail real estate with Apple, Nokia, Banana Republic and Ted Baker as neighbours.

Finally, behind every great international expansion, there's a well-travelled executive, and we tip our hats to four outstanding global retailers: Isak Halfon, Mango; Francis McAuley, Debenhams, Norman Jaskolka, Aldo Group and Joel Teitlebaum of La Senza. Multiple formats, across multiple markets with multiple partners; a great job, gentlemen!

ABOUT THE AUTHOR
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