

Globalisation of the food retail industry – forecasts to 2013

2008 edition



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Preface

Report methodology

The author of the report has more than seven years' experience researching and analysing trends and developments in the global food and drink market. As a NUJ-accredited food and drink journalist, Helen Lewis has developed an extensive contact list of industry experts and researchers. The majority of this report is based on analysis of a wide range of secondary resources from news sources, company websites and trading reports (including annual reports). The programme of secondary research was undertaken specifically for this report, and *just-food* has analysed numerous data sources and forecasts relating to the global food market. Alongside this, primary research was conducted in the form of interviews with leading experts in the retail industry and reportage by the author and other members of *just-food* from important conferences such as the World Retail Congress (held in April 2008 in Barcelona, Spain). The combination of these two research techniques enables *just-food* to make informed market estimates, predictions and forecasts to 2013. This provides a strong focus on analysis rather than market data, although both are included to offer an overview of the global grocery market and issues associated with the globalisation of retail.

Aims of the report

The primary aim of this report is to understand the impact, pace and current status of globalisation in the food retail market. It also provides insight into the global retail market of the future.

The top 50 food retailers are identified and the top ten are analysed in terms of merger and acquisition (M&A) activity, market growth strategies, product development (private label), relations with suppliers and branded manufacturers, and various other activities over the past 12-18 months. The report considers current trends influencing the globalisation of the food retail market and the potential impact this will have on the food and drink market, as well as the retail industry, over the next five years.

About the author

Helen Lewis is the author of numerous *just-food* and *just-drinks* reports and briefings published by Aroq since 2005 on issues as far reaching as health and convenience, indulgence, Fairtrade, organic, China's food market, functional foods and packaging trends. Helen's interest in the food and drink industry developed during her time as head of publishing at *Reuters Business Insight* between 2001 and 2004. In 2006, Helen established food&drink towers, a media company specialising in building a communications network for food and drink companies, journalists and public relations specialists. Helen writes for a number of trade publications such as *The Grocer* and *Caterer & Hotelkeeper*, and works with small- and medium-sized businesses and start-up food companies to develop new products, and packaging, website and marketing copy. Helen is also a fully qualified public relations specialist and provides a public relations service for small businesses through food&drink towers.

Chapter 1 Introduction:

Globalisation of the food retail market

Globalisation of retail is not an emerging or imminent strategy, but a current focus for many retailers. For the smaller players seeking only the local share of wallet, globalisation is often perceived to be 'all that is wrong with the market'. Meanwhile retail players seeking growth are expanding their operations further afield seeking a bigger global market share and increased profits from new markets. According to Deloitte, there has been a change of fortune for retailers operating in more than one country. In 2007, retailers (not just grocery) operating in three or more countries grew sales nearly two percentage points faster than retailers operating in only one or two countries. This has not always been the case; in fact, in 2006, again according to Deloitte, retailers preferring to 'stay local' to their domestic market outpaced the global players in growth, but the global players, of course, maintained the higher profitability levels. On a basic level, therefore, globalisation is a means to enhancing profits. Retailers with operations in more than ten countries posted an average net profit margin of xxx% compared with xxx% for those in only one or two countries, according to Deloitte figures for 2007.

Established retailers recognise that with domestic organic growth becoming more difficult to sustain in mature markets, expansion into new markets is a necessary step towards securing future profitability. New markets do not necessarily mean new countries/regions, although this, of course, appeals to many retailers, particularly when it comes to the emerging markets of China, India and Central and Eastern Europe (CEE) where growth rates are forecast to outpace those expected in more mature markets such as the UK, US and Western Europe. Creating new retail formats (moving into the smaller store format, for example, or establishing a discounter format), investing in private-label lines or entering non-retail sectors are all growth strategies considered, and regularly adopted by growth- and profit-seeking retailers.

The timing of this report is critical in light of events in today's market (many of which are detailed in this report) and the recognised importance within the

Chapter 2 The top five global retailers

The top xx global mass grocery retailers (by 2006 sales) are listed below. More than half of the top xx originate in Europe (xx) with a further five from the UK. North America (Canada more than the US) is responsible for xx of the top xx and Asia (Australia, Japan and South Korea) contributed eight of this top xx list. *just-food* has focused on the top five – Wal-Mart, Carrefour, Tesco, Metro and Kroger – in this chapter, including an overview of recent financial performance and a SWOT analysis from the perspective of the future global retail market.

Table 1: Top 50 global mass grocery retailers, 2006

Global ranking	Company	Domestic country	2006 group sales (US\$m)	2006 retail sales (US\$m)
1	Wal-Mart Stores, Inc	US	xxxxxxx	xxxxxxx
2	Carrefour S.A.	France	xxxxxx	xxxxxx
3	Tesco Plc	UK	xxxxxx	xxxxxx
4	Metro AG	Germany	xxxxxx	xxxxxx
5	The Kroger Co	US	xxxxxx	xxxxxx
6	Aldi GmbH & Co oHG	Germany	xxxxxx	xxxxxx
7	Rewe-Zentral AG	Germany	xxxxxx	xxxxxx
8	Seven & I Holdings Co, Ltd	Japan	xxxxxx	xxxxxx
9	Groupe Auchan S.A.	France	xxxxxx	xxxxxx
10	Edeka Zentrale AG & Co KG	Germany	xxxxxx	xxxxxx
11	Safeway, Inc	US	xxxxxx	xxxxxx
12	Centres Distributeurs E. Leclerc	France	xxxxxx	xxxxxx
13	Koninklijke Ahold N.V.	Netherlands	xxxxxx	xxxxxx
14	ITM Developpement International (Intermarche)	France	xxxxxx	xxxxxx

Chapter 3 Mergers and acquisitions

Mergers, acquisitions and joint ventures are fundamental to international expansion strategies. Such deals permit entry to complex and heavily regulated markets such as India and Russia, and enable companies to build on the local expertise, existing supply chains and logistics. Pressure on retailers to find suitable property is also a factor influencing M&A decisions: working with existing premises and suppliers is an easier and quicker option for companies seeking expansion and a more rapid return on investment.

According to CB Richard Ellis, a commercial property and real estate services adviser, Moscow's Tverskaya region became the most expensive retail destination in Europe, the Middle East and Africa (EMEA), following xx% growth in the past two years, despite the strong levels of development in Moscow. There is already a level of saturation in Moscow which is prompting out of town developments.

Table 8: Most active emerging retail markets, 2007 (%)

Rank	Country	Proportion of respondents that are actively looking in each market or first opened there in 2007
1	India	xx%
2	Ukraine	xx%
3	Russia	xx%
4	Malaysia	xx%
5	Turkey	xx%
6	South Africa	xx%
7	Thailand	xx%
8	China	xx%
9	Mexico	xx%
10	Indonesia	x%
11	Pakistan	x%

Chapter 4 Rising stars and formats of the future

Introduction

In the highly consolidated and saturated Western European market, leading retailers such as Metro, Carrefour and Tesco are expanding their business into Eastern Europe, Asia and North America. Emerging markets such as India and Russia are starting to experience a surge in sales and in the popularity of modern grocery formats. As a result, these emerging markets are starting to see a new generation of retailers that can be regarded as the rising stars of the global market.

Over the next five years, emerging markets such as China and Russia will start to offer more tempting growth opportunities for Western retailers. Retailers from emerging markets will also start to grow faster within their domestic markets and then seek to expand internationally. *just-food* expects players such as Bharti (India), Loblaw (Canada), and X5 (Russia) to feature heavily among the top ten retailers at the end of the forecast period.

There has been massive growth in consumer spending in established and mature retail markets such as the US and the UK over the past two to three years, which has driven growth in the global economy and the global retail sector. As economic uncertainty continues in 2008 and into 2009, the rising stars are seeking establishment in emerging markets that are more fragmented and set for stronger growth. Companies such as Bharti and X5 stand out as 'the ones to watch' in the retail market over the next five years due to their origin and establishment in higher-growth markets, awareness of the local culture, shopping habits and consumer trends – ahead of international investors.

According to the Bank of England (May 2008) we are now at the end of the 'nice decade', Americans have been living beyond their means for too long and taking on external debt, and the housing bubble has burst in the US and is bursting in countries across Europe. In Asia; however, economic growth continues and economists are pointing to a shift in consumer spending power

Chapter 5 Emerging markets

Introduction

Emerging markets are fuelling double-digit growth in the global retail market. In an increasingly consolidated market, moving outside of the domestic region and into emerging markets can be a lucrative step, although it is also a complicated and difficult growth strategy. A 'one-size-fits-all' entry strategy is impossible. Even within countries the size of China, India and Russia, there are dramatic differences on a regional basis.

This chapter considers four emerging markets known as the 'BRIC' countries: Brazil, Russia, India and China. The four are regarded by many retail and economic analysts as the ultimate destination for retailers prepared to part with some cash now and reap the benefits once the country 'comes of age'. They are frequently compared to Europe in the post-war era of the 1940s and 1950s. However, there are dramatic differences – not least the variations in consumer trends, purchasing habits and attitudes to shopping. Climate change was not perceived to be an issue, oil prices were lower and international travel was significantly more limited than it is in today's market.

At the World Retail Congress in April 2008, CB Richard Ellis head of EMEA research and development Dr Nick Axford said: *"It is the growth of these countries that make them so appealing. The BRIC countries are showing two or three times the growth of the developed countries."*

Aldo Group International vice president Norman Jaskolka added: *"...we see emerging markets as markets where we can grow in a relatively short space of time and get market share that would take a long time in more mature markets."*

While the theme throughout the Congress was extremely positive for retailers considering the emerging markets, the risks were also discussed. The wide variety of emerging markets means it is essential to analyse each opportunity and it is important to learn to adapt quickly to changing local market conditions. Franchising was commended as a sensible option for players wanting to quickly jump into the emerging markets, but finding the right partner was the most difficult task.

Chapter 6 Conclusions and future forecasts

Global retail food market value forecasts

The grocery retail market will continue to record faster sales growth compared to the overall retail sector over the next five years. According to *just-food*, total global retail sales recorded x% growth in 2007 to a value of more than US\$xxxxxtn. The global grocery retail market sales grew by xxx% in 2007 to US\$xxxxxtn. By 2013, *just-food* estimates that the total grocery market value will exceed US\$xxxxxtn following growth of xxxx% from 2006.

According to AT Kearney's 2007 *Global Retail Development Index Report*: “[India's] window of opportunity continues to be wide for retail investment and development, evident in the spate of alliances and market entry announcements from local conglomerates. Once India's window closes for grocery retailers, there will be little opportunity for market domination in the main cities.”

AT Kearney's report points to market saturation already in China's and Russia's primary cities over the past few years, which means that the window of opportunity in these two emerging markets is already closing. Instead, AT Kearney points to Vietnam and UAE offering a few more years of opportunities in the major cities, as well as Latvia and Saudi Arabia (it seems that Waitrose is on the right track with the initial stage of its expansion plan).

The emerging markets are driving this strong growth and this is likely to continue over the next five years. However, the double-digit growth in countries such as India and China is not sustainable over the long term, and it is therefore likely that the difference in growth rates between the overall retail and the grocery retail markets will shrink in the three to five years after the forecast period.