

Pinnacle Programme – Session 2

How to maximise opportunities with cross-border trading and expanding into international markets.



Bob Etchingam, CEO and co-founder of Applegreen, was guest speaker at the second session of Crowe Horwath's Pinnacle Programme. He shared his invaluable insights as to how you can bring your business to the international stage and reap the rewards of new markets.

With over 30 years' experience in the retail fuel market Bob has a clear strategic vision for Applegreen and has led the rapid growth of the group. With over 300 sites across Ireland, the UK and the US and in excess of 3,400 employees, Applegreen is one of the great success within the forecourt and convenience retail sector.

Applegreen was founded in 1992 by Bob Etchingam and Joe Barrett, it was taken public in 2015. After entering the UK in 2008 (73 sites) and the US in 2014 (22 sites), the group currently has a turnover of €1.2b. Even with their growing international footprint, Ireland still remains the principle market, accounting for about 70% of earnings.

Why expand internationally?

Etchingam cited a number of reasons for their choice to expand overseas. With a population of about 4.8m people, he felt that the Irish market was relatively small for the brand and there were a number of opportunities that presented themselves internationally. He explained that "a growing business is a fitter and stronger business than one that is stationary so the strategy and culture within the senior management of Applegreen is always to be growing. If you want to grow your brand more rapidly you need to look at a second platform and beyond a certain market share in one territory you can face certain challenges." He felt that Applegreen could face a limit or ceiling to growth within Ireland from the Competition Authority and so looking internationally made sense.

In the forecourt and convenience retail sector, size does matter. With the buying power of 200+ food outlets across

the three markets they have strong relationships with key international brands. Plus, in the global economy where communications have brought us closer together, it is easier to trade across borders and there are significant benefits in being a larger customer – it is easier to open doors and establish relationships as a large customer.

Also, by being involved in more than one market you are spreading the macro risk of a business – a lesson learned during the recession. It particularly provides comfort and reassurance to lenders and stakeholders if you have your risk spread across different geographical locations.

Why choose the UK and US over mainland Europe?

For an Irish fuel company, the move to Britain makes sense. They knew the market well, had strong industry contacts and it's easy to maintain contact and regular site visits. Culturally they are very similar, and obviously there is no language barrier. But Etchingam also went west to the US, as opposed to mainland Europe. "It was a familiar market to us," he said. "There was no language barrier, unlike the rest of Europe. And they have a transparent way of doing business that made sense to us." The continental market presents more challenges to the team at Applegreen but as they continue to expand there will likely be a time when Europe features in their plans.

Etchingam also feels that many people overlook Northern Ireland in favour of mainland UK. But with a market of 2m people (about 40% of the market size in the Republic) on our doorstep, it is worth careful consideration.

What is their acquisition criteria?

Etchingam explained that there is no one tried and tested method for uncovering the opportunities – they can come from all angles. He said, “It is more a case of letting it be known in the industry that you are interested, putting feelings out with agents, going to trade shows and conferences and talking to people.”

Growth in the early years was through acquiring existing sites. “Buying an existing site is certainly easier than building on a greenfield site, the main compromise though could be that you are restricted in what you can do with an existing site – it could be poorly laid out or lacking the facilities to maximise the potential business.”

Within a specific territory, their acquisition strategy is also based purely on the merits of that particular site rather than a desire to geographically cluster sites. As a testament to the care taken with each acquisition, they have very rarely had to dispose of a site. Etchingam said, “It would be very rare that a site would not be a net contributor. On the rare occasion that they have let one or two go it tends to be based off a longer-term strategy shift or something specifically relating to that site like waiting on a planning permission that might not come through.”

Funding growth

Applegreen did not want to fund their growth through equity. It was not so much about losing equity, it was more the possible challenge of working with others who might not have had the same time horizon as Bob and his team.

Applegreen’s initial growth, up to the early 2000s, was funded by the oil companies in return for committing to long-term supply contracts. From 2003 to 2013 growth was largely funded by bank debt. But obviously through the recession a lot of that funding dried up, so they had to rely more on their own funds to acquire sites. In 2012/13 a range of opportunities presented themselves that required a larger injection of capital and this was the primary reason for going public.

Etchingam recommends that business owners consider going on to the AIM market if it is at the right stage in their growth. It brings with it a lot of positives, not just in raising capital, but also in establishing a stronger reputation, and it helps with recruitment and in contractual negotiations such as property leases.

Close monitoring of cashflow is hugely important, especially in the early days. In Bob’s business it is vital to have a reliable system that feeds you the figures on a weekly and potentially daily basis. By keeping on top of the numbers, Bob and his team were able to react and tweak the business immediately.

Applegreen’s approach – start small and go slowly

The Applegreen approach to expanding into new markets was to start small and slow. When an opportunity presents itself, it’s vital that one takes a steady, calculated approach. “It’s important to learn the nuanced differences in new markets,” Etchingam said. “People have different ways of talking business and it’s important that you understand that and adapt to it.”

You often have to adjust your model or brand offer in international markets, and identifying and carrying out these adaptations takes time. Different markets have different requirements and expectations, which can affect your product offering and your pricing. Even within a single territory there can be marked differences. He says for example that “the north of England is very different to the south. People have a lower average income and are more cautious about how they spend. London and the broader south of England, like the Republic of Ireland, is quite affluent, and people are more liberal when it comes to spending.”

Commit fully and build relationships

Etchingam emphasised the importance of sending your best people to your new locations. It is important when talking to a potential customers or suppliers that you can demonstrate that you are committed and have people based in that territory.

“You need to recognise and take full advantage of the opportunity, so you have to put your best people on the ground to maximise that opportunity,” he said. “It is also important to preserve the internal culture of the business and having senior people on the ground in new territories ensures that this culture and ethos is preserved.”

After being in business in Ireland you can take the importance of the relationships you have built up for granted. But when you move into a new market, making the right contacts and establishing the right relationships is vital. You need to gain people’s trust and build goodwill. When Applegreen established in the US, particularly in the north-east, being Irish was a huge plus and opened a lot of doors, but once in that door, building on and sustaining those relationships is absolutely essential. It is an investment that will pay back in multiple.

Building a strong team

Finding and nurturing the right talent should be a focus from the early stages of a business. There will come a point as you grow the business that you start to lose touch with certain aspects of the business. “You can’t be there all the time so it’s vital that you have the right people operating things for you at this point to help grow the business further and keep it healthy. You have to focus on building your team from the beginning,” Etchingam said. “This means you have long-standing, trusted individuals whoknow the business well, who you trust.”

He mentioned that they have found it very hard to get the calibre of staff abroad that they find in Ireland. He believes we are lucky in Ireland – “Irish employees tend to be more rounded and sophisticated in their approach. They tend to have a greater overview focus on their job and are less siloed or blinkered in a specific function.”

Rewarding your top talent

Etchingham recognised the importance of keeping your top team motivated and to giving back some of the value add that they have created. Applegreen operated their first share options scheme in 2007 and it has proven very successful in rewarding and retaining talent within the business, especially now as the employment market is more buoyant and employees have greater opportunities to move. But it is not all about money. Building a strong sense of team and ownership is key.

At site level they have a structure that encourages the local operators to treat it as their business, with a number of operational and HR decisions made locally. It is very heavily incentivised towards commission with the opportunity to significantly increase their remuneration through quarterly bonuses.

Also, since becoming public they have a long-term incentive plan (LTIP) which investors are very keen on, as it helps align employees’ interests with the firm’s.

Central control vs devolved autonomy

In the early days, when they expanded into the UK market, they tried to manage a lot of the operations from Dublin. While this might be cost-effective and efficient, it proved hard to adequately penetrate the market. Etchingham explains, “It can often lead to the overseas team being

short-changed as the home team are too stretched managing both, and thus the overseas market can suffer through lack of dedicated focus.”

They learnt to move away from that approach and now hire local management teams in new markets and give them as much autonomy as possible.

Link in with established brands

Gaining credibility and building trust can be difficult when you are a new player in an established foreign market. How can you establish trust and attract customers? Etchingham spoke from experience on the matter: “When we went to the US, we partnered with Subway. They are a familiar and trusted brand in the US, and by having them in our stores customers were given a sense of reassurance.” Interestingly, Etchingham explained that within the fuel station sector, fuel only accounts for about 30% of revenue. Food is the big seller. And so linking with the Subway brand helped establish the Applegreen brand in these markets.

A final word of advice

Expanding abroad is undoubtedly a bold move. Did Bob ever have doubts? “Of course, everyone does,” he says. “You will always get doubts, and it is difficult, but you keep going.” Remember back to when you first decided to start a business, and consider the doubts you had then. But you persevered and established your business. You will undoubtedly go through similar apprehensions and doubts when going abroad, but look how far your business has come; from that initial spark, to establishment, to going abroad. With the right market research, you will know if going abroad is the right move for your business. It’s just a matter of backing yourself if the time is right.

About Us

Established in 1941, Crowe Horwath is a leading accountancy and business advisory firm in Ireland. Throughout our 75-year history, we have developed an unrivalled understanding of the Irish business environment and built a national reputation in auditing, tax and business consultancy.

We work with a variety of clients across commercial and public sectors. Our services include Audit & Assurance, Tax, Corporate Insolvency & Recovery, Corporate Finance, Consultancy, and Outsourcing.

We are also independent members of the eighth-largest accountancy network in the world, with colleagues in over 750 offices across 130 countries. Through this global reach we are able to offer clients a seamless service when trading internationally.

Our success is the result of our exceptional client service. Together with our clients, we work to optimise the present and maximise the future, tirelessly exploring all possibilities until we find the right solution. We help clients make smarter decisions today that create lasting value for tomorrow.

Smart decisions. Lasting value.

Contact

Crowe Horwath

Marine House, Clanwilliam Place, Dublin 2.

Tel: +353 1 448 2200

Email: info@crowehorwath.ie

www.crowehorwath.ie