RetailWeek CONNECT REPORTS

In association with ADDLESHAW GODDARD

Retail's top global hotspots

Mapping your fast track to international growth

AT A GLANCE

A STRATEGIC SHIFT

In recent years, big-box retailers such as Carrefour and Tesco have focused on their home markets. But with the latest figures showing that 56% of retailers looked at increasing their international expansion during 2017, this marks a seismic shift in strategy.

In this exclusive report, in association with Addleshaw Goddard, Retail Week will investigate which global markets are ripe for the picking, the challenges to consider, and how brands are effectively balancing the risks and rewards to establish a global footprint.

With an international network of local experts, Addleshaw Goddard provides extra commentary around market nuances that UK retailers should be aware of; such as ecommerce entries versus a physical store presence, how the 'obvious' cities may not be the best market entry point for many retailers and how 'Britishness' can be used to your advantage.

WHAT DOES THIS REPORT REVEAL?

- The international opportunities for a wide range of retail sectors
- What makes the lesser-known marketplaces attractive to set up shop
- How retailers can maintain scale when expanding internationally
- How to overcome barriers to entry

"With latest figures showing that 56% of retailers looked at increasing their international expansion during 2017, this marks a seismic shift in strategy"

RETAIL WEEK
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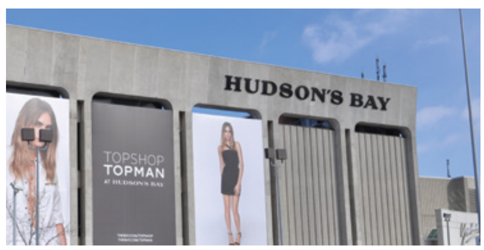

RETAIL WEEK FOREWORD

ISOBEL CHILLMAN
CREATIVE STRATEGIST

The challenges of launching your business in a new market are innumerable, with considerations needed from an operational and structural perspective as well as how, and if, your products will translate to the new market. But the international dream can certainly be realised, as many British retailers have already shown. Operating in 11 global markets, Primark has seen its international sales soar by more than 150% in the past five years, to an estimated £3bn.

Ted Baker is another home-grown success story, with international sales increasing 35% year on year in 2017. Developing its international ecommerce platforms has been a key part of its strategy, launching new sites in the UK, North America and Australia, followed by its first language-specific sites in Europe and online concessions businesses in China and Japan. By strengthening its presence within each market, the quirky retailer is outperforming its rivals and becoming a truly global lifestyle brand.

With a strong track record of expanding overseas, UK retailers certainly have their sights set on global domination. But only by understanding the intricacies of a country can you be fully prepared to work within its borders. With the largest population in the world, China may seem like the first port of call for any retailer looking to cross the seas, but if you haven't got a dynamic digital offer in place, you'll be blown out of the water by rivals.

Geographically well-placed for the UK, with a strong economy and buoyant retail scene, Germany provides exciting opportunities within the EU. But even removing the (as yet unknown) difficulties Brexit could create, Germany's stagnating population means the share of people aged under 15 is continuously shrinking, creating a far different consumer mindset to the UK's wealth of tech-savvy youth.

But these hurdles shouldn't dissuade British businesses from going global; our home-grown brands are hugely sought after by consumers spanning all continents, and UK retailers have a wealth of knowledge and expertise to support them on their journey.

There may be cultural and political differences along the way, but the UK's passion for retail is a language anyone can understand.

> “The international dream can be realised, as many British retailers have already shown”

RETAIL WEEK CONNECT: RETAIL'S TOP GLOBAL HOTSPOTS

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PARTNER VIEWPOINT

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HEAD OF RETAIL AND CONSUMER, ADDLESHAW GODDARD

Faced with rapid change and uncertainty in the home market, the challenges facing UK retailers today are well understood. However, our retailers also have a strong history of finding new markets for their wares, with 'British' often being a badge for style, coolness, dependability, quality, tradition and heritage. Driven by investors demanding growth, there are tantalising opportunities for businesses with a strong and proven proposition.

Not every foreign venture is successful of course, but good foresight and market research will make a huge difference to your chances of success. Here are some practical factors to shape your planning.

Translation factors

- Different taste demographics, disposable income, seasonal behaviours and ways of multichannel browsing and shopping will affect who buys your products and how they connect with them.
- Different languages, laws and regulations will impact everything from employment and union practices to consumer protections, data and privacy restrictions, tax and competition.
- Different ways of doing business may need you to revisit your existing protocols, to remain compliant whilst respecting local practices.
- Culture and consistency are key – how do you make sure your local teams 'wear your T-shirt' in a way that is consistent with your usual approach, whilst recognising local differences?
- Local IP enforcement regimes should be taken into account when thinking about brand protection, counterfeiting and lookalike risks – how will you protect your crown jewels?
- Differing local rules around agents and distributors will influence the structure of your distribution network and market positioning.

Structural and execution factors

- Structure and local partnering – there are many different structural options, with differing levels of commitment; choosing the right partner and being connected with the right local advisors is essential. Each market is different, so who can help you navigate unfamiliar waters?
- Ensure you fit with existing activity – are you providing a new channel to customers who are already finding you through pre-existing online channels? If so, will you undermine your existing business or the new market venture? And how far can you legally keep the two streams separate?
- Supply chain planning – if your current suppliers aren't capable of delivering your new business needs, how do you choose new local suppliers? And if they are capable, how do you scale up and plan different logistics with them?
- Money flows – from capital requirements and transfer pricing to tax planning and currency risks, how do you optimise your investment?
- Be aware that navigation of administrative, cross-border processes, including governmental and regulatory engagement, can be bureaucratic and time consuming.

> "There are opportunities for businesses with a strong and proven proposition"

INTRODUCTION

THINK GLOBALLY

Primark opened its first Italian store in Arese, northwest of Milan, in April 2016. The retailer currently operates in 11 countries across Europe and America

With high street sales flatlining amid lukewarm consumer confidence, and while uncertainty over the outcome of Brexit negotiations continues to constrict any kind of long-term strategic planning, what in the world is going to happen to UK retailers?

In the face of such adversity at home, some retailers have looked abroad, with the successful penetration of new overseas markets underpinning their growth strategy.

Primark, for example, now generates more than half of its revenues outside the UK. Cath Kidston operates more than twice the number of stores internationally than it does in its home market. The Topshop brand, meanwhile, now has a presence in no fewer than 40 countries across the world, from Peru to the Philippines.

Overseas expansion clearly gives retailers the opportunity to generate additional revenue streams, but with Western retail markets reaching maturity and Brexit likely to necessitate a more global mindset, the growth potential is now even more important. Retailers should therefore ask themselves not can they afford to expand overseas, but whether they can afford not to.

International expansion is not without its challenges. The choice of business model is critical, as is an understanding of local norms

International expansion is not without its challenges. The choice of business model (and often local partner) is critical, as is an understanding of local business and cultural norms. Retailers need to understand which products will drive profitability in which regions and at what scale. They must constantly adapt and customise in order to be successful.

No business should enter a new market with its eyes closed. However, with the right support and the correct strategy, retailers can win new converts to their brand and position themselves to compete successfully in an increasingly global marketplace.

CHAPTER ONE

CHOOSING YOUR ROUTE TO MARKET

There is no one-size-fits-all approach to overseas expansion. What works for Cath Kidston in India looks very different to what drives Primark's success in the US. The different routes to market available to retailers make it even more important to choose the model that best fits your business. To this end, research into the local market is a critical first step.

"We do a lot of homework before we enter a new market," says Cath Kidston chief executive Kenny Wilson. "The first piece of advice I would give is that you need to be clear on the model of how you want to trade; it will help to shape how you look at the next stages of entering that market."

For its growing Indian business, Cath Kidston chose a franchise model. A popular way of bringing new brands to developing markets, franchising is often seen as a way for retailers to test the waters in a new country without committing significant funds to building local infrastructure. One downside, however, is a loss of control over your brand when you pass the responsibility to a franchisee.

Wilson says the number one decision should be around selecting a local partner. His advice to retailers is to meet as many potential candidates as possible to ensure they select one that best suits their needs and fits with the company culture.

This may seem like a difficult task, particularly in unfamiliar markets, but you are not alone. "There are agents who specialise in facilitating these introductions internationally," explains Yunxiao Hu from Addleshaw Goddard's Hong Kong office. "They meet with you to discuss your market, strategy and ways of working, and then link you up with the most relevant partners for consideration; expediting this potentially arduous process."

Manish Das, group chief executive for corporate affairs and franchise retail at Jashanmal, which partners with brands such as Clarks and TM Lewin in the Gulf Cooperation Council (GCC) region, agrees with Wilson's approach. He says the most successful formula for a franchise arrangement is one in which the overseas retailer allows the partner to roll out the format, adapt it to the local conditions and offer support as requested.

"We have in-depth knowledge of the market, have deep-rooted relationships with the shopping malls and are well versed with operational excellence, such as how to configure store formats and window displays to fit the local browsing patterns. That is huge value added," says Das.

For markets such as the United Arab Emirates (UAE), where state rules require that overseas businesses work with a local partner, franchising is by the far the most common route to market for retailers. However, in markets where no such restrictions apply, the prospect of maintaining complete control over your operations can prove appealing.

AO.com has invested significantly on the ground in Germany, which it views not only as a market with huge potential, but also as a launchpad to expand into other European countries. It has invested in its own distribution centre, delivery fleet and head office, which, as Europe managing director Kevin Monk explains, acts as a unique selling point for the brand in the German market. "It would be much easier to put a website up and use one of the German 3PLs [third-party logistics providers], but then we wouldn't be different and it would be harder to stand out," Monk says. "We're able to provide an exceptional level of customer service because we control the last mile, and that gives us the edge."

"You need to be clear on the model of how you want to trade; it will help to shape how you look at the next stages of entering that market"
Kenny Wilson, Cath Kidston

For retailers wanting to retain greater control than a franchise agreement might allow, but have concerns about making significant investment on the ground, a joint venture agreement might work. This type of model will give them the ability to scale up quickly, while removing some of the risk associated with going it alone.

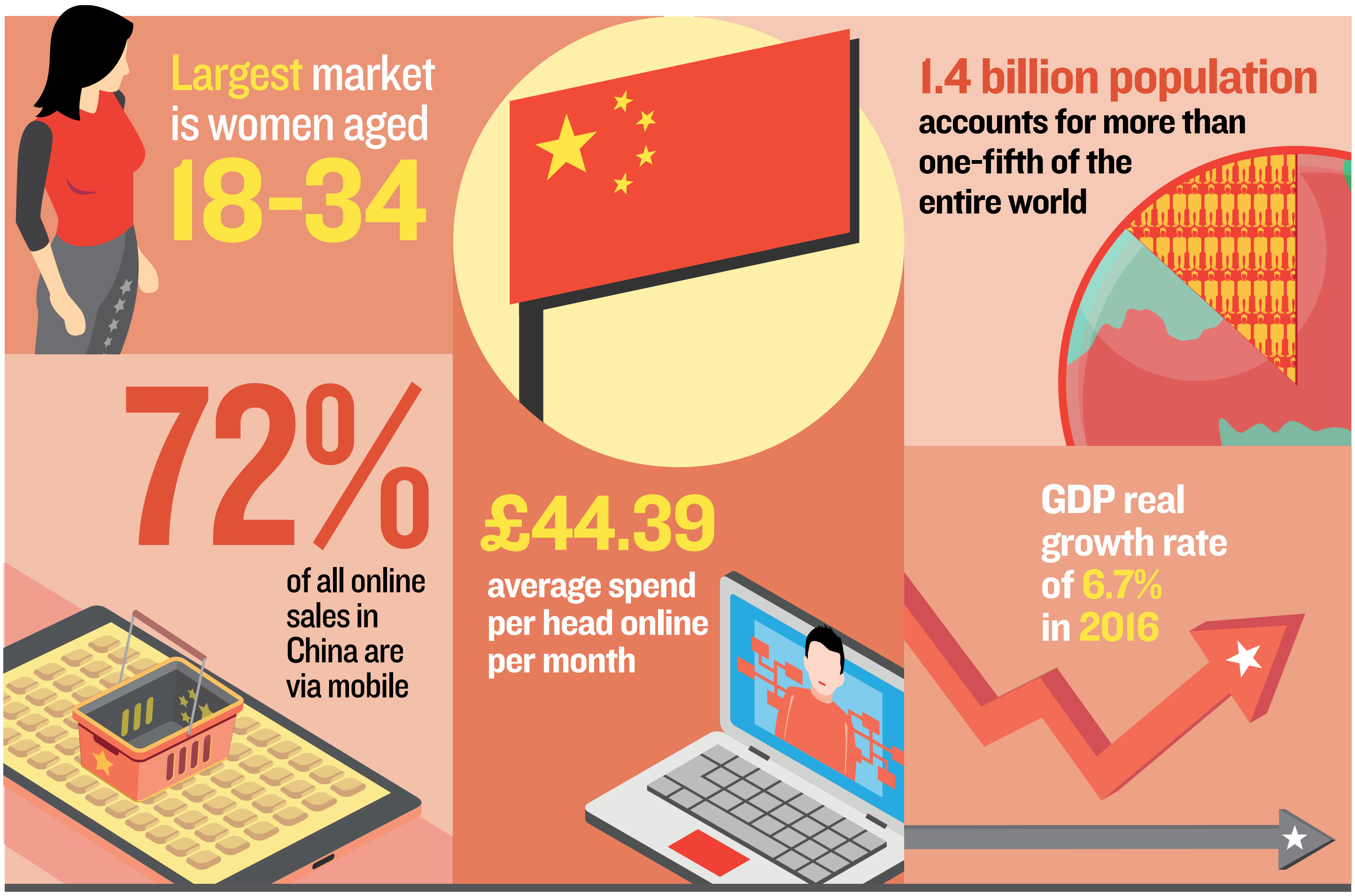
However, partnering with another business can be complex. It takes time to build the right relationship, and problems can arise if the plan hasn't been effectively communicated to everyone involved. Some retailers test market demand by launching a local ecommerce site and shipping from overseas. Others look to strike wholesale distribution agreements with local retailers.

Sports Direct established an instant footprint in the US market by purchasing 50 stores owned by sports and outdoor retailer Eastern Outfitters.

Ultimately, there really is no right answer regarding the best route. The key is to know your business, your market and to base your decision on what is right for you – not for your competitors.

CHAPTER TWO

CHINA



China is the prize many UK retailers have set their sights on. It is poised to become the world's largest retail market by 2022 and four of its major cities – Shenzhen, Shanghai, Guangzhou and Tianjin – appeared in Planet Retail's recent list of the top 15 emerging cities for consumer goods.

Having previously been a very restrictive environment for foreign investment, in the years since China joined the World Trade Organisation the market has gone full circle and is now completely open.

While early forays by overseas retailers into the country often ended in retreat after choosing to go it alone, more recently companies have learned from their mistakes and are co-operating with local partners to establish their businesses there.

Sainsbury's, for example, has launched in China through a partnership to sell upmarket

Intellectual property

Protecting and enforcing intellectual property (IP) as a retailer in China has been challenging; while the government is committed to making IP more effective for overseas companies, problems still remain. However, several high-profile successes for foreign brand owners show progress, most significantly New Balance winning £1.2m in August 2017, the largest trademark infringement award ever granted to a foreign business in China. Recovering and enforcing IP rights is tough, as Addleshaw Goddard's Rachel Cook explains, due to China operating a 'first to file' system. "There are companies who prospectively register trademarks likely to launch in China, knowing that brands will struggle to retrieve the trademark without a substantial transfer payment," she says. Cook's key piece of advice is to get in there early: "If it's even a thought that one day you might start operating in China, register your trademark early on."

"Nanjing is a key tourism centre, making it the ideal location for a brand that plays on its British heritage"

CASE STUDY: HOUSE OF FRASER

The acquisition of House of Fraser by China's Sanpower Group in 2014 put China firmly at the top of the British retailer's agenda for overseas development.

House of Fraser opened its first store in Nanjing, capital of Jiangsu province in eastern China and known as the country's number one commercial zone, in December 2016.

Although further stores have yet to materialise, the retailer says it has identified Xuzhou and Chongqing as the next two cities where it will look to open stores in the future. It has previously said it is targeting up to 30 stores in Greater China, including Hong Kong and Taiwan, over the next two to three years. It has also begun selling online via ecommerce giant Tmall.

House of Fraser says that, although it is early days for the Nanjing store, it is trading well and in line with expectations.

The store is based on House of Fraser's iconic store in Glasgow, which dates back to 1849 when Hugh Fraser and James Arthur opened a drapery at the corner of Argyle Street and Buchanan Street in Glasgow.

There were a number of elements of the Glasgow store that House of Fraser and Sanpower felt would resonate with the market and support its positioning as the quintessentially British department store. These include everything from architectural details to the brands selected to be sold in the store, such as The Cambridge Satchel Company, Peter Werth and Radley.

Sanpower was also influential in choosing the location of the first Chinese store. Nanjing has a population of 7.2 million and is a key centre for tourism, making it the ideal location for a brand that plays on its British heritage.

The retailer's Chinese owner, which has a significant property portfolio in China, has also been able to help navigate some of the challenges concerning property and other local sensitivities and consumer preferences. One department in the store, for example, is centred around gaming and experiential technology, and has been a particular footfall driver since the opening.

The store is also more premium than the typical department stores found in China, providing House of Fraser with a point of difference, while a loyalty programme has enabled it to gather data and drive customer loyalty.

ambient groceries via Alibaba's Tmall website. SuperGroup has also opted for a partnership model via a 10-year joint-venture deal with China's Trendy International Group.

Cultural considerations

In part, this new spirit of collaboration is due to the improvement in quality of local partners. But it also reflects a past failure of retailers to understand and adapt to local market norms.

Chinese consumers shop very differently to their British counterparts. Segments are not as clearly defined so, while the market for luxury goods still shows good growth, affluent consumers will just as happily spend large amounts with retailers such as Zara and H&M, which would be seen as mid-market in the UK.

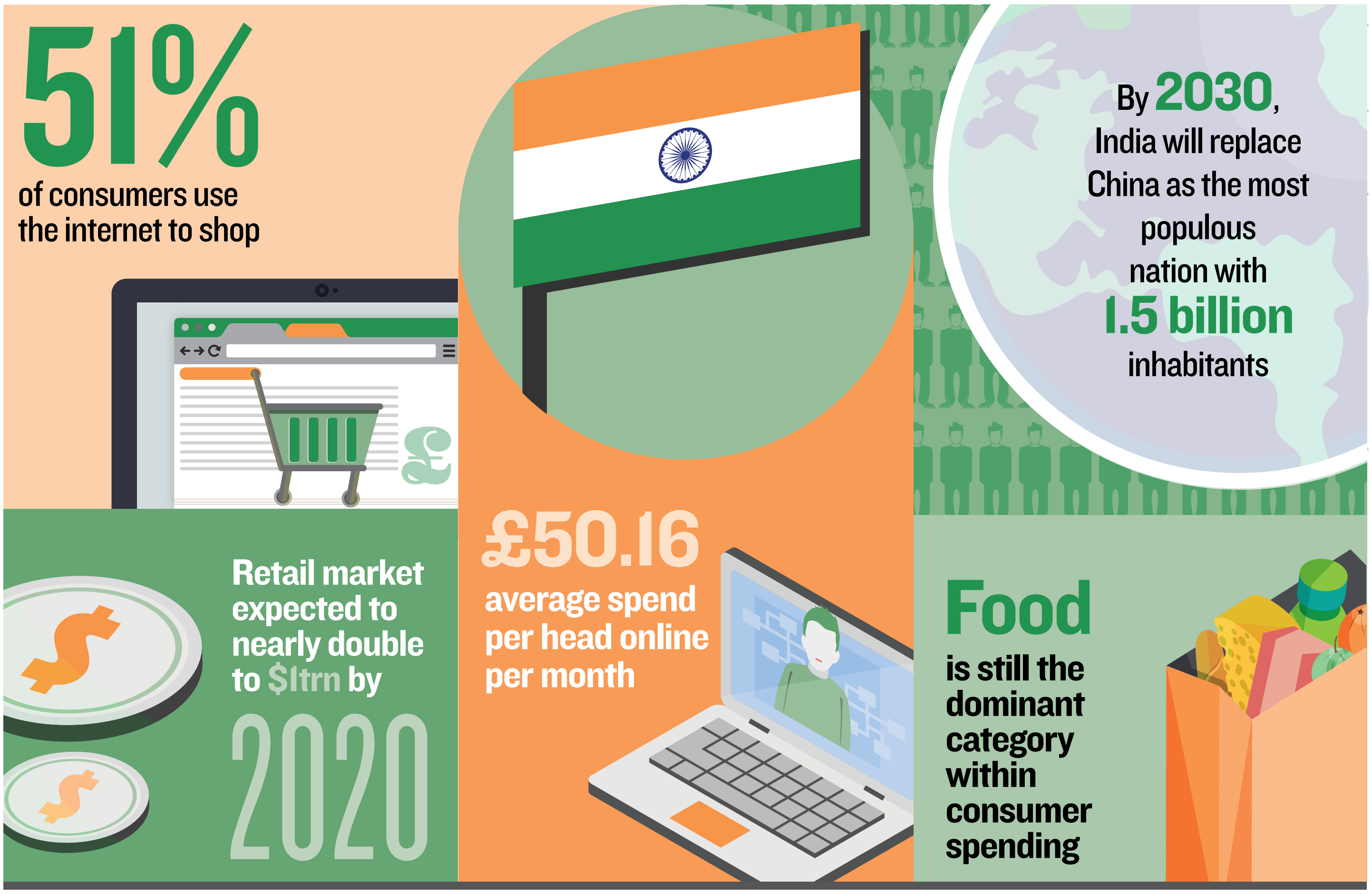
There is no real concept of click and collect in China and, although one-day delivery is now commonplace in major cities where the infrastructure is excellent, variable internet coverage is holding back the growth of online in more remote areas.

UK retailers will also find that expectations around payment are very different. In China, people largely pay by mobile, using ubiquitous apps such as Alipay and WeChat Pay. Having that functionality, therefore, is vital to the success of any overseas retailer.

Another reason to partner with a local expert is to benefit from their relationships with local authorities and landlords. Rents are sky-high in urban areas, so it is vital to be able to negotiate good deals on rents.

CHAPTER THREE

INDIA



If you want to understand the potential of the Indian market, look no further than the list of retailers to have entered in recent years. Alibaba, Amazon, Marks & Spencer and Walmart are all betting on the country being one of the key opportunities in the years ahead, with its retail market expected to nearly double to $1trn by 2020 from $600bn in 2015, driven by income growth, urbanisation and attitudinal shifts.

The retail sector has undergone significant development in the past 10 years, transforming from a predominance of small family owned retail formats to a more organised structure, which now includes department stores, supermarkets, hypermarkets, specialty stores, cash-and-carry stores and ecommerce.

Retail development is taking place not just in major cities, such as Mumbai and New Delhi, but also in tier-II and tier-III cities.

FDI rules relaxed

The Indian retail market has gathered pace since Prime Minister Narendra Modi was elected in 2014, explains Rabindra Jhunjhunwala, partner at Indian law firm Khaitan & Co. “The new government has announced a series of reforms since coming into power, including liberalisation of foreign direct investment (FDI) policy as far as retail trading is concerned, with the aim of attracting more,” he says.

While conditional, 100% FDI is allowed for overseas retailers trading as a single brand, with no prior government approval required for foreign investment of up to 49%. For those trading under multiple brands, up to 51% FDI is permitted with prior government approval.

The government has also recently introduced a new goods and services tax, a single tax that replaces the convoluted system of differing taxes that are found across India’s 29 states. Jhunjhunwala says the move is expected to have a further positive impact on the sector.

CASE STUDY: CATH KIDSTON

International expansion is at the heart of Cath Kidston's growth strategy, with the Asian market being a particular focus.

The retailer opened its first standalone stores in India in October 2016 with local franchise partner Planet Retail Holdings. Its first store was located in Ambience Mall, New Delhi, one of India's flagship retail developments, and was later followed by stores in Grand Galleria Mall, Mumbai, and Select Citywalk in New Delhi.

"India is a very exciting country for us and we see great potential for the brand there in a market that we expect to grow steadily over time," says Cath Kidston chief executive Kenny Wilson.

The retailer carried out detailed research into the market in advance of its entry and built brand awareness by selling products online. Following a number of enquiries from potential partners, it took the decision at the beginning of 2016 to explore opportunities for a franchise operation. The Indian product range spans homeware, accessories, fashion and kids, giving the brand broad appeal to a wide age range.

Wilson says Cath Kidston is not focused on achieving a "quick win" in India, but wants to ensure its systems, products and location of stores are right.

It is currently reviewing further opportunities in key malls across other areas of India such as Bengaluru, Pune and Chennai, as well as additional locations in Delhi and Mumbai.

Selecting the right partner has been key to Cath Kidston's success in India, says Wilson. "Meet as many potential candidates as you can to make sure you have selected one that best suits your needs, and fits with your brand and company culture," he says. "Working with Planet Retail Holdings has been fantastic – their knowledge and understanding of the local market is invaluable and complements our brand expertise to make what we feel will be a successful and long-lasting relationship."

It's also important to spend time getting to know the local customs and ways of doing business. "Whenever we open in a new market, we spend time getting to know the cultures and learning what might work and what won't from a product point of view," says Wilson.

"It's the same with any of our stores, whether it's those in UK tourist destinations, such as London, or at airports. While each of our stores has that familiar and homely feel when you enter, we do in fact tailor our products according to local markets and customs."

> **"Working with our franchise partner has been fantastic – their knowledge of the local market is invaluable"**
> **Kenny Wilson, Cath Kidston**

Recent government policies to liberalise FDI rules have provided a fresh incentive for foreign brands to enter the Indian market.

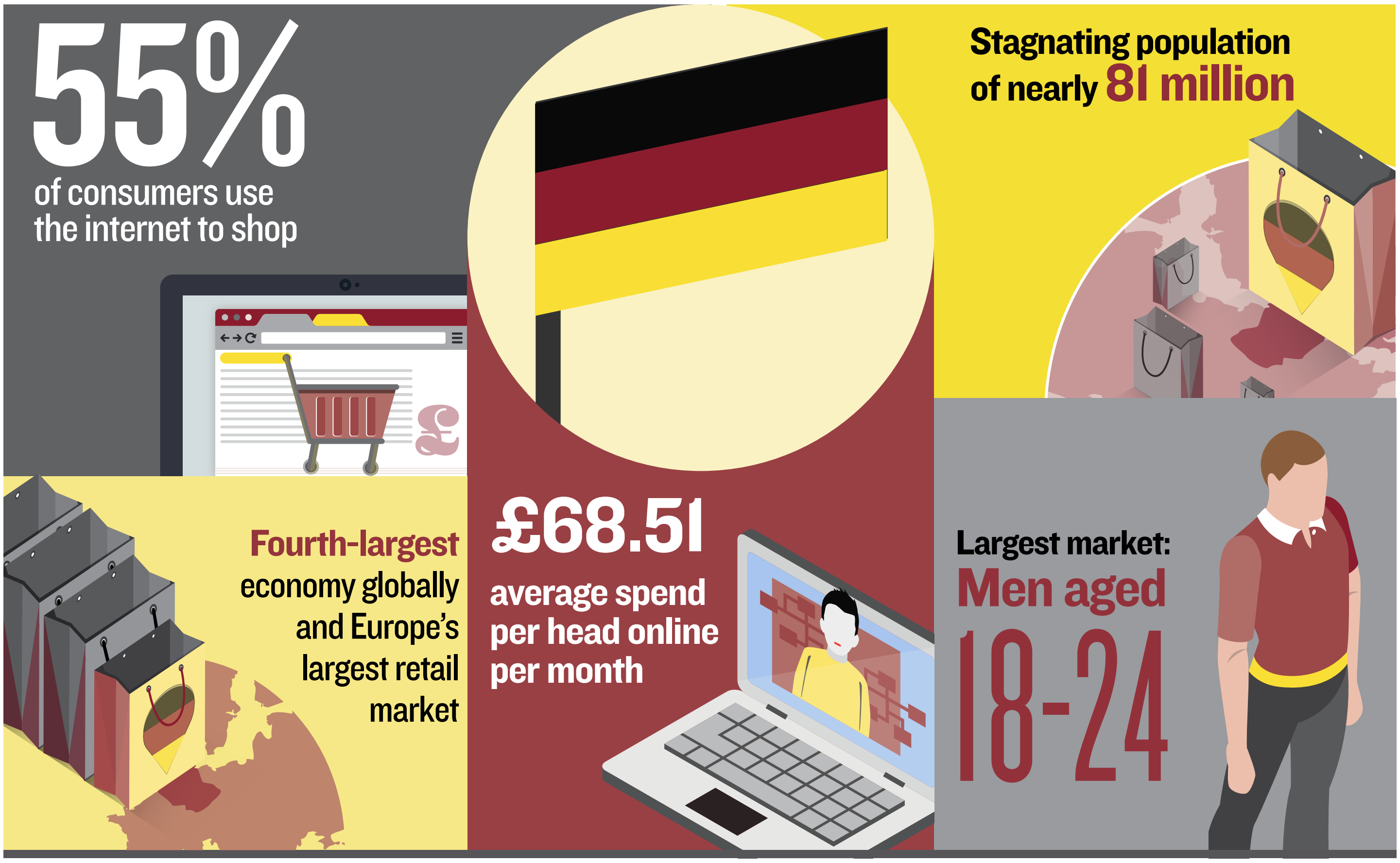
Market entries

Retailers are entering the Indian market through a number of routes, from wholesale cash-and-carry to wholly owned subsidiaries, depending on the commercial preference, market need and demand. M&S' choice to operate through a joint venture with Reliance Retail has led to them boasting 58 outlets across 27 cities, expecting to add around 10 stores yearly. However, although the growth potential in Indian retail is huge, there are obstacles in place that could slow the pace of growth for new entrants. Rigid regulations, the high cost of property and personnel, a lack of basic infrastructure and highly competitive domestic retailer groups are just some of the challenges.

As with many developing markets, the counterfeit market for luxury products is on the rise in India. This can prove a major problem for luxury brands in particular, as can a potential requirement for overseas retailers to source at least 30% of their merchandise locally (depending on investment proportions and trading conditions).

CHAPTER FOUR

GERMANY



According to Unilever, the grocery retail market in Germany is "the hardest in the world" due to over-saturation. However, while this may trigger warning signals for grocers in a market where discount chains are dominant, for retailers in other categories the opportunities presented by the German market are significant.

There is strong demand among local shoppers for British fashion, with brands such as Burberry, Crockett & Jones, Hobbs, Kurt Geiger and Ted Baker seen as high quality and desirable.

Other UK players such as AO.com, JD Sports, B&M and Office have all recently entered the market, while SuperGroup is making a major play in the country. Since the group opened its first Superdry store in Germany in November 2012 it has grown its presence to 26 owned stores and 11 franchises. It plans to have 50 owned stores in Germany in the next five years.

Shopping malls are becoming more popular, while online shopping is also showing strong

Investment and private equity

Germany's growing ecommerce sector is proving attractive not just to tech and retail firms, but to investors taking a particular interest in Berlin-based start-ups.

Private equity is often a key enabler for taking businesses out of their domestic market and into new territories. Indeed, expansion into new markets often forms an underpinning rationale for the transaction being made in the first place.

A strong ecommerce operation is a key differentiator and can minimise the risk of new market entry if demand can be established via an online presence, says George Moss, partner at ECI Partners (a private-equity firm that has worked with Addleshaw Goddard on transactions in the retail sector).

"Investors are increasingly looking for retailers to have a compelling multichannel proposition to support their overseas expansion.

"They're also looking for a retailer with a platform advantage in a category where there is space for a more innovative player, built on the foundations of good range authority and ideally a brand that resonates overseas," he says.

CASE STUDY: AO.COM

AO.com's German adventure began with an exercise facilitated by a management consultant to identify attractive markets across mainland Europe based on market size, infrastructure, consumer behaviour and expectations.

Germany ticked all the right boxes and the online electricals retailer launched its first overseas website in the country in October 2014. It has since invested heavily in local infrastructure, including a head office, a distribution centre in Cologne, a fleet of vehicles, a full IT system and hundreds of employees.

Although AO did consider other partnership models, Europe managing director Kevin Monk says it was always the company's preference to own its operations. "That last mile is massively important, and being able to influence that is one of our key learnings of AO.com in the UK, so it was always the aim to bring that element of our model across."

Monk admits that it would have been much easier for the retailer simply to launch a website and employ a German logistics provider to run the ground operation, but the concern was that AO would lose its point of difference.

"We're able to provide a level of customer service because we control the last mile and that gives us the edge," says Monk. "It's the little differences, like how we will deliver to a room of your choice, in Germany that is helping us grow organically."

Monk says AO tried as far as possible to prepare itself for differences in local shopper behaviour. For instance, Germans like to pay on invoice and there is a large part of the trade that is payment-on-delivery, something AO has not adopted because it did not want its drivers to be responsible for taking cash from customers.

Employment has also been a challenge. "When you're bringing in 10 new people to the UK head office, it's easy for them to assimilate into the culture, but when you've got 10 people who've been with a company for a few years and you're bringing in up to 600 new staff that's a different challenge," says Monk. "We've treated it seriously."

One potential obstacle on the horizon is that of Brexit, although Monk feels AO's model will help to insulate it against any potential difficulties.

"Essentially, this is a German business selling German washing machines to German customers in euros, so Brexit shouldn't give us any kind of operational challenges," he says.

growth. A well developed and efficient logistics network, meanwhile, makes it easy to move product in and out of the country.

Multiple targets

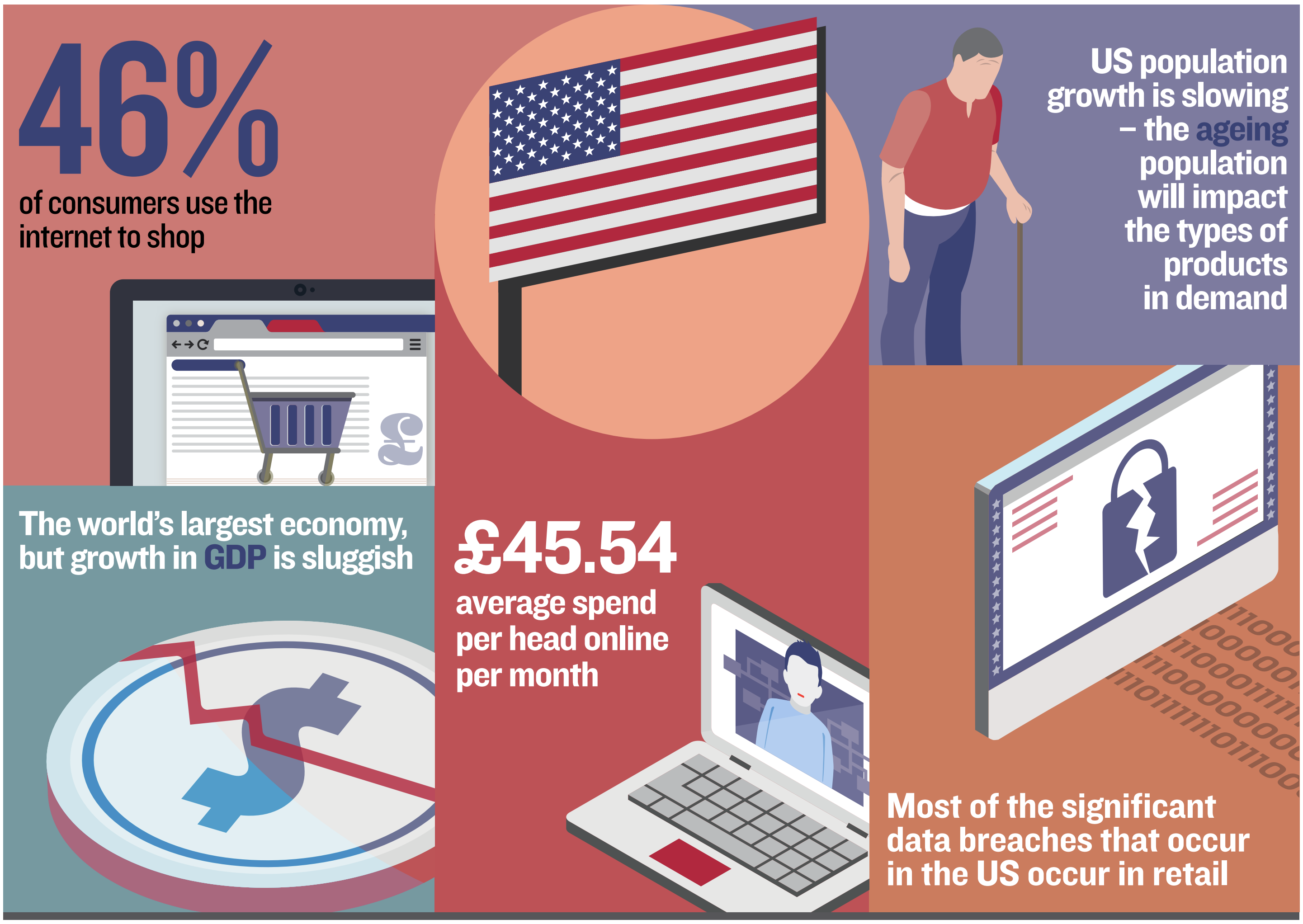
"Unlike other European countries, there is no one main 'market entry city' in Germany, meaning that Berlin, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart enjoy a vibrant retailer scene," explains Michael Reiling, partner at German law firm Noerr.

"Despite being the capital city, Berlin is not generally the main destination for overseas retailers owing to a relatively weak economy – a repercussion from the Berlin Wall and the division of the city. However, as Berlin is becoming increasingly popular with start-ups and tech firms, with the likes of online retailer Zalando establishing its headquarters in the city, things could be set to change."

"Berlin is not the main destination for overseas retailers owing to a relatively weak economy"
Michael Reiling, Noerr

CHAPTER FIVE

UNITED STATES



China may be the coming force in global retail, but the US remains the market that many UK retailers want to crack. This can be easier said than done of course, as Tesco discovered to its cost with the failed Fresh & Easy venture.

With retail sales through traditional bricks-and-mortar stores having plateaued in recent years, it has become even more imperative for retailers with a large investment in built infrastructure to find new ways to keep their operations profitable.

Thankfully, there are reasons for optimism. Online sales are growing strongly, while British brands are in high demand, as long as they provide a point of difference to local players. Brands that are seen as having quintessentially

Data protection

Any UK retailer entering the US market with a casual approach to data protection would be well advised to think again.

"Most of the significant data breaches that occur in the US occur in retail," explains Aaron Simpson, partner at US law firm Hunton & Williams.

Retailers in the US must be thorough when explaining their information practices to consumers. Unlike in the UK, it is a company's privacy notice and not underlying law that is paramount when it comes to establishing the boundaries with respect to its information practices. "In the US, so long as you tell customers what you intend to do with their data, you are permitted to do what you say," he says. "That privacy notice takes on an importance that European lawyers often find counterintuitive."

CASE STUDY: TOPSHOP AND PRIMARK

Topshop and Primark have both signalled big plans for the US market, but the two UK retailers have taken different approaches to scaling up across the pond.

The US has become a key focus for Topshop, following the acquisition of a 25% stake in the business by US-based private-equity company Leonard Green & Partners in 2012.

The retailer made its US debut in 2009 with a 30,000 sq ft (2,787 sq m) flagship in SoHo, New York. The strategy since has been to open flagships in high-profile cities, including Chicago, Las Vegas and Los Angeles. In 2014 it opened a 40,000 sq ft (3,716 sq m) store on New York's prestigious Fifth Avenue. The retailer has dedicated US websites for both Topshop and Topman, as well as an agreement with department store Nordstrom for concessions for both brands across the Nordstrom network.

Fast-fashion rival Primark, meanwhile, has taken a more low-key approach to its US expansion. Due to the size of the country, the value retailer has adopted a sub-regional strategy, whereby it has focused initially on the northeast of the US.

Primark opened its first store in Boston in September 2015, followed by a second store in Pennsylvania in November of the same year, with a third subsequently added in Connecticut. Three more stores came on board in 2016,

Topshop's strategy has been to open flagships in high-profile cities, including New York, Chicago and Los Angeles

followed by a store in Staten Island in March 2017. There is now a total of eight stores in the US, with the eighth having opened in June in South Shore, Massachusetts.

The retailer has also established its own warehouse in Bethlehem, Pennsylvania, which was fully operational ahead of the opening of its first store in Boston.

Primark believes it can occupy a unique position in a market where there are few brands selling fashionable clothes at affordable price points. To date, it has reported positive feedback from customers of its US outlets.

British values in particular can thrive, as the likes of Ted Baker and Jack Wills have discovered to their benefit.

Points of difference

However, British brands that enter the US market with the mindset that shopper habits are largely similar to the UK should think again, cautions Allyson Stewart-Allen, chief executive of International Marketing Partners.

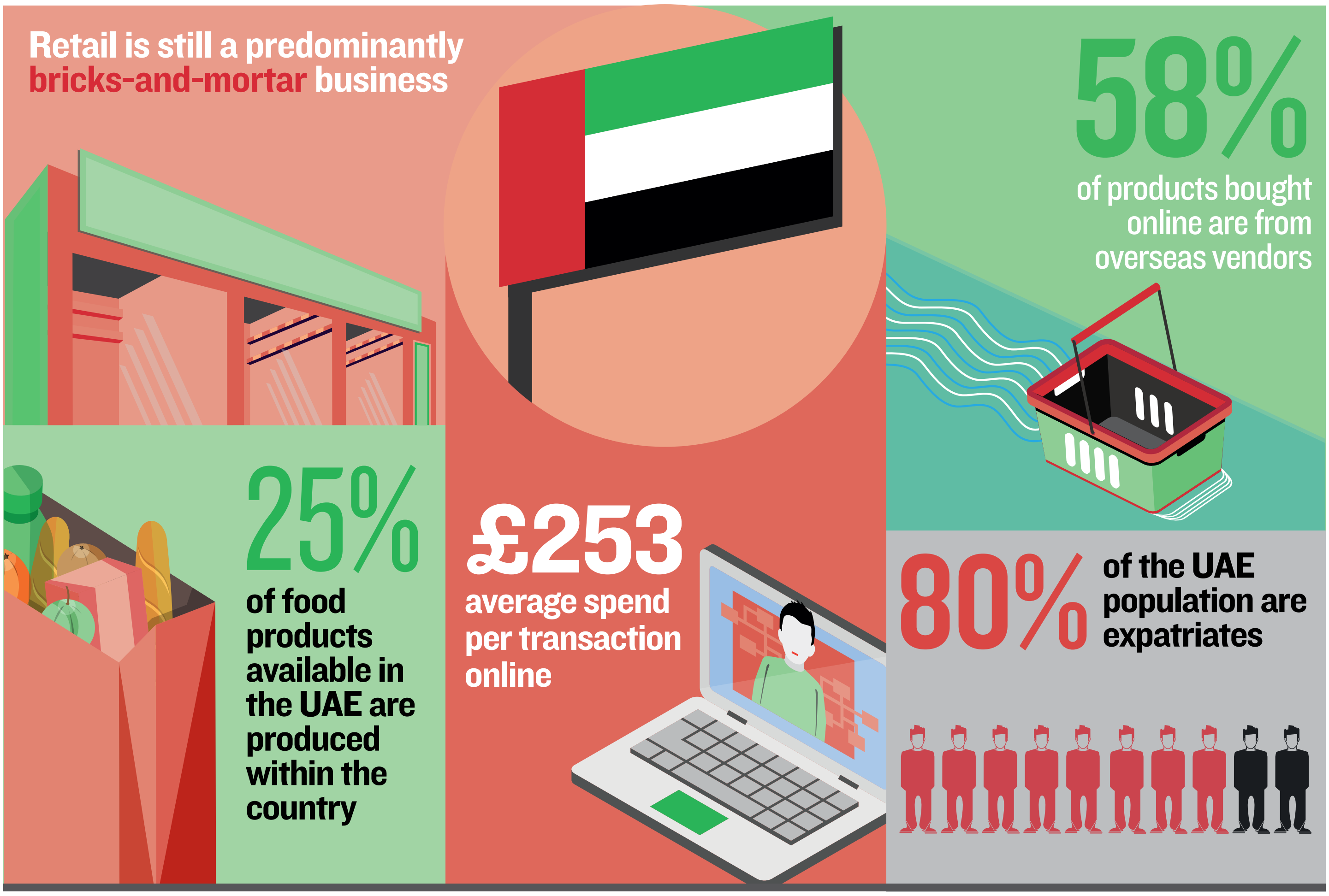
She says there are some key differences that retailers should be aware of. "For a start, Americans have extremely high expectations of customer service, which they expect to be proactive and responsive to their point of view."

Stewart-Allen also notes that the US has many regional variations in climate, working and shopping patterns that retailers must account for in their plans. "Understanding these nuances is key, so it is essential that retailers do their homework." Where to focus your market entry is another consideration.

"Because of the size of the country, being clear which city to start from is critical," she says. "So many British brands choose New York because of its ease of access, population density, global influence and spending power, although my view is that it's too saturated. Better to start somewhere where you can make a mistake and it won't ruin the business."

CHAPTER SIX

UNITED ARAB EMIRATES



With a fast-growing population of mostly expatriates with a high disposable income, the United Arab Emirates (UAE) – and the Gulf region generally – holds great appeal for UK retailers looking to extend their reach overseas.

Consumer confidence has remained largely unaffected by the recent downturn in economic growth that the UAE and the Gulf Cooperation Council (GCC) region is experiencing, following a drop in oil prices. In fact, the retail sector is growing faster than the economy as a whole.

UK brands already established in the region include Debenhams, Harvey Nichols, The Body Shop and Lakeland – and those that haven't yet dipped their toes in the water are missing an opportunity, according to Manish Das, group chief executive for corporate affairs and franchise retail at Jashanmal. "It's the heart of retail and

Implementing VAT

On January 1, 2018, VAT will be implemented across the UAE at a standard rate of 5%, applying to the majority of goods and services.

"The implementation of VAT in the UAE and other member states of the GCC will fundamentally change how businesses operate in a region accustomed to little or no taxation," says Daryl Teo for Addleshaw Goddard Middle East.

Early consideration of how VAT will affect a retailer's business is highly recommended, as they'll need to decide whether to pass some (or all) of the VAT burden onto customers by increasing prices, and if doing so will lead to loss of sales.

Retailers will also have to make operational changes, such as ensuring third-party contracts contain VAT clauses specifying whether the agreed price is inclusive or exclusive of VAT.

CASE STUDY: M&CO

M&Co may not fit the stereotype of a UK brand in the Gulf region, but the UAE is the value fashion retailer's largest international market. The region is currently home to seven standalone M&Co stores and four in-shop concessions, spanning three of the seven emirates (Dubai, Abu Dhabi and Ras al-Khaimah).

The retailer's flagship is in the iconic Dubai Mall, while its largest international store is in Yas Mall in Abu Dhabi. Looking ahead, M&Co has set itself the objective of opening 10 new UAE stores within three to five years.

From the outset, M&Co says it worked with a local franchisee – Liwa Trading Enterprises – to use its knowledge and expertise to establish demand for the brand in the region. It currently operates all its overseas stores as franchises on the basis that local partners have access to real estate and are proven operators in their territory, while M&Co provides the product and brand expertise.

M&Co's model gives its local partners the freedom to deal with any local challenges. For instance, the trading calendar in the UAE is very different from the UK, so the partner is given the freedom to trade with products and promotions that are appropriate for the market at certain times. M&Co will

also provide the partner with market exclusives to exploit cultural and product-specific opportunities. For Ramadan and Eid, for example, certain items of clothing will be modified with longer sleeves or skirt lengths for womenswear.

there are a lot of British brands here," says Das. "Retailers who have not looked at it until now have been missing the boat for a long time."

Retail is still a predominantly bricks-and-mortar business in the UAE, with a high online spend insignificant compared with in store. Malls are hugely popular leisure destinations for locals who want to escape the heat and most include extensive food and beverage offers, as well as activities such as skiing and ice skating.

Retailers who plan to test the market by launching an online offer should be aware that not only is ecommerce less developed than in the UK, but customs duty applies to goods imported from outside the region.

Local experts such as Stephen Edgar, who worked as a senior lawyer for Alshaya, McDonald's and The Body Shop in the region, agree that the best entry route is in partnership with a local franchise company. "They have the contacts, knowledge and influence to give

"The Middle East is complex for Western companies to operate in without significant local support"
Stephen Edgar, local expert

overseas retailers the best chance. The GCC and wider Middle East is a complex location for Western companies to operate in without significant localised support," Edgar notes.

Das gives an example of where a local partner such as Jashanmal can add value through their understanding of local business and cultural norms. "In the UK, you launch autumn/winter collections in August," he says. "In August, we have 50°C heat and nobody wants to see heavy products. We work with brands to ensure there is always relevant product on the shopfloor, including product made for our markets."

CHAPTER SEVEN

WHERE IN THE WORLD NEXT?

Nigeria

A growing urban middle class with a passion for UK brands and a growing appetite for ecommerce distinguishes Nigeria's market with significant untapped potential.

While behind South Africa, it is the second-largest retail market in Africa, and the structure is continuing to shift from traditional to modern retailing channels.

Nigeria's population stands at 186 million and it is predicted to be the third most populous country globally by 2050. But the number of high-net-worth individuals here is minute in comparison, says Simeon Obidairo, partner of Nigerian commercial law firm Aluko & Oyebode. "Any UK retailer entering the Nigerian market needs to look carefully at the cost of their product offering. For [many] in Lagos, KFC is fine dining."

Nigeria has a large population of young people with a love of Western culture and strong brand awareness, but the market has so far been relatively untouched by UK retailers – understandably so, perhaps, since there are obvious challenges to overcome. Retail infrastructure is lacking and a combination of the recession, alongside high vacancies in existing shopping malls, has led to delays in any new malls being built.

Corruption is still endemic in the country, with bribery of local officials an accepted way of doing business. There is also an opaque taxation system, along with weak enforcement of court rulings and intellectual property rights.

Yet the Nigerian government is trying to make the country more attractive to overseas businesses with a range of incentives, including tax breaks and reducing red tape to lower the burden of bureaucracy and operational costs. All of this makes Nigeria a 'when', not 'if', story for overseas retailers.

The 'Stans

Like Nigeria, the 'Stans region – which includes emerging economies such as Kazakhstan and Azerbaijan, along with the less developed states of Uzbekistan and Tajikistan – is using wealth generated from natural resources to enable a transformation of the retail sector.

Kazakhstan is the fourth best developing country for retail investments, according to *The 2016 Global Retail Development Index* by AT Kearney, thanks to a clear and persistent strategy by the government to encourage international investment. From a retail perspective, it is also strategically positioned because of its proximity to China, with some businesses using it as a manufacturing base to supply the Chinese market.

The first wave of shopping malls is being constructed in key cities, such as Almaty in Kazakhstan and Baku in Azerbaijan, based on the GCC model of combining leisure attractions with a broad retail and food and beverage offer.

UK brands are popular with local shoppers and a number of retailers have spotted the opportunity. Ted Baker has two stores in Baku and Topshop has a store in the Mega mall in Almaty, while Marks & Spencer boasts a 15,000 sq ft clothing store in Almaty, operated by its franchise partner Alhokair Fashion Retail.

Open for business

"The Kazakhstan government is working hard to develop a modern and sustainable economy through attracting foreign investors," explains Yerkebulan Rakhmenov, senior associate at PwC Kazakhstan.

The country is a member of the WTO and in June 2017 Kazakhstan became a member of the OECD Committee on Investment. It has a Bilateral Investment Protection Treaty with the UK as well as similar treaties with 48 other countries and is a member of the Eurasian Economic Union (EEU) along with Russia, Belarus, Kyrgyzstan and Armenia.

Azerbaijan, by contrast, is not a WTO member and free trade arrangements are mostly with ex-USSR countries. The government is, however, looking to encourage inward-investment from overseas by protecting foreign investments with guarantees provided under law.

WITH THANKS TO
OUR CONTRIBUTORS

Addleshaw Goddard works with clients from right across the retail and consumer sector, from the largest, well-known brands to newer, entrepreneurial businesses. Clients include household consumer goods and food and drink businesses, multichannel retailers, as well as hotels, pubs, bars and restaurants and gaming businesses. We advise these clients on all areas of their legal requirements, from key strategic deals to day-to-day operational challenges and have helped many of them to expand into new markets around the world.

For more information on how we can help your business, please visit our sector webpage: **addleshawgoddard.com/retailandconsumer**.

Alternatively, please contact us – we would be delighted to talk to you about your business:

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