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# Introduction

Tintorn Samkamruen is piloting her four-wheel-drive through the dense Bangkok traffic. Although her maid still buys produce at local market stalls and the ‘wet market’, Tintorn likes going to one of the supermarkets for their range and prices – and anyway, they are modern and efficient, like her. Usually, she goes to either Tesco Lotus or Carrefour, but a friend has told her about the new range of Leader Price products in the Big C stores. As an advertising executive, she knows that both Carrefour and Big C are French-owned and that Tesco is British, but she doesn’t see much in the way of national differences between them. To her, they are just a welcome addition to the choice available, and a symptom of her country’s progressive development. She hopes that the new zoning laws proposed to try to protect small local shops will not lead the foreign companies to reduce investment in Thailand.

Such a scene, unimaginable only a few years ago, could be reproduced in cities in many parts of Asia, Central and Eastern Europe (CEE), or Latin America. This book sets out to examine the phenomenon of how and why certain food retailers – mainly from France, Britain and the USA – have started to spread across the world, and what the future holds.

Two questions immediately spring to mind. First, why has it taken retailers so long to become international, when manufacturers have been doing it for a century? Second, why do they bother, when it is obviously difficult and not very profitable? It is true that one or two retailers did have branches overseas in the early twentieth century, but they were usually confined to London, Paris and New York. While manufacturers, and later service firms, planted their flags around the globe, retailers stayed mainly at home. Even by the end of the last century, the number of truly successful international retailers was tiny. Apart from luxury brands, and the fast-food giants, one can think of Ikea, Body Shop, Toys’R’Us and a few clothing stores, but one soon runs out. Among food retailers, the spread was even slower.

A list of the biggest retailers in the world by sales will show many American firms – but you will not see a Krogers or an Albertsons outside the USA. They are biggest because the US retail market is comfortably the largest in the world. In twenty years, the list will show many Chinese companies and, perhaps in fifty years, Indian. Even the mighty Wal-Mart, the most successful retailer in the world by a very large margin, started its international expansion late, and is still in only 11 countries. The ability of retailers to grow very large within the borders of the USA suggests the major reason why they stayed at home: they had plenty of scope to grow. Even now for

Wal-Mart, it is still easier to open large amounts of new space every year within the USA than elsewhere. Expanding within your home market, which you know intimately, is less risky and more profitable than entering strange new markets with an unknown culture, language, structure and competitors. The same is true, within their smaller markets, of European firms.

The establishment of what we would call a modern food retailing system – characterised by chains of multiples operating hundreds of large self-service stores, supported by an efficient supply chain – only developed in the past fifty years. Even in that time, success was not guaranteed, as familiar names struggled or disappeared, and new ones came to prominence. Success went to those who found the essence of a business model that worked for them in their particular market, and stuck to it relentlessly. The eclipse of Kmart by Wal-Mart, or of Sainsbury's by Tesco, shows how fierce the struggle was, and how unforgiving the judgement of consumers and investors. We would argue that food retailers had their work cut out first to survive, then to grow, in this jungle. Keeping up with changing tastes, investing in new technology, finding new sites, coping with regulations and legislation, quite apart from fighting competitors, all stretched most managements to the limit. Perhaps it is not so surprising, then, that in most cases, international expansion was not a priority until the 1990s.

The next question, more often asked by investment analysts than others, is, why bother? In this view, foreign markets could be divided roughly into three. The USA and most of Western Europe are large markets, with plenty of wealthy consumers willing to buy – but with entrenched and mainly very effective players already there, and often with very restrictive legislation making new store development extremely hard. At the other end are countries so poor that there are not enough potential consumers with the money to buy, and usually lacking the sort of modern infrastructure needed to run a retail multiple. In between, are those countries that are growing, often quite fast, and have at least some wealthy customers and a reasonable infrastructure. On the other hand, many are politically unstable, or have volatile economies, and anyway, they are ineluctably *foreign*. Among this group, there are some big countries that have huge potential, but also huge uncertainties, in particular those called the BRICs by economists. These are discussed in Chapter 1.

Retailers have to be very close their customers; they must understand them thoroughly, and be sensitive to their changing tastes and priorities. Sometimes they have to predict what they will want before they realise it themselves. If this is a challenge in your home market – and we know how hard it is because of some of the famous names who have failed to keep up – then how much more difficult is it in a country quite new to you. Because of the problems of adjustment, it usually takes time for new businesses in foreign markets to make money, and when the margins are as low as they customarily are in food retailing, there is very little room for error. Returns from international ventures are still lower than from those at home, and investors therefore take a sceptical view of them.

Still, some firms are now doing it. The main reason, of course, is the

search for growth. Most western markets are mature, and increasingly concentrated. We discuss the effects of this on companies' policies. Expenditure on food forms a decreasing proportion of a population's total spending as general wealth increases, and food prices are currently in a deflationary stage. Consumers can be persuaded to buy more exotic foods, and more added-value, prepared dishes – but there will never be much real growth in food spending. Companies have diversified into new markets: horizontally into everything from newspapers to pharmacies, and into services from dry cleaning to banking (or, in Wal-Mart's case, from non-food into food). Food will, however, remain the product mix or a major part of it, and therefore if a company wants to go on growing, it has to look abroad. Many large food retailers are publicly owned, and stock markets demand constant growth. A company that is thought to be falling behind its rivals will see its share price slip, and that, in the end, leads to takeover and death (of the company, at least).

In this book, we will concentrate on the major players among international food retailers, focusing in particular on Wal-Mart, Carrefour and Tesco. We will also look at other firms that have started on the international road and may prove to be successful contenders – Metro, Casino, Auchan and a few others – and large companies that may in future have the resources and skills to follow them – Kroger, Albertsons and Ito-Yokado.

At one time, we would have included Royal Ahold, the Netherlands-based company that had built up easily the most successful foreign-owned food retail business in the USA. Until recently, Ahold was the fourth-biggest food retailer in America, with its Stop and Shop and BiLo chains. In 1999, *Nutrition Today* could write, 'By any definition of globalization, Royal Ahold is a successful, profitable, fast-growing, seasoned international chain, a model of today's successful global supermarket.' Since the USA is metaphorically littered with the skeletons of failed European retailers trying to break into the market, Ahold's was a fascinating story. Unfortunately, as most readers will know, Ahold imploded after a financial scandal at its American foodservice business. The unravelling of the group is still going on, and while some pieces will survive, the international group will be broken up. Commentators will continue to be split. Some argued that it was clearly an acquisition machine, achieving more by smoke and mirrors than by real retailing skills. Others claimed that, especially in America, it had made real progress in gaining back-office efficiencies. The chief executive, Cees van der Hoeven, was a dedicated internationalist, and seemed a true forward-looking manager. Sadly, he is facing prosecution in his native country, and we shall never know if his vision would have been successful. For this book, Ahold would have been a useful counter-example, in that it kept all the fascias it acquired separate, whereas the common pattern, as we shall see, is to use one brand internationally.

We concentrate on those who have survived, starting with Wal-Mart in Chapter 2. This business phenomenon has been the subject of quantities of comment and analysis, both laudatory and critical. All American readers will be intensely familiar with it, though most elsewhere will be less so, except by

reputation. From our point of view, it is essential to understand what the sources are of its unbelievable success over many decades, and to analyse its international experience. Wal-Mart is such a colossus among retailers – and indeed among all businesses – that we spend some time on the origins and philosophy that drove it to dominance in the USA. We will examine its successes and occasional failures abroad before summarising its current strategy prospects.

Chapter 3 describes Carrefour, the French group that was not only the first to enter foreign markets, but is also the most international by some way. Carrefour has dominant market shares in some countries, but seems to have struggled in others; it should be in a strong position, with its range of formats and unrivalled international experience.

Chapter 4 applies the same process to Tesco, the British operator. Our previous book (Seth and Randall 2001) described Tesco's impressive rise from also-ran to market leader in the UK. Though a late entrant to the international scene, it has made its mark in both Europe and Asia, and so far rarely puts a foot wrong.

We then describe more briefly in Chapter 5 the firms we called 'the contenders'. It seems likely that only a handful of companies will end up dominating international food retailing, and while we believe that Wal-Mart, Carrefour and Tesco will be among them, so may be one or more from this chasing group.

Next, in Chapter 6 we try to tease out some of the issues involved in going international. How do firms choose the countries they enter, and why; how do they decide on the sequence of entry, and are there emerging strategies to guide future decisions; what did the leaders do, and what lessons can we draw from their various experiences? The chapter examines the issue of standardisation against adaptation: how much can and should firms adapt without compromising a winning formula? What are the implications for pricing and range, for food and non-food? What should guide branding and fascia choice?

Then, in Chapter 7, we look at the impact of information and communications technology (ICT), and companies' use of the wealth of information (or at least data) at their disposal. The chapter analyses how firms can pursue competitive advantage through the use of ICT in supply chain management, inventory control, in-store automation and cost saving. We go on to discuss the use of information for marketing: how to analyse the vast amount of purchase data, loyalty card data and other information to understand shopping behaviour, and how this may guide decisions on segmentation and targeting. We will also look at online shopping, and speculate about possible future uses of technology.

In Chapter 8, we compare the theoretical advantages of international operations with the experience of our retailers: scale, first mover advantage, transfer of learning. How far procurement is multinational or global in practice, and what the limitations are of product field, or type of goods. How transferable is experience? What can we learn from the mistakes that retailers have made?

In Chapter 9 we move on to the social issues raised by the spread of international food retailers. Protests against globalisation have made news around the world in recent years; this chapter examines to what extent this applies to our field. How will globalisation affect local shops and shopping habits, consumer choice and eating habits: for example, will supermarkets be tarred with the same brush as fast-food outlets, and be blamed for contributing to growing obesity? We examine the impact on local suppliers and multinational manufacturers, and describe government policies as they affect retailing – planning, protection of local businesses, preservation of diversity.

In Chapter 10, we ask the question, ‘What do you, as a local retailer, do when Wal-Mart (or Carrefour, or Tesco, or all three) enter your country? There are strategic options, apart from selling up: fight head on, surround and stifle, differentiate or retreat to a niche. We examine the options for selected leading local firms. Will national firms have to go international to survive, whether by alliances, mergers or acquisition?

We then move on (Chapter 11) to the strategic options for those retailers who are already international, or who will take that path. The strategy adopted by Wal-Mart is different from that of Carrefour, and Tesco is different again. Will there be convergence around a common pattern, or will players need to adopt a consciously different path?

In the last chapter, we look into the future. First, we return to the regions and countries, and try to see what the future holds. We then identify the core competences that international retailing will demand, and discuss whether any new winners will emerge. We assess each of the major competitors, and give our prognosis for their future, setting out what each will have to do to succeed.

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