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Analysis: Lush and Watches of Switzerland on nailing international expansion

By **Manfreda Cavazza,** 8 June 2021

Non-essential' UK retailers have had a bruising year and many of those that have proved most resilient have relied on international markets to bolster growth in 2020. Should more businesses look to do the same in 2021 and beyond?

- **When it comes to route to market, "physical stores are the most effective way to create brand recognition" but far from risk-free**
- **Accenture's Alice Cowley recommends placing a few "well-coordinated bets" on a market by having a very deep country or regional focus**
- **Hotel Chocolat has tailored its approach to each market, growing its store presence in Japan and boosting online in the US, while Lush's model allows it to maintain central control of the brand and its values**

We're all dreaming of jumping on a plane these days and jetting off to warmer climes. But should retailers be looking overseas to drive growth?

It's certainly not an easy journey: many British retailers have tried and failed to expand abroad. But for those who are prepared to take the plunge and have a proposition worth shouting about, the prospects are hopeful.

GlobalData predicts that global retail sales will grow by 28.4% to $31.09bn over the next five years, a growth rate that is flattered by poor performance in 2020 due to Covid-19. Global retail increased by just 1.6% last year to $24.21trn. Over the past five years (2015 to 2020), global retail sales grew 19%.

As the Covid-19 vaccine rollout continues at pace worldwide and many nations progress down their respective paths out of lockdown, the International Monetary Fund (IMF) has upgraded its global economic growth forecast for 2021 to 6%.

It's the second upgrade in three months and would be the biggest annual growth recorded in four decades of data, coming after a 3.3% contraction last year – the worst peacetime decline since the Great Depression.

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Neil Saunders, GlobalData

Against this backdrop, which countries could retailers make a well-timed entry or expansion into to drive growth?

GlobalData analyst Neil Saunders points to China, which remains the largest retail market globally, worth $4.68trn in 2020 according to GlobalData.

"China is still a very underdeveloped market. However, it's fast-growing and the recovery is predicted to be very strong, so there's interest there," he says.

"There's also a lot of interest in other Asian markets like Thailand and Vietnam. These markets are a little bit more embryonic, but there's potential there for growth."

The IMF has warned of widening inequality and the divergence between advanced and lesser-developed economies.

The US has been singled out as a nation that, thanks to the $1.9trn stimulus package approved earlier this year, is now set to surpass the output level it would have achieved in 2022 had the pandemic not struck.

By contrast, surging Covid-19 cases in more emerging markets, such as India and Brazil, will delay economic recovery in these countries.

Allyson Stewart-Allen, chief executive of consultancy business International Marketing Partners, says retailers should avoid these areas for now.

“I would not be advising retailers to invest heavily in India, for example, given where the country is today,” she says.

“I think they’ve got at least another 12 to 18 months before they recover because the vaccination rates are low. I would focus on Asia, the US and Western Europe because that’s where the money is generally.”

Route to market

As well as geography, retailers have to consider their route to market.

JD Sports acquired US retailer Finish Line in 2018

Businesses like Lush and Watches of Switzerland have opened stores (both fully owned and franchised) to drive brand recognition.

Others have acquired a local business, just as JD Sports did with DTLR and Finish Line in the US. Hotel Chocolat opted to focus on a purely digital route when it had to temporarily close its four US stores during last year's lockdown.

According to Stewart-Allen, the ideal way to blaze a trail in a new market is to combine all of those things; however, it depends on the retailer's appetite for risk.

"Businesses often underestimate the investment needed to build a brand in a new market," she says.

"If risk isn't an issue, then physical stores are the most effective way to create brand recognition, provided you stay relevant, because you're controlling all the variables."

"If you're online-only, it's going to take longer to build traction because people don't know you and they can't experience you in the physical world. Look at how many years Amazon was trading before it became a trusted online-only brand"

Allyson Stewart-Allen, International Marketing Partners

It's a more expensive route, says Stewart-Allen, due to the costs associated with hiring staff, finding suitable locations and building relationships on the ground. However, the rewards are greater.

"If you go into a store and you've had a good experience, you like what you see and the service is happy and cheerful, you would probably go back. It then isn't hard for you to transfer that trust credit from one channel to another because you have experienced the brand already.

"Whereas, if you're an online-only play, it's going to take longer to build traction because people don't know you and they can't experience you in the physical world. Look at how many years Amazon was trading before it became a trusted online-only brand."

So while having a digital presence is paramount for retailers worldwide, it seems the better approach is a multichannel one.

'Well-coordinated bets'

Having decided where to set up shop and how to get there, retailers also need to be clear about why they stand out.

Managing director of Accenture's UK retail practice Alice Cowley says businesses need to have a "razor-sharp focus on what is differentiated about your product proposition".

She adds: "If you look at the list of retailers who have built meaningful scale across the globe, it's a pretty short and distinguished group. The common denominator has been that the achievement to globalise has taken decades. It's taken an enormous amount of investment on their balance sheet."

"Some of it may not pay off, but it's about going in with real clarity and conviction behind what your exportable proposition is and doing enough due diligence on which markets look like a right big bet for you"

Alice Cowley, Accenture

With that in mind, her advice is to place a few "well-coordinated bets" on a particular market by having a very deep country or regional focus. If successful, retailers can then pivot off that area and expand out into nearby regions, thereby leveraging their investment.

Cowley adds: "You have to accept that some of it may not pay off, but it's about going in with real clarity and conviction behind what your exportable proposition is and doing enough due diligence on which markets look like a right big bet for you. Then doubling down on those before looking to plant flags elsewhere."

Hotel Chocolat on tailoring its international approach

Chocolate retailer Hotel Chocolat first expanded abroad in 2018, opening stores in Japan and the US. It now has 22 stores in Japan, owned via a joint venture, and four wholly owned shops in America.

In Japan, Hotel Chocolat offered a point of difference for shoppers who were used to seeing more traditional heritage European chocolate brands.

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>
> *Angus Thirlwell, Hotel Chocolat*

The Japanese business accelerated last year despite the pandemic, with 11 new store openings driving more-than-doubling sales and numbers on its membership scheme rocketing 892% to 50,000.

Co-founder and chief executive Angus Thirlwell says: “When it comes to international, you have to know your chances when they come your way. Because other larger competitors were choosing to sit out the crisis, we thought it was a good opportunity for us to forge ahead.”

By contrast, in the US Hotel Chocolat chose to pivot online when the pandemic hit – a strategy that led to 22% sales growth in the country in the second half of 2020.

While the Japanese consumer was drawn to Hotel Chocolat’s product, American shoppers were drawn to the brand’s ethical dimensions. They also splashed out on the Velvetiser Hot Chocolate Maker, which retails at more than $100, driving up average spend.

Thirlwell says that, alongside having the right products and route to market, having “entrepreneurially activated people who are not afraid to take risks” and have a deep understanding of consumer habits in the region is the deal-maker for international expansion success.

“We worked with more corporate types in the smaller markets and they were great, but they just didn’t have the same visceral hunger you get from picking the right people,” he says.

Even with substantial investment in a multichannel approach, international expansion requires a considerable amount of careful orchestration. Tesco’s foray into the US with its Fresh & Easy chain is one example of a British retailer that failed on its overseas punt despite doing its homework.

The company hired anthropologists, studied Californian eating and shopping habits for months and spotted a gap in the market for convenience. However, according to Saunders, it still wholly misunderstood the American landscape.

“[Tesco] was focused on things like ready meals and meal preparation, but didn’t realise that many Americans were buying takeouts from restaurants,” he says.

“They misunderstood the dynamics of the market. There was a genuine gap, but it was being filled by something outside of retail and that’s the bit they didn’t notice.”

Accidentally global

The trend for ethical shopping and sustainable living continues to grow and will be a factor for retailers looking to tap into new consumer markets abroad.

According to Accenture’s Consumer Pulse research, more than 50% of consumers will continue to make more sustainable purchases post-pandemic. The study, which tracks the changing attitudes, behaviours and habits of consumers worldwide, has been conducted in several waves between April 2020 and March 2021 in more than 15 markets.

The pandemic has also fuelled strong growth in the health sector as people spent more time improving their wellbeing. Research firm Technavio predicts a $1.3trn incremental growth in this sector by 2024.

Handmade cosmetics retailer Lush is a sustainable brand in the wellness sector that has been expanding its global reach organically over the last few decades via a combination of wholly owned and franchised stores. It currently has 951 stores in 49 countries across the US, Europe and Asia.

"Our international business model has meant we've been able to expand quickly while maintaining control of the brand. If you're going to be a Lush licensee, you agree to take everything. We don't tailor ranges"

Simon Nicholls, Lush

Lush's global retail director Simon Nicholls attributes the company's international success to its strong ethical stance, which has resonated with shoppers worldwide. This stance is communicated across all its channels, but it is the stores that draw people in.
Nicholls explains: "Our international business model has meant we've been able to expand quickly while maintaining control of the brand and its values.

"If you're going to be a Lush licensee, you agree to take everything. We don't tailor ranges. And we determine everything about the look and feel of the store, the brand design, signage, everything.

"People often think Lush is a brand for teenagers, but once they walk into a store they realise our products are for all ages and that we stand for something."

Nicholls adds that a genuine understanding and passion for local cultures has also been key to its success, not only in appealing to local markets but also as a way to navigate the annual peaks and troughs of a retail business.

"All of our regions run in different cycles," he explains. "So we could be having a tough time in Europe and things could be going well in Asia. It's led by faith and culture.

"Most British retailers are very reliant on Christmas, but we'll also have an incredibly busy spring in Japan due to the sakura [cherry blossom] season, for example. We spend a lot of time in our regions, studying local habits.

"I think that's why we've turned into a global brand. We didn't intend it to be. Most of us in the company are interested in other people, other places, other cultures."

Multichannel maven

Luxury watch retailer Watches of Switzerland Group, which owns Mappin & Webb and Goldsmiths, entered the US market in 2018 with the acquisition of Mayors in Florida and Georgia, and Wynn in Las Vegas. In 2019, the company opened two flagship Watches of Switzerland stores in Manhattan.

Chief executive Brian Duffy says the business decided to "take the big leap over the pond" when they realised the US luxury watch market was highly under-invested and fragmented.

"When we researched it, we were surprised to find that the market in America was hugely underdeveloped. There was a demand for luxury watches, but there was a definite lack of investment in retail"

Brian Duffy, Watches of Switzerland

"We had been developing our stores in the UK, making them more contemporary, less intimidating and more browsable," he explains.

"A few people approached us about opening stores in America and, when we researched it, we were surprised to find that the market there was hugely underdeveloped. There was a demand for luxury watches, but there was a definite lack of investment in retail."

Watches of Switzerland's US stores are welcoming and experiential: its SoHo showroom, for example, has an in-house cocktail bar, a curated library of collectable watch books and an evolving collection of photographic artwork available for purchase.

Lockdown forced the retailer to accelerate its digital footprint in the US. Duffy explains: "Because of our size and scale, we had the technology and a good understanding of digital marketing, including a fabulous CRM system.

"We immediately put in place a great appointment taking and making system in both the UK and the US. We also invested in online marketing, including Instagram and podcasts, generally making the most of all the time people were staring at screens."

The US region now accounts for 30% of Watches of Switzerland's group turnover and the retailer is bullish about the market going forward.

International expansion might seem an unlikely avenue to pursue after 12 months of pandemic-induced crisis. But, with careful planning, it's a strategic move worth considering.