

ANALYSIS

Born in the USA, failed in the UK

American Eagle has taken flight from the UK and with other brands struggling to take off this side of the Atlantic, Luke Tugby asks: is an exodus of US retailers on the cards?

American Eagle has decided to abandon its UK nest less than three years after it landed.

Having touched down in London in November 2014 armed with bold plans to open up to 30 UK stores, the preppy US fashion retailer failed to replicate its Stateside success and shuttered its three British shops earlier this month.

Yet its British problems tell a far from unique tale as far as US retailers are concerned.

Last October, Gap-owned Banana Republic announced it was pulling the plug on its UK operations. Fellow US exports such as Abercrombie & Fitch, Hollister, Forever 21, J Crew, Urban Outfitters and Victoria's Secret are finding the going increasingly tough amid fierce competition from retailers such as Zara, H&M and Primark and a turbulent macroeconomic landscape.

So where are they all going wrong? "By coming here in the first place," Richard Talks Retail founder Richard Hyman rather bluntly puts it.

"The reality is that most international retailing fails – and that has been the reality for the past 25, 30, 40 years.

"This international elephant in the room is something that everyone is in denial about."

The UK, in particular, which many analysts believe is the toughest retail market in the world, presents a huge challenge.

"Being 'good' here is no longer good enough," Hyman asserts.

"Anyone coming from the outside has to come with something that is really distinctive, have a cast-iron view of who their customer is and how they are going to persuade them to migrate their spending to you.

"But 99 times out of 100, that is not the case. People come here with a very arrogant view."

Underrating the competition

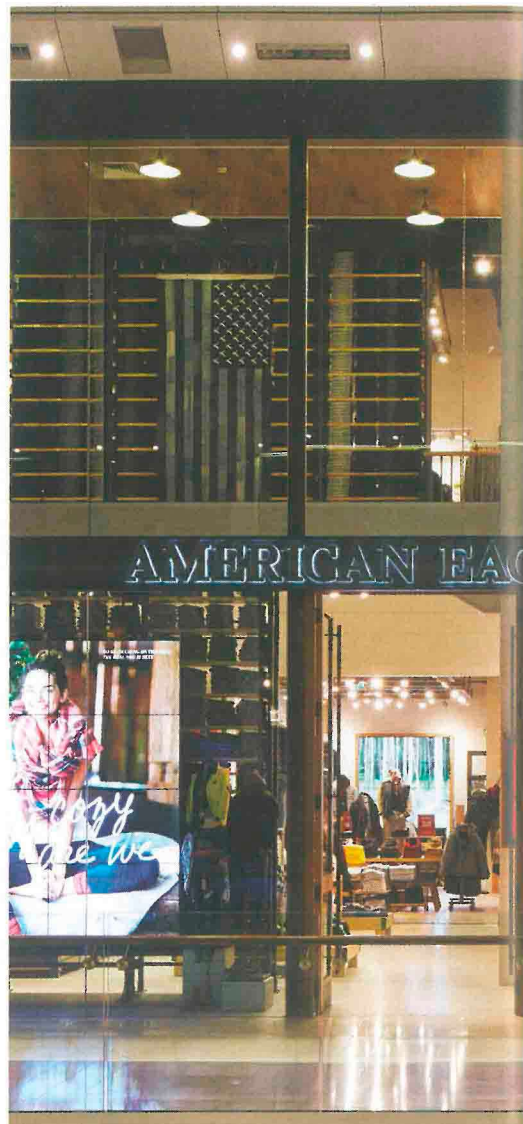
GlobalData Retail managing director Neil Saunders agrees that some US retailers underrate the UK market.

"It's a very competitive market, where a lot of very successful retailers already supply into it and understand what consumers want," he tells Retail Week.

"American retailers sometimes underestimate the strength of local retailers and tend to see their propositions as being distinct and unique, when they are not necessarily.

"The other thing that often happens is that they underestimate the costs. The costs of property in the UK are far higher than they are in the US.

"When they get in and start to see the real economics behind doing business in the UK, they start to question can they expand as much as planned. Often the answer is no.



"When they don't get the sales volumes coming through, suddenly the business model starts to unravel."

Retail Week Prospect senior analyst Wendy Massey highlights a third core reason why US retailers are struggling to crack the UK – irrelevant product.

"These kinds of retailers can establish a niche in the UK, but they need to approach this market totally differently.



Taxi for J Crew in the UK?

Read more news and analysis
about the turbulent fashion sector
Retail-Week.com/Fashion



There's a case for pulling out of the UK, taking stock and coming back with a brand new image

Wendy Massey

They need to be really switched on to trends," Massey says. "Young shoppers are now looking to 'buy now, wear now'."

"They might buy one or two investment pieces, but they want them to be really different. That's where Urban Outfitters and Anthropologie do better than the likes of Abercrombie, Hollister and Gap, where products are like a uniform almost. You can tell instantly where it is from."

Yet Saunders believes such pitfalls could be easily avoided, suggesting that some US retailers failed to "do their homework" on the UK before leaping across the Atlantic.

He draws on the example of Forever 21, explaining: "It really did not do proper due diligence on things like the store sizes needed.

"It just marched in and took very large spaces similar to its stores in the US. It has now shuttered most of those because it just didn't work."

And much more research is also required on price, Saunders says.

"The pricing of J Crew in the UK is ridiculously high. It assumed people would see it as a very premium brand in the UK and, of course, they don't really. A bit of research beforehand would have sorted that out."

Common culture assumptions

Saunders believes US retailers historically have assumed a "commonality of culture" between consumers in their homeland and the UK, which would allow for simple replication.

But, he says, retailers should do more testing, with pop-up shops or concessions and tracking online sales, before beginning a potentially "expensive misadventure".

Is it too late, then, for retailers such as Gap, Forever 21 and J Crew to right the wrongs, or is the writing on the wall for their UK divisions?

"Gap is trying to speed up its supply chain and improve responsiveness to trends, but its image is just so tired that it all seems a bit late in the day," Massey says.

"There's a case for pulling out of the UK, taking stock and coming back with a brand new image, a bit like Uniqlo did many years ago.

"It came in with a complete Japanese offer, it had sites in the wrong places, but now it has rebranded and is going places in the UK."

Will more follow the lead of Banana Republic and American Eagle and retrench from the UK completely?

"It's certain," Hyman insists. "The UK clothing market is the most over-supplied sector of an oversupplied industry.

"In the next few years we're going to have a shake-out and the weakest brands are going to go. Having a strong brand equity in your home market doesn't mean anything here.

"You might sell to a few people who have been in your shops on holiday, but you need rather more than that."

If US retailers fail to discover that winning formula, American Eagle may not be the last to take flight from the UK. **RW**