

9. Retail

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INTRODUCTION

Retailers are late arrivals on the global business scene (Alexander, 1997; Alexander and Myers, 2000; Vida, 2000). Although Godley and Fletcher (2001) have recorded a raft of typically small foreign firms entering Britain over the period 1850 to 1964, most of the large-scale internationalisation in the developed world has occurred in the last three decades of the twentieth century. As Dawson (2003: 190) asserts:

With a few notable exceptions, the operation of shops internationally by large firms, other than as a token presence, in another country, is a relatively new phenomenon associated with the globalisation trends in economies.

The relevance to Australia is twofold. Firstly, local retailers have been little affected by competition from overseas firms. A very geographically dispersed and isolated retail environment, which modernised concurrently with the most likely sources of FDI, has not proven attractive to international retailers. Of the world's 250 largest retailers, only 16 operate in Australia, of which 13 are foreign-owned firms (Table 9.1). Of these, several operate on a very small scale and all but two have arrived since the late 1980s. Secondly, this isolation and lack of competitors has allowed various retail sectors to consolidate into tight oligopolies and often duopolies. These retailing behemoths have proven ill-suited and reluctant to seek out expansion through FDI, instead preferring further consolidation and domestic diversification. Two Australian retailers, Coles Myer and Woolworths, now rank among the 30 largest retailers in the world (Deloitte, 2006), yet their businesses extend no further than New Zealand.¹

Table 9.1: Retail firms in Global Top 250 operating in Australia (2006)

Firm (and Australian brand name(s) if different)	Global ranking	No. of Countries	Country of Origin	Format^a	Number of Australian stores	Date of entry^b
Aldi	10	12	Germany	F	100+	2001
Ito-Yokado (7-Eleven) ^c	23	16	Japan	F	359	1991
Woolworths (Woolworths, Safeway, Big W, Tandy, Dick Smith Electronics, Dan Murphy)	29	2	Australia	F, G, S	1700+	1924
Coles Myer (Coles New World/Bi-Lo, Myer, Target, Kmart, Officeworks, Harris Technology)	30	2	Australia	F, G, S	1900+	1900
Ikea	44	33	Sweden	S (Homewares)	6	1975
Toys'R'Us	58	32	US	S (Toys)	32	1993
Gus (Burberry)	60	22	UK	S (Luxury)	5	2002
Metcash (IGA, Jewel, Campbells Cash & Carry)	81	11	South Africa	F	n/a	1988
Blockbuster	110	26	US	S (Video)	404	1991
Footlocker	118	19	US	S (Sporting)	82	1989
Pick'n Pay (Franklins (NSW))	123	6	South Africa	F	78	1974

Firm (and Australian brand name(s) if different)	Global ranking	No. of Countries	Country of Origin	Format^a	Number of Australian stores	Date of entry^b
Foodland (Action) ^d	148	2	Australia	F	80	1926
LVMH (DFS Galleria)	150	22	France	S (Luxury)	3	2000
Borders	159	6	US	S (Books)	14	1998
HMV ^e	173	7	UK	S (Music)	31	1989
Hachette (Newslink, Virgin, Relay, Bijoux Terner, Hub)	197	17	France	S (Airport)	53	2004
Bunnings	200	2	Australia	S (Hardware)	194	1952
Luxottica (OPSM, Sunglass Hut, Laubman & Pank, Budget Eyewear, Watch Station)	208	17	Italy	S (Eyewear)	300+	2003

Notes:

a. F=grocery, G=generalist, S=specialist

b. Into retailing in Australia

c. Initial 7-Eleven entry was by US firm Southland in 1977

d. Foodland was acquired by Metcash in Dec 2005 (its NZ assets were on sold to Woolworths)

e. HMV Australia was sold to Australian retailer Brazin in Sept 2005

Sources: Deloitte (2006), company websites and annual reports

Despite the recent incursions into the Asian region by the world's largest retailers such as Wal-Mart, Carrefour, Metro AG and Tesco, the trans-Tasman option has been the extent of the overseas adventures of Australia's largest retailers.

Nevertheless, Australia is not a retail backwater. On the one hand, the leading domestic retailers have copied and sometimes led international best practice. On the other hand, several smaller-scale specialists, such as Barbeques Galore, Flight Centre, Cash Converters, Cartridge World and OPSM have identified gaps in the market to prosper domestically while, often simultaneously, expanding offshore. Although the literature has tended to focus on the global majors, these cases demonstrate the scope for niche players from small, but modern retail environments to build significant international operations. They also serve as valuable lessons for other Australian retailers concerned with diminishing returns from domestic expansion or reluctant to sit and watch while foreign firms spread their business networks.

This chapter opens with a discussion of the nature of competitive advantage in the retailing sector. The following section gives an overview of the internationalisation of generalist and grocery retailers. It is argued that Australia has been relatively untouched in these areas, and that two giants have emerged locally, but ventured little from their home. The final section explores the experience in the specialist sector and argues that this has been the most fruitful area for Australian retailers in the international domain.

RETAILING AND COMPETITIVE ADVANTAGE

At a functional level, retailing is merely one mode of product distribution, a mode that sees the firm distributing their own or, more typically, other firms' products, through some consolidated means to individual non-business consumers (Betancourt, 2004). The distinction is often made between those firms that focus solely on this business-to-consumer distribution task and retail mode, and others that also engage in activities further back along the value chain. Firms in this study are chosen so that the majority of their value-added occurs in the retail function, either through direct sales or through income received for a franchise. Fast food and restaurant chains are not considered.

Competitive advantage in retailing develops on multiple fronts. Successful firms may achieve micro-level location advantages by securing prime geographic sites with high volumes of customer traffic. Such locations are clearly finite in number. There are obvious rewards for first-movers and from access to ready capital to fund leases/purchases of such premises. These firms may build valuable, rare, inimitable and non-substitutable assets

– that is, hold resource advantages or firm-specific advantages (FSAs) – in terms of significant and unique networks of stores and locations (Rugman and Verbeke, 1992; Barney, 1995). Firms that develop larger networks of stores may secure FSAs from economies of scale in purchasing, logistics and distribution, and marketing. Buying economies, in terms of lower costs, may derive from the simple preferences of suppliers to sell in bulk. More significantly, the large retailer's capacity to offer considerable market reach or share will play out as enhanced bargaining power over suppliers. This same logic flows through to advantages in dealing with providers of logistics and distribution services. However, these are not *ex ante* sources of firm-specific advantage, but *ex post* and path-dependent outcomes of early market entry and success. The more fundamental FSA is some unique product mix or distribution process – what Godley and Fletcher (2000: 396) identify as '...advantages in supply-chain activities (such as superior products or logistics) or...novel merchandising techniques or formats, or...both'.²

Over time the key shift in retailing has been toward greater returns to scale. The early part of the twentieth century saw the emergence of department and then chain stores, with their respective capacities to attract large volumes of customers and achieve economies in buying, logistics and marketing (Chandler, 1977). The self-service supermarket emerged first in the US in the 1920s, later in the United Kingdom, Europe, Australia and beyond (Zimmerman, 1955; Chandler, 1977; Godley and Fletcher, 2001; Shaw et al., 2004). The post-World War II shift to suburban living and the general adoption of the automobile increased the advantages of scale in the grocery sector. Tjordman (1995: 18-19) argues that as retailing has evolved, each new major retail format has had a shorter period before maturity. Department stores took 100 years (1860-1960), variety stores 40 years (1930-1970), supermarkets 25 years (1965-1985) and large specialist stores perhaps 15 years (1980-1995).

Internationalisation as discussed in this chapter is, in the parlance of Dunning (1993b: 58), 'market-seeking'. The extant literature can be summarised by the claim that retailers are '...pulled into other markets through the international relevance of the product and service which they offer' (Alexander, 1997: 4) and pushed by factors such as '...high levels of competition, format maturation and heavy regulation' (Alexander and Myers, 2000: 336). Significant differences often exist in regional and national buying preferences, which may derive from cultural peculiarities and/or path dependent historical idiosyncrasies. These factors of micro-level location advantages and macro-level national differences play into the hands of domestic incumbents, being those that were early movers in introducing more effective retailing processes. As such, it is not clear how country-specific advantages (CSAs) come into play. Firms will be attracted to larger

markets, if they see untapped potential. Firms will be drawn to countries that share some similarities in buying behaviour, and/or that are geographically convenient. Retailers from modern, high-income, and less idiosyncratic home markets may find it easier to transplant their home FSAs into new environments.

Data sources

Throughout this chapter the size of firms is calculated according to their ranking by sales on Deloitte's *Top 250 Global Retailers* (2006). This list demonstrates how much national boundaries still matter in the world of retailing. Of the 250 firms listed, 104 had no operations outside their domestic market, and a further 39 only operated in two countries. Over half of the 90 US firms, and 60 per cent of the 40 Japanese firms, had no overseas outlets. Rugman and Girod (2003) arrived at a similar result when looking at the 49 retailers in *Fortune* magazine's 'Global-500'. They found 18 of the 49 firms were solely domestic. Distinguishing between Europe, North America and Asia-Pacific, they identify only five firms that earned more than 20 per cent of their sales outside their home region.

GENERALIST AND GROCERY RETAILERS

The first large retailers – generalist department stores and variety and discount chain stores – achieved economies of scale advantages by different strategies. Department stores offered a 'complete' shopping experience and an unprecedented range of items, thus acting as a magnet to consumers across a wide geographical area. Chain retailers shifted the products to the consumers, building a network of stores and increasing the incidence and convenience of shopping (Hayward and White, 1928). In both instances, first and/or rapid movers built advantage due to the scarcity of available properties. Incumbency and access to capital to fund further expansion became key determinants of success. Late arrivals, at least those with second-rate or bypassed locations, with poor product offerings or with insufficient volume to secure and maintain advantageous supply relationships, either faded away or became the targets for consolidation.

Shifting demographics, especially the flight from inner urban areas to the suburbs and the development of new residential areas, played into the hands of the variety chains. Department stores began to decline, particularly from the 1960s on. A new format emerged in the postwar period – the supermarket. Like the chain store, success with this format relied on building a sufficient network of locations and on mastering what has become known as supply-chain logistics. These logistics were more specialised due to the

perishable nature of goods. Again a race was on to build sufficient economies of scale.

Internationalisation

In terms of internationalisation, department and chain stores displayed little initiative. Among the US pioneers, the more ambitious ventured across the northern and southern borders. Large-scale variety chain Kmart (#33 on Deloitte's list) ventured into Canada in 1929, department store Sears Roebuck (#20) entered Cuba in 1942, Mexico in 1947 and Canada in 1952 (Brown, 1948). And there expansion typically stalled. Protectionism in most domestic markets made it difficult to leverage FSAs arising from logistics and supply relationships in geographically distant and disconnected markets. Leading firms saw greater promise in domestic consolidation or diversification. Europe produced very few international department store or pure variety store chains because firms chose to modify their format to meet competition from supermarkets, or developed their own domestic supermarket brand. Whether in the US or Europe, department stores have remained country-bound: only four firms on the Deloitte list operate department stores in more than two countries.³

The supermarket story is one of geographic bifurcation. The immense size of the United States precluded the quick emergence of large national players. Instead, the format was developed and adopted almost simultaneously in various states across the country by a large number of firms of varying sizes and strengths. Subsequent growth outside home states/regions was severely hampered by two major legislative restrictions, which inhibited price discrimination and cross-border mergers (Seth and Randall, 2001).⁴ It took until the 1990s before the long-expected consolidations started to occur, with big players such as Kroger (#6) Albertsons (#14) and Safeway (#19) and the Great Atlantic & Pacific Tea Company (now part of German conglomerate, Tengelmann, #25) picking off smaller players, while under pressure from emerging phenomenon Wal-Mart (#1). In the interim, few stepped offshore.⁵

The European supermarket experience was considerably different. The format was not adopted until the late 1950s but then evolved quickly. Within a decade, national players had emerged in several countries. More densely settled and stable urban environments along with a range of institutional constraints allowed the development of several innovative business models, such as the deep discounting (Germany's Aldi, #10 and Lidl, #11), and hypermarket (France's Carrefour, #2) formats. Successful domestic players in Europe actually faced considerably lower barriers to expansion than firms in North America. As the European Community steadily reduced barriers to

trade, goods flowed more easily across national borders and the shorter distances restrained logistics costs. The potential saturation of domestic markets pushed retailers to expand into geographically contiguous markets despite linguistic, cultural and institutional differences. Carrefour ventured into neighbouring Belgium (1969) and Spain (1973). Germany's Metro AG (#4) expanded into the Netherlands in 1964, while Aldi headed into Austria in 1968. Expansion continued into less sophisticated Mediterranean markets, and later, transitional Eastern Europe markets. Both Royal Ahold (The Netherlands, #9) and the Delhaize Group (Belgium, #32) entered Czechoslovakia in 1991 (Drtina, 1995). Carrefour entered Poland in 1997 and the Czech Republic in 1998, and subsequently moved into Slovakia and Romania (Seth and Randall, 2005). Britain's Tesco (#5) entered Hungary in 1995, and Poland, the Czech Republic and Slovakia in 1996. These firms have clearly developed and leveraged non-location-bound FSAs by seeking out environments where no substantial incumbents held sway.

Two European firms – Royal Ahold and the Delhaize Group – took the more atypical step of entering the US in the mid-1970s. Several others followed such as Britain's Sainsbury's (#27), who entered in 1983, but withdrew in 2004 via a sale to Albertson's (#14). Royal Ahold and Delhaize are now two of Rugman and Girod's bi-regional firms, with both earning more than fifty per cent of their global sales in North America.

European grocery retailers have, via an environment of considerable competition, and the repeated experience of expansion, built considerable capabilities in internationalisation. They have ventured into new, underdeveloped markets such as South America (France's Groupe Casino, #26 and Carrefour) and the Middle East (Carrefour, Marks & Spencer, UK, #46). Carrefour opened its first Asian store in Taiwan in 1989, and soon ventured into Malaysia (1994), China (1995), Thailand, South Korea (all 1996), Singapore (1997) and Indonesia (1998). Tesco entered Thailand and Taiwan in 1998, South Korea (1999), Malaysia (2001), Japan (2003) and China in 2004.⁶

The Australian experience

Large retailers emerged quite early in the Australian economy, within the more densely populated states and main cities. As noted by Fleming et al. (2004, Appendix C), department stores such as David Jones, Farmers', Myer and Mark Foy's were the early forces on the retail scene. The middle half of the twentieth century was a period of both growth and consolidation. By 1952, two variety chains – G.J. Coles and Woolworths – had emerged which would soon move into the supermarket industry with stunning success. The period from the mid-1950s was one of consolidation. The newly emerging

suburbs fuelled growth in supermarkets, and in the capital cities single firms had increasing opportunities to open multiple department and variety stores in new stand-alone shopping centre complexes. The traditional single-state generalist retailers either collapsed or were consumed into the larger Myer empire (Kingston, 1994). Eventually the supermarket and department/variety giants converged into one highly concentrated sector. Coles Myer was the result of a merger between G.J. Coles and Myer in 1985.⁷

As Fleming et al. (2004: 61) calculate, by 1998 the grocery component of the retail sector could be technically classified as a duopoly with Woolworths (36 per cent) and Coles Myer (30 per cent) holding over two-thirds of market share.⁸ The major source of growth for both was domestic diversification within the broader retail/service sector. Over time they developed (and at times, divested) extensive holdings across multiple retail lines including electronics, fashion clothing, fast food, travel, removals, autocare, office supplies, liquor and petrol. They have often adopted and adapted innovative ideas from overseas for the Australian market, or had the capital to acquire those firms that have.⁹ As noted by Schmidt and Lloyd (2003), they appear to have pursued the breadth of activities undertaken within the US by Wal-Mart. Such expansion is viable as the firms leverage their significant economies of scope into new consumer segments. The prospect of testing the location-boundedness of any FSAs has not proven attractive.

Inward FDI

For most of the twentieth century, there was little significant inward FDI into generalist retailing in Australia. As noted, potential entrants from the regions with the most comparable level of retail development (the US, UK or Western Europe) were preoccupied with their own industry consolidation. No international entrant could utilise advantages in purchasing from existing networks of suppliers to outmanoeuvre incumbents because many products were purchased from protected domestic producers.

US department store Sears Roebuck did enter in 1954 via a joint venture with local firm Waltons but soon exited. Kmart is credited with introducing the large-scale discount store into Australia through a 1968 joint venture with G.J. Coles (Wolf, 1997). The joint venture was bought out by Coles a decade later (McLaughlin, 1991). Japanese department store Daimaru (#105) opened a store in downtown Melbourne in 1991 and on the Gold Coast in 1998, citing a desire to 'undertake a case study of a western market' (Clarke and Rimmer, 1997: 378). The firm never achieved desired results and closed both stores by mid-2002.¹⁰

The supermarket sector saw more prolonged investments. US firm Safeway entered in 1963 and developed considerable coverage across the

eastern states. Woolworths acquired Safeway's Australian subsidiary in 1985 (Murray, 1999). Hong Kong's Dairy Farm International (#157), a subsidiary of British conglomerate Jardine Matheson, purchased discount grocery chain Franklins in 1978 and built the brand into Australia's third largest supermarket group before encountering financial difficulties in the 1990s. The Franklins empire was slowly divested, with Dairy Farm quitting Australia in 2002. South Africa's Metro Cash & Carry (#81) acquired Australian grocery wholesaler and minor retailer Davids in 1998 alongside a broader expansion into Africa. A 2005 local management buyout removed Metcash Australia from South African hands, and closed the book on what has been described in the Australian business press as 'one of the worst takeovers of the 1990s' (Ries, 1998: 52). Metcash Australia has increasingly extracted itself from direct competition with Coles Myer and Woolworths by concentrating on wholesaling. South Africa's Pick'n'Pay (#123) made a furtive entry into Australia in 1984, quickly left and returned in 1998 via the acquisition of almost half of the Franklins stores from Dairy Farm.

Perhaps the most significant inward FDI was the entry of German deep discount giant Aldi in 2001. By late 2005 they had opened over 100 stores and achieved market shares of around five per cent in the main NSW and Victorian grocery markets (Taylor, 2005). Unencumbered by share market scrutiny, this privately-held entity appeared to have the deep pockets necessary to take on the big duopolists. Commentators cited their presence as a key driver in both Coles Myer and Woolworth's shift to increased private branding (Aston, 2005).

Outward FDI

Outward FDI initiatives by the major Australian retailers were startlingly infrequent. Even the shift across the Tasman proved difficult for the major players. Woolworths had several variety NZ stores by the early 1930s. They introduced no particular innovations, however, and NZ customers had to wait for independent stores to introduce self-service supermarkets. The Woolworths brand was sold to local firm L.D. Nathan in 1979. Woolworths bought back the brand (and its stores) in 2005 with the Australian CEO proclaiming 'Woolworths believes that it will be able to leverage its retail experience and scale into New Zealand' (Woolworths, 2005). As discussed below, Woolworths has recently made some very tentative steps beyond Australasia with its electronics business.

Coles Myer entered NZ in 1988 by acquiring Foodtown (supermarkets), 3 Guys (discount food) and Georgie Pie (family restaurants). Over the next two years they launched Kmart and Katies (fashion) stores. The grocery components were sold off by 1993. This FDI has been roundly condemned as

unsuccessful (Scherer, 2000). In 2001 Coles Myer unsuccessfully attempted to sell its Kmart stores to NZ rival The Warehouse Group.

Despite the noted expansion of European retailers and Wal-Mart into Asia from the 1990s, neither of the large Australian generalists has made any attempt in the region.

SPECIALIST RETAILERS

Speciality retailers seek to exploit consumers' discretionary spending with items such as homewares, hardware, stationery, fashion clothing and entertainment. Large-scale speciality chains began to emerge in various countries from the 1960s as entrepreneurs responded to increased income levels and more sophisticated demand by offering innovative new product mixes, store formats and service experiences. Often these retailers sold products in competition with department and variety store chains (in electronics, furniture and homewares for example), or 'mom-and-pop' atomistic concerns (hardware, stationery, sporting goods). Firms, tagged as 'category killers' established economies of scale advantages by building 'big box' outlets for products previously lacking significant range (Ferne and Ferne, 1997; Spector, 2005). Examples of the 'big box' model included Home Depot (#3) and Lowes (#17) in hardware, Office Depot (#72) and Staples (#65) in office products, Borders (#159) in books and music, PETsMART (#196) in pet care, Circuit City (#63) in home electronics, and Toys'R'Us (#58) in toys.¹¹ Sweden's Ikea (#37) transformed consumer expectations of what constitutes home furniture, shifting construction duties to the buyer along with the cost savings of flat-packing. Various clothing retailers such as Spain's Inditex (#102) and Sweden's H&M (#93) considerably reduced 'time-to-market', thus pioneering 'fast fashion'. Other specialists sought a more standardised but very recognisable product range in diverse markets such as clothing (Gap, #38, Italy's Benetton), videos (Blockbuster, #110), sporting goods (Footlocker, #118, France's Decathlon #145) and eyewear (Italy's Luxottica, #208).

The source of advantage here was often the capacity to identify and exploit gaps in the existing marketplace. Firms built specialised knowledge and tapped into the desire of suppliers to break the stranglehold of the large department stores and variety chains, as well as to develop deeper product offerings.

Internationalisation

Specialist retailers in many countries quickly exhausted the opportunities for domestic expansion. Furthermore, they were trading on the uniqueness of

their concepts. If the gaps in the market were universal or at least consistent across several markets, then they needed to get to these consumers quickly, before someone else imitated them.

Table 9.2: Geographical breadth of specialist retailers

Company	Global ranking	Country of Origin	Speciality	No. of Countries (Continents)	Date of first FDI	Location of first FDI
Home Depot	3	US	Hardware	5 (1)	1994	Canada
Gap	38	US	Clothing	6 (3)	1987	UK
Ikea	44	Sweden	Home furnishings	22 (4)	1958	Norway
DSG						
International	51	UK	Electronics	13 (1)	1972	Holland
Toys'R'Us	58	US	Toys	32 (5)	1984	Canada
Staples	65	US	Office supplies	7 (2)	1991	Canada
Office Depot	72	US	Office supplies	23 (3)	1993	Canada
Kesa Electricals ^a	92	UK	Electronics	6 (1)	1988	Belgium
H&M	93	Sweden	Clothing	20 (2)	1965	Norway
Inditex	102	Spain	Clothing	56 (4)	1988	Portugal
C&A	107	Belgium	Clothing	12 (1)	1911	Germany
Blockbuster	110	US	Video	25 (5)	1990	UK
Footlocker	118	US	Sporting	18 (3)	1980	UK
Decathlon	145	France	Sporting	12 (3)	1986	Germany
LVMH	150	France	Luxury	21 (4)	1885	UK
Sherwin-Williams	156	US	Hardware	5 (1)	1892	Canada
Borders	159	US	Books	6 (4)	1997	Singapore
HMV	173	UK	Music	7 (4)	1986	Ireland
Hachette	197	France	News media	17 (4)	1993	Belgium
Bauhaus	200	Germany	Hardware	10 (1)	1972	Austria
Luxottica ^b	208	Italy	Eyewear	17 (4)	1995	US
Payless						
Shoesource	222	US	Footwear	14 (2)	1997	Canada

Notes:

Only firms operating in at least five countries.

- a. Kesa Electricals was spun off from the British firm Kingfisher in 2003. It includes a range of national retailers Kingfisher had acquired over the years. Of these French firm Darty was the earliest internationaliser with a Belgian entry in 1988.
- b. Luxottica made numerous FDIs in non-retailing before 1995.

Sources: Deloitte (2006), company websites, Annual Reports and personal correspondence

Thus many of these firms expanded rapidly through the 1980s and 1990s. In an international environment of declining trade and investment barriers,

lower transport and communication costs, and increasingly integrated global production processes, these firms did not face the barriers experienced by earlier generalist retailers.

The retailers with the greatest geographical spread are typically the specialist chains (Table 9.2). Many of these firms expanded quickly across several countries and continents, building upon sophisticated logistics systems that enable them to deliver products more cost effectively or more quickly. As we will see in the Australian context, further expansion by specialised retailers has sometimes been hampered by pre-emptive duplication of the concept in a specific market. This strategy can result in the incumbent firm developing location-bound FSAs that deter newcomers.

US firms tended to dominate the 'big box' format, fuelled by the CSAs of a more lax planning environment and greater domestic car usage. Many of these firms, again, chose to focus on the large North American market. The large-scale European examples such as Ikea had a greater need to internationalise because of small home markets. Clothing was more of a European success story (H&M, Inditex, Belgium's C&A, #107), with only Gap making a mark from the US. This may reflect the more vibrant fashion clusters in Europe and the capacity to utilise the free trade aspects of the EU.

Deloitte's list does not do justice to specialist success stories as the 'ultra-specialists' do not typically appear as their sales levels are lower than even solely domestic grocers. This also applies to franchised retailers. There are a range of focused spin-offs from the variety format, or completely new innovations, which have 'flown under the radar' in much of the discussion of retail internationalisation. Three examples help to make the point. Tie Rack, originally a UK-based retailer of ties and scarves, has expanded, principally via franchising to have stores in 30 countries across Europe, North America, Asia and the Middle East. They were acquired by Italian fashion group Frangi in 1999. Spanish fast-fashion specialist Mango claims to have over 800 stores in more than 80 countries – an extraordinary rate of growth for a firm that only ventured offshore in 1992. British cosmetics chain, The Body Shop, spread its environment-friendly stores across over 50 countries from the early 1980s.¹²

The Australian experience

The specialist portion of Australian retailing is a mixed bag of global players, local innovators, and opportunistic imitators. As summarised in Table 9.1, almost all of the inward FDI into Australia by large overseas players was by specialist retailers. Notable in their absence, however, were the office supplies and hardware superstores. Both of these formats were quickly and pre-emptively duplicated by local giants. Coles Myer introduced

Officeworks in 1994 after studying the US firms Office Depot, Staples Inc and OfficeMax (#103); by 2005 the brand had grown into a business of 87 stores and A\$1.2b in sales (Shoebridge, 1996; Coles Myer, 2005). Rural conglomerate Wesfarmers built on a recent hardware retailing acquisition and introduced Bunnings Superstores in 1994. The Bunnings brand entered the Deloitte list in 2006 at #201, with a reported annual sales growth of 25.6 per cent over the previous five years. When Toys'R'Us entered the Australian market, Coles Myer unsuccessfully sought to ward them off with a duplicate competitor World 4 Kids, a strategic blunder reported to have cost the firm A\$200million.

Nevertheless, Australia's has had limited exposure to specialist inward FDI. Of the 22 most internationalised retail specialists (Table 9.2), only eight had operations in Australia by late 2005. Ikea had a strong presence in its niche of the home furnishing market, and Blockbuster was the predominant video hire chain. Footlocker was locked in a battle with local sports superstore chain Rebel Sport, and Borders declared its first substantial profit in 2005 after seven years in the market. None of the major clothing chains had entered.

Outward FDI

As noted above, cases of outward FDI by the largest Australian retailers were few and typically only NZ-bound. Even Coles Myer's and Woolworths' specialist brands have not ventured much further afield, although Woolworths' electronics arm, Dick Smith Electronics, announced in late 2005 a joint venture project with Indian conglomerate Tata that could see them open 50 stores on the subcontinent.

Amongst the big players, Harvey Norman was an exception. From the mid-1980s the firm built a substantial chain of stand-alone homemaker centres across Australia. Each superstore was a series of independently managed in-store product franchises.¹³ In 1999 Harvey Norman acquired a controlling interest in Pertama, a publicly listed company in Singapore, which had 11 retail shops in Singapore, as well as a wholesale business and one retail store in Malaysia. A single store was opened in Slovenia in 1999 with another due to open in 2006.¹⁴ A more strategic move was an entry to Ireland: by late 2005 the firm had three stores with another six openings proposed for 2006. This was billed as an attempt to assess the viability of the British market. Founder Gerry Harvey, an idiosyncratic and very wealthy entrepreneur, has long flagged his interest in expanding into the UK, Italy, Croatia, Serbia, Hungary, Austria, India and China (Hannen, 2001). The internal franchising model may serve as a competitive advantage in new markets by tapping into local entrepreneurship. The firm will, however, need

to overcome significant locational differences in tastes, property availability and supplier networks.

From the 1990s several smaller specialists took bolder steps. Five of these – Barbeques Galore, Flight Centre, Cash Converters, Cartridge World and OPSM – demonstrate different paths to growth (see boxes). Country selections varied, as did entry mode choices. Each firm leveraged FSAs in multiple countries. There are clear lessons about international opportunities for Australian retailers, and retailers from other small, isolated economies.

Barbeques Galore

Barbeques Galore opened its first store in Sydney in 1977, offering an unprecedented large range of outdoor dining equipment, some of which was firm-manufactured. The company expanded to the United States in 1980, opening a store in Sante Fe Springs, a suburb of Los Angeles. The firm concentrated initially on warm-weather US states such as California, Nevada, Arizona, Hawaii, Texas, Georgia and Florida. Later they ventured into more seasonal markets such as North Carolina, Virginia, Maryland and Washington DC. Over time the firm increased the percentage firm-manufactured stock by acquisitions and organic growth. In late 2005 the firm had similar store numbers in Australia (92: 44 company-owned and 48 licensed) and the US (75: 68 company-owned and seven franchised). More than half (54 per cent) of the group's revenue came from the US business (Barbeques Galore, 2005). After ten years as a listed company on the Australian Stock Exchange, Barbeques Galore delisted in 1996, and soon after listed on the US NASDAQ (Lambiris, 1999). In late 2005, the firm was delisted from the NASDAQ after a leveraged buy-out by an Australian venture capital firm.

Flight Centre

Flight Centre introduced the 'bucket shop' travel agent format – discounted airline ticketing through bulk purchasing – to Australia in 1981. The firm's founders had considerable experience running a very successful tour company in the UK. The firm quickly built a strong local network of stores which further boosted its economies of purchasing. They coupled innovative product offerings – very cheap international flights – with a distinct set of managerial practices built around employee empowerment and profit-sharing (Dunford and Palmer, 2002; Gottliebsen, 2003). By 1990 they had opened stores in New Zealand, the UK and US. The UK and US offices were closed in 1991 in the face of the Gulf War. Expansion began in earnest with a move to South Africa in 1994, Canada in early 1995, and the UK later that year. US operations recommenced in late 1999 (Johnson, 2005). By mid-2005, Flight Centre was operating 1063 retail outlets across Australia (657), Canada (118), New Zealand (108), the UK (92), South Africa (90) and the US (15). Just over a third (37.5 per cent) of the group's revenue came from the overseas subsidiaries (Flight Centre, 2006). The firm was recently listed as the ninth largest tourism firm in the world by foreign assets (UNCTAD, 2004: 324).

Cash Converters

Cash Converters emerged from Perth in 1983 with a modern, efficient version of an old retail form – pawnbroking – and in 2005 claimed to be the ‘the world’s largest franchised retailer of quality pre-owned household goods’ (Anon., 2005b). The firm had 450 stores across 28 countries (including 16 in Europe, five in Asia, two each in North America, Africa and Australasia, and one in South America). Australia represented only 25 per cent of the store count. The first expansion was into the UK in 1992 – an operation that expanded to 105 stores by 2005. New Zealand (1993, now 27 stores), South Africa (1994, 57 stores), France (1994, 23 stores), Canada (1995, 24 stores), Spain (1995, 34 stores) and the US (1994, 10 stores) followed.

Cartridge World

Cartridge World emerged from Adelaide in 1997 as a specialist chain refilling, recycling and retailing printer cartridges. The firm expanded very quickly through franchising and by early 2006 had over 1100 stores worldwide in at least 25 countries (including 17 European countries, and two each in Asia, North America, South America and Australasia). Australia represented only 20 per cent of the store count, as the firm grew more quickly in larger markets. The first British store opened in early 2001. By late 2005, there were over 280 stores in Britain. The first US store opened in mid-2003. By late 2005 there were over 320 US stores and the firm was claimed to be awarding a new franchise every day.

Exploitation of FSAs by smaller specialists

Barbeques Galore was an early ‘category killer’ in Australia, achieving advantage from its large range of product in various price segments. The firm moved quickly to improve its profitability via backward integration. These FSAs of range and margin could be easily transferred, as long as there was a sufficiently large market for the product. Barbeques Galore judged the US retail market to be a viable one, due to some similarities in lifestyle together with countercyclical revenue streams in what is a highly seasonal market. CEO Stuart McDonald explained the firm’s rationale for US entry as: ‘We looked around and saw there was nothing like what we were doing in Australia’ (quoted in Korporaal, 1986b: 15).

Flight Centre revolutionised the retailing of international air-travel in Australia by shifting to a model where profitability was driven by volume rather than margins. Initially they built a price advantage by bypassing ticketing wholesalers, seeking out less well-known airlines, and also by arbitraging price differentials across markets. They quickly built a large local network of stores and developed an innovative incentive package for staff that reinforced the high-volume model and encouraged employee entrepreneurialism. Employees initiated several of the international moves (Johnson, 2005), typically into markets that had sufficient independent travellers and were mainly reliant on air travel. The model proved profitable

in each market over time, although the firm never had the significant bargaining power it possessed in Australia.¹⁵

Cash Converters' FSA lay in standardising and modernising pawnbroking. Pricing, stock control and financing tools were packaged up within a franchising model and supported by consistent brand management that aimed to remove the stigma from what was regarded as a disreputable retailing segment. The firm entered the market it deemed most like Australia (and large enough) – the UK – but the retail concept soon attracted franchisees in a wide range of countries.

Cartridge World also expanded by franchising. They offered franchisees innovative, but low-cost technology that targeted an expanding market niche. The firm built further FSAs by encouraging shop-owners to set up in suburbs and inner-city locations close to small businesses and consumers that would prize proximity and convenience. This approach contrasted with that of its major competitors – 'big box' office-suppliers – who sought wider spheres of attraction.

Why did these firms venture so far, while their larger domestic counterparts did not? There were aspects of the Australian retail scene – CSAs – which supported their growth and allowed them the opportunity to build the aforementioned FSAs. They faced modern consumers with high incomes and increasingly refined demands. A fellow international player – Westfield (Chapter 19) emerged, – offering world class, sprawling, suburban shopping centres. The Australian environment was increasingly standardised and non-idiosyncratic – much more like the US and the UK in its regulations and buyer preferences. This helped these firms to step out into the world.

As noted throughout this chapter, operating in the Australian environment might also be viewed as a disadvantage. Though modern, the market was geographically isolated. This led many retailers to build FSAs around their ability to establish and maintain local supply chain relationships. Such FSAs are inherently location-bound, and drove many Australian firms to seek internal expansion opportunities via diversification into related retail lines. The four firms discussed above overcame these potential country-specific disadvantages by developing retail models that had more transferable supply-chain characteristics.

Barbeques Galore built a vertically integrated operation that allowed the firm to offer a unique mix of products from its own manufacturing facilities. Flight Centre dealt with similar suppliers of international travel across its six national markets and sought to leverage any knowledge of national quirks into a competitive advantage relative to solely domestic competitors. Cash Converters was in the enviable position of having its customers as its suppliers. As such, their retail model could be easily replicated from country to country. In a similar fashion, Cartridge World was principally focused on

technological advantage. This technology was universally applicable due to the global nature of the printer/computer hardware business: consumers tended to need the same brands of printer cartridges refilled in each market. The firm also sold printer accessories, sourced again from the same Original Equipment Manufacturers and branded giants. Any bargaining disadvantage the firm might have had in purchasing such accessories relative to the big office-supply giants was traded off against the firm's own proximity-to-consumer advantage, and diminished by the firm's speedy expansion. This is a lesson that other specialist retailers may heed as a more attractive long-term strategy for expansion than the alternative of domestic diversification.

Each of these firms had a good retailing 'idea' that they believed could be applied in multiple countries. Barbeques Galore took the big gamble of competing in what most view as the most competitive retail market in the world – the US – because that was the country with the most suitable customers for the product. Flight Centre's country choices were similarly motivated. The two franchisors – Cash Converters and Cartridge World – viewed their innovations as universally applicable and have chosen an entry mode and country mix that reflects this view. The firms have reduced the risk of FSA replication by moving swiftly. Again, other specialist retailers should view these firms as examples of targeting a 'gap' in the market aggressively and decisively.

There is one final example of an Australian specialist retailer expanding offshore. OPSM (see box) was an example of a strong chain that developed a profitable and large presence in Australia in a typically small-scale, non-entrepreneurial sector. The firm standardised store fronts within its three brands and pitched each at different price segments. OPSM saw the opportunity to enter less developed markets in the immediate region. They sought out existing chains and re-branded them. Their efforts attracted the attention of the world's largest optical specialist, Italian firm Luxottica, who has tapped into OPSM's FSAs through the region. As Lewis and Zalan (2005b) have argued, this might also be a viable strategic option for firms seeking to make the most of their domestic dominance and initial overseas efforts – luring cashed-up international suitors. Italy's Luxottica was an ideal candidate to acquire OPSM as it was a major supplier of quality optical wear globally and needed to secure a large retailer in Australasia and booming Southeast Asian markets.

OPSM

Founded in Sydney in 1932, and publicly listed in 1953, optical retailer OPSM was a slow mover into international markets, entering New Zealand in 1994. The firm entered Hong Kong and Singapore in 1998 via an acquisition of a local chain (Blake, 1998). The Singapore business was expanded in 2000 by another acquisition (Goodfellow, 2000). Later that year, they expanded further into the region by an acquisition of a 13-store optical business with headquarters in Kuala Lumpur (Anon., 2000b). By 2003, the Asian operations constituted just over 14 per cent of group activity (OPSM, 2003). The company operated 461 stores under three brands (OPSM, Laubman & Pank, Budget Eyewear) in Australia, 35 stores in New Zealand (where they were market leader), 75 stores in Hong Kong and 12 in Singapore (under the Optical Shop brand), and 12 in Malaysia. In May 2003, OPSM was taken over by the Italian spectacles manufacturer and retailer, Luxottica (#208).

CONCLUSION

Australia is a neat 'natural experiment' in retailing. The nation entered the twentieth century as a modern economy with GDP per capita levels comparable with, if not ahead, of North America and Western Europe. The country had further advantages for budding retailers. It was highly urbanised, but not hampered by pre-industrial infrastructure. Retailers had easy access to properties and consumers. As the nation was geographically distant and disconnected, and local suppliers were protected by high tariff walls, domestic retailers quickly built considerable location-bound advantages over any potential inward FDI. Entrepreneurial locals and later powerful incumbents were able to 'cherry pick' concepts from overseas and introduce them to Australian consumers confident of their likely success. The barriers to inward investment worked similarly in reverse, however. Successful retailers with location-bound supply-chain and real estate advantages focused on diversifying across retail niches and concepts rather than expanding into the nearby underdeveloped or inaccessible Asian markets.

Eventually as institutional and technological barriers fell, a trickle of overseas specialist players entered the Australian scene. Around the same time a number of Australian success stories ventured offshore, in a diverse range of niches and to a mix of locations. These firms were able to overcome any liability of distance, because they had firm-specific advantages in the form of good retail concepts that were not bound by location. In particular, each was unhampered by the local specificity of supply chain arrangements. In most instances, they sought out countries that bore some similarity to the Australian market and they all built up a significant overseas presence. Their experiences highlight the scope for Australian retailers to build upon the positive dimensions of the Australian market – affluent customers and first-world infrastructure – and thereby minimise the burden of isolation.

NOTES

1. Coles Myer and Woolworths earned approximately 0.05 per cent and 0.5 per cent respectively of their sales in New Zealand in 2005.
2. The concept of the 'good idea' in retailing is illustrated by the expansion mode of many firms – franchising. Here the firm attempts to bundle up and exchange its FSAs. Typically the value for franchisees exists in the *ex ante* reputation of the franchisor brand, and the *ex post* economies of scale advantages in ongoing research and development, purchasing, logistics and marketing.
3. These are: Mitsukoshi (Japan, #84), which operates department stores in eight nations across Asia, Europe and the US; Isetan (Japan, #113) in six Asian nations; Debenhams (UK, #178) in 14 nations across Europe, the Middle East and Asia; and S.A.C.I Falabella (Chile, #228) in three South American nations.
4. As Seth and Randall (2001: 190) note, in 1990 the market share of the top 20 firms was roughly the same as that of the top 50 in 1950, and few names had changed.
5. The exception was Safeway, which expanded into Canada in 1925, the UK in 1962, and Australia in 1963. Tellingly, the challenge of impending consolidations, amongst other competitive pressures, led Safeway to abandon both the UK and Australian operations by the mid-1980s.
6. There is still considerable debate around the performance of many of these overseas operations (Anon., 2005a; Seth and Randall, 2005).
7. In early 2006, Coles Myer announced the sale of the Myer department store chain.
8. This is contrast to their reported figures for 1964 of 17 per cent for Woolworths and 0 for Coles.
9. For example, under the banner of Project Refresh, Woolworths has achieved significant gains via the adoption of many of US giant Wal-Mart's supply chain processes (Gottliebsen, 2003).
10. Over the past decade Daimaru has closed all of its overseas stores: in Hong Kong, Thailand, France and Singapore, as well as in Australia.
11. Unless noted, all the firms mentioned here originate from the US.
12. Both Mango and The Body Shop grew principally via franchising. As they were also the principle manufacturers of the products in the franchised store, it could be argued they are not truly 'retailers' in the narrow definition adopted in this chapter.
13. For example, a given location might include a furniture franchisee, a whitegoods franchisee, an electrical goods franchisee and a computer products franchisee. In 2005, there were 162 stores in Australia and 527 franchisees (Harvey Norman, 2005).
14. This was an opportunistic entry based on the family background of a senior staff member (Kirby, 2003). The firm also ran an unsuccessful store in East Timor for a brief period in 2000-2001.
15. With the emergence of internet booking services, the firm started in the early 2000s to switch its focus away from B2C retailing towards non-retailing corporate travel services. The firm has expanded into less mature markets in this area, such as Hong Kong, India, China and Singapore.