# Stores in their eyes



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For more than a century, department stores stood like imposing matriarchs over the cities that expanded around them. Constant, reliable, if sometimes a little dust-prone, they often became a synonym for their neighbourhood; the street and the store were almost interchangeable. Where would Harvey Nichols be without Knightsbridge, Barneys without New York or Saks without its landmark Fifth Avenue?

Well, Shanghai and Istanbul, to name just two places. In the past few years, multibrand fashion retailers have begun to play emerging market catch-up to the designer boutiques that went global decades ago, cloning and reinventing their flagships in an unprecedented push overseas. The reason is simple: moving traditional bricks and mortar to the other side of the world can be just as lucrative for the old guard as it is for Dior, Gucci or Prada. After all, there is a limit to how much you can grow in your home market before reaching saturation point.

Groupe Galeries Lafayette, French owner of the up-market namesake chain, is opening a branch of Galeries Lafayette in Dubai later this year, the company's second overseas unit after it opened a store in Berlin in 1996. Meanwhile, together with licensee Gard Investment and affiliate ADMIC in Beirut, the group has already opened two of its mid-market BHV stores in Lebanon. The group is looking to Shanghai and Macao for its next international phase. "Domestic growth is still healthy," says Paul Delaoutre, chief executive. "However, France is a small part of the global fashion business and the Galeries Lafayette brand has global potential."

Joseph Wan, managing director of Harvey Nichols, is more candid about how market capacity at home creates pressure to grow internationally. "In 1996, Harvey Nichols stated that our strategy was to operate four full-size stores in the UK and a maximum of 10 small format boutique stores," he says. "We remain of the view that this is the maximum number of stores that our brand can have in the UK and Ireland without diluting the brand value." As a result, seven years ago Harvey Nichols Riyadh opened its doors to a wealthy Saudi clientele and, in the past two years, Dubai, Hong Kong and Istanbul have seen the opening of franchises.

Such fast action was possible because of partnerships with groups such as Unitim, a Turkish company that also operates stores for Bally, Tommy Hilfiger and Thomas Pink, and whose affiliates in blossoming markets such as Ukraine, Kazakhstan and Azerbaijan provide easy entry points for the UK-based retail brand. Little wonder that Harvey Nichols has already embarked on another such partnership with the Dubai-based Al Tayer Group, which also works with Gucci, Coach, Yves Saint Laurent, Armani and Bottega Veneta, and has a high profile in the United Arab Emirates and the other Gulf states.

Close on the UK retailer's heels is Saks Fifth Avenue, which first opened outside the US through a licence in Riyadh in 2001. Overtures from Prince al-Waleed bin Talal's Kingdom Holding Company prompted the company to further "scope out territories that are underserved by luxury fashion or luxury retail", explains David Pilnick, Saks's senior vice-president of international operations.

There are now plans for Kingdom Holding Company to open a second Saudi Saks unit in Jeddah. Style Avenue Middle East, a UAE retail and property consortium, launched Saks Dubai three years ago and will open a unit in Bahrain this year. Style Avenue Middle East is also thought to be on the hunt to sub-license the store in Indian hotspots Delhi and Mumbai. In 2009, Saks will use Shanghai as a launch pad into China through the Roosevelt China Investments Corp.

Even smaller specialty fashion boutiques in the west have caught the international bug. Maria Luisa, just off the chic Parisian shopping thoroughfare of Rue Faubourg Saint-Honoré, opened a Hong Kong shop three years ago through Fenix Group Holdings. The store recently signed a deal with Prime, a subsidiary of Nasser bin Khaled al-Thani & Sons Holding, to launch later this year in Doha, Qatar. And Carla Sozzani, owner of the legendary Corso Como 10 boutique, took her Italian concept to Tokyo in 2002 in an alliance with the Japanese brand Comme des Garçons and has announced a similar joint-venture with Samsung Cheil Industries to create a space in Seoul, South Korea next spring.

"We are in a phase where there is renewed attention on internationalisation," says Maarten de Groot, director of the Paris-based International Association of Department Stores. "Department stores have always been interested in what was happening in other countries, but their history is littered with failed attempts to expand. One of the reasons is the concept itself, which is extremely complex."

Yet according to De Groot, that concept is no longer an obstacle to growth. Increasingly, upmarket department stores are narrowing their assortment of merchandise, thus diminishing their complexity. And the success of designer imports has stimulated general interest in the luxury retail sector, paving the way for multi-brand formats to follow their mono-brand peers into booming emerging markets. Furthermore, many of the recent expansion deals have been relatively low risk and required little expenditure for department stores themselves. Local companies eager to become a franchise of a famous retail name often come complete with operational, distribution and real estate experience and assets. "The local partners deal with front-end operations, the local laws, regulations and authorities, while the retailers take care of the back-end operations," says Lawrence Pinto, editor for Retail ME magazine.

It is not quite that simple. Stores have to get hold of designer brands that do not already have exclusive distribution with competing retailers in each region. They also have to consider cultural and climate factors that affect buying and marketing patterns, and choose suitable formats and sizes of stores.

Then there is the fierce indigenous competition from local department stores such as Japan's Isetan Mitsukoshi and Takashimaya; Hong Kong's Lane Crawford; Turkey's Beymen, which is also pushing into Moscow and Cairo; and Sheikh Majed al-Sabah's Villa Moda in the Middle East. Isetan has five branches in China and will open 10 more in second-tier Chinese cities in the next few years. Lane Crawford opened its first store in mainland China, in Beijing, last October and plans to open more outlets across the country.

On a broader level, the entire multi-brand retail sector is being shaken up with international mergers and acquisitions.

Speaking at the 2007 World Retail Conference, Terry Lundgren, chairman of Federated Department Stores, the company created by the merger of Macy's and Bloomingdales, announced a global expansion that would include either or both of the US stores. Meanwhile, since Italy's Gruppo Borletti bought French department store Printemps for about €1bn from the French conglomerate PPR, both Printemps and La Rinascente have been brought under one umbrella. Now there is speculation about whether Borletti might expand into eastern Europe.

Germany's KarstadtQuelle chain recently declared its intention to create a Europe-wide premium department store alliance through its holding company Arcandor by acquiring a stake in both Printemps and La Rinascente. El Corte Ingles, Spain's largest department store, has also announced plans to open its first branches outside the Iberian peninsula in Milan and Rome later this year.

Since the bidding war over Barneys concluded last August with a $942m cash sale by Jones Apparel Group to Istithmar, an investment arm of the UAE government, Barneys is poised to have its pick of the real estate in Dubai and Abu Dhabi when it expands beyond the US and its branch in Tokyo. What is more, Isetan and Mitsukoshi announced in August that they were merging to create Isetan Mitsukoshi Holdings, Japan's biggest department store group, and one with increased global power and flexibility.

Which raises a question: it seems to make sense for successful western department store brands to go east, how much are these deals actually worth?

"Some may garner a significant seven-figure initial licence fee but the commercial focal point is more commonly on the agreed levels of capital invested, the number of stores to be developed in the territory, as well as revenue performance guarantees," says Robert Shaw, managing director of Edwards Global Services, an international management consulting firm in the US specialising in franchising and licensing.

"This will likely include an agreement on minimum purchase levels of products from approved suppliers and/or the licensor itself. Ongoing license fees based on retail revenues, also known as royalties, are another part of the formula. In conclusion, the tens of millions or perhaps even hundreds of millions of dollars of retail revenues and product purchases result in a handsome seven-figure income to the licensor on an annual basis."That is the theory, anyway. It is about to be put to the reality test.