



## Retail trade

# Internationalisation of retail trade

MAITE FORNER

Behind the four success stories we will introduce in the following there are very diverse companies as to their business model, turnover, sales surface, number of establishments and internationalisation strategy.

However, they all have a clearly defined and structured sales concept: whom they address and what they provide in terms of product, service, usefulness and experience. They have also measured well their pace of growth and when doing a change of scale at the company, they have been able to provide it with necessary operative resources regarding procurement, logistics, human resource training and central service structure. They also have in common a courageous and ambitious leadership style to enter sophisticated far markets, adapt to different settings and reinvent the business regularly.



**Case studies:** Cacao Sampaka, Party Fiesta, Raffel Pages, GAES

## Cacao Sampaka

The Rius family already had a cocoa production and chocolate making (Chocovic) business when it thought of a quantum leap in retail and opening a new business line to sell pralines and chocolate set out as a chocolate market concept.

The first **Cacao Sampaka** shop opened in Barcelona in 2000. The business concept focused on chocolate and its multiple varieties based on a brand design with a personality of its own aimed at seducing senses both regarding the content (pralines and their packaging) and the container (the shop, positioned as a concept shop from its very beginning).

### Business model

The target are chocolate lovers at a medium gourmet level, adult and mostly female (up to 70%), who buy both for self-consumption and as a gift.

The product, with more than 150 references from the own brand, all of them related with chocolate, is presented in collections and put together by purposes: cooking, side ingredient, snack, etc. The own brand is completed with other ones when the product is not chocolate, e.g. matching wine, tea, kitchen tools and books.

Seasonality of sales, special product collections and the business structure are geared to specific festivities: Christmas, Valentine's Day (amounting to 70% of annual chocolate sales in Japan), *Id al-fitr* (celebration of the end of Ramadan), Father's and Mother's Day, Easter, All Saints Day/Halloween, etc.

The sales system is based on self-service, a differentiating item from the beginning of the chain. The average purchase is €15 in big shop models and €9 in small shops, with an average three references per operation.

Products are made in an own production plant nearby Vic. The company has an external R&D department and an internal taskforce meeting on a weekly basis, made of staff from different departments providing knowledge of customers, the market, logistics and the production process.

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The chain has a total 1800m<sup>2</sup> sales surface spread over fourteen points of sale in six countries, including shops and corners. The sales volume is 7 million euros and they have 103 employees.

The product is packed by hand at the production site and shipped to all points of sale, the farthest being served by air. It is perishable and lasts three months. Each shop does its orders periodically according to its sales.

Promotion of the chain is basically done through its flagship store in Barcelona, which is visited by many tourists and appears in many travel guides. The company invests 2% of its turnover in communication, including sales point material.

### Expansion and internationalisation strategy

The opening the first shop in the Eixample quarter in Barcelona was part of an expansion strategy based on franchising. The same business plan set a three-year probation period of the pilot shop before opening further branches. The search of partners for franchising, despite being part of a business plan, has been done in a rather reactive than proactive way ever since:



those knowing and admiring the shop answer and send in a form through the website. Additionally, choosing the right location for own shops is a constant challenge. Mostly successful openings are taking place, while a few turn out to be infeasible and close after a time, usually due to their bad location.

The first expansion phase started in 2003, when shops in Madrid, Valencia and Girona were opened. The model was similar to Barcelona: 200 m<sup>2</sup> of sales room with eating facilities. This phase required opening a new plant in Vic, which had become indispensable to supply the new shops.

The second expansion phase based on internationalisation was designed combining two shop models: the one followed in Spain and a new smaller one without eating area, considered more exportable at a time in which real estate prices had rocketed. This model has been developed together with big shops and depends on the characteristics of each place. Shops were opened in Berlin and Malaga in 2006, Lisbon in 2007, Saudi Arabia and Dubai in 2008 and Tokyo and Andorra in 2009.

Locations in Europe did not raise any need to adapt to any particular local culture beyond the commercial relevance of certain dates like Valentine's Day and Easter. In any case, they have served to relate Cacao Sampaka with a more sophisticated, knowledgeable audience and to compete with very consolidated operators on the same pitch.

Shops in Saudi Arabia and Dubai obviously raise the issue of adapting to the identity of Muslim societies, starting with attending employees being male only and cafeterias – not selling any alcoholic drinks – becoming one of the few allowed places for social meeting, at least for women and youth. In the particular case of Saudi Arabia, where the Cacao Sampaka shop has an area of 400m<sup>2</sup>, the cafeteria is divided into two parts: men only and families, where a man cannot enter unless with a woman he must be a relative of. Women on their own

can only buy in the shop and are allowed into the cafeteria only if accompanied by a male relative. There is also the doubt between adapting some aspects of packaging to the country's aesthetic taste, rather prone to baroque decoration, or keeping to the minimalist line typical of the brand.

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The Tokyo shop, opened in September 2009, immediately appealed the Japanese audience, very enthusiastic about new things and top-range products. Success is so great that it can become the chain's number one shop in sales with a very high percentage of internet sales.

A third expansion phase in times of economic crisis has been characterised by its big flexibility regarding the format and the philosophy of sharing the sales area with additional operators, for instance in the shape of corners in another establishment or so-called «coexistence in equal shares». This strategy is suggested in different scenarios: in the new terminal of Barcelona



▲ Cacao Sampaka looks especially after product design and packaging.

airport, with three further companies, in this case on the initiative of the space operator, **Areas**; in Manresa, where Cacao Sampaka reached an agreement with a leading local confectionery shop to have an own space there, a format that shall allow the company to settle in medium-sized towns where independents shops would be infeasible; in Barcelona and Madrid, with a space in **Tea Shop**, with which they share synergies based on the exotic origin and the agricultural character of their businesses; in Lisbon they also share the space with Tea Shop but in equal shares regarding presence, which allows both operators to have a much bigger sales area than what they could cope with on their own and have economies of scale regarding operating expense; and in Andorra with a space in the lobby of **Illa Carlemany** mall. Contacts with interested parties were started in early 2010 to open shops in China.

### Key success factors

- ▶ A solid knowledge base of the product as promoters know well the raw materials and their production and commercialisation processes. This certainty has allowed them to «think big despite being small» and tackle ambitious projects without any fears.
- ▶ Ability to adapt to change and different markets resulting from adopting different establishment formats, from the conceptual shop to the corner, without losing their brand identity and adopting cooperation strategies with other retailers at a mutual benefit.
- ▶ A clear push for innovation and creativity in making and placing the product. The company's philosophy is «if you don't innovate and scale you aren't standing out». The innovation process flows from an interdisciplinary team with people in charge of different business areas to an external R&D department, ending with the creation of differentiated products like the parmesan praline, which gave them big notoriety and success in Tokyo.

## Party Fiesta

The first **Party Fiesta** shop opened in **L'Illa** shopping mall in Barcelona in 1994 as a franchise of an American company, from which it became independent shortly after to start developing its own business model with a family business structure that is already into its second generation.

### Business model

Party Fiesta is a sweets and party article shop addressed at all those wishing to organise any sort of party. It offers from disguises and paper plates to balloons, candles, make-up, sweets... up to 10,000 references. The added value lies in having a very deep and wide assortment of anything related to preparing and organising a party. The format is self-service, the product is ordered by theme areas and renewed every other month on 25% of the sales surface according to the different festivities on the calendar: Carnival, Valentine's Day, baptisms, weddings and communions, graduations, Midsummer, Halloween, Christmas and New Year's Eve.

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The Party Fiesta private brand is joined by other brands and licences like Disney, with more than a hundred suppliers from Spain, China and the US. Private brand products are not designed internally yet, but this is one of the business units to be developed in the near future. The business policy does not include promotions or sales. It invests up to 1.1% of its turnover in communication and advertising, with catalogue inserts in the press and radio advertisements. The chain has almost 10,000m<sup>2</sup> of total sales surface at 58 points

**Chart 1. Some Basic data of analysed companies**

Company	Cacao Sampaka	Party Fiesta	Raffel Pages	GAES
<b>Year of foundation</b>	2000	1994	1925	1949
<b>Sales volume (€ million)</b>	7	17,5	15	160
<b>Employees</b>	103	270	900	1,600
<b>Total sales surface (m<sup>2</sup>)</b>	1,500	10,000	10,000	45,000
<b>Number of shops</b>	14	58	100	500
<b>Countries with shops</b>	6	4	3	6
<b>% of sales abroad</b>	30	10	12	9
<b>First opening abroad (city)</b>	2006 (Berlin)	1998 (Lisbon)	2007 (Paris)	1993 (Lisbon)
<b>International expansion model</b>	Franchise	Franchise	Franchise	Own shop and 5% franchises
<b>Foreign department, year (employees)</b>	2010 (1)	2008 (3)	no	+/- 1960 (6)

Source: own.

of sale in four countries, 20% of which are high street shops and the rest in shopping malls.

2.7 million purchases in 2009 mean a sales volume of 17.5 million euros, of which 8.6% amount to turnover abroad. The company has a total 273 employees, 16% of whom work in central services and the warehouse.

## Expansion and internationalisation strategy

The origin of the company as a franchise shaped the way of addressing growth. The initial goal was to multiply points of sale through a franchise scheme, but with a clear will of cooperating and keeping a tight contact between both franchiser and franchisee. Before launching the franchise out of the shop at L'Illa in Barcelona, the company grew with own shops, starting with two in Madrid and the rest in Catalonia and Minorca.

Franchising started in 2005, once the company already had eight own shops, with a unified brand image and business model and, what is more important, a central 2000m<sup>2</sup> warehouse in

L'Hospitalet de Llobregat outside Barcelona, from where each point of sale is served orders proposed by an application developed in-house based on sold references.

Commercialisation of franchises was done in two stages: during the first years by means of specialist trade shows mainly; in the second stage by completing the offer with a footprint in internet portals from which candidates were seized and selected.

Openings of franchises in Spain occurred in big cities, like Las Palmas, Seville and Bilbao. Several franchisees own between two and five shops within the chain. The company also opened own shops in Catalonia (six), Valencia (four) and Murcia based on a geographic proximity criterion facilitating ongoing monitoring.

Internationalisation started in 1998 with Portugal (Lisbon and Porto) and was given priority from 2008 with a strong push in the French market following active attendance at the Paris franchise show that resulted in five new openings, two of which in the French capital and further two planned for the next months, in Beziers and Lille.

At the same time, a franchise was opened in Panama with the goal of opening a subsidiary covering Central and South America in the medium term.

In 2008 the company moved its logistic centre to Hostalric, where it has a 6000m<sup>2</sup> bay.

Adaptation to the specifics of each location is shown in the merchandising policy, the priority allocation of room and longer sales periods for some products instead of others: for instance, the sales of Carnival items is more important on the Canary Islands, while Catalonia has a strong Midsummer festivity tradition and in France it is commonplace to prepare and decorate wedding celebrations on a private basis.

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Although the crisis has obliged to close some shop, basically due to bad location, new openings have always followed. The future vision of the company is having 25-30 shops in Catalonia, 150 in Spain, further growth in France and tackling other European markets, among which the United Kingdom to follow the reliable Anglo-Saxon customer base they have in their Fuengirola shop on the Costa del Sol. Expansion with establishments is topped by the virtual shop that is being launched again after a first unsuccessful attempt five years ago.

### **Key success factors**

► Usefulness provided by offering a tidy, well signposted one-shop solution covering a whole set of needs that would otherwise require going to several shops like stationers, disguise shops, toy shops, sweet shops, variety stores, etc.

► Developing an efficient logistic system out of the internal creation of management and network applications throughout the whole chain to face high turnover without any stock break, buying a much higher amount from suppliers and managing 10,000 references.

► Being a franchiser with an experience in eight own shops and Party Fiesta owners having been franchisees of a third party makes them aware of the needs of both sides and helps cooperating in a win-win strategy.

## **Raffel Pages**

The current managing director of Raffel Pages entered the family company after quitting his plans of studying medicine and spending a time at exclusive and elitist Carita hairdressers in Paris. This experience in France in the 1960s brought him back to Barcelona with a wish of changing the company his grandfather had created in 1925. He opened a new salon in the quarter of Sarrià, where he started implementing a new way of dealing with customers in a professional but relaxed environment that rapidly became successful and was so different from both the neighbourhood and the more sophisticated hairdresser model.

### **Business model**

Raffel Pages is a hairdresser chain with two business concepts aimed at two different customer types, Raffel Pages and Teen & Trends by Raffel Pages (T&T). The former is addressed at a mostly female urban audience aged forty plus, the usefulness of which is efficient service with good value for money and time compared to the competition. T&T is thought for a young unisex audience and has lower prices.

The chain has a hundred shops, ten of which are own and the rest franchised, with a total sales surface of 10,000m<sup>2</sup> and almost 900 employees. It currently operates in three countries, Spain, France and Italy.

Total turnover is 15 million euros, the average ticket is 35 euros with seven references. The total amount of product/service references they operate with is higher than 400, of which 25% encompass technical work (cutting, washing, combing, dying, etc.) and only a few include private brand products. The number of employees per point of sale is between five and eight. Between 600 and 700 monthly services are done in each salon.

The communication policy amounts to roughly 5% of turnover and is highly relevant to position the brand among its competitors and the audience. It is funded with the flat rate paid by franchisees and contributions by the franchiser. To promote the brand professionally, international shows and fashion meetings are attended. Also, two annual issues of an own trend magazine are published and advertisements are inserted in gossip magazines.

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## Expansion and internationalisation strategy

Opening a second establishment was encouraged by the opportunity of having a second salon in Sant Cugat, a town to which many customers from Barcelona had moved. Expansion to seven shops was the natural evolution of a scheme that was popular among its constituency. With the seventh salon, the idea of creating an own school ensuring homogeneous service provision by all professionals working under the brand at all points of sale became a need so both the technique and customer relations would keep the same quality standards.

The Institute has become a centre of generating and conveying brand know-how.

Thanks to the company's mindset the Institute stays open to professionals from outside Ràffel Pages, hairdressers operating salons in different towns like Castellbisbal and Terrassa. Here the third phase in the expansion process seeded, materialised in the franchise system. A relation is created with these independent professionals entering the Institute that eventually leads to a franchise system that has expanded mostly across Catalonia.

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During this growth period the T&T by Ràffel Pages business model was set out with a differentiated commercial offer preventing competition between close establishments.

The fourth phase in the expansion process was internationalisation, which also took place following the franchise scheme in three different scenarios: France, Romania and Italy.

An academy was opened in Romania in 2006 through the UCECOM Arts and Crafts University School, which provided the facilities. The goal was to train future franchisees. Growth expectations were not fulfilled, so the mother company decided to retreat and quit the project.

Expansion in France started out of Paris, a city as meaningful for the hairdressing industry as for fashion and the origin of big, highly internationalised chains. A first salon was opened in 2007 through a local franchisee under the T&T by Ràffel Pages brand. The good results of that business will lead to a second opening due for 2010.



## The fourth phase in the expansion process was internationalisation.

In Italy, Raffel Pages opened a first franchised shop in Ferrara, but difficulties in implementing the franchise scheme are delaying expansion plans there.

### Key success factors

- ▶ Ability to create and implement a differentiated brand style based on a process of generating ideas by the own creative team including a teacher at the own academy and the main franchisees, which translates into two yearly collections presented to all professionals within the chain.
- ▶ Employee selection and control of quality standards in providing service at all points in the chain. All franchises enter the own academy before having their own business, and continuing learning is done there both regarding the technique and customer relations – emotional hairdressing, understood as the ability of interpreting the customer's needs and preferences.
- ▶ Privileged trust relationship with supplier L'Oreal, the world leader of which Raffel Pages is one of the ten biggest worldwide customers, translates into prominent participation and positioning of the Raffel Pages brand at all international hairdressing events, which facilitates access of the brand to different markets.

## GAES

The origin of GAES is to be found in 1945, when two young entrepreneurs, J. Gassó and J.M. Espoy, established a company to distribute imported hearing aids that few years later was pioneering in producing hearing aids in Spain, a product hardly known so far. In a market environment where deafness was still socially stigmatised and health culture in this respect

was poor, GAES was characterised by its great task in scientific and technological research and commercialisation. First it went for hearing aid wholesale trade aimed at professionals, and after 1963 it started doing direct sales to the end customer in its own hearing centres without giving up its national and international wholesale business.

### Business model

It is estimated that one in four people over 45 have hearing problems, an issue that is becoming increasingly relevant. That age group is the target audience of GAES, although most of its current customer base is older than 65.

GAES sells hearing solutions with the aim of substantially improving the customer's life quality according to their personal circumstances. The service includes adapting the hearing aid to each customer through according software in a fully customised way according to the sort of hearing impairment and the morphology of the hearing duct. In addition to hearing aids, GAES centres also provide other hearing devices like auriculars to listen better TV, vibrating alarm clocks to be placed under the pillow, tools to see when the phone rings, etc., making more than 200 references.

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The sales process is highly customised and follows a detailed interaction protocol with the customer, so completing an operation may require more than two visits to the point of sale. Based on this first approach, about ten follow-up visits of the customer will follow that are covered by warranty during the first three years.

Turnover amounts to 160 million euros, of which nearly 90% come from sales at the 500 shops, while the rest is non-retail distribution. GAES does 50,000 adaptations of hearing aids at all its points of sale within one year, with an average €1500 ticket. According to characteristics, hearing aids cost between €800 and 2700.

9% of business comes from sales abroad, through ninety GAES centres in Portugal, Chile, Argentina, Mexico and Turkey. Of all shops, 95% are own and the rest franchises. Under the name IAI, **Instituto Auditivo Integral**, 75 points of sale provide a larger service including speech and language therapy, and more specific pathologies are treated there. In addition, there are around 350 corners or shops-in-shops, mostly at opticians, which are supervised by GAES staff once a week.

Microson is the hearing aid private brand that has been fully developed with own technology at the R&D department, being offered next to other brands.

Total workforce at GAES is 1600, with an average 2.3 employees per point of sale, who are always authorised audioprothesists.

The company devotes 5-6% of its budget to advertising. Its communication policy, ranging from TV ads to direct marketing including attendance at shows and itinerant campaigns, has hearing health prevention and check-up promotion as its main message.

## Expansion strategy

Since it opened its first shop in Barcelona in 1963 and up to the 1990s, the company expanded all over Spain, settling in all important cities following a rationale of being in areas with many elderly people, till they reached thirty establishments. The internal organisation also adapted this business unit with a support structure to retail trade including people in charge of quality, audiology and



▲ The international footprint of GAES is based on own centres.

geographic areas, completed with corporate services.

From the early 1990s, according to a proactive strategy due to foreign competitors entering, GAES started an expansion process envisaging consolidation as a leader in Spain and settling in foreign markets, in this case always with own centres. Internationalisation was aimed at non-mature markets in the hearing industry without any significant presence of competitors. It started in 1993 with Portugal, being the geographically closest market, where it currently undertakes 24 establishments.

Centres in Chile and Argentina, chosen on linguistic grounds, were opened in 1998 and 1999. GAES has managed to become the leader there, with nineteen and eleven establishments respectively. Expansion to the European market

was taken up again in 2000, specifically in Italy, where 25 centres were opened, although it was later abandoned.

A new internationalisation phase started in 2006 following some intuition by the founder of the company, and a centre was opened in Turkey as a first step towards expansion in the Middle East. There are currently eleven establishments in Turkey.

Necessary adaptation to the different markets involves different administrative regulations in the industry, which in some countries are deeply related to the public health system or feature different brokers like the *fonoaudiólogo* in Argentina. The educational level also matters: the more educated people are, the higher the demand.

### Key success factors



► Human resource culture based on flexibility, continuing training in new products and knowledge on hearing as well as team work results in a solid workforce committed to the brand's mission and objectives, which are basically to meet customer

satisfaction. Very low staff turnover – below 4% – on the one hand and multiplication of sales by nine within eleven years on the other are a proof to it.

### Internationalisation was aimed at non-mature markets in the hearing industry without any significant presence of competitors.

- Focusing the business on retail and having restructured the whole working system based on the shop: seizing customers, identifying needs, training audioprothesists technically and commercially, having information systems to know online what is occurring in each shop, if one centre does not meet expected targets it is not closed but an ad hoc observation team is created, problem diagnose and proposal of solutions.
- Having advanced management tools, CRM and electronic agenda, allowing exhaustive knowledge of customers: why they come in, why they buy or not, which is their psychological profile, which is their visit programme, etc., facilitating satisfactory response to their needs.

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