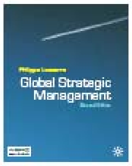


Globalization of Mass Retail

The mass retailing industry accelerated its globalization pace in the 1990s although the international expansion of some pioneers had started in Southern Europe during the 70's, Latin America in the 80's, Central Europe and Asia, perceived as a large, growing and largely underdeveloped market, became increasingly a focus of competition among both international firms

Industry Evolution

Mass retailing comes in many different formats, ranging from convenience stores and department stores to supermarkets and hypermarkets. Their differences depend on the goods and services offered to the client, as well as on size and location, and the percentage of food stuff and non-food stuff. (Exhibits 1a and 1b)

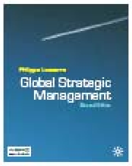
In the late 19th century and early 20th century, mass retailing originated in Europe and the US, with the rise of department stores such as Bon Marché and Marshall Fields. Self-service supermarkets started in 1937 in the USA, and soon afterwards, in Europe. Mass retailers offered a wider selection at lower prices than traditional neighborhood stores as well as offering other advantages such as one-stop shopping.

In the US, general merchandise chains like Wal-Mart, Home Depot, K-Mart, and Target, dealing in non-food and non-fresh food items, had coexisted with the classic supermarkets. In the 1970s, they increasingly challenged the dominance of traditional department stores, primarily by offering lower prices.

Hypermarkets, combining both food and general merchandise, were pioneered in France in the early 1960s. Carrefour invented the concept of stocking everything from food to clothing, domestic appliances and hardware under one roof, when the Defforey and Fournier families opened their first hypermarket in 1959 in a suburb of Paris. It proved so successful that, according to Wal-Mart founder, Sam Walton's autobiography, it was the inspiration for Wal-Mart's supercenters.

In the United States and Europe, the 1960s were a time of phenomenal growth, which continued over the next 2 decades. It was a time of fundamental changes in society that facilitated the growth of mass retailing:

- increase in middle-class and suburban population
- rise in disposable income per household
- car ownership
- refrigerators and freezers
- working women



It is usually considered that hypermarkets can develop, when the GNP per household is around US$4,000.

In the 1970s, as domestic markets started to mature, some mass retailers such as Ahold or Carrefour expanded internationally, first within adjoining trade areas. In the late 1980s, they moved further afield; big names such as Wal-Mart, Tesco and Metro joined the party to become multinational players, facing the challenge to create value from internationally dispersed retail operations.

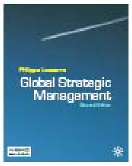
Business Model

The basic concept behind mass retailing is straightforward: buy in large volume and sell at low prices, obtaining return from relatively low net margins (+/–2%) through high inventory turns (10-13 times). The cost advantage is then transformed into lower consumer prices, driving still greater volumes and creating a virtuous cycle of self-reinforcing benefits (Exhibit 2a). For everyday purchases, the lower prices for goods of high quality (often branded) drew shoppers away from the department stores and, to a lesser extent, retail specialty stores.

Lower costs were achieved in a number of areas – lower cost locations and lower service for example. However, the key to the business model of the hypermarket is purchasing and logistics. Purchased goods represented approximately 77% of sales (Exhibit 2a). The largest hypermarket chains represented a significant customer volume for most suppliers, while no single suppliers represented a significant proportion of their sales; they thus tended to have significant bargaining power over their suppliers. In addition to negotiating lower prices, they also typically gained more favorable terms. Many retailers had negative working capital balances as a result. Leading chains concentrated volumes in fewer, carefully chosen suppliers. This permitted them to create economies of scale in their supply chain, and to choose the best suppliers based upon operational efficiency, location, and factor costs the among criteria. As volumes grew over time, leading competitors also invested in complex, costly and skill intensive information technologies. These included satellite communications, automated stock keeping systems and other advanced techniques for settling accounts and for tracking, ordering, and restocking inventory. Such investments lowered costs and increased turnover but raised the scale of operations. Upon entering a new area, mass retailers had to reach critical mass and set up a minimum number of stores in order to achieve scale in their supply chain. By 1995, and despite the steady growth of average store sales, a Wal-Mart warehouse could support, in the USA, 150 stores within a 200-mile range, a fivefold increase compared with 1970 (see Exhibit 3 for a pictorial representation of a typical value chain).

Mass retailers target a broad, relatively undifferentiated customer base, with the suburban middle-class making up the biggest group. Wal-Mart considers that a store needs at least a 150,000 customer base to be economically viable.[1] Customers in the USA and Western

[1] *Source*: The figures on Wal-Wart come from "Wal Mart in 2003" Harvard Business School case n° 9-704-430 and "Wal-Mart neighborhood Market", Harvard Business School case n° 9-503-034. The figures on Carrefour come from "Carrefour in Asia (A): Taiwan a Bridgehead into Asia, INSEAD case n° 02-95-44-09.



Europe can shop less frequently and with “one-stop” stocking up on food and non-food products all on one level. Self-service is the rule.

In order to offer a vast array of products under one roof, as well as sufficient parking, hypermarkets look for maximum space at reasonable real-estate prices. In Europe and the US, they traditionally establish themselves outside urban areas, unlike department stores, given that a travel distance within a certain range is acceptable to the motorized customer base.

Given that a hypermarket would carry 40,000 to 50,000 stock keeping units (SKUs), the art and science of merchandising is the key competence of mass retailers. Merchandising consists in predicting the assortment of fast moving products that customers desire, deciding on the assortment, size and number of SKUs in each category, putting them in the right place in the store, pricing them at the right price and selecting the right promotional approach. In order to do so, retailers must have an in-depth knowledge of customers’ behavior. Different locations may call for different ranges of assortments, which increases the complexity of the merchandising function. Mass retailers strive to constantly improve their merchandising through product planning and adjusting purchases to sales possibilities. For example, Carrefour focuses on food merchandising, diversifying its assortment, managing retail brands, as well as developing its own brands. Carrefour systematically carried out the testing of new products, concepts and services through pilot departments within its stores. Wal-Mart relies on sophisticated merchandising optimization software.

Globalization

European companies have been able to grow internationally at an earlier stage than their American counterparts. Wal-Mart, the leading US competitor, is still very much centered on the US, market where it realizes 82% of its sales. In contrast, Carrefour, the second-ranked mass retailer worldwide generates 50% of its sales[2] outside France, the Metro Group 47% outside Germany, and Ahold 80% outside the Netherlands (Exhibit 4). However many retailers have failed in their international, expansions.

Questions

1) Is mass retail a global Industry?

2) What are the key characteristics that are important for the success of mass retail in a particular country?

3) What are the challenges that mass retailers confront when they internationalize?

4) Which element of their value chain they can transfer, which elements need to be adapted and which one need to be re-created?

5) Why some mass retailers fail when they internationalize?

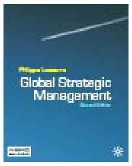


Exhibit 1a

Retail Sales in 2003 in billion US$

Country	Retail sales	Retail food sales	Hypermarkets	Supermarkets	Discounters	Convenience stores
US	3,009	801	225	45.7	137.9	46.4
Japan	938.6	429.9	63.2	134.1	5.9	50.1
China	434	256.9	7.1	94	7.9	10.2
Germany	367.5	109.3	32.1	26.9	46.9	45.2
UK	337.8	138.5	23.9	90.6	6.1	2.5
France	334.5	123.8	77.9	61.1	13.8	5.2

Source: Euromonitor.

Exhibit 1 b

Mass Retailing Formats

	Size	Branches	Products	Range	Price	Location	Service
Convenience Stores ex: 7 Eleven	small	many	Essential, first necessity primarly branded "dry" and frozen foods	Limited	High	Mainly urban neighboring stores	Long opening hours
Department Stores ex: Sears, Printemps, Mark and Spencer	Medium to large	Few to Many	primarily branded non food products:upmarket	Large within the categories	High	Urban	salespersons contact
Generalists Chains ex: Wal-Mart, Target, K-Mart	Large	many	Non food plus some branded "dry" foods	Large range within focused categories	Average to Low	Sub Urban	Limited
Category Specialists ex: Home Depot, Ikea, Toys'R'us	Average to Large	Many	Specialized in one Non-food Category: Toys, Furnitures, Home maintenance	Extremely large within the category	Low	Sub Urban	Limited
Supermarkets ex: Safeway, Alberston, Woolworth	Average from 400m² to 500m²	Many	Essentiallyfresh and branded food plus some toiletry, detergents and kitchenware From 500 to 10,000 SKUs	Large for food	Low	Urban	self -service
Hypermarkets ex: Carrefour, Wal Mart Superstores	Very Large	Many	All categories from fresh foods to consumer durables from 40,000 to 50,000 SKUs	Average within categories	low	Sub Urban	self-service
Hard Discounters ex: Aldi	Small	Many	Food	Limited	Very low	Urban	self -service

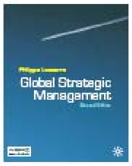


Exhibit2 a

Cost Structure (2003)

Carrefour		Wal-Mart	
Sales	100%	Sales	100%
Purchased Goods	77.50%	Cost of Goods Sold	77.60%
Personnel	9.50%	Operating Expenses	16.60%
Overheads	6.80%		
Depreciation	2.30%	Depreciation	1.40%
Interests	0.80%	Interests	0.30%
Taxes	1.10%	Taxes	1.80%
Margin	2.00%	Margin	2.3%

Source: Companies Annual Reports.

Exhibit 2b

Virtuous Cycle

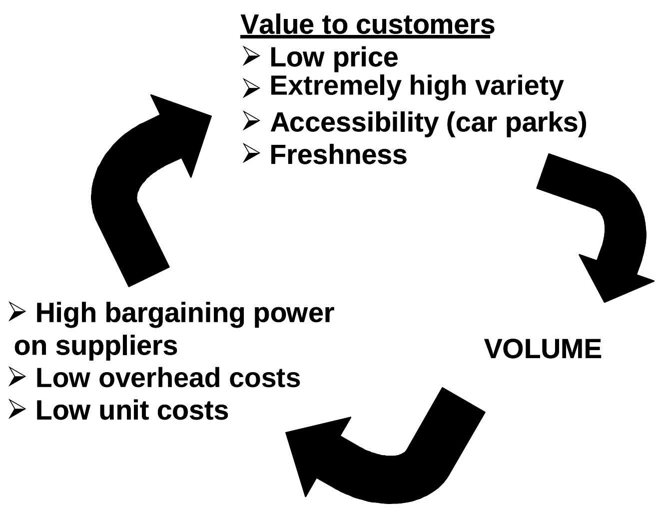
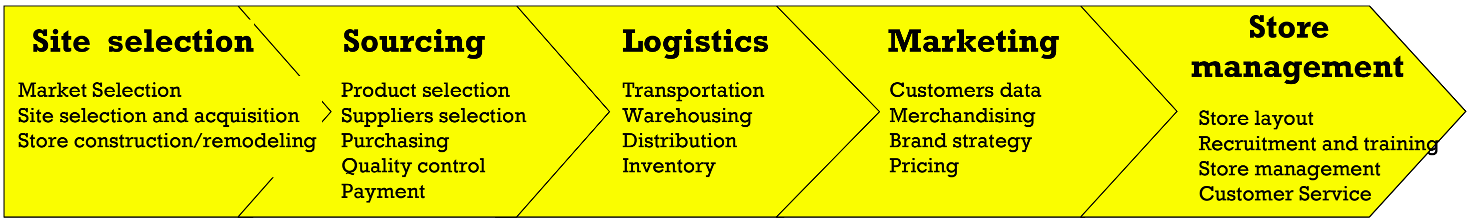


Exhibit 3

Mass Retailing Value Chain



Sources: McKinsey Quarterly 1999, n°3; INSEAD case n° 11/94-4409.

Exhibit 4

Retailers Go global

Countries Entered, (Year of Entry) and (number of Stores) in 2003

	Asia			Americas			Europe and Africa			
Company Country of Origin	**Countries**	**Year of Entry**	**Number of Stores**	**Countries**	**Year of Entry**	**Number of Stores**	**Countries**	**Year of Entry**	**Number of Stores**	**Sales in 2003 and % by regions**
Ahold	Divested from Asia in			USA	1977	1489	Netherland	1955		TOTAL 50680 M€
(Netherlands)	2003			Brazil	1997		Portugal	1999		
				Gautemala	1999		Czech Republic	1990		USA 70%
				Honduras	1999		Spain	1999		Other Europe 6.5%
				El salvador	1999		Scandinavia	1999		Lat. America 4%
				Argentina	1998		Poland	1990		
				Chile divested in 2003	1998		Belgium	2000		
				Peru	1998					
				Paraguay	1998					
				Number of Stores in		386	Number of Stores in		3144	
				Latin America			Europe			
Carrefour	Taiwan (1989) (31)			Brazil (1975) (326)	1975		France	1960	1338	TOTAL 88572 M€
(France)	Malaysia (1994) (7)			Argentina (1982) 450)	1982		Spain	1973	2020	
	China (1995) (95)			Mexico (1994) (27)	1994		Portugal	1991	290	France 50.7 %
	Thailand (1996) (19)			Columbia (1999) (11)	1999		Belgium re-entered	2000	131	Europe 37.2%
	Korea(1996) (27)			Dominican Republic	2001	1	Switzerland ()	2001	8	Latin America 6%
	Singapore (1997)(2)			Chile*	2001	1	Czech Republic	1999	9	Asia 6%
	Indonesia(1998)(11)			(* Divested in 2003)			Slovakia	2000	4	
	Japan(2000)(7)						Poland	1997	82	
	HongKong *	1996					Greece	1991	382	
	(* Divested in 1999)						Italy	1993	374	
							Turkey	1993	198	
							Egypt	2002	2	
							Qatar	2001	1	
							Oman	2001	1	
							Tunisia	2001	1	
							Romania	2001	2	
							Emirats Arab Unit	2002	7	
MAKRO	China	1996	4	Brazil		43	Sold European			TOTAL 2.800 M€
Subsidiary of SHV	Indonesia	1992	13	Argentina		13	operations to METRO			
Group	Malaysia	1993	8	Venezuela		17				
(Netherlands)	Philippines	1996	11	Columbia		8				
	Thailand	1989	23							
METRO	China	2000	16				Germany		1733	
(Germany)	Japan	2002	1				Austria		41	TOTAL 53595 M €
	India	2004	2				Belgium		22	
	Vietnam		3				Bulgaria		7	
							Croatia		3	Germany 53%
							Czech Republic		10	Western Europe 30%
							Denmark		4	Esatern Europe 15%
							France		98	Asia 2%
							UK		33	
							Hungary		36	
							Luxzembourg		3	
							Morocco		6	
							Italy		91	
							Netherlands		27	
							Portugal		10	
							Poland		83	
							Romania		23	
							Russia		7	
							Slovakia		5	
							Spain		47	
							Switzerland		14	
							Ukraine		1	
							Turkey		24	
TESCO	Thailand	1998	64				UK	1919	1878	TOTAL 26004M £
(UK)	Korea	1999	28				Poland	1994	69	
	Taiwan	2000	4				Hungary	1994	60	UK 82%
	Japan	2003	78				Slovakia	1997	23	Rest of Europe 10%
	Malaysia	2002	5				Czech republic	1994	22	Asia 2%
							Ireland	1997	82	
							Turkey	2003	5	
Wal-Mart	China (1996)	1996	34	USA	1945	3501	Germany (1997)	1997	92	TOTAL 256,000 M$
(USA)	Korea (1997)	1997	15	Mexico (1991)	1991	640	UK (1999)	1999	276	
	Japan (2002)	2002	400	Canada (1994)	1994	236				USA 81.5%
	Indonesia divested			Argentina (1995)	1995	11				International 18.5%
				Puerto Rico	1992	12				
	HongKong divested			Brazil (1995)	1995	25				

S*ources*: Companies Annual Reports.