The international expansion of smaller scale retailers

International expansion in the retail sector is still a relatively rare strategy. Many of the world's largest retailers operate solely domestically, or in a narrow range of countries. Macro-level national differences in buying preferences and considerable supply-chain variation, coupled with micro-level location advantages, play into the hands of domestic incumbents. This paper explores the constraining effect of Australia's status as a geographically isolated market on both inward and outward FDI by the largest retailers. Several smaller-scale Australian retailers that successfully internationalised in recent years are discussed. These firms developed appropriate ownership advantages and expansion strategies to overcome the distance hurdles. Particular attention is drawn to the strategic initiatives taken to surmount supply chain issues. In a broader sense, the paper highlights the interaction between industry structures, location differences and firm strategies that lie at the heart of international business theory and research.

Key words: internationalisation, multinationals, retail, firm-specific advantages, service sector

Introduction

Retailing is the consumer interface with, and the outlet for, the output of the increasingly geographically dispersed yet interconnected 'global factory'. Yet it remains the link in the value chain least inclined to partake of the supposed globalisation trend. Only a small number of the world's largest firms are retailers and very few of the world's largest retailers have extensive overseas sales operations (Rugman & Girod 2003, Rugman 2005). Many significant domestic players around the world have chosen domestic diversification and/or market consolidation strategies over the challenge of translating their advantages in new environments. This paper identifies some of the barriers to retail internationalisation through the lens of a geographically isolated, but modern, market – Australia. In doing so the paper highlights the significant liability of foreignness issues that still plague the retail sector, and some of the strategies adopted by smaller firms in overcoming such hurdles.

Deloitte's list of the *Top 250 Global Retailers* (2006) 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. Nevertheless, some significant players have emerged – such as

Carrefour, Inditex, Metro AG, Ikea and Walmart – and such expansion appears to be gathering speed.

Of the world's 250 largest retailers, only 16 operate in Australia, of which 13 are foreign-owned firms (see Table 1). Of these, several operate on a very small scale and all but two have arrived since the late 1980s. 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. This isolation and lack of competitors has allowed various retail sectors within Australian to consolidate into tight oligopolies and often duopolies. The resultant retailing behemoths have proven ill-suited and reluctant to seek out international expansion through FDI, instead preferring further consolidation and domestic diversification. Despite the recent incursions into the Asian region by some of the world's largest retailers, Australia's two largest retailers – Coles Myer and Woolworths – who rank among the thirty largest retailers in the world, have extended their businesses no further than New Zealand (Deloitte, 2006).

Nevertheless, Australia is not a retail backwater. On the one hand, the leading domestic retailers have copied and adapted international best practice. On the other hand, several smaller-scale speciality concerns have identified gaps in the market to prosper domestically while, often simultaneously, expanding offshore.

This paper begins with a short conceptualisation of retailing as a function and company specialisation. The typical views of the internationalisation process are then surveyed. A brief overview is offered of the international expansion of generalist and grocery businesses and speciality chains. Australia's limited involvement in this phenomenon is discussed. The paper then analyses the experiences of five smaller-scale retailers – Barbeques Galore, Flight Centre, Cash Converters, Cartridge World and OPSM – who have expanded via distinct strategic choices. 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 serve as valuable lessons for other retailers from smaller economies that may be concerned with diminishing returns from domestic expansion or reluctant to sit and watch while foreign firms spread their business networks. It is hoped that the identification and analysis of these entry and expansion strategies might be a small step in improving the representation of the retail sector in the international business (IB) field, which for too long has focussed predominantly on the manufacturing sector.

Conceptualising Retailing

Retailers are a response to a *market failure* of sorts in that it is highly inefficient for individual consumers to search for and negotiate with disparate providers of their daily needs, and, likewise, inefficient for many producers to dedicate financial resources to engaging directly with each consumer. These inefficiencies are further escalated by the economies of centralisation of a product's manufacturing and assembly, which are incompatible with the dispersion and low mobility of consumers. Dedicated retailers thus emerge with the role of aggregating products and acting as an intermediary between producers and consumers. Competitive advantage derives from some capacity to develop an appropriate mix of products that consumers will purchase, and coordinating product availability in stores at satisfactory prices.

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 & 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 & Fletcher (2000: 396) identify as "…advantages in supply-chain activities (such as superior products or logistics) or …novel merchandising techniques or formats, or …both".

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 & Fletcher, 2001; Shaw et al., 2004). The post World War Two 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 speciality stores perhaps 15 years (1980-1995).

Why would retailers expand internationally?

The theoretical (and empirical) literature on international expansion of retailing is predominantly the domain of marketing scholars. There is a surprisingly low level of integration with more mainstream IB theory. The output does not extend far beyond descriptive narratives, taxonomies of retailing MNE *types*, and unsatisfactory matrices of *push* and *pull* factors as motivations for and explanations of growth paths.

There is ongoing debate between those making some effort to integrate retailing into the broader IB models (Sternquist (1997), Threadgold (1991)), and those who condemn such models as manufacturing-specific and argue retailing is fundamentally different (Dawson, 1994).

Internationalisation here is almost universally presented as the opening or acquisition of new stores in foreign environments, either directly through acquisition, Greenfield wholly-owned subsidiaries or joint ventures, or indirectly through licensing or franchising arrangements. These are, in Dunning's parlance, *market-seeking* strategies. Alexander (1997: p.4) presents this as firms being "…pulled into other markets through the international relevance of the product and service which they offer." Firms can thus achieve scale advantages both domestically and internationally (depending, of course, on their strategic decisions regarding levels of international integration). This pull factor is in contrast to the various push factors such as "…high levels of competition, format maturation and heavy regulation" (Alexander & Myers 2000: 336).

The slow take up of internationalisation can be explained in terms of ownership and location issues. Retailing success relies heavily on location advantages. Shopkeepers must effectively mediate a relationship between often distant manufacturers on one hand, and relatively immobile consumers on the other. Despite the rise of B2C ecommerce (and the century-old parallel of mail-order), most retailed goods are still most effectively distributed physically via multiple locations. Prime locations are limited. In the international context, significant differences often exist in regional 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 – those that were early movers in introducing more effective retailing processes. As such, international retailing has proven a difficult task. Many significant domestic players around the world have chosen domestic diversification and/or market consolidation strategies over the challenge of translating their advantages in new environments.

Sternquist (1997), among others, attempts a similar OLI analysis, distinguishing between asset-based (unique products or a superior company reputation), and transaction-based ownership advantages (both economies of scale, and also buying processes). Too little consideration is given to the location-boundness of such advantages, however. She presents location choices as based on:

i. cultural proximity (more important for mass retailers than those serving niche markets);
ii. market size;
iii. dependent on competitors' moves (as firms that operate large-scale stores face limited supply of locations);
iv. geographic proximity (lower transportation and corporate communication costs, depending on level of (de)centralisation), and;
v. access to lower cost land and labour (more important for mass retailers than niche firms) (Sternquist, 1997, pp.264-5).

Internalisation plays out convincingly in this literature in terms of various entry mode decisions, particularly the issues of franchising. Retail firms make multiple domestic expansion decisions as they grow (each time they open a new store). The common view is that firms that are comfortable and familiar with particular entry modes at home, whether it be wholly-owned operations, joint ventures, or some franchising model, will typically adopt a similar strategy abroad.

The global experience of international expansion

In discussing the international expansion of retailers, two distinct sectors emerge: (i) generalist and grocery retailers; and (ii) speciality retailers. Their experiences of internationalisation vary considerably.

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 & 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 post-war 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.

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.[1]

[1] These are: Mitsukoshi (Japan, #84), which operates department stores in 8 nations across Asia, Europe and the US; Isetan (Japan, #113) in 6 Asian nations; Debenhams (UK, # 178) in 14 nations across Europe, the Middle East and Asia; and S.A.C.I Falabella (Chile, #228) in 3 South American nations.

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). 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.

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 Sainsburys (#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 *host-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, China, 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.

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 (Fernie & Fernie, 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. 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 speciality chains 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 eyeware (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.

Speciality 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. 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 speciality chains (Table 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 country-specific advantages (CSAs) of a more lax planning environment and greater automobile 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 speciality 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 illustrate this 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 house 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.[2]

The Australian experience

The Australian story is one of relative domestic isolation. Large scale retailers emerged relatively early in the Australian economy, usually isolated within the one or two more densely populated states. Two variety chains – Coles and Woolworths – moved into the supermarket industry with stunning success. Alongside this traditional single state generalist retailers either collapsed or where consumed into the larger Myer empire. Eventually the supermarket and department/variety giants converged to leave a very highly concentrated sector. As Fleming et.al (p.61) calculate, by 1998 the grocery competent of the retail sector can be technically classified as a duopoly with Woolworths (36 percent) and Coles Myer (30 percent), grabbing over two thirds of market share.

2. 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.

Natural barriers to entry such as geographical isolation, the immense physical distances between markets, and the protectionist policies that encouraged domestic manufacture of many staple products (whether by domestic or foreign firms), all played into the hands of the local retailers. The most successful firms have sensibly adopted expansion strategies based around organic expansion in core business areas, acquisition and horizontal expansion in response to technological, demographic and cultural shifts. The big survivors in this tale – Woolworths and Coles Myer– have developed extensive holdings across multiple retail lines (see Table 1 for an indication of the brand and sector breadth of these companies).

For most of the 20th 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.

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 Martheson, 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 percent 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 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.

The speciality portion of Australian retailing is a mixed bag of global players, local innovators, and opportunistic imitators. As summarised in Table 1, almost all of the inward FDI into Australia by large overseas players was by speciality 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 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. These stores were developed in light of studies of the Home Depot format in the US. The Bunnings brand entered the Deloitte list in 2006 at #201, with a reported annual sales growth of 25.6% 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.

Australia has had only limited exposure to inward FDI however. Of the 22 most internationalised speciality chains (Table 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.

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' speciality 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, electronics and furnishing chain Harvey Norman was an exception. From the mid-1980s the firm built a substantial network of stand-alone homemaker centres across Australia. Each superstore was a series of independently managed in-store product franchises. 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. 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 speciality chains took bolder steps. Five of these – Barbeques Galore, Flight Centre, Cash Converters, Cartridge World and OPSM – demonstrate different paths to growth. Country selections varied, as did entry mode choices. Each firm leveraged FSAs in multiple countries. There are clear lessons from each case about international opportunities for Australian retailers and retailers from other small, isolated economies.

Barbeques Galore – Focused international expansion with vertical integration FSAs

Barbeques Galore opened its first retail store in Sydney in 1977, offering an unprecedentedly large range of outdoor dining equipment, some of which was firm-manufactured. In 1980, the company expanded into the United States, opening a store in Santa 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 7 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 Barbeques Galore was delisted from the NASDAQ after a leveraged buy-out by an Australian venture capital firm.

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 partial 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 and climate 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, 1986: 15). Barbeques Galore built a partially vertically integrated operation that allowed the firm to offer a unique mix of products from its own manufacturing facilities coupled with lower-cost, price competitive models sourced from manufacturing specialists. They snuck under the guard of larger less-specialist retailers such as Coles-Myer, Wal-Mart and Home Depot in providing what might be perceived as a 'boutique' offering. Cash flow issues and limited pursuit of capital raisings appear to have constrained further growth in the firm's retail network. While there has been talk of expansion into the UK in the past, the firm remains focussed on further US expansion.

Flight Centre – Focussed expansion into culturally proximate locations

Flight Centre introduced the 'bucket shop' travel agent format to Australia in 1981 – discounted airline ticketing through bulk purchasing. The firm's Australian founders had considerable experience running a very successful tour company in the

UK. Flight Centre 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 9th largest tourism firm in the world by foreign assets (UNCTAD, 2004, 324).

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. The firm chose markets that shared common characteristics to Australia – English-speaking countries, with ample independent travellers, 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. Flight Centre did deal 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.

Despite these successes, questions remain about the viability of Flight Centre's retail interface. Internet availability of ticket information and booking facilities has shift the power balance away from the retailer towards both the consumer (in terms of information) and the airlines (in terms of great access to margins). The profit margins of even the most efficient "bricks and mortar" travel agencies are being squeezed. As such, Flight Centre has been focusing on its more attractive corporate sector business, where success relies more on customer service levels and also consolidation of a highly fragmented marketplace. Flight Centre continues to expand internationally in this area, with operations in the UK, and in Asia.

Cash Converters – Supply-chain proof franchise model

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., 2005). The firm had 450 stores across 28 countries (including 16 European countries, five in Asia, two each in North America, Africa and Australasia, and one in South America). Australia represented only 25 percent 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.

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. Cash Converters was in the enviable position of having its customers as its suppliers. As such, they did not have to worry about the idiosyncrasies of national or regional value chains. Their retail model could thus be easily replicated across countries with little risk of encountering more cost-effective incumbents.

Cartridge World – Fast growth, technology-based model

Cartridge World emerged from Adelaide in 1997 as a speciality 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 percent 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.

Cartridge World 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: (i) ‘big box’ office-supply retailers who sought wider spheres of attraction; and (ii) the printer manufacturers who pursued lock-in of revenue streams via after-sales service contracts.

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 speed of expansion was crucial as the clear gains from opening up this market niche were sure to attract similar entrepreneurs with substitute technology.

OPSM – Regional player model

There is one further example of an Australian specialist retailer expanding offshore. Founded in Sydney in 1932, and publicly listed in 1953, optical retailer OPSM was 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 (OPSM, Laubman & Pank, Budget Eyewear) and pitched each at different price segments. The firm was a slow mover into international markets, entering New Zealand in 1994. OPSM saw the opportunity to enter less developed markets in the immediate region. They sought out existing chains and typically re-branded them. 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, 2000). By 2003, the Asian operations constituted just over 14 per cent of group activity (OPSM, 2003). The company operated 461 stores under three brands 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.

Their efforts attracted the attention of the global players. In May 2003, OPSM was taken over by the world's largest optical specialist, Italian spectacles manufacturer and retailer Luxottica (#208). Luxottica was keen to tap into OPSM's FSAs throughout the region, and build an optometric network alongside its existing Sunglass Hut brand. As Lewis and Zalan (2005) 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. 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.

Overcoming their Australian roots

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, also emerged, offering world class, sprawling, suburban shopping centres (Sammartino & Van Ruth, 2007). The Australian environment was increasingly standardised and non-idiosyncratic – much more like the Anglo-Saxon scene in its regulations and buyer preferences. This helped these firms to step out into the world.

As noted throughout this paper, 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 five firms discussed above overcame these potential country-specific disadvantages by developing retail models that had more transferable supply-chain characteristics. This is a lesson that other speciality chains 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. OPSM and Cash Converters were able to bring strong business acumen to typically atomistic niches in the retail environment. Cartridge World identified the portion of the product value chain with high rents and undercut the incumbents with a better cost-convenience mix. 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 franchisors have reduced the risk of FSA replication by moving swiftly. Again, other speciality retailers should view these firms as examples of targeting a ‘gap’ in the market aggressively and decisively.

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 speciality 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 relatively 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. A preliminary attempt has been made here to stylise each example as a distinct strategic category that firm's might adopt. The next step on the research agenda is to seek out further examples to populate each category and verify the significance of the competitive advantages identified. Such research could involve further Australian retailer examples, or cases from other economies. The aim is to shed further light on this understudied dimension of international business.

Table 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]	**No. 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
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=speciality;
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.

Table 2: Geographical breadth of speciality 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	Eyeware	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 which a Belgian entry in 1988.
b. Luxottica made numerous FDIs in non-retailing before 1995.

Source: Deloitte (2006), company websites, annual reports and personal correspondence.

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