A.S. WATSON

LIVING LARGE

With a recent history that reads as a catalogue of acquisitions, A.S. Watson today operates over 11, 600 retail stores worldwide and is the largest health and beauty retailer in Asia and Europe. ***Annemarie Kruse*** *reports*

A.S. Watson is the biggest health & beauty retailer in Asia and Europe. The origins of the chain go back to the mid-19th century, when Scottish emigré Thomas Boswell Watson opened a medical dispensary in Hong Kong. In 1871, the Watson family leased their business to merchant John Humphreys. From then on, the chain was known as A.S. Watson. In the 1880s, Humphreys turned A.S. Watson in a public company.

In 1963, Chinese tycoon Li Ka Shing and his Hutchison Whampoa group acquired the majority of A.S. Watson's shares and in 1981 A.S. Watson became a fully owned subsidiary of Hutchison Whampoa Limited. The company then merged with the Cheung Kong Group on 3 June 2015 in a reorganisation of the group's businesses and renamed CK Hutchison Holdings. The multinational conglomerate has five core businesses – ports and related services, retail (A.S. Watson), infrastructure, energy and telecommunications in over 50 countries.

Booming in Asia

The A.S. Watson division operates 13 retail brands, and 11,600 stores in total, in 24 markets worldwide and in 2014 it generated a total revenue of HK$157bn. The division has over 110,000 employees. Although the store portfolio also includes several Asian food and electronics brands, the majority of A.S. Watson's retail chains are from the C&T sector. And this business is doing very well: in 2014, A.S. Watson's total health and beauty turnover grew 9% to HK$120,104m.

A.S. Watson operates its flagship Watsons stores chain in 12 worldwide markets. In Asia, these markets include mainland China, Hong Kong, Taiwan and Macau, plus Korea and the southeast Asian countries Singapore, Thailand, Indonesia, Malaysia and the Philippines. In 2014, there were a total of 4,018 Watsons stores in Asia, an increase of 13%. In mainland China alone, the number of Watsons stores reached 2,000 in November 2014. In addition, there are Watsons outlets in the Ukraine and Turkey. In the majority of its Asian markets, Watsons is the drugstore market leader.

A.S. Watson operates 13 retail brands worldwide, including Dutch group Krudivat. Its Watson stores carry a wide range of own brand C&T products

The Chinese market (mainland China) did particularly well last year, growing 14% to HK$20,408m in 2014. The other Asian markets increased 8% to HK$20,843m. In total, Watson's health and beauty retail business in China and Asia reached HK$41,251m, an increase of 11%.

Stepping up in Europe

Over the past decade, A.S. Watson has stepped up its expansion pace in Europe, quietly acquiring scores of European beauty chains. Today, A.S. Watson is the biggest beauty retailer in Europe. The group has a particularly strong position in Germany, France, Benelux and the UK, thanks to a number of strategic purchases.

The first of these was the acquisition of Dutch retail group Kruidvat in 2002 for €1.3bn. The Kruidvat portfolio included not just the Kruidvat drugstore chain with currently 900 stores, but also fellow Dutch chain Trekpleister, Belgian perfumery chain ICI Paris XL and UK drugstore retailers Superdrug and Savers Health & Beauty. Superdrug, as the second-biggest health and beauty chain in the UK, currently operates over 900 stores and in 2014 generated a turnover of £1.058bn, up 4.75%. Discount chain Savers has some 240 stores in the UK and Ireland and reported sales of £247m in 2013, up 15%.

With the Kruidvat purchase, A.S. Watson had established itself in several key markets at one fell swoop. In 2005 a number of major acquisitions further cemented the retail group's hold on the European beauty market. That year, A.S. Watson acquired a 40% share of Germany's

Fact file: A.S. Watson

Founded 1828; officially started trading as A.S Watson in 1871

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second-biggest drugstore retailer Rossmann. With 3,300 outlets in Germany and five other European markets and group sales of €7.2bn, up 8.7%, in 2014, the Rossmann group is one of the biggest and most successful European drugstore chains.

Another important acquisition in 2005 was French perfumery chain Marionnaud. Marionnaud currently operates some 570 outlets in France and the chain, which is number three in the market, after LVMH-owned Sephora and Douglas-owned Nocibé, registered sales of €722m in 2013.

In addition, A.S. Watson purchased UK perfumery chain The Perfume Shop, which operates over 250 stores; Russian drugstore chain Spektr; and Turkish chain Cosmo Shop.

Looking to the East

One year later, A.S. Watson acquired Ukrainian drugstore retailer DC Group and successively rebranded the DC stores under the Watsons logo. Today, Watsons runs outlets in 45 Turkish cities while its Ukrainian business includes some 350 stores and 25 pharmacies.

Latvian drugstore chain Drogas had been acquired by A.S. Watson in 2004. With some 120 stores in Latvia and Lithuania, Watsons is one of the biggest beauty retailers in the Baltic region. Although A.S. Watson kept the Drogas store name, the logo was relaunched in Watsons' corporate colours, turquoise and white.

However, all of A.S. Watson's other Western European retail brands were left as they were after acquisition. As a result, very few European customers are aware that the store chain they shop at each day actually belongs to one of the biggest Chinese conglomerates.

A.S. Watson's Eastern European chains grew an impressive 13% to HK$14,348m in 2014

A.S Watson's European business has done rather well over the past year. In 2014, the group's health and beauty sales in Europe reached a total of HK$78,853m, thereby accounting for the majority of the group's worldwide beauty sales.

The Western European chains were responsible for the lion's share of the European turnover, growing 6% to HK$64,505m. Still, Eastern Europe managed an impressive 13% increase to HK$14,348m. In 2014, the number of stores in this region grew 14% to 2,027, indicating that Eastern Europe is holding a key interest for the Chinese retailer. In comparison, the number of A.S. Watson's western European stores only grew 3% to 4,868 outlets.

The last few years have been quieter for the Hong Kong retailer, with no major European acquisitions to speak of. However, A.S. Watson is keeping an eye on the market and in January 2015, the group continued its European shopping spree with the acquisition of Dutch drugstore chain Dirx. The Dirx stores will be integrated into the existing Kruidvat and Trekpleister network, pending regulatory approval.

Beauty Studio by Superdrug

Last year Superdrug launched a new store format that specialises in high end beauty for the first time, enabling it to attract brands such as Marc Jacobs, Dolce & Gabbana and Prada, as well as exclusive labels such as Make Up Revolution and Love Your Skin. The store, called Beauty Studio by Superdrug and located in Cardiff, also stocks products that are available in Superdrug stores as well a number of digital and interactive elements that enables customers to try out different hair styles and colours, or take selfies and share them on social media sites.

And in 2015 Superdrug has been rolling out elements of Beauty Studio across the country, including the new Cribbs Causeway store, which opened earlier this year and includes a Beauty Studio zone.

Superdrug has also been rolling out a new standalone healthy living store, Wellbeing, the first of which opened in Banbury last year, followed by a second in Watford in February 2015.

Superdrug has further plans to roll-out these concepts and elements from them, during the course of the year. Meanwhile, the retailer has also focused on 'refreshing' 200 existing stores, bringing the total number of refreshed stores to over 700, and in May 2015 Superdrug announced plans to open 100 new stores across the UK, with a focus on London and the South East over the next three years.

Peter Macnab, Managing Director at Superdrug, comments: "Last year we celebrated Superdrug's fiftieth birthday and we honoured that heritage by investing in the store environment, shopping experience and looking for exciting new product ranges."

He added: "The [UK] high street remains a challenging environment for all retailers.However, by understanding our customers and offering the best value and customer service, we believe the business is in a strong position to grow."

Superdrug's new Beauty Studio concept store specialises in high end beauty