After the merger: can Boots brand products take on the world?

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While Boots Co was getting its fingers burnt in foreign ventures, Alliance UniChem was making Europe its oyster. Now that the two companies have merged, Euromonitor International examines the prospects for Boots' cosmetics & toiletries products overseas.

As Alliance Boots nears the end of its first month as the world's largest chain of retail chemists, it is clear that the potential offered by the combination of Boots brand products with Allied UniChem's foreign networks is a powerful one. Boots brand products have long enjoyed a dominant position in the UK cosmetics & toiletries market with brands such as No. 7, Soltan, Sanctuary and Botanics, and now worldwide expansion beckons as never before. However, for the moment, the company is holding back on expanding the brand into its own foreign stores until 2010, preferring instead to piggyback them into foreign markets on the back of other retailers.

Never such innocence again
Boots' approach to expanding into foreign markets tends to be a cautious one: the company learnt the hard way after the spectacular failure of attempts to put stores into Japan and Europe in the late 1990s. Within four years it announced the failure of its Japanese experiment, at a cost of Â£25million, and the closure of its stores in European countries such as the Netherlands. Euromonitor International's figures indicate a full 85% of Boots' cosmetics & toiletries sales were generated from within the UK and Ireland in 2005. Even that percentage could be set to rise, as in August the retailer announced that it was planning to expand the number of Boots the Chemists stores in the Republic of Ireland by over 30 in the next five years, bringing the total number of outlets in the country to more than 70.

Alliance's European advances
In contrast, after the 1997 merger between UniChem and Europe's second largest pharmaceutical wholesaler, Alliance SantÃ©, the new entity, Alliance UniChem continued to grow by acquiring businesses in France, Italy, Portugal, Spain Greece and Morocco. These were soon joined by others in the Netherlands, the Czech Republic and Norway as well as minority interests in companies in Turkey, Germany, Switzerland and Egypt. Even in the thick of its negotiations with Boots, Alliance UniChem continued with its foreign acquisitions strategy, this time targeting Russia with the purchase of the country's fifth largest drug wholesaler, AP Apteka. By the time the merger went through, Alliance UniChem was in possession of 1,300 retail outlets across Europe, over 300 of them outside the UK, and had a wholesale distribution network covering over 125,000 pharmacies, hospitals and health centres in eight European countries.

New market, new tactics
Having found foreign markets to be no-go areas for Boots stores, the company changed its strategy for expanding overseas sales of its cosmetics products. The new tactic was to piggyback its products into new markets on the back of existing retailers. In 2004 Boots began operating a 'store-within-a-store' concept in selected CVS outlets in the United States, followed by presence in over 150 stores belonging to American discount retailer, Target. Similarly, in November 2005 Boots signed an agreement with Russia's leading health & beauty retailer, 36.6, for some of its brands to begin being sold in Moscow and other major cities.

The tactics have met with success; in the US in March, Target rolled out large new Bath & Body departments across all its stores, with products such as the Sanctuary spa range joining the 20 private label and exclusive brands on the shelves. CVS meanwhile looks set to expand the number of stores carrying Boots products from 50 to closer to 2,000 following encouraging sales; with 6,100 CVS outlets across America, there is scope for even wider coverage after that.

Business As Usual until 2010
The company has expressly stated that it has no plans to push Boots brand cosmetics & toiletries products into Europe via the former Alliance UniChem foreign outlets and wholesale distribution network until 2010. However, alongside this typically cautious approach to non-UK ventures, the aggressive and acquisitive approach to the European market established by Alliance UniChem is also still in evidence.

In August for example, Russian media began reporting that Alliance Boots was in talks to buy pharmacy chain Ozon - spare a thought for Celesio, which has also had its eye on Ozon: the German pharmacy retailer fought hard to have the Alliance UniChem / Boots merger blocked by the UK authorities, and now its fears have been realised as it finds itself in head-to-head competition with Alliance Boots over the Russian company.

With rising sales of Boots cosmetics & toiletries in America, and the growing number of Alliance UniChem's retail and distribution outlets in Europe, by the time the Boots brand products begin their European roll-out in 2010 they will surely be a force for the cosmetics and toiletries world to reckon with. It seems that the 157 year old Boots logo has finally gone international for good.

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