Can Stenders clean up on the UK High Street?

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STENDERS, the Latvian cosmetics, bath and bodycare business has expanded rapidly over the past eleven years. Using a franchise model the company has opened nearly 250 successful stores in over twenty countries across the globe. Recent rapid growth has been in the East, particularly in China and Russia, but now the company is eyeing up the possibilities in the West, and especially in London, which has an enviable reputation as an international fashion capital. But is London's crowded luxury retail scene a step too far for this masstige brand?

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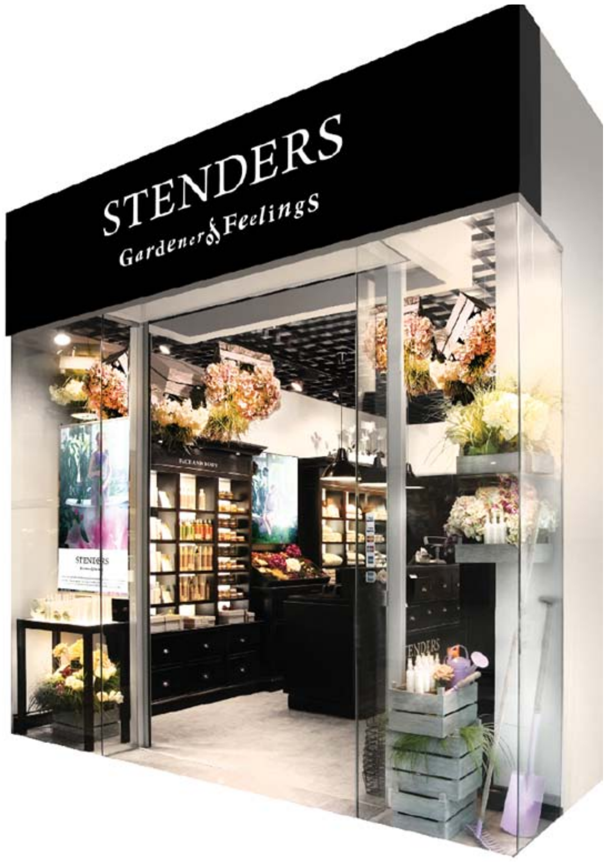
Introduction

Teodors Straujuma sat in the departure lounge at Terminal Two in Riga airport, waiting to board his plane for Londonand thinking over the meeting he had attended that morning. He had just been asked to report back to the board of his company, STENDERS with a recommended marketing strategy for the launch of the brand in the UK. The decisions involved were complicated. In the first place, how would UK consumers perceive the handmade bath and bodycare products and accessories, their Baltic positioning, and sensual "gardener of feelings" message? What brands did British consumers already buy, and how did they use them? And how well would they respond to STENDERS'traditional customer service, hand cut soaps andfree gift wrapping? What about the price-point? Even if the positioning was attractive, how easy would it be to find the right franchisees to run the stores, and more importantly, the busiest affordable locations to trade from? Was franchising even the right model for the UK? Teodors reflected that business was building nicely in Russia, China and across Asia; there was still plenty of room to expand in those current markets without taking risks in Britain. But on the other hand, STENDERS might acquire a certain international *"je ne sais quoi"* if it could boast the prestigious London address amongst its other conquests.

That morning the directors had revealed their long-term aim ofopening 100 UK stores, with the expansion managed by a master franchisee. They feltthat the UK market was potentially lucrative and had requested an outline marketing strategy to shape the recruitment process.The strategy would need to define the optimum competitive positioning for the brand and the steps necessary to align this positioning with the established international brand identity. It would need to bebased upon a thorough audit of the UK beauty retail market, and it would have to confirm the nature of the opportunity, identifying potential threats and describing how the brand's resources and competences could be leveraged to create a sustainable competitive advantage. As he boarded the plane for the short flight to London, Teodors began to put the pieces together in his mind.

STENDERS

STENDERS is a fast-growing beauty & cosmetics retailer. It is based in Latvia on the north-easternmost fringes of the European Union, where the company employs a staff of over 100. In the past eleven years STENDERS has opened nearly 250 stores with its franchise partners, a number now increasing by 20 - 30%, annually, with many new store openings planned in eastern Europe, the CIS[1] region, China, the Middle East and Asia. There were now over seventy partners, including some master franchisees with territorial exclusivity.



The STENDERS concept is a *masstige* retail format, with a strong brand identity based on old-fashioned service and sensual, natural indulgence. Stores are well-designed, sleek and brightly lit, distinctive in having copious quantities of dried flowers in baskets and hanging from the ceilings, which give a traditional sense of natural abundance. Flowers are an essential part of the wrapping and presentation too, and the look is consistent from store to store. A typical shop is between 800 and 1000 sq ft, although some are far larger and the company also has a smaller kiosk format.

The business produces and retails high-quality bath, body and facial cosmetics designed to stimulate the senses during the daily health and beauty skincare regime; there is a wide range of cleansing bath, sauna and massage products. Each draws upon the healing properties of plants and herbs, especially those that grow in the Baltic region, the traditions of ancient medicine and the belief in the magical healing power of nature. STENDERS currently

[1] A commonwealth of independent states, formerly parts of the Soviet Union: Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine.

produce over 300 products, while an active NPD programme aims to add a further 25 each year, developed with natural efficacy in mind.

Packaging is all-natural and eco-friendly, and a popular feature of the retail format is the bespoke gift-wrapping service, part of a unique shopping experience designed to help each customer feel something special, to respond purely to their senses, and to create brilliant moments out of the rituals of each day. The typical response is:

"I feel like I've stepped into a secret garden, full of the scents and colours of nature. I'm touching, trying to sense the products, to capture how it makes me feel, until I find something that speaks to me at that moment."

The STENDERS strapline is "Gardener of Feelings", suggesting a role for the brand in enhancing the natural, sensual and indulgent moments of daily life. These touchpoints can be brought to life through the five defining values of Quality, Joyfulness, Creativity, Knowledge and Nature, and the company vision statement clearly connects these brand values to the future success of the business;

"To become one of the leading brands in the global beauty industry with truly effective cosmetics and a passion for nature."

Brand Repositioning

Teodors thought carefully through the repositioning work he had recently completed to make the brand more distinctive in the international arena. His research suggested that the most common customers in the shops were women aged 24-45, who love beauty and natural beauty products and were happy to spend money and time on face and body care, as well as on recreational rituals, such as long and relaxing baths. The research had found that to continue to appeal to these buyers, STENDERS needed to be known as:

A little more expensive (perhaps about the same as L'Occitane en Provence)

A little less rural; a little more classic and sophisticated (the NY chic of Kiehl's)

A little more rooted in science than magic: effective as well as sensual.

Having a slightly wider range (but not as hectic as The Body Shop)

The work on the products, packaging, store ambience and websites was now almost done, and the brand was looking rather sleeker and more modern. Perhaps the time was right for a new market entry in the UK, especially in London, known the world over as a fashion capital, and home to the most famous luxury brands.

A new STENDERS franchisee anywhere in the world could expect not just training and know-how about products and systems, financial planning, HR and retailing and marketing support in order to trade the brand profitably. They would also be encouraged to generate ***extra*** profits through B2B channels selling into spas and health clubs in their territory, and as corporate gifts. Both areas were proving lucrative for many franchisees, generating additional contribution to fixed overheads. And for STENDERS, a branded presence in a new market would build awareness for the online operation and in some countries the company website was generating the same turnover as a large store.

Thinking over the strengths of the business, Teodors believed the brand was in better shape than before, that with each passing month it became stronger as stores kept opening and awareness built worldwide. The franchise was an established system, and many franchisees owned several stores, proof that the concept was good. In fact, the biggest problems were to do with economies of scale: keeping up with production, expanding distribution systems, and the resulting arguments with franchisees about management fees when things went wrong. In some territories, the franchisees were prone to going it alone, often degrading brand values with impromptu shop fittings or marketing materials or using off-manual trading techniques. As independent businesses, they often found it hard to understand the strength that comes from consistent brand management. But how would this play out in the UK Teodors wondered?

The UK Beauty Retailing Market

According to Mintel (2012), the UK Beauty Retailing market was worth £14.8 billion in 2011. The biggest players were Boots (15%), Tesco (12%) and Superdrug (7%) and the overall share for multiple grocers (excluding Boots & Superdrug) reached over a third. In this total, Mintel also include a sub-category of "specialists", small retailers that would constitute the potential direct competitor set for STENDERS. The biggest of these is The Body Shop, but other brands include Lush, Molton Brown, Space NK and L'Occitane. There are newcomers emerging too, such as Kiehl's, the US chain. These *masstige* brands are fighting for a piece of the action in the one part of the market which has shown some recent growth.From the Mintel datain Table 1 it can be estimated that average annual turnover from a small specialist UK retail store is about £500,000, but varies by brand. It is also clear that the number of stores contributes largely to the different brand sizes. Competition does not frighten the management team. STENDERS franchisees compete with many of the specialist brands around the world, and the company's marketers benchmark their offer in terms of quality, product range and pricing against the L'Occitane en Provence brand.

Table 1: UK Competitor Outlets, Turnover and Performance, 2011.

Brands	Outlets	Share of Retail Space (%)	Sales (£m)	Sales year on year (+/-)
The Body Shop	311	54	156	-2
Lush	94	16	44	7.3
Space NK	60	10	50	6.2
L'Occitane	53	9	33	21.2
Molton Brown	40	7	46	-4.1
Kiehl's	15	3	n/a	n/a

Source: Mintel - Beauty Retailing- January 2012

The UK market is mature, large but highly competitive. Expenditure is broken down into various sub-categories in Table 2. Not all brands compete in all categories, but the market is characterised by a choice of well-established brands across a range of price points, sold through familiar channels including the retail specialists. There are somepossibilities for new entrants with a more premium positioning (both Lush and Kiehl's are fairly recent arrivals) even in the depths of a recession.

Table 2: Proportion of estimated UK expenditures in 2011 on certain categories
(Total Value in this table: £8.8 billion)

Category	%
Haircare	16
Make-up	15
Facial skincare	11
Men's grooming products & toiletries	11
Women's fragrances	10
Oral hygiene	10
Soap, bath & shower products	7
Deodorants &bodysprays	6
Shaving products & depilatories	6
Women's bodycare	4
Suncare preparation	3

Source: Mintel- Beauty Retailing - 2012

Consumer Motivation

According to Mintel (2012), many consumers have responded to the recession by cutting back on services such as hairdressing, but upped their spend on personal grooming products, leading to some growth in the shampoo, bodycare, shampoo and bathing categories over the past few years. Despite low consumer confidence throughout 2011, Mintel concluded that younger people and more affluent groups continued to spend and may well have bought as much if not more than the year before. The luxury end of the market performed well too and that ties in with department store shopper numbers declining less sharply than those retailers with a less affluent customer base (such as Superdrug).

Although most category sales are made through Boots, Tesco and the other multiple retailers, younger people (men and women under 35) are the least brand-loyal, reporting that they had shopped for beauty products from at least three different types of store in the past year, despite numerous loyalty card schemes on offer.There is still some resistance to shopping for more premium beauty products over the internet, even from more affluent and younger consumers, but this may be partly due to the limitations of the medium, since shoppers can neither touch nor smell the goods, or in fact see the colours very accurately online. This may explain the fact that 25% of internet shoppers in the category are driven by personal recommendations (higher than any other type of shopper), while for established brands, and for "re-orders" online shopping offers convenience and even some savings. Boots, along with many specialist beauty retailers are investing heavily in their online presence, and in building large consumer databases of brand users, since this is also a medium favoured by shoppers of up market brands.

Drivers of purchase were found to be equally split between quality (46%) and value for money (49%), and once again, the younger consumers were motivated more by a wide choice of brands (21%) than by any loyalty scheme. Interestingly for retailers such as STENDERS, customer service was a fairly strong driver in the category, with over a quarter (26%) of respondents saying it was important to them. For older customers, product efficacy becomes far more important; rather than any celebrity endorsement, this group prefers brands that work, and are more likely to be loyal if they find one they like. While men are becoming more interested in the category, they remain more price-sensitive than women and even more questioning of both quality and performance claims. Overall, Teodors considered this to be a relatively encouraging picture for STENDERS, particularly in London.

London: A Vibrant Retail Market for Luxury Brands

Recession? What recession? London continues to attract large numbers of wealthy overseas visitors from the Middle East, Far East, USA and Europe. The range of luxury goods on offer and the continuing relative weakness of Sterling against other currencies are making prestige brands quite a bargain in the UK, helping to attract many high-spending shoppers. Year-on-year salesof luxury goods increased by 19% in 2010,and 2011 also saw healthy growth. Harrods reported that sales in December 2011 surged past the £1bn achieved in 2010. Demand for prime space in central London locations therefore continues to grow despite concerns over the Eurozone economies and the rise of internet shopping, because luxury brand retailers are becoming increasingly discerning in their search for prestige locations and high spending traffic for new stores. This has an inevitable effect on retail rents.

Shop rents and rates are calculated as the cost per square foot of space per year. The Financial Times recently highlighted just how far strong demand for retail space on more prestigious shopping streets has driven rents over the past eighteen months (Massoudi & Barrett, 2012). A record was set in April with Italian fashion brand Salvatore Ferragamo agreeing to pay nearly £1,000 per square foot per year for part of its space on Bond Street, a deal which broke the previous Bond Street record set by Piaget, the Swiss jeweller, of £965 per square foot in 2009. Peter Mace, retail partner at estate agents Cushman & Wakefield, pointed out that *"Companies have to be creative on Bond Street because there's nothing available,"* but went on to predict that *"in the next three to six months, rents will eclipse the £1,200 per square foot barrier."*

According to the commercial estate agency CBRE, Bond Street remains the most expensive retail location in London but Sloane Street has also seen significant rental growth during this period. Zone A[2] rents have now risen to a record £800 per sq ft at the prestigious northern end of the street as a result of new lettings, an increase from £675 per sq ft in 2011.

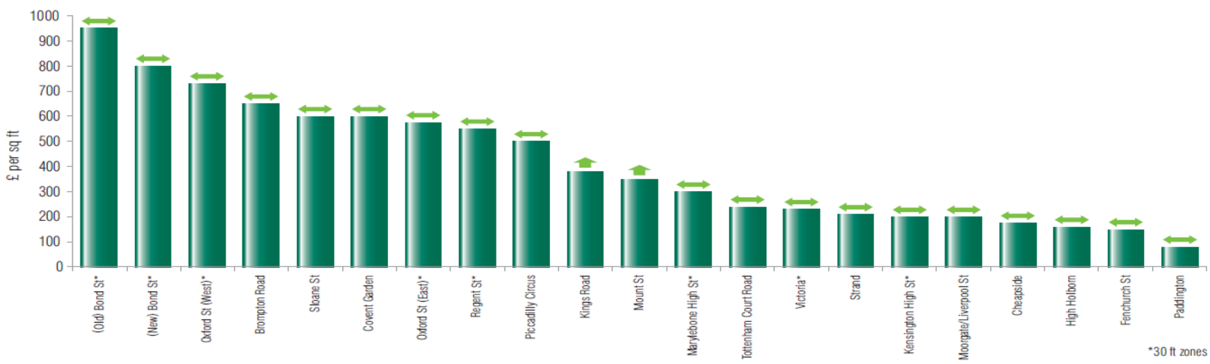
Meanwhile on Oxford Street, the proposed 120,000 sq ft Primark flagship at the junction with Tottenham Court Road is driving rent increases to surrounding properties in reaction.Regent

[2]Zoning is a standard method of measuring retail premises for valuation purposes. It recognises that the most valuable part of the premises is the front part nearest the window, so a shop is divided into a number of zones, each with a depth of 6.1 metres (20 feet). The front part, nearest the window, is Zone A, the next 6.1 metres becomes Zone B, and the next is Zone C. Each zone is generally considered to be worth half as much as the previous zone.

Street is being transformed with the arrival of more than 150,000 sq ft of new and upmarket retail and restaurant accommodation. Coach and Sebago have both recently acquired stores and join Hollister, Superdry, and a new 30,000 square foot Burberry flagship. New lettings on Kings Road included a 7,000 sq ft flagship store for Massimo Dutti and Gerard Darel at number 90. In Covent Garden recent arrivals included Links of London, GShock, Oliver Sweeney and Eileen Fisher. There is a growing sentiment that both spend and customer demographic areimproving.

Prime rental values continued to rise in Central London throughout 2012 and 2013 at a rate of 4% driven by stronger economic growth (see appendix A). Figure 1 shows annual rent per square foot of retail space in various London locations at the end of 2011, and demonstrates the value of a good location. A Bond Street address cost about twice as much as a “high street” like the Kings Road, but ten times as much as a shop in Paddington, barely a mile away.

Figure 1.Central London Prime Rents (£/ sq ft): Q4 2011



Source CBRE

Transportation Terminals&Shopping Malls

As well as a shop on the high street, many prestige brands are being drawn to new retail space created in railway stations and at airports, attracted by the high volumes of passing trade. In Network Rail stations (which includes most of the London terminuses) rents are based on a percentage of turnover and a minimum guaranteed threshold. According to Network Rail, the percentage payable varies by category, reflecting the gross margin of the product, but tenants must also be able to show evidence of a high quality offer, usually based on at least two currently trading locations. Other transportation terminal owners such as airports and bus stations have similar requirements, since demand for retail space is usually much higher than supply here too. When units become available, landlords can afford to consider the range and credibility of the retail mix on offer to travellers when selecting prospective tenants (Network Rail, 2012).

Of course Londoners and shopping tourists are not restricted to the West End when searching for indulgence and luxury; they can also visit the Westfield shopping malls to the east and west of the city or go out of town to Bluewater or other large retail sites. These malls now play host to many prestigious brand name stores, but offer their customers all the advantages of easy parking, no congestion charge and a weather-free environment. Space in Westfield is priced more cheaply than the out of town malls, between £300 and £400 per sq ft, and rent-free deals of up to thirteen months have also been reported to entice tenants into the new and unproven locations (Hall & Ruddick, 2008).

In addition to the rent, any shopkeeper must also pay business rates (usually about 40% of the annual rent) and for heat, light and insurance premiums. The costs of opening a shop also include payments for the fixtures, fittings and signage, and for a prestige store these are often expensive. The business owner may therefore also be paying off a substantial bank loan, and such fixed costs all add up to an intense pressure to maximise the return on every available square foot of space by bringing more customers into the store, and increasing the share of their wallet. A good way to attract the public in is by trading a well-known and highly desirable brand name, and the main advantage of taking on a franchise is that this is possible from the minute the shop opens its doors to customers, eliminating the risk in establishing goodwill, or brand equity over many years.

The Franchise Concept

When a successful business can be reduced to a simple model and strongly branded then franchising is a very well established method of accelerated expansion because it uses the capital and entrepreneurial drive of franchisees to underpin growth both at home and overseas. Franchising is a common method of introducing a business concept in new territories, as many US brands testify, including KFC, Holiday Inns, Hilton Hotels, Pizza Hut and McDonalds, while The Body Shop, originally a British franchise, now has about 2,500 outlets around the world. From the consumer's point of view, there is no difference between the franchisor's corporate outlets and a franchised one. The franchisor licences its franchisees to use its business format and brand, and trains them to do so in order to maintain brand standards. Of course there are a variety of fees for this, typically including:

- ***An initial franchise fee –***for territorial exclusivity & the right to operate the concept.
- ***A store opening fee –*** an upfront fee payable on opening each franchised outlet.
- ***A service fee***– a percentage of gross turnover for continued use of the brand name.
- ***A mark-up*** on all products and equipment supplied by the franchisor to the franchisee.
- ***A marketing fee –*** usually a percentage of gross turnover as a contribution to any local, regional or international marketing campaigns that the franchisor may run to support the brand, and that will also benefit the franchisee's business. In addition, the franchisee may be required to commit to a minimum spend on its own local marketing campaigns
- ***A training fee –*** an amount charged from time to time by the franchisor for training the franchisee to operate the business and provide ongoing assistance and support.

The franchisee makes a profit from supplying the goods or services to the customer. The franchisor makes it from allowing the franchisee to use its know-how and intellectual property rights. Both parties have something to offer. The franchisor should have a proven business format comprising continually developing know-how, methods of operation, products and trademarks. The franchisee should have sufficient capital to invest and the will to succeed (Field, Fisher Waterhouse, 2012).

For franchisees, business is made less risky, and help and advice is always at hand, while franchisors can increase the number of outlets with minimum capital outlay and so accelerate the network's growth and profitability. This means that over time the franchisor's role becomes one of managing a network of semi-independent business people, policing and monitoring standards, which can become difficult if a lack of trust or a personality clash emerges. Franchisors must learn to use both carrot and stick to implement new techniques or to improve current performance, easily done when the going is good. Carlye Adler (2001) described the experience of the Rakey family who opened several Body Shop franchises in the US as the company expanded through the 1990's. They found a good location for their first shop;

"[….] and then got two others in the St. Louis area. Each store came with a steep price tag: $250,000 for the store fixtures, $40,000 for the franchise fee, and $75,000 for inventory. But as more and more people signed on, it was clear there was something special about the company. The other franchisees were teams of mothers and daughters, brothers and sisters, and happy couples. […] Many people involved with the Body Shop in its early years thought of it more as a family - albeit a dysfunctional one - than as a company. Most important, business was good. "You needed a shoehorn to get into the store," says Rakey. Annual sales at the shop in the St. Louis Galleria mall reached $950,000 after just three years. Wannabe franchisees were referred to Rakey. He told them the Body Shop was a "good deal" and "honorable." Sure, there were problems. Systems weren't computerized, ordering was done via 30-page faxes, and an early invoice showed up on plain paper--no letterhead. But those were minor glitches, and as Rakey says, "We were fat, dumb, and happy."

(Adler, 2001)

Franchising can work well for both parties, but as the franchisors' bargaining power grows with the expansion of the franchise network so does the chance of the value of the franchise package being eroded, either if a franchisee starts to experiment on its own accord or if a third party attempts to copy the franchisor's brand or business. In such cases brand value will be damaged, so the franchisor must constantly police operations to ensure that standards are carefully maintained and that rogue third parties and counterfeiters are swiftly dealt with.

Franchisees and franchisors both share an interest in human resources. As an independent business owner, the franchisee will employ retail staff who must b trained in accordance with the franchise manual. Those staff must be motivated since they do not own the business. Another human resource issue is that organisations must be conscious of discriminatory practices not least around protected characteristics. This is not only to be consistent with evolving UK employment and equality legislation but it might also be argued that diverse business can be more successful.

Financial Analysts on The Body Shop

Public Liability companies face additional burdens. Financial analysts Trefis (2012) describe how the franchising concept continues to work for The Body Shop. The number of outlets has increased at an annual growth rate over 8%, from 2,000 in 2005 to around 2,550 in 2008. Emerging markets in Asia, Africa and Latin America remain new opportunities, and The Body Shop is now expanding rapidly here too by franchising outlets and adopting penetration pricing strategies. In less than four years the brand has opened 55 stores across 23 cities in

India and plans to increase the store count to 150 in the next four years, 100 within the next two years. At present almost two-thirds of The Body Shop stores are franchised, but analysts are pointing out that rapid expansion comes at a price. The Body Shop shares revenue with its franchise partners, reducing both L'Oreal's operating margins and the level of control exercised on the brand and its positioning. The brand has an EBITDA margin of less than 12% compared to a L'Oreal average of over 20%, and with an increasing proportion of sales coming from outlets in emerging markets, at discounted prices, expansion isrisking L'Oreal's share price.

The UK Franchise Sector is still growing

Meanwhile back in the UK, according to the NatWest Bank, which publishes an annual state of the nation survey, franchising is a booming industry. The estimated annual turnover of the business format franchise sector in 2010 was £12.4 billion, up from £11.8bn in 2009. The number of business format franchisors operating in the UK also rose by 6% to 897, and while most were independent systems, 10% were master franchises (businesses that manage sub-franchising of the system exclusively across a large territory).

NatWest reports that the cost of setting up as a franchisee in 2010 ranged from £20,000 to £900,000, with the average being £150,000 - £170,000, and that average annual sales per unit were £335,000 (although this reflected a wide range in individual unit turnover). Despite the recession, cases of financial failure were low at just 3.1% which, coupled with lengthening tenure for the average franchisee (now 8.4 years), confirms a surprising sector stability.

For franchisors, getting the right partners started is time consuming. On average it takes a franchisee 4 months to decide to purchase a franchise, and a further 2 months to be trained and to set up in business. It can therefore take a new franchisor up to 6 months to recruit their first franchisee, although the biggest barriers to growth are the lack of suitable franchisees, not surprising given the number of available franchises now on offer, and the pressure on suitable retail properties.Some financial considerations had been established by earlier research undertaken by a consultant for STENDERS (see Appendix B). As to othercosts, a franchisee should expect to pay on average:

- ***Service Fee*** - 8.4% of turnover
- ***Advertising levy*** - 2.3% of turnover
- ***Initial franchise fee*** - £14,600
- ***Store opening fee*** - in the retail sector, £98,000.

The NatWest report also identifies two further attributes of the UK franchise sector; first, one third of all franchisors in the UK are of a sufficient scale that they have operations in other countries. This should be reassuring to potential partners. In addition, overall satisfaction with the franchisee/franchisor relationship is high, and improving, but still leaves 11% of franchisees dissatisfied. Unsurprisingly the majority of these were also loss making. As Teodors' plane began its descent into London, he thought that the UK franchise market looked very healthy, although rather competitive. While recession is a good time for franchising businesses, as many people are made redundant and begin to look for something to invest in, on the other hand there were nearly a thousand brands to choose from! How could STENDERS stand out from this crowd? And what about competition for consumers?

Competitors & Competitive Rivalry

The cosmetics bath and bodycare industry is global in nature, with many brands positioned on their country-of-origin (COO) attributes to develop both differential advantage and prestige in markets around the world. Apart from retailed brands such as STENDERS and Lush, there are also a large number of competing brands that are sold through more or less prestigious retail outlets including department store concessions and specialist chains such as SpaceNK. At one end of the scale sit truly prestige brands, while the greatest volume sits with mass market global brands such as Dove and Lynx, and with retailer own-labels. The success of the *masstige* retail companies has been to bring a prestige experience to a wider market at a more affordable price, but this success depends upon building and maintaining a credible middle-ground positioning in a changing marketing environment, a difficult enough brand management task even in one country, as Thornton’s chocolates have found out to their cost in the UK. STENDERS’ franchisees face four international retail brands each day on high streets around the world; if they launched the brand in London they would face them here too. These brands are The Body Shop, L’Occitane, Lush and Kiehl’s.

The Body Shop

The first Body Shop store opened in 1976 in Brighton, and by 1978 a kiosk in Brussels became the first overseas franchise. Just four years later new shops were opening at the rate of two per month. Against animal testing from the first, The Body Shop turned increasingly toward social and environmental campaigns to promote its business, first with Greenpeace and Fair Trade, then in 1997, through a global campaign to raise self-esteem in women and opposing media stereotyping. Anita Roddick, always the prominent face of the business, campaigned against unreasonably skinny models in the context of rising numbers in bulimia and anorexia.

In 2005, The Body Shop opened in Jordan and in Russia, bringing the total stores around the globe to 2,045. In 2006 it became part of the L'Oréal Group, operating as an independent business from the UK, and continuing franchise expansion. In 2011 the brand posted sales growth of +4.2% (L’Oreal, 2012) to over £330m through a combination of new stores, new products and new campaigns. The Body Shop now shares the benefits of its expertise and its unique Community Fair Trade programmewith the rest of the group. Six natural ingredients from this scheme —aloe vera, cocoa, olives, sesame, soya and sugar—have now been included in more than 200 L’Oreal products.

Also in 2011 The Body Shop opened new sales websites in Spain, Denmark and Austria, and it now has 16 websites in the strategically important e-commerce sector. Online sales already account for more than 10% of turnover in some countries, and ambitious targets have been set for future years. Meanwhile, the brand is stepping up its involvement in social networks, and today has 80,000 followers on Twitter and 950,000 fans on Facebook (L'Oreal, 2012).

L'Occitane en Provence

L'Occitane en Provence is an international retailer of body, face, and home products based in Manosque, France. The company was founded in 1976 by Olivier Baussan, and its stated brand values are: "Authenticity and naturalness, effectiveness and pleasure, respect and responsibility." The first L'Occitane shop opened in 1978 in Volx, a village in Provence, following which Baussan took over a disused soap factory in Manosque, another Provençal village, and began to manufacture vegetable-based soaps using traditional methods, including fragrance distillation from the lavender which grows so copiously in the region. In the 1990's a focus on marketing strategy paved the way for international expansion, and the company changed its name to 'L'Occitane en Provence', to strengthen the connection with the company's roots, and to resonate more deeply with an international audience. Clarins became a financial investor in the company in 2001.

L'Occitane products are now sold in over 80 countries, through over 1,500 retail locations, half of which are company owned stores. The brand generates annual sales in excess of €500 million, and now plans over 650 further store openings with the capital raised from its 2010 listing on the Hong Kong stock exchange. L'Occitane products, including bath, body and hair care for men and women, are formulated largely with natural ingredients still sourced from Provence, but with a concern for sustainability and the environment. L'Occitane en Provence has a UK website and gives sample sachets with each online purchase and in store to widen its customer's repertoire.

Lush

Lush cosmetics started life in the late seventies as Constantine & Weir, selling natural soaps and shampoos to The Body Shop; in 1988 the founders sold their formulas to Anita Roddick (for £6m!) and left to set up a new company, Cosmetics to Go. Here they developed bath bombs, shampoo bars and massage bars. Customers loved them but the company was losing 10p on every item sold and never made a profit. At the third attempt, the serial entrepreneurs opened the first Lush shop in Poole in 1994 and turned a profit in their second year.New shops were quickly opened, starting with London's Covent Garden (Jenkinson and Sain, 2003). Lushis a brand which communicatesits passion, energy and iconoclasm, through all of its fresh-made products and its extraordinary retail experience. One academic from the Rotterdam School of Management who investigated the concept wrote effusively about the in-store experience:

"Once inside the shop all your senses literally wake up in a fraction of a second; the colours of the forms of soap or of the bath ballistics make the effect of a rainbow in the room, your eyes are continuously attracted by different objects and you would like to experience everything. But it is again the smell, the human sense that is most stimulated by the place. The shop has also a nice and cosy atmosphere, with the lighting creating a warm environment, the walls painted with warm colours, the furniture made of natural wood and the use of natural stone for the floor and for some displays, and music diffused through loudspeakers. Everything seems to be

carefully orchestrated to make the stay in the shop an enjoyable experience and to make the customer feel more comfortable."

There are now more than 720 Lush stores worldwide, in Europe, Canada, Australia, South America, Singapore Russia, Taiwan and Japan, with production laboratories to match since the aim is to offer "the freshest products in the history of cosmetics" - soaps, bath foams and oils, massage bars, moisturizers, creams, perfumes and deodorants; a huge assortment of colourful fragrant fun and fizzing cleansers. All UK shops are company owned but shops overseas are run as partnerships between Lush and local managers, not franchises. Unlike L'Occitane en Provence and Kiehl's, Lush does not supply any other retailer. Everything they produce is sold only in Lush shops or on-line from Lush websites. Turnover in 2011 exceeded £270 million, with profits over £21m (Watterson, 2012).

Kiehl's

Kiehl's opened in 1851 in Manhattan's Lower East Side as a pharmacy. 150 years later US competitors of all sizes were still marvelling atthe brand's ability to create exceptional customer demand without even revamping its turn-of-the-century packaging, its habit of giving out wildly generous samples from the stores, and its sales success in Neiman Marcus, Barneys, Bergdorf Goodman, Saks Fifth Avenue, and Harvey Nichols in London. By 1999 Kiehl's sales hit $40 million at a profit margin estimated to be 85%, and had become so popular with fashionistas and skin-care connoisseurs worldwide that L'Oreal, the world's biggest cosmetics company, paid over $100 million for itin April 2000. The family owners of the business were so impressed by the fact that L'Oreal spent more than any other cosmetics company on research and development - about 11% of annual sales compared with Estee Lauder's 4% -that they agreed to the offer (Chaplin, 2000).

Between 2007 and 2010Kiehl's ***doubled*** its sales. Its secret continued to be a subtle mixture of products whose efficacy stems from the long pharmacological tradition; the extraordinary world of the stores, which often feature a Harley and a Mr. Bones skeleton in a lab coat; plus an innate sense of generosity. This quirky, cool brand ethos is consistent worldwide, relying on sampling not advertising to generate word of mouth in the 37 countries in which it operates,and particularly in Asia, where the brand has taken on cult status. Total sales in the region are now comparable with North America, and Kiehl's continues to roll-out in new countries, including India. It now has 177 stores worldwide (15 in the UK), and over 550 sales outlets, so that brand turnover was estimated to have hit £120m by 2010 (Tyler, 2012).

In each company-owned store, Kiehl's insist its highly trained customer representatives are skincare experts, and that its efficacious skin and hair preparations uphold the same standards of excellence and quality espoused since 1851. According to L'Oreal's annual report, Kiehl's is now planning to extend its conquest of the men's market (it is already number three in prestige men's skincare in the US) and to develop e-commerce, adding to online stores already running in ten countries. The aim is to have at least aninternet presence in all its markets (L'Oreal, 2012). Kiehl's have also developed a number of Fair Trade partnerships, and they support non-profit, charitable organisations in three areas: AIDS research, cure and care; environmental conservation and sustainability; and outreach programs to benefit children and local communities (www.kiehls.co.uk)

Masstige Pricing

Beauty is in the eye of the beholder – value propositions vary widely in the UK bath and bodycare market. *Masstige* brands occupy a broad middle ground between luxury brands and everyday products, which appear to be trading at poundshop prices by comparison. The difference is almost entirely in the intangible values (note Kiehl's reported 85% gross margin), so brand positioning and brand image must be managed carefully and consistently, and points of parity and points of difference communicated effectively. Table 3 highlights the***forty-five fold difference*** in price level, suggesting usage for the more expensive as an occasional indulgence or gifting, as well as a wide range of different brand meanings from the mundane to the fun, exclusive, international and prestigious all designed to add more or less value to the same core benefit.

Table 3: Price Comparison; branded shower products

Brand	Product	Size	Price
Clarins	*"Eau Dynamisante"* Shower Gel	150ml	18.00
Kiehl's	Bath and Shower Liquid Body Cleanser	250ml	15.00
L'Occitane	Verbena Shower Gel	250ml	13.00
Lush	*"It's Raining Men"* Shower Gel	250ml	8.50
Body Shop	Coconut Shower Cream	250ml	4.00
Boots	Bath Cream	500ml	1.35

Prices as at November 2012.

STENDERS maintains a pricing policy to undersell L'Occitane by 10% in many markets, but will its "gardener of feelings" brand positioning support this level in the UK where tastes are well developed and consumers broadly experienced? Consumers, particularly in London, are clearly still prepared to pay for luxury brands, but much of the brand meaning is contained in the retail offer and this depends partly on prestige store locations. Are these available or affordable? If STENDERS enter the UK market they will be competing for customers on every high street and on-line, against a wide range of well-known retailers and brands, both up and down market, that range from Tesco, ASDA, Superdrug and Boots, through other *masstige* brands (including many not even considered here, such as Crabtree and Evelyn and Molton Brown), and up to the luxury houses, and department stores. In addition they must expect to take on these brands for retail premises in the best locations, and to fight hard to attract the most ambitious potential franchiseeswhoalready have over eight hundred different business franchises to choose from.The brand-level competition for space between STENDERS' nearest competitors was shown in Table 1.

Research Findings

Sitting in the back of a cab, stuck in the rush hour traffic on the M4 into town, Teodors had time to look over the findings from the research he had commissioned in the UK. The first study provided benchmarks of retail buying behaviour in competitors' London stores to establish market potential. The second study comprised qualitative discussions with four demographic groupings, and the third was a consumer awareness, usage and attitude survey. Surely insights from these reports would help with strategy development? Teodors turned first to the footfall survey, to see how well his competitors were performing in the capital.

Footfall Audit

The data in this first study had been derived from observations of footfall numbers, store visits and store purchasing for each of the four competing brands on two days, and in four types of location; West End, High Street, Shopping Malls and Transportation Terminals.

Table 4. Central London hourly footfall audit for four *masstige*retail brands

Brand	Footfall		Proportion Entering		Proportion of Visitors Buying		Avg. Spend	
(Ordered by size)	*Wed*	*Sat*	*Wed*	*Sat*	*Wed*	*Sat*	Wed £15	Sat £20
	,000's		*%*		*%*		*£'s/hr*	
The Body Shop	2.0	4.2	5.9	4.3	39	33	690	1200
Lush	1.0	1.8	4.1	5.9	61	48	380	1020
L'Occitane	1.2	2.1	2.5	2.6	19	31	90	340
Kiehl's	0.7	1.2	2.7	2.5	55	56	150	340
Average	**1.2**	**2.3**	**3.8**	**3.8**	**43**	**42**	**328**	**725**

From the footfall audit presented in Table 4, a number of very clear patterns emerged along with some important exceptions. The first pattern was that the dominant factor in sales per store was the number of potential shoppers passing the front door. Any shop in this category could expect to bring in about four out of every hundred passers-by at peak times, and sell something to about two in five of them, so clearly, the more passing traffic, the higher the sales.Given the importance of footfall, it was also easy to see that some retailers (especially The Body Shop) were better at acquiring high traffic locations. This could be due to stronger relationships with estate agencies, or a better ability to pay the higher rents demanded for busier sites, but in any case it had implications for any brand trying to enter the market, since winning the best locations was obviously a critical success factor.

The second, slightly unsurprising pattern was that Saturdays were busier than weekdays, but the table showedby how much: on average, footfall doubled. This hadcrucial implications for store managersand franchiseeswhomust ensure adequate levels of both staff and stock ahead of the surge; a lost sale was lost for ever. One exception to the pattern was seen in some station locations which were busier during the week and quieter at weekends.

A third pattern in evidence was the nature of brand strength. The Body Shop was the best known brand of the four competitors, and as well as having the best locations, it also attracteda higher than average proportion of the passing trade into its shops. In fact, the ability to attract passing trade into the store was directly related to brand size – the better known the brand, the higher the proportion of potential buyers it was attracting in. But it was also clear that in the case of Body Shop, these potential buyers were not being converted, which supported some of the recent adverse comments about brand performance. Nevertheless, given the rule-of-thumb average spend it was also probable that The Body Shopwasstill outperforming its rivals, although Lush was chasing hard. While this newer brand's stores were not in such high traffic locations, they still managed to attract in above-average numbers, but unlike Body Shop, wereable to convert more of them.

L'Occitane and Kiehl's appeared to be in lower footfall locations, andwerealso less able to entice potential buyers into store. Unlike the leadingbrands this wasprobably a function of brand size, the Double Jeopardy phenomenon, but whereas L'Occitane was converting well below average proportions of the few potential buyers it did have in store, Kiehl's, surprisingly, had the highest strike rate of all four brands. Observers had confirmed that their customers appeared to know what they wanted, visited specifically to buy it, but spent little time browsing the store. Kiehl's buyers might therefore be highly loyal, but it seemed to Teodors that the brand would need to develop its customer base rather further in order to grow. Nevertheless, it suggested the possible shape of things to come.

Finally, after looking at the details of the different locations (shown in Appendix C) Teodors could see that the West End locations were about twice as busy as the high streets, and that the stations were about the quietest. Malls on the other hand looked quite promising, especially if favourable terms were available to attract new tenants, and if they supported a prestige brand image. But what did UK consumers think about thesebrands, and how did they use them?

Qualitative research

Glancing at the report to get the details of the sixteen discussions (four in each demographic group) Teodors could see that there were some important similarities in the way that *masstige* brands were thought of, bought and used by UK consumers, but he also noted that the respondents had not accepted the STENDERS' products unequivocally.

Singles 18+: Young singles confirmed that they were buying most of their category requirement from supermarkets or from Boots or Superdrug, and choosing *masstige* brands as occasional gifts or treats. They were familiar with many luxury brands, but perceived the market to be segmented by product usage, so that young people would buy bubble balls while the older generation might buy body butters, toners and lotions. Nevertheless, they were excited in response to the brands and products presented, and both genders were interested in the stimulus materials shown.

L'Occitane, Lush and Boots were all familiar, and there was a perception that Lush and Body Shop were for younger people while L'Occitane and STENDERS were seen as more sophisticated brands, for an older generation. Nevertheless there was a desire among these younger respondents to appear sophisticated too:

> *"I wouldn't try anything new unless I saw it in Selfridges"*

Word of mouth and known brand names were strong drivers of acceptance, and some followed brands on Twitter and Facebook although they did not trust the content they saw there. One respondent had been introduced to a particular brand through a product demonstration in a department store, and had been buying it regularly since.

As to STENDERS, the brand was perceived to be both appealing and expensive looking, and respondents had mapped it with L'Occitane and Kiehl's rather than with Lush or Body Shop products. Many thought the images of the shop looked interesting and inviting too, and said they would visit. However, on further inspection the products were not universally accepted, especially with regard to fragrance. The lavender body yogurt in particular was thought by some to be unappealing, although one respondent said: *"I want to lick it!"*

Couples, no children: The second group of respondents had similar split-purchasing behaviour to the younger group. They also commented that while they bought *masstige* brands as an occasional treat, they would not experiment with a new brand online, preferring to try it out first. In this group, it was said that while everyday brands left in the bathroom were often shared, a special brand was used only by the person who had been given it or who had bought it. It was also believed that baths were for pampering: showers were mostly functional.

When buying more special brands, most looked for brand reputation, a sophisticated fragrance *"to lure and captivate"*, or some functional benefit; there was a definite perceived risk in more expensive, unfamiliar products. Howevermen in this group said they were prone to variety-seeking, while a few women said they bought only what they liked. It was also agreed that the difference between cheap and expensive brands was customer service.

When shown the competitive set, this group recognised STENDERS as being a *masstige* brand, and thought the packaging *"looked classy and chic"*. The shop was considered to look professional, clean, beautiful, and inviting although one respondent thought the website looked rather "*washed out"*. This demographic had no problems with the products, and generally considered them to *"smell nice"* and *"feel good on the skin"*.

Couples with children: Amongst couples with children, brand choice took on more significance, particularly with regard to functional products for babies and toddlers, and the effects of different brands on sensitive skin. While fragrance was perceived to be an important choice-driver, there was awareness that sometimes overpoweringly strong scents might be irritants.

Respondents were aware of the biggest brands in the competitive set. Wrapping was a driver in this group, both to save time when buying for gifts but also for personal use:

> *"Sometimes I get them to gift-wrap the stuff I know is for me, just to give myself a little treat."*

While some said they might experiment further with new brands, more respondents here appeared to have established repertoires of familiar and acceptable choices.

When given the brands to inspect visually, although STENDERS was recognised to be a competitor to the four competing brands, it was not differentiated in any distinct way. The perceptions of the store images were that products sold there *"would cost between £10.00 and £15.00"* and *"would makegood presents."* Some, equally practically, thought the shop to be rather push-chair unfriendly, with too many low-lying temptations for small children, although it was still worth a visit even if respondents were unlikely to buy.

However, in one group of the four, the products themselves were not so well received; although the oil and body yogurt *performed* well:

"… doesn't feel greasy – it absorbs well, feels nice, feels clean."

the lavender fragrance was considered overpowering, and the colour was *"unnatural – it might dye my skin!"* This prompted a great deal of interest in the ingredient labels.

Empty nesters: The final groups once again bought across price points in the category, and used brands stocked by Boots and the Body Shop equally for special "treats". One commented that at Christmas, price is no longer a consideration, especially for gifts. For these groups, as with the previous demographic, baths were used occasionally, at weekends say, to calm the mind and to relax.

All respondents bought from specialist retailers, and would be willing to try something new if it were recommended by a friend, but when choosing a brand, fragrance was considered to be most important, followed by some functional benefit, or the brand name; there was little or no interest in natural or green attributes. *Masstige* brands were mostly bought for an indulgence, sometimes for a gift, but for one group, The Body Shop products were considered overpriced. Among Kiehl's buyers, strong loyalty to particular ***products*** was identified, making online purchasing possible, but no Twitter or Facebook engagement was found for any single brand among this group.

When focussing on the STENDERS brand, one group associated the name with the TV soap opera *East Enders* (it was commonly used as a familiar term for the show). In general, all groups perceived the packaging positively and found the stores interesting to look at, saying they would visit. On trying the products however, some groups found them acceptable, while one revised its opinions dramatically, did not accept the fragrances, found the textures unfamiliar and the colour unnatural.

Clearly, if STENDERS were to succeed in the UK, then further work was necessary to establish the correct product quality for the market, testing more of the product range with more consumers, to confirm that the products will all deliver on the brand promise. What of the positioning? More research might usefully explore the resonance in some of the distinctive brand assets implicit in its northern European origins – the berries, the clean, pure air, the refreshing cold, unpolluted nature, the contrast between the gardener of feelings and the unyielding soulless urban environment of London. As his taxi crawled along the Cromwell Road, Teodors looked at the survey data to confirm some of these qualitative findings. The study had gathered nearly two hundred responses from Londoners aged between 18 and 44, two-thirds female, and just over a third in higher education, who had made a *masstige* category purchase in the last month. Of these respondents, the preference for a bath or shower was roughly equally split, although almost three quarters agreed that they enjoyed a bath just to relax every so often. That at least was promising!

Survey findings

Brand awareness.The survey results showed that The Body Shop had 75% unprompted and almost 100% prompted awareness. Lush & L'Occitane were recognised by about two thirds of respondents, and Kiehl's by just over a third. There was therefore a very strong correlation between brand size and brand awareness.

Usage and purchase frequency.Unsurprisingly, the report showed that shampoo, conditioner, liquid and bar soaps were used frequently by the majority of respondents. More specialist bathing products, bubble balls, shower oils, and aromatherapy products were used by under 20% of the population, and also less frequently, and in this category only one in four purchases was likely to be a specialist product. In the skincare category, familiar formats such as body lotions, hand and body creams were frequently used (twice a day by over 20% of users), and here, one in every three purchases was likely to be a more luxury brand. But in facial care, luxury brands really came into their own. Here every other purchase was likely to be a more expensive product, and moisturisers and lotions were being used twice daily by half of all respondents.

As to purchase frequency, *masstige* brands were bought occasionally as a personal indulgence by three-quarters of the sample, although 17% of the respondents bought something for themselves once a week. As to gifts, two thirds of the respondents said they bought something for others from the category, but again, only occasionally.

Attitudes to Masstige brands (see Appendix D).The survey confirmed many of the qualitative findings. Brand choice in the UK is strongly driven by word of mouth and by expert advice. Consumers are also strongly influenced by a well-known brand name, sophisticated fragrance, and plenty of choice in the range. The survey also confirmed the importance of gift wrapping to consumers, whilst a third agreed that they would be prepared to travel to find a product they liked, again indicating the importance of brand in the category. Surprisingly, respondents trusted supermarkets to stock specialist brands, and there was only scant agreement to the statement that you get what you pay for, indicating a degree of price sensitivity. The survey also confirmed that green, organic or specialist ingredients were hardly as important as the brand name itself, and therefore unlikely on their own to be a source of meaningful distinctiveness.

As the taxi finally arrived at his hotel, Teodors began to wonder about the elements of a marketing strategy that could be fed into the marketing plan. What competitive advantage could be developed to attract franchise partners and consumers? How could this be linked to the acquisition of busy retail locations? And would the STENDERS brand support high margin sales in the UK? What would it need to communicate, and how should the message be sent? And what about the question of product acceptance? He began to put the pieces together in his mind as he checked in, and thought through his plans for the UK.

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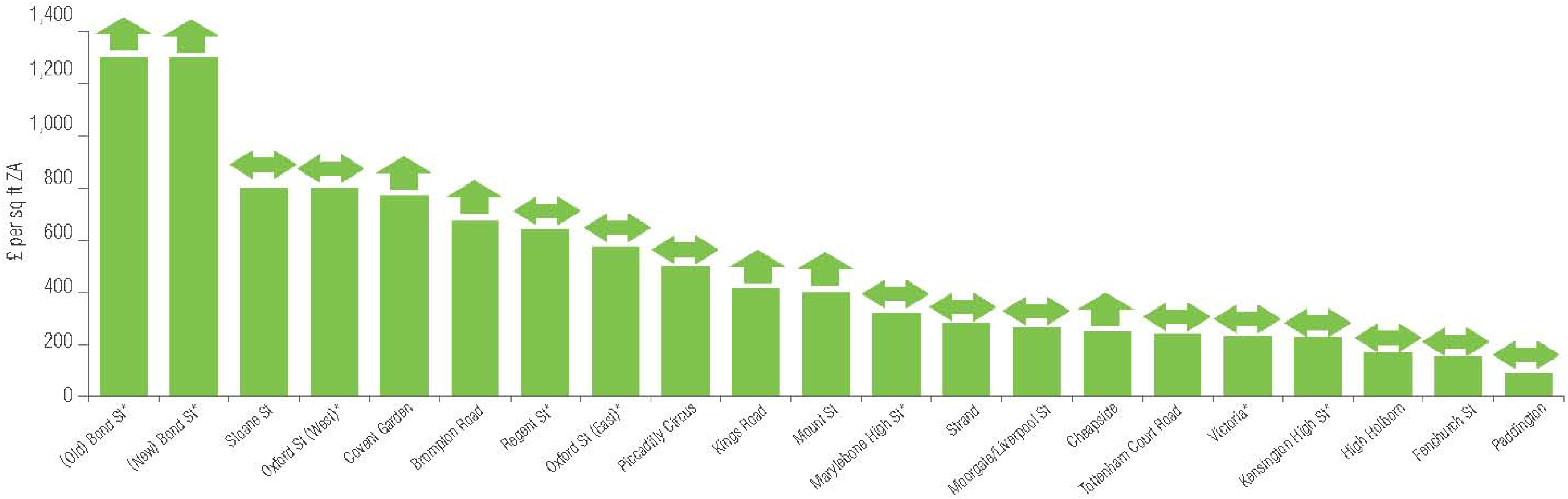
Appendix A: Central London Prime Rents (£/sq ft): Q3 2013



Source CBRE

Appendix B: Financial Assumptions

Average size of shop	:	800 – 1000 sq ft
Staff Costs approximately	:	£16,000 per person + 15% British tax contribution and British national insurance contribution
Utilities	:	£15 per sq foot per year approximately
Insurances	:	£7,500 per annum

Gross Profit:

Stenders	:	75%
Franchisee	:	45%

Appendix C: Detailed footfall audits

Footfall Counts 3.00 to 4.00 pm WEDNESDAY

Data rounded

Brand	West End			High Street			Shopping Malls			Stations			Brand Averages			
	F/Fall	v %	b/v %	F/Fall	v %	b/v %	F/Fall	v %	b/v %	F/Fall	v %	b/v %	**F/Fall ,000's**	**v %**	**b/v %**	***Av. Sp. £15.00***
Body Shop	4600	2.6	18	900	1.3	75	2000	7.1	18	400	12.4	45	**2.0**	**5.9**	**39**	**690**
Lush	2060	3.0	54	800	3.7	73	630	5.8	42	800	3.7	73	**1.0**	**4.1**	**61**	**380**
L'Occitane	2060	4.4	12	970	3.8	24	960	1.0	22	830	0.7	17	**1.2**	**2.5**	**19**	**90**
Kiehl's	640	1.4	44	900	1.1	60	800	1.3	50	260	6.8	67	**0.7**	**2.7**	**55**	**150**
Average	2300	2.9	32	890	2.5	58	1100	3.8	33	590	2.8	52	**1.2**	**3.8**	**43**	**328**

Estimated Lush footfall *Kiehl's estimated values*

Footfall Counts 3.00 to 4.00 pm SATURDAY

Data rounded

Brand	West End			High Street			Shopping Malls			Stations			Brand Averages			
	F/Fall	v %	b/v %	F/Fall	v %	b/v %	F/Fall	v %	b/v %	F/Fall	v %	b/v %	**F/Fall ,000's**	**v %**	**b/v %**	***Av. Sp. £20.00***
Body Shop	8000	5.2	16	2600	2.6	46	4800	5.3	29	1500	4.0	42	**4.2**	**4.3**	**33**	**1200**
Lush	4500	2.0	52	1100	4.7	48	580	12	44	1100	4.7	48	**1.8**	**5.9**	**48**	**1020**
L'Occitane	4600	3.8	25	1500	4.6	31	1100	1.1	31	1100	0.7	38	**2.1**	**2.6**	**31**	**340**
Kiehl's	890	1.6	80	1300	1.8	66	2500	2.4	10	150	4.1	66	**1.2**	**2.5**	**56**	**340**
Average	4500	3.2	43	1600	3.4	48	2200	5.2	29	960	3.4	49	**2.3**	**3.8**	**42**	**725**

Estimated Lush footfall

Appendix D: Attitudes to specialist body care products &retailers