Retail Internationalization
Global Trends, Failure & Success Drivers and Future Outlook
Ebeltoft Group: What We Believe

When Ebeltoft Group was formed over twenty years ago, with the vision of becoming an International Retail Alliance, we embarked our collaboration with some assumptions:

> There is much to learn and share among countries regarding best practices in retailing. Trends and concepts can begin in one market and spread quickly to others.
> There are strong differences among customers in countries, driven by culture, economic development, competitive climate and a host of other reasons.
> Despite these discrepancies we believed that retailing, which is among the most local businesses we can think of, would eventually spread internationally. It was no longer enough for the retailers in our respective countries to simply watch trends at home; they need to be cognizant of the world around them, whether to mirror best practices or defend against emerging global competition.

Fast forwarding twenty years, and we have arrived at what is now a truly global economy and global retail market. Internationalization is becoming a requirement for retailers who:

> Are looking for growth beyond their home markets, which are often mature or facing difficult and sustained economic pressure.
> Have developed brands that are truly global in nature.

Even if you’re a retailer committed to your own domestic market, it is very likely that you are now facing an unprecedented onslaught of global competition. These retailers need to elevate their game to survive in what is truly a global marketplace.

What We Learned in Our Study

What is the key takeaway from this study? Simply put, there is no magic formula. Some of the greatest global retailers succeed fabulously in some markets and fail miserably in others.

Retailers who presume that global expansion will be easy or that their winning formula at home will translate easily abroad are likely going to make some painful mistakes.

Our four factors for success are simply reminders that hard work, careful study of a market and respect for local competition and culture are pre-requisites for sustained success abroad:

1. **Have a clear reason for being (anywhere) -** The concept must earn its right to succeed in the market.
2. **Listen (really) to the customer and have leadership flexibility -** Listening, through formal market research and great respect for local management and culture, is crucial.
3. **Partner (Acquire/JV) with Local Leadership & Talent: respect local culture -** Partnering with local talent is the quickest way to bridge cultural issues.
4. **Execute on great retail: well-defined real estate strategy, marketing, systems and infrastructure -** Retail, always, is detail, and getting the details right abroad is even more important as the home field advantage disappears.

At Ebeltoft Group, we are committed to marrying deep global knowledge with our local expertise and provide the best possible resources for our clients. It is the only way to truly succeed in the new global marketplace.
OVER 100 RETAILERS*

18 countries covered
Australia - Brazil - Canada - China - Denmark - France - Germany - India - Mexico - Portugal - Romania
Singapore - Spain - Switzerland - The Netherlands - Turkey - United Kingdom - United States

* Retailers included in the global benchmark study.
Ebeltoft Group is a worldwide alliance of retail consulting companies with members operating in more than 20 countries in both mature and emerging retail markets. Since 1990, our extensive experience as retailers and consultants has helped us develop innovative and pragmatic solutions that help retailers and suppliers to achieve their goals and win in an increasingly competitive global marketplace. Our unique offer is based on Ebeltoft Group’s ability to combine global retail expertise with deep local insight, turning these into innovative and practical solutions.

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**Introduction**

We have reached the point where it has become impossible to neglect the impact and importance of “international” in retailing, both in terms of expansion opportunities as well as new challenges:

- Consumers’ purchasing desires and inter-connectivity are more cross-border than ever.
- Technology and e-commerce are speeding up the pace of internationalization and blurring the line between national and international.
- Emerging markets have formidable home grown retailers and brands, but also offer tremendous opportunities with their strong, growing middle-class.
- A crop of highly successful global retailers are emerging and strongly influencing the rules of the game.

Whether it is Zara or H&M, Ikea or Sephora, Aldi or Amazon, the list of leading retail companies now has a decidedly global tone. Yet at the same time, the headlines are also filled with retailers retrenching globally. Even the biggest names in retail (Carrefour, Walmart, Tesco) have had their share of defeats. Hence, there seems to be no set formula for why a concept will succeed in one country and fail in another.

Over the last decade we have witnessed two dominant international expansion strategies; expansion of mass market retailers into fast-developing countries and the global expansion of “specialized” retailers with strong brands.

**‘09-‘12 Internationalization Perspective**

With retail markets experiencing a downturn on one continent while booming on another, (see figure 1) total international retail growth (30%) outpaced domestic growth (11%) showing the extreme importance of retail internationalization. This is true for Europe (25%), the Americas (29%) and the Asia-Pacific (107%). During the past decade, emerging markets were solely target markets for foreign players. Now, however, retail from these regions shows a steeper growth rate in internationalization (41% on par with national growth) compared to developed markets (29%).

**Go (Know) Global or Go Home**

Whether you have global ambitions as part of your growth strategy, or simply want to continue to survive and thrive in your home country, it will be vital for a retailers’ future to become a smart student of the global game. Retailers can learn from their global counterparts, either in identifying untapped market opportunities or by advancing their own skills to be able to defend against competitors.

**Study Methodology**

At Ebeltoft Group, we attempt to shed new light on the subject of retail internationalization by:

- Determining trends in retail internationalization;
- Identifying key success and failure drivers for international expansion;
- Giving fresh perspective on what can be expected for the near future.

Ebeltoft Group recently conducted a global study across over 100 retailers (operating over 125,000 stores), 18 countries and 8 different retail sectors. This study blends quantitative retail audits with qualitative retail executive interviews, case analysis and local retail expertise from Ebeltoft members.

**Ebeltoft Group:** "Go Global, or Know Global. In either case, internationalization is a key topic.”

**The White Paper**

The first section reviews the global trends of retail internationalization and where retailers are expanding to. Proceeding with the underlying importance of ecommerce when internationalizing, the second section examines key findings about the main success and failure drivers. The final section addresses the future perspective of retail internationalization.
Global Retail expansion

With developed markets showing a higher level of retail internationalization (54% vs. 18% for emerging markets), European retailers are leading the pack, followed by Asia-Pacific, with differentiated concepts and strong brands such as Uniqlo, Bosideng and Aeon, which are keen to expand beyond their boarders.

Alternatively, emerging markets retailers focus heavily today on their growing domestic markets, resulting in a lower international development (18%). Strong local retailers such as Metersbonwe (China), Indromaret (Indonesia), Oxxo and City Market (Mexico), and Boticário and Grupo Pão de Açúcar (Brazil) show high expansion rates; however, they have chosen to stay mainly at home, so far.

So, to where should retailers expand? The study found that the overall level of expansion to developed markets (27%) surpasses emerging markets (19%), reflecting the same conclusion as to where retailers from each continent tend to expand to, choosing developed markets over emerging markets. These conclusions are, however, in conflict to the general idea of massive retail expansion into emerging regions.

Hunkemöller, The Netherlands: “It’s not about planting flags all over the world, It’s about making a clearly defined decision about which markets you want to enter; and go in and dominate them.”

While further considering the question at hand, figure 3 shows where retailers tend to expand to in terms of proximity to their home markets, confirming the global tendency of expansion to close neighbor countries (37%) followed by second tier countries within the continent (35%). Interesting to note is the contradictory development in Asia-Pacific (high transcontinental development) and emerging markets (high continental development).

Fab India, India: “For us it is important to choose countries with significant presence of non-resident Indians such as Middle East Asia as well as Southeast Asian countries that are culturally closer to India.”

Having witnessed the established trend of retailers initially expanding to similar and neighbor countries due to higher acceptance rates and less barriers to success (think Canada with the US’ Target and Chico’s expanding into the region), retailers are starting to assume more risk by entering emerging markets. Retailers are feeling the urge to secure locations, real estate and market positioning before their competition, whether it be home grown emerging market retailers or other foreign players.
Ecommerce as a first step

Of the retailers analyzed, 50% serve their international customers through a separate country-level website (see figure 4) whereas 20% of the retailers serve their international customers via their home country website as well as separate local country websites. European retailers especially follow this strategy, reflecting the multitude of cultures and languages spoken in the region. By contrast, the majority of Asia-Pacific retailers are less focused on international customers, and often lack either a separate local country-level website or do not offer international shipping from their home country website.

A clear trend has been the development of cross-border ecommerce capabilities among both global brands and niche retailers. Serving the increasingly international and technology savvy shopper from the retailer’s domestic ecommerce operations is viewed as a step towards localized websites and operations, with less resource commitment. We are entering a stage of localized digital marketing investment that we expect will drive international sales and help prove the case for further international potential.

Of the retailers analyzed that serve international customers via their home country website, most retailers intend to facilitate the transaction and cross-border shopper experience through additional services:

- Detailed explanation of the international shipping process;
- Easy and inexpensive returns of international online purchases;
- (Multilingual) Customer Care to support the process.

It can be stated that most retailers are in the very early stages of their international ecommerce plans. In general, cross channel retailers and brands are often still defining the role of ecommerce in their internationalization plans. The operational focus to help the customer, pre- and post-purchase, is an indicator they are taking care to “deliver what they promise”.

Pixmania, France: “Internet facilitates the internationalization. It provides an international visibility, a management of the traffic and it makes it possible to open a store abroad from home.”

The real challenge for many global retailers will be the development of regional or dedicated country operations for ecommerce and to provide the best possible customer experience. This investment in localized marketing, merchandising, operations and customer care is a significant commitment and will likely need evidence to justify the investment; hence, the strategic importance of cross-border performance.

It is clear that there is much to win and that cross-border ecommerce strategies will play an increasingly important role in internationalization. Consumers’ buying and orientation behavior is globalizing rapidly, and retailers are reacting accordingly to serve them.

Fab India, India: “We ship to 32 countries now thanks to e-commerce. Yes, it has played a huge role in our international expansion.”

For further information about Cross Channel, please see Ebeltoto Group’s “Global Cross Channel Retailing Report: the (un)connected store.”
Key drivers for success

Ebeltoft Group’s benchmark framework (figure 5) creates new insight and highlights the opportunity gap; pinpointing the areas that deserve more attention when expanding abroad.

By assessing retailer’s success cases and missteps, based on 10 (successful) retail core indicators, the framework displays to what extent each indicator has been applied and implemented and shows the discrepancies among both, the opportunity gap.

Five critical indicators
The main opportunity gap between success and failure can be found in “Local adaptation”. This is especially crucial for developed markets as it results in the number one indicator for failure and one of the most important drivers for success.

“Strong local management” is particularly important for expansion to emerging countries as it is the number one indicator for failure and among one of the most important indicators for success.

While “Effective (local) marketing” is not the most important indicator for success, it is one of the most important indicators for failure, both in developed and emerging countries.

“Store locations” shows to be the highest rated indicator for leading to successful internationalization in both expanding to developed and emerging countries.

“Having a sound entry model” is the fifth critical indicator, especially for expanding to emerging markets.

Ebeltoft Group: “We often see that the retailers that get the “location right” are more successful abroad, and these stores remain most profitable over time.”

Four Key Drivers for Success
These results can be summarized into four key drivers for successful internationalization for retailers:

1. Have a clear reason for being;
2. Listen to the customer and have leadership flexibility;
3. Partner with local leadership and talent, and respect local culture;
4. Execute on great retail: well-defined real estate strategy, marketing, systems and infrastructure.

In general, it can be stated that the mantra is “be good in retailing and great in local adaptation”.

Mango, Spain: “Flexibility of the format and capacity to adapt to the local needs maintaining the brand identity and being loyal to the Mango concept”.

FIGURE 5: RETAIL INTERNATIONALIZATION BENCHMARK FRAMEWORK

FIGURE 6: TOP 5 DRIVERS FOR SUCCESS AND FAILURE

Expanding to developed markets:

1. Store locations
2. Assortment
3. Local adaptation
4. Entry model
5. Suitable concept

Expanding to emerging markets:

1. Store locations
2. Local management
3. Technology
4. Local adaptation
5. Entry model

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ONE – Have a Clear Reason for Being

Having clear differentiation and giving the customers a clear reason for buying at your store instead of at your (local) competition is key. Be a unique brand with perceived added value and vision instead of competing “on par” with local competition, which often leads to defeat. At the end, it remains their home turf.

> A unique brand with a clear differentiation and vision - Identify your points of differentiation and added value. What makes your brand, concept and offer unique compared to the competition? Bring something new.

Sephora is a best practice example of being a unique retail brand. It’s blend of strong positioning, relevance and comprehensive assortment results in a successful innovative store concept. By leveraging these key ingredients globally, the retailer is the world’s leading chain of prestige beauty products.

> Know the local market - From demographics, consumer behavior, local tastes and flavor to competition, logistics and regulations, deep know-how and understanding is everything. For internationalization, not unlike other aspects of retail, success is in the details and deep (consumer) insight. Before entering a country or even a city, an assessment is made of the market’s potential by H&M. Factors such as demographic structure, purchasing power, economic growth, infrastructure and political risk are analyzed in depth before they enter.

The Dutch Hunkemöller’s complete management team visits a country for one week to evaluate the market on factors such as competition, products, price points and styles, and also in terms of space, disposable income, consumer characteristics, etc.

Nissa, Romania: “Analyze, analyze, analyze – before making the international step; the fast-moving opportunity might be a mirage and the “spent” resources (time and resources to truly understand the market) will prove to be valuable gains”.

> Don’t underestimate local competition - Who knows the market better than the locals? Why is it their formats work, why are their assortments chosen and displayed a particular way and what is their customer service strategy? Take the time to study and really understand your local competition.

The successful international retailer Starbucks underestimated local competition when they entered Australia, a very competitive environment with well-established brands and a high market share.

The American chain Restoration Hardware encountered intense competition in Canada from local players and has been competing with both luxury and casual home furnishings chains such as Ethan Allen, Williams-Sonoma, Crate and Barrel, and Pottery Barn as well as with specialty independent retailers.
TWO – Listen to the Customer and Have Leadership Flexibility

A strong brand and unique position drives consumers to your store. Localization often plays a key role to ensure that they purchase, are satisfied, and keep coming back. You need to match local needs and behavior and be flexible on a local level.

> Adapt to local needs - The core product range might work in several countries, but you will only meet the expectations of the local consumers to the fullest extent when precisely adjusting your assortment at a local level.

The German concept Lidl is well adapted to the local needs in France. In stores consumers find more manufacturer brands, a softened store concept (with additional tenants), the acceptance of credit card payments and more promotions than in their home market.

Aldo, Canada: “Aldo’s success comes from understanding the consumer at the local level. They have an overall standard but are always looking for local differences. There’s not much difference in product and style for between Europe and Canada but there are big differences between Asia-Pacific and Canada.”

> Adapt to local behavior - Adapting the assortment to the local needs is only the beginning. Buying behavior and patents vary significantly among countries and even regions within those countries.

As well due to the lack of local adaptation Saturn failed both in Spain and France. Starbucks succeeded in China by recognizing that coffee is not just a product but a lifestyle. Therefore, locations in China are designed to be larger than those typical of the US, with more seating capacity and less space for take-away to suit the local dine-in culture.

Carrefour’s locations resulted in being too big for US standards. This made it difficult for US customers to shop comparatively within the store. In the end, US customers complained that these stores were “too big” and “too overwhelming” for their general shopping behavior.

> Local flexibility - To be as close as possible to the market you need to be flexible at a local level. At the end of the day, the local management team is the expert within their market.

Media Markt succeeded in Spain after local customization of their business model. The format was adjusted to local needs and legal requirements and managers of each store became responsible for the product portfolio, pricing, personnel and marketing for their store. This allowed the store manager to tailor the range of products they offer to the local context in which they operate and to guarantee a high level of customer service. The Body Shop succeeded in Germany upon decentralizing their marketing structure. The retailer remains a global brand with a centralized product development and retail strategy but the implementation of these strategies are managed and adapted as closely as possible to the customer in each local market.
THREE – Partner with Local Leadership & Talent: Respect local culture

Entering a foreign market alone is extremely challenging. However, there are several ways to overcome this barrier, including local collaborations ranging from partnering to acquisitions and strong local leadership.

> Local partnering - Even the leading retailers with a well-established brand and recognition obtain support from local companies to make the step together by leveraging each other’s strengths while entering the foreign market.

When Tesco expanded to South Korea the retailer established a partnership with Samsung. Most notably among this partnership is how Tesco leveraged this non-retailer’s well-established brand and credibility, leading to a high level of acceptance of the Tesco brand in the target market.

Additionally, Topshop established a partnership with Nordstrom, and Mango with J.C.Penney, upon entering the US market, paving the way for a potential local partnership.

> The right people - Retail is and always will be a people business. You need the right people to do the job and who better reflects the local culture then the local people? Don’t ignore local expertise in your global strategy.

Walmart either fired or ignored most of the managers of Wertkauf and Interspar. As a result, local issues weren’t recognized properly by Walmart management and in 2006 the retailer was forced to withdraw. Conversely, The Body Shop succeeded in Germany by implementing a franchise system to control the downside risk and tap into local retail talent and expertise.

Hunkemöller, The Netherlands: “Everythning is about people. You can’t have a great product without great people. We employ a truly international team of people, not just Dutch. Even our board consists of a variety of people with different backgrounds.”

> The right training and culture insight - Fitting the retailers’ values and ethics to the local cultural differences and imbedding them into the new foreign operations is key to ensuring the retailers’ brand image and positioning. The local management and store associates have to fully understand the fundamentals of the brand from a local cultural perspective.

Although Segal has stepped down as CEO, the culture of Crate and Barrel (in the US stores and abroad) remains to this day as the company teaches its staff to “educate” their customers in product knowledge. This philosophy seems to work as excellent customer service has become the general consensus according to, as well, Canadian consumer reviews.
FOUR – Execute on Great Retail: Well-defined Real Estate Strategy, Marketing and infrastructure

The retail brand can be well established, the store format and assortment can be great, but without an adequate execution in real estate strategy, the right marketing strategy and infrastructure, it will be challenging to succeed.

> **Real estate strategy** - No matter the country or region, you need to be where the consumers expect you to be. Choosing a store location is at the roots of a successful expansion.

One of the underlying reasons Best Buy failed in Turkey was their locations. In Turkey, the majority of disposable income is concentrated in Istanbul. Initial locations chosen by Best Buy, however, were Bursa and Izmir, which are ranked 3rd and 4th, respectively, in terms of income.

Whether it’s Topshop in Australia, Zara in Brazil, or H&M in Switzerland, these retailers all locate their stores in the best cities and locations. Topshop, for example, chose to launch their stores in world-class shopping districts in Sydney and Melbourne that already hosted other global retailers.

> **Retail Marketing** - Creating local brand awareness and having a differentiated offering is crucial from the very beginning. Therefore, distinctive retail service and marketing campaigns with the tone of voice of the local consumers are essential.

Saturn achieved their goals in 11 European countries, except in Switzerland. The advertisement resulted too aggressive and they failed with a too loud and too German-like appearance.

Fnac Spain offers its customers numerous services like free delivery to their homes, the Fnac clinic, an online photo lab, gift cards, the mobile Fnac universe and purchasing tickets for shows in the best halls in the country. This results in a large competitive advantage for the retailer.

> **Infrastructure** - From developed to emerging markets, good infrastructure for supplying stores with the right products at the right time and meeting the expectations of the customers is a must.

Mango experienced strong barriers to expansion in Argentina and Brazil as importing is almost impossible. This made their local operations very difficult and resulted in them exiting a key market like Brazil.

The German retailer Kaufland was able to successfully sustain its competitive pricing policy in Romania by investing in logistics development, which was at the core of their aggressive and rapid store expansion in the first years. Even before opening their first store in Romania, in 2005, they invested 40 million EUR for building a logistics center near Ploiesti (in the Southern area).
**What’s next**

**Conclusion**
As the data suggests, the move towards Internationalization shows no signs of slowing down:

> There is continued global expansion by the major retail players with a focus on growing emerging markets
> Acquisitions and new alliances are changing the global face of retailing
> The meteoric growth of e-commerce will further shift the playing field, as brands and retailers can grow quickly abroad without brick and mortar investment

Cleary, companies who perfect their global formulas for success will have three distinct advantages over their competitors:

1. They will be poised to take advantage of international growth opportunities in emerging as well as mature markets
2. They will be able to mitigate their overall risk by not being too dependent on the fortunes of one market or one economy
3. By putting in place the tools to succeed abroad, they will also effectively be able to defend their home markets. They will have established greater capabilities, and awareness, of competencies on a grand scale.

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Disclaimer - Ebeltoft Group has compiled this white paper with the best possible interest and cannot held responsible for its content or references as stated.

**Further insight**
Interested in further discussing the study and learning about Ebeltoft Group’s services and retail expertise? If so, please contact:

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> Global is powerful; however, local is beautiful.