Coming to America

H&M is just one of an influx of fast fashion retailers

More and more international retailers are moving into the US, prompted by strong economic recovery and a growing acceptance of foreign brands. But America isn't for the fainthearted, warns Ben Cooper — the world's largest retail market is also its most competitive

WHEN the senior vice-president for global real estate at Gap says this is one of the "most exciting times to be in retail in the US", it's worth taking note.

But the world's largest shopping market is also one of the toughest markets to enter. So Gap's David Zoba also has a warning: "If you don't give the customer what they want, you're on the way out."

It's a lesson many have learnt, some the hard way. While businesses such as Swedish fashion giant H&M and Spanish retail group Inditex have successfully made the step into the US, there are others that haven't been able to make enough of an impact to become established.

So what do retailers need to know before they take on the US? What are the big breaks in this land of opportunity? And why have many failed to make it work?

Irish retailer Primark is preparing to open its first store in the US this autumn. John Bason, finance director of Primark's owner Associated British Foods (ABF), admits his company is likely to make some mistakes: "There is wide availability in the US. We recognise that. We're competing in a different marketplace. These first couple of years we'll be learning what it is the American consumer wants."

Retailers know well that expansion in one's domestic market is unwise without proper preparation, clearly defined objectives and a cautious if optimistic approach. Moving into a whole new market requires another level of thought and preparation.

Mark Burlton, global head of cross-border retail at international real estate agency Cushman & Wakefield, says that, before a retailer even considers branching out, they must be sure that their roots are solid. "There are a number of lessons that retailers need to learn when they going to the US," he adds. "If you've got any issues with your domestic business, then expansion into the US is probably not a good idea. Those retailers with a solid domestic portfolio with a healthy balance sheet are more likely to succeed than those that are still rationalising their existing store estates."

But with US GDP growth in the second quarter of 2015 up 2.3% on the first quarter, driven largely by increased consumer spend and wage growth, the draw factor is undeniably great. So how do you crack this market, and where do you even begin planning a real estate portfolio?

For overseas retailers, the natural assumption is to head for New York. It's the most iconic city with arguably the most similarities with home. With three of Europe's biggest fashion groups — H&M, Arcadia and Inditex — all choosing Manhattan for their first stores in the US, it would seem an obvious choice.

But Burlton says it does not have to be the only choice: "Manhattan is the best opportunity in many ways, but it doesn't have to be your first store — it is phenomenally expensive. If you pick a high street in another top city, that could be just as good for you. In the first wave, I would advise people to look in and around the north-east corridor of the US, particularly for European retailers. It gives you a good mix of malls and high streets, so that you can build a cluster of stores that will be easier to manage. They are also much more used to brands that are coming in from abroad."

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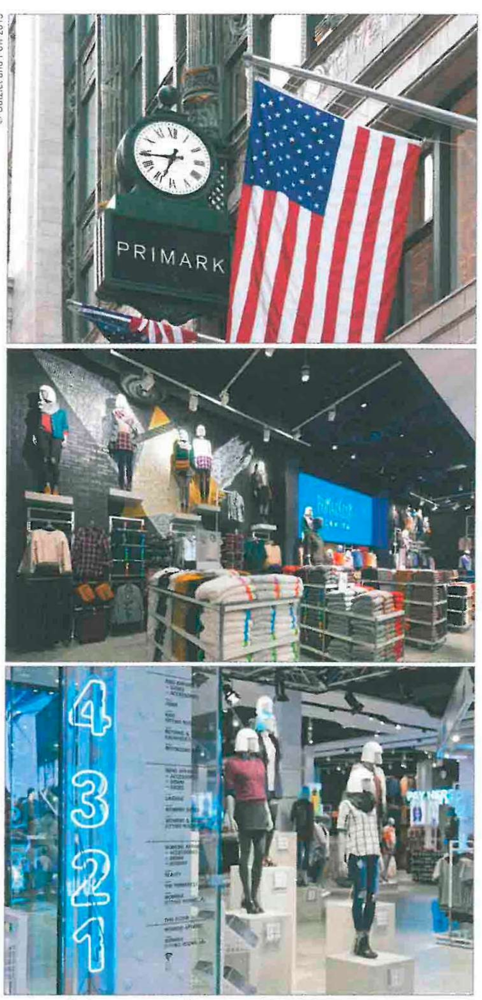
>
> David Zoba

This is clearly the approach that Primark has taken — the retailer's first store is in Boston. But then Primark is something of a phenomenon. Its stores have become fashion statements in themselves, with teenagers proud to be seen chilling out outside them. Indeed, the stores' big brown bag has become a must-have souvenir from a trip to Europe.

When a retailer with that much kudos opens up in a new market, its name precedes it. For others, it tends to be much harder. In 2013, for example, UK grocery giant Tesco had to pull out of the US after its value chain, Fresh & Easy, failed to catch on.

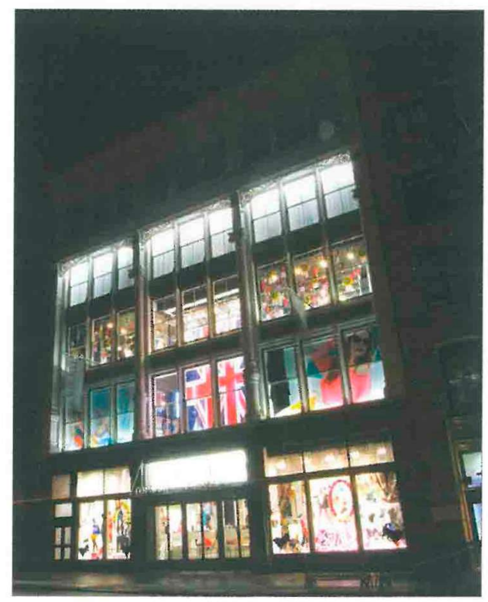
When it first announced its plans for the US, Tesco had very high hopes. At the time, the then chief executive Terry Leahy said: "The United States is the largest economy in the world with strong forecast growth and a sophisticated retail market." In the wake of the retailer's departure seven years later, there were many theories as to why it had failed to make it in the US. One of them was that it had taken on too much — and had been too ambitious. Which raises another important lesson: appearances can be deceiving.

Burlton says that, while the sheer scale of the US can be both daunting and enticing, it should really be taken on in small doses. "There's a tendency to be too ambitious and think about 500 stores," he says. "But initially you should think more like 12 to 20 and build it from there." ■



Primark has gone big and bold in Boston

Arcadia's Topshop made Fifth Avenue its starting point



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