

**Watsons**  
YOUR PERSONAL STORE



# STREET



# SMART

*Leveraging on its extensive experience in Asia, the A.S. Watson Group has embarked on a major expansion drive into Europe.*

By Gwyneth Roberts



“When you have only two pennies left in the world, buy a loaf of bread with one, and a lily with the other.”

The Chinese proverb encapsulates an age-old truth about the human condition: The desire to be healthy and beautiful is as fundamental as our need for food and drink, something A.S. Watson has known since its predecessor, the Canton Dispensary, first began distributing medicine to the rural poor in Canton (Guangzhou), China, in 1828.

In those days, the primary motivation was to improve and maintain people's health. But, as everybody knows, good health is the bedrock of physical beauty — each embodies the other's essence. Since the doors of the Canton Dispensary opened 175 years ago, the twin pillars of health and beauty have merged in the minds of consumers, and the retail world has responded accordingly. Many of today's health & beauty chains have grown out of traditional dispensaries and pharmacies.

It is still a relatively new mix, less evident as a concept around the world than food retailing, for example, but it is catching on fast.

According to Euromonitor International, a market-intelligence company, health & beauty market revenues worldwide totalled US\$180 billion in 2002, having grown steadily at a rate of approximately 1.6% per annum over the past five years.

Today, the Health & Beauty Division of A.S. Watson (ASW), Hutchison Whampoa's retail group, extends across 15 countries and regions on two continents, operating more than 3,200 retail stores in 910 cities under eight distinct brand concepts. It is the largest health & beauty retailer by store numbers outside the United States.

What's more, the company is on an aggressive expansion trail, seeking to expand geographically and in existing markets both by new acquisitions and internal growth.

“Wherever opportunity presents itself we aim to grow the business,” says ASW Group Managing Director Ian Wade. A 40-year veteran of the business, the last 22 in his current position, Wade has been a key architect of the Retail Division's growth strategy, and he maintains a gimlet-eyed focus on the unfolding future.

“Our expansion is in keeping with the wide growth that has been taking place within the Hutchison Group as a whole,” he

says. “From ports and property to energy and telecoms — they have all been expanding.”

### EARLY BIRD

ASW's expansion drive began in earnest back in 1963 when Hutchison acquired a controlling stake in the company, paving the way for sustained growth of Watsons The Chemist into Southeast Asian markets. The chain moved into Taiwan, Macau and Singapore in 1988, Malaysia in 1994, Thailand in 1996, China in 1998 and the Philippines last year, following a tie-up with the ShoeMart Group.

With this background, ASW is among the most experienced health & beauty retailers in the world.

The Group made its first foray into Europe in 2000, acquiring the Savers health & beauty chain in the UK.

“We wanted to spread our portfolio out of Asia,” Ian Wade recalls. “The 1997 recession taught us that you don't want all your eggs in the Asian basket.”

Savers' retail style was a perfect fit, with a “mega-discount” format accentuated by simple store design, focusing on fast-moving toiletry products, and backed up by strong logistics and low operating costs. Under ASW, Savers embarked on a rapid expansion of its own, growing from 165 stores at acquisition to 300 by early 2003.

ASW was propelled into the global headlines last year with its bold





€1.36 billion acquisition of the Kruidvat Group, the undisputed leader in health & beauty retail in Europe.

The deal, at a favourable 7.2 times EBIT, was just another step along ASW's acquisition road — albeit a giant one that tripled the division's point-of-sale portfolio at the stroke of a pen.

The Kruidvat acquisition, ASW's biggest to date, had all the hallmarks of the company's inimitable acquisition style — very personal,

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based on a strong relationship, and with minimal involvement of outside interests.

After 74 years as a family-run retail chain, the owners of Kruidvat had decided the time had come to sell and were looking for a suitor.

Having identified ASW as the most appropriate buyer, discussions took place with Ian Wade over the dinner table. The two businesses seemed a good fit. Wade took the details back to the Hutchison Whampoa board, including Chairman Li Ka-shing, and in a relatively short time the deal was done.

**more than 3,200 stores ...**



**Watsons Your Personal Store**, Asia's leading health & beauty chain, began as a dispensary in Canton, China in 1828. Expansion has been rapid since the 1980s and the chain now operates in Hong Kong, Mainland China, Taiwan, Macau, Singapore, Malaysia, Thailand and the Philippines. Over 25,000 products are offered in more than 700 stores, from cosmetics and toiletries to confectionery and toys. It is also Asia's leading pharmacy chain with around 400 stores.

The acquisition took place in an atmosphere of great friendship and cooperation between shareholders and management on both sides. The Kruidvat management remained in place and the business operations didn't miss a beat.

"We do all deals ourselves with virtually no outside help from merchant bankers and the like," says Wade. "For us, it is a personal thing, which is unusual. In a deal of this size, 'emotionally detached middlemen' are normally involved. Forming relationships is about two things — money and the relationship you create with the other party. If you don't have the right relationship, then the money becomes a bit of a bind."

### BIG AND BEAUTIFUL

With more than 1,900 outlets and a strong reputation in its home markets, Kruidvat represented a giant leap forward for an Asian health & beauty retailer looking to expand.

The Dutch company had built an impressive family of five brands under its management. Besides Kruidvat, these included leading UK retailer Superdrug with 700 stores, former competitor Trekpleister, the Rossmann chain in Poland, Hungary and the Czech Republic and the ICI PARIS XL chain of perfumeries in Belgium and the Netherlands.

With one prudent acquisition, ASW had expanded into tried and tested markets via strong existing brands, positioning the Group as the biggest health & beauty retailer outside the US.

Mr Wade concedes that when the managers from the various countries get together these days it's a bit like a meeting of the United Nations.



## 8 high-street chains ...



**Kruidvat** was founded as a grocery company in 1928 and today is the undisputed market leader in the health & beauty sector in The Netherlands and a leading player in Belgium. It was acquired by A.S. Watson in 2002. Kruidvat employs around 8,000 people in more than 700 outlets catering to over two million customers per week. It also retails fast-moving non-cosmetic items such as low-priced CDs, toys, household items and photo services.

## SHOPPING FOR THE SHOPPERS

Imagine having to fill the shelves of more than 3,200 retail stores in 15 different countries from a selection of more than 170,000 products.

Before the goods can be delivered they must first be sourced from all over the world. And shelves must constantly be restocked after products have been sold. What's more, the tastes and buying habits of customers differ from store to store and vary widely according to the season. Finally, records of each transaction must be fed back into the system to keep stock flowing smoothly.

It's enough to boggle the sharpest of minds, yet it is a feat that is pulled off on a daily basis by A.S. Watson (ASW).

Sourcing, distribution, logistics, computer systems — these are the back-office operations that can make or break any retail business. ASW has been able to improve on all these functions as it grows in size and scope, resulting in better service and product variety at lower prices.

A worldwide sourcing operation based in Hong Kong directs the buying activities of the different divisions around the world, with products from the Americas, Europe, China and Australasia.

"Sourcing is the lifeblood of the business," says Group Managing Director Ian Wade. "Without effective buying you don't exist. You need value, variety and point of difference with your competitors."

Goods are shipped to distribution centres throughout Asia and Europe, with sophisticated computer systems keeping track of product flow. Logistics and IT are integrated so that crucial commercial information is easily accessible at the click of a mouse.

"Logistics is vital within a health & beauty chain," says Gert Vos, Director of International Systems. "Just imagine that the products do not reach the stores, or arrive late. Just imagine that the costs of bringing the products to the stores are not the lowest possible.

"It is impossible to keep good track of the product flow without sophisticated computer systems," Mr Vos adds. "The commercial people want information on the sales per product, the margin per product and the effects of price promotions, etc. In a modern retail organisation this type of information is crucial. It is our task to deliver that information in a way that people want. Most information is generated by the products coming in and out of the distribution centre, flow to the stores and from the stores to the consumer. So logistics and IT cannot be separated, but are fully integrated."

Since the Kruidvat acquisition, more containers from Asia are reaching European shores, with pressure on centres increasing due to rising sales across all business units.

ASW is able to use experience gained in more mature economies and apply it to the quickly adapting Central European markets where it has opened three ultra-modern distribution centres in the past two years, most recently in the Polish city of Lodz.

Impressive expansion targets in the coming years mean the logistics and IT departments will have to anticipate change at every turn, and extensions and improvements are a way of life.

ASW is rolling out a sophisticated computing system across its European operations, starting in the UK. The new Windows XP-based point-of-sale platform, called StoreLine, is Web-enabled, allowing for inventory tracking across all stores as well as corporate training and operation, further enhancing operating efficiency and customer service.

Despite ASW's global reach, it retains a local, personalised approach. Products and packaging change from country to country to suit local needs and tastes. In the Philippines, for example, goods are marketed in smaller packages than in other countries, reflecting local shopping habits. Similarly, sun protection products may be relevant in certain stores in the summer season, while Vitamin C might be a big mover during the "influenza season".

Then, of course, there is Christmas, Easter, Chinese New Year, "back to school" and even "Sinterklaas" in the Netherlands — all requiring season-specific inventories — not to mention innovative and sustained promotional campaigns for a variety of products, ranging from toys to TVs.

With 170,000 product lines, the range and volumes indeed seem endless, but the overriding impression for customers is that the product they choose is one in a million.





“Fortunately, almost everybody speaks English,” he says.

“With management, you need an effective team, and effective delegation. Hutchison is a financial holding company but has had the ability to put together a team of international talent. That is why this company has done so well. Hutchison is the only Hong Kong company ever to target the rest of the world effectively.”

With its expanded multinational family of businesses, ASW

*There is still enormous opportunity for expansion, particularly in former communist-bloc countries*

has chosen to operate eight existing health & beauty brand identities under its corporate umbrella, setting it apart from other global chains, which typically homogenise after an acquisition.

“If there is value in the local brand, you have to get behind the local brand,” says Wade. “It is a point of difference in our operations. I can’t think of another retail business that operates different chains.”

The result is that the company operates on many levels, often within one market.

In the Netherlands, for example, Kruidvat trades side by side

**910 cities ...**



Founded in 1966, **Superdrug** is a leading health & beauty retailer in the UK with more than 700 stores nationwide. Known for offering good value, the chain carries over 6,000 products. It also launches hundreds of new own-brand products each year, working with suppliers to identify new trends and turn them into affordable high-street reality. All stores offer photographic services and around 25% have in-store pharmacies and/or in-store perfumeries.

with its former competitor Trekpleister, which was acquired in 1998.

Kruidvat is the market leader with branches not only in the bustling cities but also in the smallest villages while Trekpleister is rapidly emerging as the No.2 thanks to its compelling brew of a wide product range sold at low prices in a customer-friendly atmosphere.

Similarly, Savers and Superdrug in the UK run as parallel chains occupying different niches. Superdrug is positioned as a variety retail chain with spacious stores situated in prime spaces on the high street, whereas Savers is discount-oriented and operates out of smaller outlets.

A mature market in the UK, with strong competition in the health & beauty sector and the internal challenge of operating two brands side by side, creates a unique set of circumstances for doing business there.

“Our competition comes from some of the best and most sophisticated retailers in the world,” says Philip Ingham, CEO of Health & Beauty UK. “There are several other major players but at the other end of the spectrum there is also a growing band of small aggressive discount competition.”

Mindful of its particular market characteristics, the UK division aims to grow the profitability and size of both Superdrug and Savers by continuing to offer a wide range of products at good value while at the same time dazzling customers with innovative stores and exciting promotional themes.

#### LOCAL CHARM

The characteristics of each country’s market environment natural-



ly shape the nature of the stores that operate within it. Regulations in Continental Europe have meant that brands now owned by ASW have developed as cut-price health & beauty retailers rather than as chemists, whereas health & beauty operations in Asia and the UK typically evolved out of businesses geared towards dispensing pharmaceuticals.

Kruidvat started life as a grocery company in 1928, opening its first health & beauty outlet in 1978. These stores have a broader focus than pure health & beauty, targeting young families with

## 15 countries ...



**Savers** began in the UK in 1988 and was acquired by A.S.Watson in 2000. The chain operates more than 300 stores in England, Scotland and Wales. Savers’ mega-discount format, accentuated by simple store design, strong logistics and low operating costs, matched the values of A.S.Watson from the outset, and the company is rapidly expanding. It offers fast-moving health & beauty products, high-quality brand names, fragrances and photo services.



## LABELS OF LOVE

The A.S. Watson Group has a highly successful manufacturing division specialising in bottled water and beverages, but the company has no plans to manufacture products for the health & beauty market.

“My experience is that any businesses that are captive to each other tend to develop inefficiencies,” says Group Managing Director Ian Wade.

Instead, A.S. Watson (ASW) sources its products from far and wide, choosing to buy the highest quality at the best prices from a huge range of manufacturers.

When a new product is developed, the company will make its selection based on quality, price and what the customer wants. If such a product does not exist, ASW will initiate production, using established manufacturers.

The packaging and marketing strategy is also crucial. For example, “Own Label” products have become a market leader, with the Watsons China operation serving as a telling example.

In the past two years, high-quality Own Label products have struck a chord with Chinese consumers, particularly young women aged 18 to 35, accounting for more than 21% of sales in the personal care category.

The benefits of high quality and low price (20-40% cheaper than comparative branded products) are further reinforced by modern design and packaging.

“One of the essential factors behind the great success of Own Label brands in China is the total confidence staff have in the products,” notes Jurgen Schreiber, Director of International Buying.

“All Own Label products are first tested by our employees. In this way, we know that we have quality products and guaranteed staff endorsement, which helps create effective selling and word-of-

mouth awareness.”

Schreiber points out that the Watsons Own Label range is ranked close to the market leaders for comparative products.

“Own Label products provide a unique proposition in stores,” says Schreiber. “Customers now visit Watsons to buy both branded products and Own Label brands. In the long term, the growth of Own Label products will help balance and grow the company’s margins and counter the present retail trend of suppliers pressuring retailers more and more on price.”

A key to achieving success is through constantly updating the product portfolio.

The first step in new product development is market research. Watsons analyses sales trends in stores and consumer preferences.

“We have a ‘model shop’ set up in the warehouse, where sales in every product sub-category and stock keeping unit are analysed,” says Schreiber. “Based on the data on how well a product is selling, customer appeal and market research, a road map is set up which covers the brand plan for the next 1-2 years, including identifying which categories and products to pursue.”

Once product areas have been identified, the profit margins for Own Label production are examined. Should these margins prove positive, Watsons competitively selects manufacturers to create the product, based on stringent internal quality guidelines. Development usually takes anywhere from two to six months to complete.

The finished merchandise is delivered to stores where it is prominently displayed in Watsons Own Label corner. When consumers find that Own Label products represent great quality and outstanding value, they come back for more.

## 170,000 products lines ...



**Trekpleister** was acquired by its former competitor Kruidvat Group (now part of A.S. Watson) in 1998. The chain operates more than 200 stores and is on its way to becoming the No.2 health & beauty retailer in the Dutch market. Trekpleister’s private label was re-introduced in 1999-2000 and is a popular choice among its low-priced health & beauty offerings and growing range of general merchandise. It has ambitious growth plans.



a wide assortment of baby products as well as electronics and gifts. Kruidvat is also the market leader in digital photo services.

“Our most important strength is the consistent concept of all our stores,” says Dick Siebrand, CEO of Health & Beauty Continental Europe. “Because they are as much alike as they possibly can be, we are able to control the operations (and the costs) in a most efficient way, giving our organisation the strength to beat the competition.”

There is still enormous opportunity for expansion, particularly in former communist-bloc countries such as Poland, Hungary and the Czech Republic, where ASW operates under the Rossmann brand. The Continental Europe division is aiming to keep up its growth of 15-20% per year.

The Asia region also offers significant growth potential for ASW, with China and India — potentially the two biggest markets in the world — on its doorstep. It operates in-store pharmacies in Hong

Kong, Taiwan and the Philippines, in line with its historical development in the region, as well as pure health & beauty outlets.

Andrew Miles, CEO of Health & Beauty Asia, believes the “fun” aspect of the Watsons shopping experience sets it apart from other retailers. Watsons Your Personal Store offers an unprecedented mix of products and promotional activities — with the added angle of “fun” built around its core health & beauty products and encapsulated in the slogan: “Look Good, Feel Great and Have Fun.”

“The region is a mix of mature and immature markets, from Hong Kong and Singapore to Indonesia and Vietnam, with every country having its own culture and customer preferences,” says Mr Miles.

“Every time you visit a store you see a hundred opportunities,”



more than **55,000** staff ...



The **ICI PARIS XL** chain of perfumeries is the market leader in its sector in Belgium and enjoys a high profile in the Dutch market. It began operations in Belgium in the 1970s, expanding into The Netherlands in 1997. The Kruidvat Group acquired the chain in 1996, joining A.S. Watson in 2002. ICI PARIS XL operates more than 150 outlets offering a wide range of branded fragrances.

he adds. “Things move at speed here and its amazing how quickly you can make things happen — from sourcing a product to building a store.”


Without question, ASW’s growth into a global health & beauty powerhouse brings economies of scale, the benefits of a global sourcing operation, a bigger, more experienced management team and pooled industry knowledge from around the world. With each division in tune with its unique set of challenges, the company’s ambitious growth targets are inching into view.

“There is no reason why our organisation in all three parts of the world (Asia, the UK, Continental Europe) should not grow spectacularly in the coming years,” says Continental Europe’s Mr Siebrand.

He stresses the need for a flexible management style to cope with the growth consequences as well as extra effort all round to train good people.

ASW plans to open about 160 new stores in 2004. It is also scanning the horizon for suitable acquisitions and looking at markets ranging from Australia and Indonesia to Vietnam and India, and eventually as far afield as Africa.

“The health & beauty category still has considerable mileage,” Mr Wade believes. “There is lots of room for growth in the categories that fill our stores. People want to look good. The only danger in getting too big is if you can’t manage it.”

For now, the health & beauty business is no beast for ASW. As it moves towards becoming the world’s biggest retailer in the category, the company is enjoying healthy growth — and managing beautifully. 



## 10 million customers per week ...



**Rossmann Central Europe** operates more than 240 stores in Poland, Hungary and the Czech Republic. It is a 50:50 joint venture between A.S. Watson and the German health & beauty chain Rossmann. The chain has seen impressive growth since beginning operations after the borders between East and West Europe were opened a decade ago. The blend of Rossmann entrepreneurship and Kruidvat store concept has proved a winning formula.

## MORE THAN SKIN DEEP

“Retail business is a people business.” This is the mantra upon which the A.S. Watson shopping experience is built.

And one of the primary challenges for a multinational company with ambitious growth plans is to have key management and staff in position with the flexibility to handle every new twist and turn.

“Of course, our retail concept is extremely important, but we would be lost without qualified, motivated people in the stores, in the distribution centres and in the offices,” says Dick Siebrand, CEO of Health & Beauty Continental Europe.

The company employs more than 55,000 people around the world, from shop-front staff to logistics and IT experts, pharmacists and druggists as well as top-class managers (many of whom have worked their way up from the shop floor).

Staff training is an important investment, whether it be at store level — from ordering and shelf filling to product knowledge and customer advice — or in the area of head office support in roles such as accounting, tax, marketing and advertising.

ASW plays an important education role within communities where it operates, keeping its customers informed about public health, beauty and related matters.

When customers walk into an ASW store, they get much more than a great range of products at competitive prices; they also

receive exceptional service from staff who know what they are talking about.

The recently launched A.S. Watson School in Continental Europe gives specialised training at three locations in the Netherlands and one in Belgium. Candidate sales employees and store managers are instructed on day-to-day store practices with the aim that many of them will become the store managers of the future.

Within stores, customers can not only purchase products but also receive advice and information on health & beauty.

At ICI PARIS XL perfume stores in Belgium, staff undergo extensive training on skin care, fragrances and colours.

In countries where legislation permits the operation of in-store pharmacies — chiefly in Asia, the UK and the Netherlands — certified druggists are on hand to advise consumers

on over-the-counter medicines.

In Hong Kong, Watsons Your Personal Store has always actively promoted public health education. It participates in many in-store initiatives, distributing information designed to teach the community about nutrition, exercise and the benefits of healthy living. In that sense, ASW positions itself not only as a retail specialist but as a partner in improving the health of society at large, offering personalised advice on everything from beauty counselling to baby care.



## US\$8 billion turnover in 2002 ...



Airport retail specialist **Nuance-Watson** is a joint venture between A.S. Watson and Swiss company The Nuance Group. Its branded stores offer cosmetics, label products, electronics and general merchandise to travellers passing through Hong Kong and Singapore international airports. Beginning in Hong Kong in 1998 and expanding to Singapore in 2001, the chain opened its 45th store at Singapore's Terminal 2 in October 2003.