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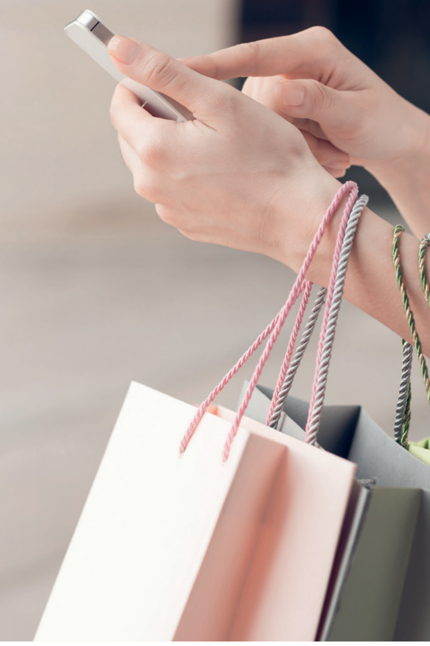

Shopping around?

How going global can insulate retailers from Brexit

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At a glance

- January and February's UK retail sales figures are indicating the first possible signs of a downturn
- Targeted overseas expansion offers protection against weak pound and weaker economy
- Location, operating model and partnerships essential to success

In the first few months after the EU referendum, Britain's consumers did the very last thing expected of them: they kept on shopping.

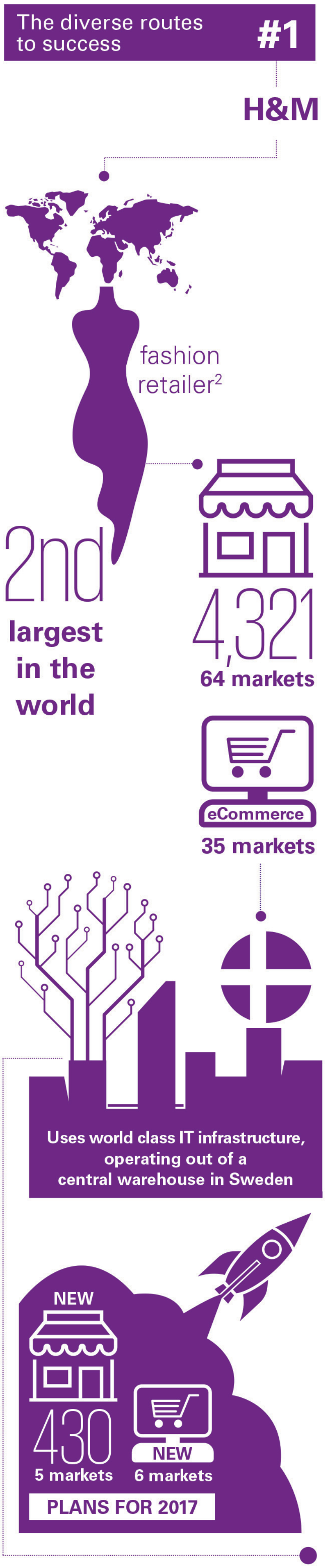
But for how long will they defy the economic consensus? Seasonally adjusted sales volumes, excluding fuel, were 0.2 per cent lower[1] in January than in the previous month. Those figures were well below the 0.7 rise that had been forecast, indicating that a slowdown may have started.

If consumers are indeed tightening their purse strings as the weakening pound increases prices of imported food, fuel and other items, then retailers could be in for a bumpy ride. Compounding the pressure, many face higher business rates, a rise in the national living wage and the Apprenticeship Levy.

That's not all. At the same time, retailers are grappling with intense competitive pressures and increasingly savvy customers: shoppers who take it for granted they can order a dress one day and wear it the next – or send it back for free. KPMG's *Retail Survey 2017* found that some 35% of all women's fashion online purchases are now made with the intention of returning them, allowing the customer to try out different sizes, colours or styles.

A perfect cocktail, then, of post-referendum challenges for a sector already hit by squeezed margins – and something of a dearth of fresh ideas. All Brexit is doing is amplifying structural challenges long in need of a remedy.

The last thing retailers should do, however, is lie low and lick their wounds. Success in the current climate demands the exact opposite and one of those remedies is a determination to maximise openings in international markets.



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Why set up shop overseas?

No one yet knows how the UK-EU trade relationship will look in 2019. Yet markets further afield offer exciting growth potential. The IMF expects emerging markets and developing economies to grow more than twice as fast this year as advanced economies did last. Countries such as Indonesia, China, India, Columbia and South Korea, and several fast-growing markets in Africa, represent large, mostly untapped, opportunities for retailers.

The post-referendum performance of a good chunk of the FTSE 100 offers a clear rationale for international expansion. While the weakening pound has ramped up import prices for UK-focused businesses, the FTSE 100 – with its high exposure to dollar earnings from foreign markets – has positively boomed.

In short, setting up overseas offers:

- Exposure to higher-growth markets.
- The chance to hedge against a strong dollar, in which most imports are priced.
- Protection against a potentially weakening UK economy.
- A shield against hostile take-over bids through acquisition-led growth.

Where to land?

Going international is hardly a new idea for UK retailers. But all too often, many have taken a scattergun, hands-off approach which inevitably fails to deliver results. I can think of a number of retailers that operate in dozens of markets, yet most are deriving almost all of their revenues from just a limited number of markets and make a loss in a handful more.

In today's business arena, that will no longer wash. It's all about quality rather than quantity: fewer dots on the map, smarter operations where it matters. Far better to choose three to five carefully targeted locations to maximise returns, rather than spreading yourself too thinly.

What's the right business & operating model?

Online commerce has proved a total game changer. Firms looking to expand internationally therefore ideally need a mix of physical and online presence. That online operation could either be a company-operated website or a digital marketplace, which displays product on their digital shelves, in return for a fee.

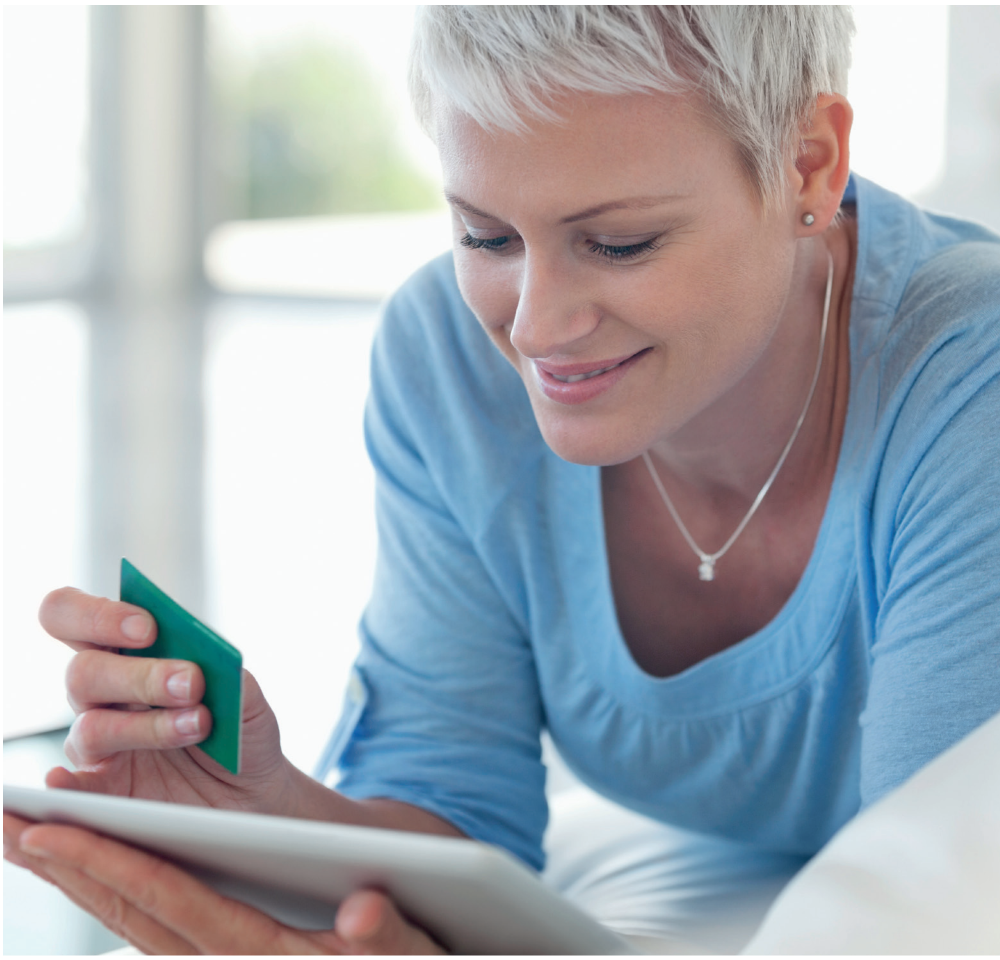
For the physical footprint, there are a range of models available, including:

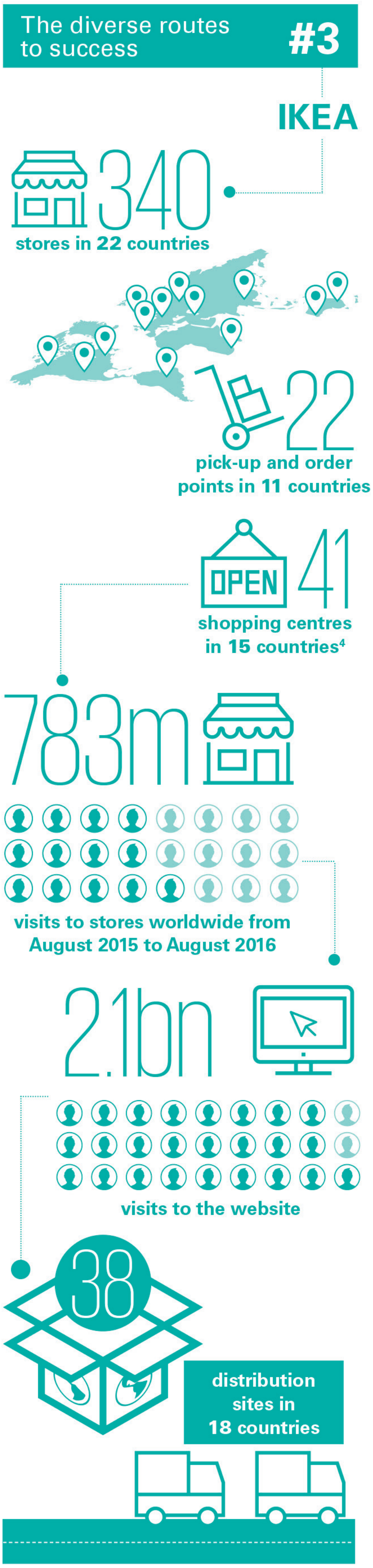
- A wholly-owned operation.
- Some form of franchise operation, working with locally-based partners.
- Joint-venture, working with local partners.

For most UK firms setting up overseas, a local franchise organisational structure has historically been the most practical option. The financing here is often set up on a 'cost-plus' basis, in which the UK partner sells the merchandise and takes an agreed percentage of the cost-price on-top. The UK retailer controls the back end of the process; the franchisees are responsible for the front end, drawing on their local market insight and experience. Many UK retailers have run their overseas activities on this model for many years.

Choosing the right partner is the top priority, likewise ensuring that the necessary support is available at every stage of the process. Differentiation and delivering a quality customer experience matter far more than the number of properties in the portfolio. The supply chain also needs to be fit for purpose, using the latest fulfilment technology to ensure that the products reach their destination as fast and efficiently as possible. In some cases, that might initially mean direct fulfilment out of UK, before local hubs take over, once overseas markets start reaching a level of maturity.

Whatever the model, retailers need a clear, coherent, end-to-end strategy, ensuring the various streams of the business work seamlessly in boosting the brand and the bottom line. The international flagship store remains a very important part of the ecosystem: a shop window that can also drive traffic to the website – and vice versa.





Who's doing what?

Brexit is accelerating a process of internationalisation that we were already seeing start to happen. Most UK retailers currently fall into one of three categories, where they:

- Don't yet have an international model and are looking to ENTER new markets.
- Already have an overseas presence, but need to OPTIMISE their business and operating model.
- Have an established model, but need to EXIT from those franchises or markets that are underperforming.

Attack is the best form of defence

If ever there was a time to focus on an international presence – or to add an online platform to the mix – it is now.

Rising import costs and weakening consumer demand in the UK are likely to be with us for some time to come. Those retailers who have the appetite and imagination to explore new and fast-expanding markets will be the winners.

The benefits won't, of course, be apparent overnight. Those companies which already have an overseas presence but need to redefine their operations, for example, are likely to experience a dip in profits before their business starts to grow. For many, there'll be a pain barrier to cross. But the alternative – to sit tight and do nothing – is risking losing out on significant growth opportunities. ✦

The questions you need to ask

- How do we remain customer-focused, while operating in multiple countries?
- What's the right balance between centralised decision-making and local autonomy?
- Which partnership option is right for us to succeed internationally?
- How do we make an omni-channel approach work in new markets?
- How can we shift from a UK-centric culture into a truly global mindset?

1 The Office for National Statistics, February 2017

2 hm.com

3 asosplc.com

4 ikea.com

kpmg.com/uk

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