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## Where to Next?

**As retailers chase opportunities on both sides of the pond, manufacturers seek to revive Made in the USA**

# Rate of Exchange

U.S., U.K. retailers increasingly targeting the **market** 'across the pond'

BY SUSAN REDA, EDITOR

It's difficult to pinpoint a defining moment, but it became clear that something was afoot in 2007. Tesco export Fresh & Easy Neighborhood Market put down roots in the United States that fall, and Abercrombie & Fitch and Whole Foods Market opened their first stores in the U.K. that same year.

Within a short period of time, the exchange of retail concepts between the U.S. and the U.K. picked up briskly, and it seems as if the two nations have become engaged in a feverish competition to see which can lure more retail concepts to its shores.

What's behind this wave of foreign exchange? For U.S. retailers confronted with a saturated domestic market, the motivation is new growth opportunities. The U.K.'s overall retail market is reported to be around \$415 billion and can be used as a springboard for further expansion into Europe.

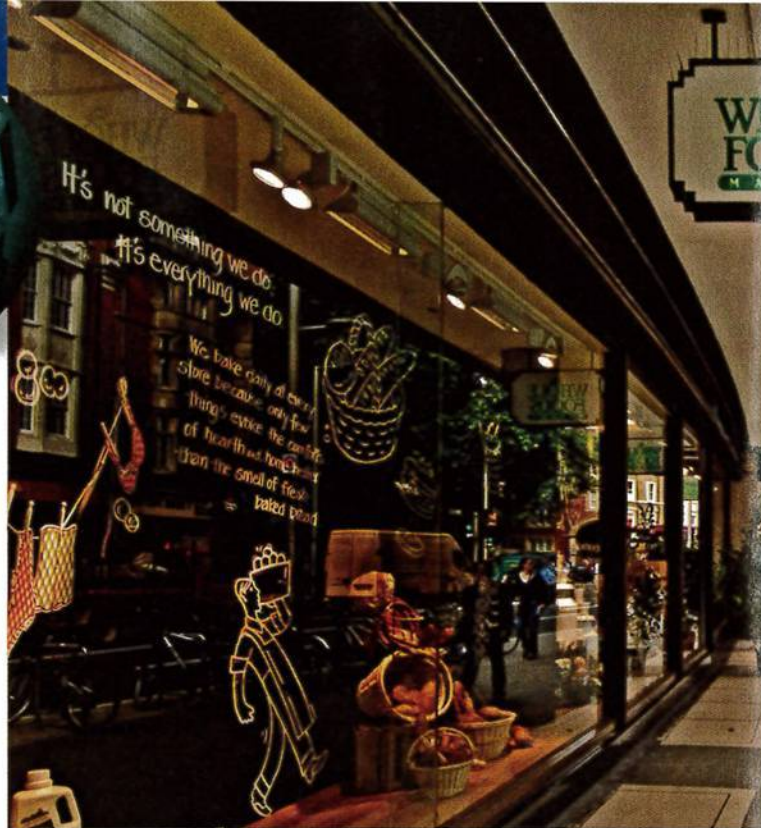
Looking west across the Atlantic, U.K. retailers see considerable opportunity in the vast American market if they can deliver a look and/or shopping experience that is perceived to be fresh. In both cases, retailers have their gaze set on predominantly urban locations – high-footfall areas where the opportunities to be “seen and shopped” are much greater than at suburban sites or traditional malls.

Laura Pomerantz, a principal and founding partner of New York-based PBS Real Estate, says a combination of factors is sparking the exchange. Pomerantz, who has negotiated numerous deals for retailers on both sides of the Atlantic, says that for U.S. companies seeking to grow their store base without cannibalizing the business they've already built, “the logical expansion is to Europe and Asia.”

By contrast, European retailers “are concerned about the economy in other countries in Europe,” and “see an opportunity to grow” in the United States.

## The next best thing

Trying to determine precisely why retailers in either nation are looking



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– Isabel Cavill, Planet Retail



beyond their borders at the moment is a mystery to Ira Kalish, director of global economics and consumer business for Deloitte Research.

“Neither market is looking very strong right now,” he says. “The U.K. appears to be dipping into a recession — or, at the very least, a stagnant economy. They’re undergoing Draconian fiscal contractions entailing big cuts in government spending, plus tax increases which have slowed the growth of the economy and consumer spending.”

Regulatory constraints can be prohibitive for U.K. retail companies seeking to expand to neighboring European markets, Kalish says. “The next best thing is the U.S. While it’s undoubtedly a saturated market here, even if they’re just getting a small share of a market with 300 million people, there’s a significant amount of money to be made.”

As for U.S. retailers, “it’s relatively easier in terms of the language and culture to open in the U.K.” he says. “We’re seeing a wave of interest in Canada for the same reason.”

Not to be overlooked in this discussion are the growth of e-commerce and the role of analytics. “Retailers are increasingly relying on analytics — both inside their shops and especially online — to help them map out future stores and achieve market penetration,” says Isabel Cavill, senior retail analyst for London-based Planet Retail. As e-commerce matures, retailers can expand globally by opening just a few stores in key cities.

Retailers with global aspirations are “keenly aware of the traffic they’re attracting to their stores and their websites and whether or not that can translate into



a sustainable local concept” elsewhere, Cavill says. “While there have been numerous store openings on both sides of the Atlantic, retailers are only opening a handful of units. It’s all about carving a niche and determining how many stores can be opened profitably without becoming so familiar that they’re no longer unique.”

### Stand-out concepts

Knowing that a certain percentage of tourists shop at a store while on vacation or that an increasing portion of online sales are being generated by shoppers from another country isn’t enough to assure success. The one caveat that experts offer over and over again is the need to arrive in a market with something fresh.

“Everyone is tired of the ‘same old same old,’” says Wendy Liebmann, founder and CEO of WSL Strategic Retail. “Shop-

## POND-HOPPING RETAILERS

*Big-name retail brands that have expanded to/from the United States and the U.K. in recent years – and those considering such a move.*

### United States to U.K.

RETAILER	DATE
Abercrombie & Fitch	March 2007
Aéropostale	2012 opening planned
American Eagle	Reported to be scouting locations
Anthropologie	October 2009
Banana Republic	March 2008
Best Buy	May 2010
Coach	September 2011
Forever 21	July 2011
Hollister	October 2008
Kate Spade	September 2011
M & M’s World Store	July 2011
Patagonia	July 2011
Tory Burch	December 2010
Victoria’s Secret	2012 opening planned
Whole Foods Market	June 2007
Williams-Sonoma	Reported to be scouting locations

### U.K. to United States

RETAILER	DATE
Accessorize	June 2010
AllSaints Spitalfields	June 2010
Burberry / Burberry Brit	November 2009
Fresh & Easy Neighborhood Market	November 2007
Hotel Chocolat	September, 2009
Jack Wills — University Outfitters	July 2010
Karen Millen	March 2008
Superdry	November 2009
Topshop / Topman	April 2009

Source: STORES research

pers are looking for something different and real estate developers are looking for concepts that stand out.” For example, she says, “Victoria’s Secret has the potential to do enormously well when they open in the U.K. next year. The category is underserved there and no one approaches it the way they do.”

Liebmann also is upbeat about the prospects for Williams-Sonoma, which is reported to be scouting locations in London. “There’s very little in the U.K. home market that’s accessible,” she says. “Conran’s and Habitat were considered breakthrough concepts way back when, but a concept like Williams-Sonoma would really stand out.”

Cavill concurs. “Cash-strapped consumers are looking for items that are affordable and that they can take home that day,” she says. For that reason, “it would also make sense for someone like Crate & Barrel or its CB2 division to test this market.”

Similarly, it’s the distinctiveness of concepts like AllSaints

Spitalfields and Jack Wills — University Outfitters that has captured the fancy of U.S. shoppers. “Brands connect with consumers for different reasons,” Liebmann says. “Some have a coolness factor that just works.”

Keeping tabs from London, Cavill says U.S. fashion tends to be more conservative than the U.K.’s edgier vibe, making it “difficult to figure out which concepts will take root and which are destined for a swift exit.

“There were a lot of skeptics when Abercrombie & Fitch first opened [in the U.K.] because, compared to specialty retailers catering to that demographic here, they were considered more conservative,” she says. “Somehow they managed to tap into something with the urban youth market and become the brand of the moment.”

High rents in gateway markets are rarely a deal-breaker if a retailer has set its sights on overseas expansion. “Opening a new retail store in another country is capital intensive,” Pomerantz says. “It really comes down to the potential ROI. There’s no question that rents are high in New York, but if a retailer opens here — and the concept takes off — it can yield two-and-a-half to three times the volume of a store located anywhere else. It’s a challenge, but if you succeed that’s a pretty nice reward.”

### Listening and watching

An understanding of the culture — both inside the company and in the country where one is looking to put down roots — is another key component. U.S. and U.K. consumers may speak the same language, but that doesn’t mean they approach shopping the same way. Nor does it ensure similarities in the way they run their businesses.

Ricardo Alvar, chief business development officer for global retail at 24 Seven, a talent recruitment firm that specializes in global brands, insists that “understanding the culture is a must. You can’t just run an ad in the newspaper and expect to find the right [candidate] — especially if you’re not immersed in the [local] retail dynamics.”

Alvar, who has worked with AllSaints, Topshop and Reiss in the U.K. and U.S. retailers like Tory Burch and M&M World Store, says there is plenty of homework to be done before the doors open.

“We have researchers that will spend time in a store trying to absorb what it’s all about,” he says. “Before we began the process of hiring the team for the AllSaints shop in New York, our researchers interviewed management and associates at their most successful store in the U.K. in an effort to uncover what drives their success. There’s a lot of listening and watch-



ing that precedes hiring.”

Alvar notes that, in most instances, local talent is flown to corporate headquarters where, for a period of time, they are immersed in the culture of the business and its day-to-day approach to running its stores. Customer experience and product expertise also cannot be overlooked.

Even when they manage to get all their ducks in a row, entering a foreign market is a stern test for retailers. The United States has proven notoriously difficult for several U.K. retailers to crack. Tesco’s Fresh & Easy has racked up significant losses and chewed through a mound of capital, but it has dug in its heels and executives have announced plans to overhaul the chain with an eye toward breaking even within the next two years. Other British retailers that have retreated from the U.S. market include Marks & Spencer, Laura Ashley, HMV and Next.

And just how many U.S. retailers will “make it big” in the U.K. remains to be seen, as well. U.K. retailing is considered a mature market, and there is plenty of uncertainty about how shoppers will react to the credit-crunched economy. Whole Foods Market is staying the course, for now, but it’s no secret that it has lost money since it opened in London a few years back.

It will be interesting to see what (if any) role Kate Middleton, Britain’s new Duchess of Cambridge, plays in sparking further interest in fashion between the two nations. In the last few months her style choices — a mix of top-notch designers and off-the-rack, value-priced items — has garnered interest around the globe. On several occasions, an item of clothing she has worn sold out within hours of the emergence of photos showing her wearing the piece.

While having someone with Middleton’s profile reflecting the contemporary nature of today’s market is a positive development for U.K. retailers, most observers say it’s not a game-changer.

“It still about figuring out what one company can do better than the retailers who are already there,” Kalish says. As always, “The devil is in the details.”