

RETAIL



# ISLAND SHOPPING

*When the Philippines opened its doors to foreign retailers last year, Watsons didn't hesitate to make its move.*

*By Tim Metcalfe*



**S**ocialising, entertainment, fast-food dining and shopping all roll into one in the Philippines. They call it “mallng”. In the world’s second-youngest country, where half the population is under 20 and the streets are too hot to be hip, megamalls that stretch as far as 1.5 km over several floors are modern-day community centres for youthful crowds who congregate in their thousands.

The air-conditioning is one attraction – but there’s much, much more. Pop stars perform mini-concerts, outside-TV broadcasts feature the country’s most popular entertainers, and glamorous models strut the catwalks.

Cinemas screen the latest blockbusters, giant fast-food courts feed the multitudes, cavernous arcades howl and explode to the sound of video games, Internet cafés attract long queues and music, the lifeblood of this most musical nation, plays constantly.

Then there’s the shopping. Filipinos famously love to look good, and they cheerfully spend as much as 20% of their income on fashion, beauty and grooming products. Girls are adept at their own make-up at an early age, boys habitually splash on deodorant after basketball practice and men don’t blink at the thought of manicures or pedicures.

## OPPORTUNITY KNOCKS

Tough trade restrictions have until recently kept international retailers sitting on the sidelines of this emerging market. However, when the Retail



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Liberalisation Act was passed in the Philippines last year the door was thrown open.

Some foreign companies remain wary of national statistics indicating an average pay packet of just US\$6 a day – misleading because financial contributions from an army of eight million overseas workers substantially bolster most household incomes.

But for Hong Kong-based Watsons, Asia’s leading chain of health, drug and beauty stores owned by Hutchison Whampoa Limited, the Philippines represents a golden opportunity. Watsons has moved rapidly to become the first “household name” to enter the newly liberalised market – and it is doing so in a big way.

With a 174-year history, the A.S. Watson Group is among the best-known trading names in Asia with over 630 branches of Watsons Your Personal Store spanning Hong Kong, Mainland China, Macau, Taiwan, Singapore, Malaysia and

Thailand. These branded stores have proved adept at catering to the unique characteristics of each market while retaining Watsons’ distinct “discovery” themed shopping formula which incorporates tremendous product diversity under the simple concepts: “Look Good. Feel Great. Have Fun.” It’s a compelling mix that attracts two million customers per week.

The Philippines represents Watsons’ biggest-ever expansion programme. This year, more than 60 ShoeMart stores will be re-branded with the Watsons’ identity, 15 new stores will open and at least 150 new outlets are planned over the next five years. The ceremonial grand opening of its first two flagships was on April 26 in two of the biggest and most prestigious malls in Metro Manila.

“We’re registered as number 0001 in the Department of Trade and Industry’s file of international retail investors registered under the new law,” says Dennis Casey, Managing Director of Watsons Personal Care Stores in the Philippines. “We see enormous potential.”

## PERFECT PARTNER

The campaign is through a joint venture partnership with the ShoeMart (SM) Group, the leading and largest owner, developer and operator of shopping malls in the Philippines. It owns and operates 11 super-malls – seven in Metro Manila, with others in Cavite, Cebu, Iloilo, Pampanga and Davao.

One of the country’s largest conglomerates with interests also extending to banking, real estate development,



cement manufacturing, tourism and entertainment, the SM Group is headed by Henry Sy Sr., one of the country's most highly regarded business tycoons.

"We've been talking to ShoeMart for many years and have always been interested in taking the Watsons concept to the Philippines," says Philip Ingham, CEO of A.S. Watson Group Retail Non-Food Division. "But before the change of law we could only have taken a minority stake, and we're only interested in business where we at least have man-

agement control. In the event, we now have a 60:40 majority holding in the joint venture."

The deal was in fact brokered by SM Group President Teresita Sy-Coson, Henry Sy's daughter, who is leading ShoeMart into its latest cycle of expansion. She took charge of the chain in 1990 and has continued its evolution from a simple shoe store to an aggressive soft-goods retailer and shopping mall operator, leading the company to adopt new technologies like bar coding, which

is unusual in the Philippines.

"The retailing business is dynamic," she says. "You have to constantly renovate, innovate and change to keep up with consumer tastes and be ahead of the competition."

#### LOCAL STRATEGY

The partnership with Watsons, under the name Watsons Personal Care Stores (Philippines) Ltd., is destined to ensure ShoeMart remains in the retail driving seat. But it is not simply a case of trans-

## BACK TO BASICS



**W**HEN DR T.R. Colledge founded his first Watson's the Chemist dispensary in Canton in 1828, pharmacists were at the front-line of health care. Customers related the symptoms of their ailments, and pharmacists dispensed pills or potions to treat them.

This was the role of "old-style" pharmacists. Seriously ill patients were, of course, directed to the nearest doctor; but a pharmacist was sufficiently knowledgeable of medicine and experienced to recommend common cures.

Over the years, the key role of a pharmacy in public health care in Hong Kong has substantially diminished. No longer are pharmacists regarded as community health-care professionals. If we are very sick, we go to a doctor. If we are feeling off-colour, we look for cures ourselves in a chemist. Often, we rely on advertising for advice.

Meanwhile, public health has changed dramatically. Society is no longer ravaged by typhoid, cholera and such; but other chronic diseases have taken their place. Today, living longer with more stressful modern lifestyles, we are much more threatened by heart disease, cancer or diabetes.

Most of these "modern" diseases need not be fatal, so long as they are diagnosed early. But the unfortunate irony is that old-fashioned pharmacists are no longer on hand to spot the alarm signals in customers who are feeling unwell. Instead, chronic conditions build up over the years, to the point where they become much harder to treat.

In a major initiative to counter the problem, Watsons is now taking a leaf out of its original founder's book and is leading a groundbreaking coalition of public and private sector organisations to restore the primary health care role of pharmacies.

The collaborative programme called "Pharmacy Self Care" is linking the resources of Watsons, the Chinese University of Hong Kong's School of Pharmacy, leading pharmaceutical com-

panies Glaxo Smith Kline and Bayer Diagnostics, and health care professionals to enhance community health awareness and provide the Hong Kong public with greater access than ever before to simple, relevant health information and advice.

Initially being implemented in Watsons stores, with the aim of eventually extending to all pharmacies, the programme is providing Health Fact Sheets, Risk Factor Tick Tests and simple Risk Detection Kits alongside advice and guidance from Watsons-trained teams of pharmacists and health & fitness advisors.

First, the programme is focusing on diabetes, one of the most serious and fastest-growing chronic illnesses in Hong Kong, affecting an estimated 600,000 people – half of whom are not aware of it.

Advice is also being offered on 11 other "everyday" ailments such as headaches, coughs and colds, together with information about the correct use of vitamins.

"This is a much-needed programme that we're enthusiastically supporting," says Dr Vivian Lee of the CUHK School of Pharmacy. "Hong Kong needs pharmacists to play a more active role."

The initiative is modelled on a programme developed by the Pharmaceutical Society of Australia, which has run successfully there for 15 years.

"We want to change the way the public thinks about pharmacists and uses them," says Andrew Brent, regional Marketing Director of Watsons. "It's a genuine example of Watsons trying to address a growing problem and do something for the public good. It's what we're all about. It's also taking Watsons back to its Canton roots as a community pharmacy."





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porting Watsons from Hong Kong to the Philippines. For one, the operation has three arms. Health and beauty stores will most closely resemble Hong Kong operations, with a familiar mix of toiletry, grooming and health products.

Watsons is also revamping 60% of SM's Family Drug pharmacies with a modern facelift, focused entirely on dispensing prescriptions and entering into open competition with traditional drug-stores. Uniquely, explains Ingham, doctors rarely dispense medicine in the Philippines; they only prescribe, so 80% of prescriptions are dispensed by pharmacies.

"In the Philippines, pharmacies are primary health care providers," he says. "People go to them not only for prescriptions, but also for advice."

Finally, Watsons is taking over the running of beauty and cosmetics counters in 16 ShoeMart department stores.

Each new expansion presents its own challenges – as Watsons has learned from extending into six countries over the last 15 years.

"We are

giving Watsons a Philippines touch," says Casey, who has overseen the launch. "Here it's mostly the merchandising, especially the sizing of products. Since disposable income is lower, customers prefer smaller sizes of products.

### *...The Philippines represents Watsons' biggest-ever expansion programme...*

"In Hong Kong, shaving cream comes in 75 grams; here it's 25 grams. The same goes for lotions, which come in 50-ml containers, rather than 250-ml. On the pharmacy side, while a Hong Kong customer is likely to buy an entire prescription at once, in the Philippines customers like to buy a day's supply at a time. They buy five tablets, for example, rather than 25. It's about

affordability. People buy what they can at the time."

#### **ADDED VALUE**

Although the new Retail Liberalisation Act stipulates that 30% of products must be sourced from the Philippines, this restriction is not an issue, since Watsons buys products from multinationals like Procter & Gamble, Colgate and Gillette who have well-established production facilities in the country.

More pertinently, the expansion represents a significant employment boom. Since each store will have a staff of around 20, Casey says the potential new workforce should number at least 5,000.

Philippines Trade and Industry Secretary Manuel A. Roxas II also expects the entry of Hutchison Whampoa to inject fresh blood and modern ideas. "The entry of Hutchison into the Philippines retail trade sector will undoubtedly give Filipino consumers greater value for their money and provide impetus for greater efficiencies in retail services and supply chain operations," he says.

"This is a testament to the strength of our domestic economy and will be a boon to our local manufacturers. We are particularly happy that the outlets for pharmaceutical products will offer







Most Watsons' counter staff are science or nursing graduates. Customers go not only for prescriptions, but also for advice.

medicines at affordable prices.”

In turn, Roxas is confident that Philippines' products will gain access to the Watsons worldwide network of retail stores.

Imported products are usually priced at a premium in the Philippines, but Watsons has perfected the art of keeping prices down by sourcing directly from manufacturers and by-passing middlemen, notes Casey. “People always like the idea of imported products at affordable prices.”

Staffing the outlets is not a problem either. “Unemployment is high at around 11-12%, yet educational levels are also high and people prefer working for companies with a good name. You have to be a graduate in science or nursing to work in a pharmacy here, and we're having graduates lining up for interviews.”

Watsons plans to “penetrate major cities first”, says Casey. But the aim is to expand wherever possible. “We're talking to the other major megamall owners in the Philippines, including Ayala and Robinson's, and looking anywhere else we can – from airports and hospitals to university campuses.”

“Overall,” adds Ingham, “there are some really exciting prospects. It's going well so far and if this continues, our expansion target for the next five years might increase significantly. There could well be 300 new stores, not 150.”

## TAIWAN TIE-UP

**S**HOPPERS IN TAIWAN HAVE been enjoying even greater variety since the introduction of British-brand Boots products in Watsons stores.

Both companies have been delighted with the results of a trial that started in July 2001 and received an overwhelmingly positive response from consumers.

“The addition of unique products sold by Boots has enhanced the feeling of ‘discovery shopping’ in Watsons where customers are highly appreciative of the extra choice and convenience,” says Philip Ingham, CEO of A.S. Watson Group Retail Non-Food Division. “The partnership with Boots is a breakthrough in the industry which we see will benefit consumers. We want them to look good, feel great and have fun.”

The rollout plan commenced in March this year and will be completed by early 2003 with around 100 Watsons stores on the programme. Boots' net investment will be some £2 million (about US\$2.9 million).

Watsons has an island-wide chain of excellent retail stores in Taiwan while Boots has a strong established brand that compliments Watsons' extensive product

range. The tie-up thus not only creates a compelling offer for consumers but also real value for each partner.

The implants will occupy approximately 10% of Watsons floor space and offer between 800 and 1,200 beauty and personal care products featuring Boots brands. Watsons will benefit by the creation of a differential in their offer against the competition, leading to increased footfall and sales.

Watsons first opened in Taiwan in 1987 and now operates 223 stores island-wide while Boots has been operating in Taiwan for about 18 months. Consideration is being given to expanding the partnership into other Asian markets where Watsons has stores.

