



Retailers Should Look Beyond China For New Markets

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By Petah Marian

Retailers should look beyond China in their search for new consumer markets, says **Financo** president and CEO Colin Welch, pointing out that there are better opportunities in some less prominent countries. Welch and the investment banking group's chairman Gilbert Harrison sat down with Petah Marian to talk about emerging markets, the shifting consolidation and M&A landscape, and the opportunities offered by digital technology.

Faced with a need to continue to book top and bottom line growth at a time when many developed markets are stagnating, retailers and brands are increasingly enticed by the rapid growth of the middle classes in a number of emerging countries. But Welch believes they have yet to find their foothold in these markets.

"It's still not clear to me that the developed brands have figured out an appropriate strategy to crack those [emerging] markets, so it's still very much exploratory testing of the waters," says Welch.

He remains unsure that retailers will be successful in China and suggests companies might be better served by considering "other low hanging fruit - other less visible and certainly less prominent markets".

"I think what you have, at least anecdotally, is mixed views on retailers' ultimate ability to achieve a profitable model in places like China," says Welch.

He suggests that countries like Korea, Singapore, Thailand and Vietnam are alternative yet strong targets in Asia. In Latin America, he thinks brands should start with Mexico, and use it as a launch pad into South American countries, especially Argentina and Colombia, "despite the obvious challenges and things that have transpired there".

Harrison, meanwhile, highlights the strong relationship between retail brands and sourcing when he emphasises the attractiveness of Turkey as an emerging market. Turkey is "growing at 9% plus GDP, and with the business we specialise in, it has an embedded history of manufacturing of apparel, and what they do with denim is arguably unprecedented."

Global consolidation is set to continue, he adds, noting that Financo is doing a lot of work on joint ventures for companies seeking to enter emerging markets.

"More and more people that are outside of Western Europe are looking to bring US and European brands to their country. That's not necessarily M&A, but it may start in a joint venture that may result in a merger or buy-back.

In a lot of the joint ventures we're structuring, a foreign venture will come into a country with a local partner, and they have an agreement that they can buy it back in five years, so they own the brand themselves again."

Indeed, Harrison expects a shift where Chinese manufacturers will look to purchase the companies they manufacture for, or look to control the brands they manufacture in China.

In an ultimately unsuccessful deal, Harrison says Financo recently worked with an accessories house that one of its manufacturers wanted to buy, and highlighted how one of Nike's largest manufacturers in China has begun operating retail stores in the country to block foreign operators coming in.

However, Harrison believes that until there is clarity on the outlook for the consumer confidence in the current economic environment, companies are unlikely to undertake any kinds of acquisitions or mergers that would put the parent company at risk.

"Half the problems we face, the slowdown in M&A, are around the psychological aspects, not whether businesses are good or bad, they just have a fear of the unknown," he says.

In terms of domestic and mature markets, Welch emphasises the importance of digital - be that social media or e/m-commerce - to help retailers who are operating too many stores. "I think there has been an acknowledgement that there's still much to do for physical retail, in Europe particularly, I think they're over-stored," he explains.

"People are going to be opening smaller stores going forward, and finding ways to reduce space in existing stores. One of the people we were speaking to, a very well-known retailer, says digital is now up to over 20% of sales," adds Harrison.

Harrison also expresses concern over retailers continuing to "trim fat" from their operations and the impacts that is having on unemployment.

"One of the things that bothers me about the continued trimming, and it's not just retail, it's other industries as well, is that the company gets rid of 10 or 300 workers, so your unemployment keeps on rising. This is a major problem we're not facing the way that we should be, by re-educating the population and training them for different kinds of jobs, which is very disturbing."