

Hidden heroes
Emerging retail markets
beyond China



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About Planet Retail

Planet Retail is the leading provider of global retailing information, from news and analysis to market research and digital media. Covering more than 10,000 retail and foodservice (HoReCa) operations across 140 markets around the world, many of the worlds leading companies turn to Planet Retail as a definitive source of business intelligence.

By joining the latest in web technology with over 15 years of retail industry insight, we deliver immediate business value to our customers who span the entire retail supply-chain as well as financial services, consulting, advertising, IT, property, investment, entertainment and academia.

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Introduction

The markets

When it comes to the promise of a rising middle class in emerging markets, the lion's share of attention has been visited upon China – and not without reason. When measured on the basis of purchasing power, China is now the world's second largest economy. For the past two decades, it has been among the world's fastest growing economies. In the process, literally hundreds of millions of Chinese people have moved from poverty into the middle class. This shift is the greatest expansion of human well-being that has ever taken place. Moreover, it offers the promise of great riches for the world's leading retailers and their suppliers. Thus, China deserves all the attention that it attracts. Yet China does not deserve all the attention in the world. There are other big, emerging markets that offer great promise, and not only the other BRICs (Brazil, Russia, and India). While China deserves continued accolades, several other markets deserve a second look.

In this report, Deloitte Touche Tohmatsu (Deloitte) and Planet Retail provide an overview of the outlook and opportunity regarding eight key emerging markets. They are Brazil, Egypt, India, Indonesia, Mexico, Russia, Turkey, and Vietnam. These otherwise disparate countries have one thing in common: they are all on the radar screen of some of the world's leading retailers. Some of these countries have already attracted substantial foreign investment into their retail sectors (Brazil, Mexico and Turkey) while others are only beginning to see serious activity (Egypt, India and Vietnam). A few remain desperately poor (India and Vietnam) while others could be considered middle income by the standards of emerging countries (Russia and Mexico). Some are welcoming of foreign investment into the retail sector (Brazil, Mexico and Russia) while others are hesitant (India). Yet all of these countries are likely to play an important role in the further globalization of retailing in the years ahead.

... China is now the world's second largest economy.

The retailers

A closer analysis of the retailers highlighted in this overview reveals a number of common themes and strategies that unite them as they continue to progress amid what for many of them is unparalleled economic turbulence and operational challenge. While not all of the retailers called out in this study are currently experiencing rapid top line or like-for-like growth, they are still successfully defending their market position amid ever more competitive trading environments. Before we move on to take a more detailed look at some of the key markets and retailer case studies, it will be worth taking a look at some of the strategic and operational commonalities that link many of the winning retailers.

First-mover advantage: A number of the retailers in this study have enjoyed first-mover advantage. This need not be defined as the first modern retailer active in a particular market, but is more of a broad characteristic of retailers pioneering certain retail channels, best practices and merchandising techniques, enabling a retailer to offer a genuine point of difference. Whether we consider BIM's trailblazing in the Turkish discount channel, Pantaloon's courageous entry into a disparate array of diverse retail activities or Saigon Co-op's efforts to carve out a pre-emptive position of dominance in Vietnam's nascent modern retail sector, there can be little doubt that innovation, foresight and commercial bravery have led to a number of retailers in emerging markets defending their territory in an impressive fashion.

Serving the underserved: Whether it be Saigon Co-op offering a modern retail experience to Vietnamese consumers, Magnit opening for business in remote locations overlooked by other retailers, or Walmart de México opening proximity store concepts in smaller towns previously without access to low-price retailing, the notion of providing an affordable shopping experience to consumers previously limited to informal or independent retail channels is a successful concept. In many emerging markets (and indeed a number of so-called developed nations), various socio-economic factors have combined to create situations where a significant proportion of the population has been deprived of access to affordable modern retail opportunities: serving the underserved is a considerable opportunity.

Low-income store concepts: A number of the retailers that have been highlighted already – BIM and Walmart de México – are thriving thanks to their operations that are targeted at lower income shoppers. While this strategy has clearly attained a great degree of relevance and success over the last couple of years of economic uncertainty and recession, it should be remembered that the longevity of these store concepts will be significant and their relevance will outlast the economic downturn by quite some margin. The quest for value-for-money is a permanent fixture in the world of retail, not merely a reflex to economic downturn.

Private label: It is not simply through tailored store concepts that retailers are seeking to maximize both customer satisfaction and their own profitability. The development of increasingly sophisticated private label portfolios is enabling many retailers in emerging and developed markets to grow penetration of higher margin private label brands while at the same time enhancing their value credentials. With such key strategic benefits, it is little surprise that non-food retail segments like home improvement and electricals are looking to emulate the success of their grocery-retailing peers and develop momentum in corporate brand development.

Format diversity: It is notable that among the retailers we have highlighted, it is only BIM that is a single-concept business. All of the others are diverse multi-format operators, a strategy that enables them to target different shoppers, cater to different shopping occasions and sell different categories of products. While not every single format will necessarily be a long-term success, this strategy of operating through different concepts enables retailers to sell into a wide spectrum of consumers, and as well provides a degree of insulation should a certain retail sector encounter particular difficulties.

A number of the retailers that have been highlighted already – BIM and Walmart de México – are thriving thanks to their operations that are targeted at lower income shoppers.



Brazil

Brazil is already a major destination for foreign retailers. French food retailers Carrefour and Casino, as well as Walmart, the world's largest retailer, have all been in Brazil for many years. In addition, non-food retailers such as Leroy Merlin, C&A, Zara, and H&M are also active in Brazil. Plus, Brazil has some very sophisticated home-grown retailers. The result is a retailing industry that is relatively advanced and consolidated compared to other emerging markets. Although the retail industry has developed faster than the overall economy, the country is now in a period of strong growth combined with a high degree of confidence on the part of the business community. Why is this?

Brazil has many appealing aspects. First, it is a huge market of 190 million people, the fifth most populous nation on earth. When measured based on purchasing power, per capita income in Brazil is roughly double that of China. Consequently, Brazil's overall economy is roughly 30 percent that of China and about 60 percent that of India. Moreover, given the relatively skewed income distribution of Brazil, the top 20 percent of households have a standard of living comparable to that of the UK. Hence, within Brazil there are almost 40 million people living in a manner comparable to developed countries. That market alone has appeal for many retailers.

Yet Brazil has a sordid past, at least when it comes to economic policy. From the 1960s to the early 1990s, Brazil struggled with periodic high inflation and periodic episodes of hyper-inflation, the consequence of printing money to cover government budget deficits. This, combined with autarkic policies that discouraged trade and foreign investment, led to a distorted economy that grew slowly and invested too little. The latter was due, in part, to the very high capital costs associated with the uncertainty of inflation.

However, starting in the mid-1990s, Brazil adopted a new currency (the real), tightened fiscal policy, de-regulated the economy, freed up prices, liberalized trade, and adopted a monetary policy of targeting inflation. This policy was maintained even when after a new party took over in 2002. The result has been over 15 years of steady growth with low inflation. Even this year, in the aftermath of a recession, the budget deficit remains only 3 percent of GDP, far lower than in countries such as the U.S. and U.K. The credibility of this policy has enabled a gradual decline in capital costs, thereby stimulating more investment.

Brazil: Key macroeconomic data

	2006	2007	2008	2009	2010
National statistics					
Inhabitants (mn)	185,564	187,642	189,613	191,481	193,253
GDP (USD mn)	1,087,088	1,331,023	1,567,365	1,499,642	1,865,078
GDP/capita (USD)	5,858	7,093	8,266	7,832	9,651
GDP (% real growth)	4.0	5.7	5.1	-0.4	4.7
Consumer price inflation (%)	4.2	3.6	5.7	4.8	4.1
Consumer spending (USD mn)	655,477	809,400	952,834	909,871	1,114,488
Consumer spending/capita (USD)	3,532	4,314	5,025	4,752	5,767
Retail sales, net (USD mn)	502,770	614,910	716,704	701,971	862,325
Retail sales, net/capita (USD)	2,709	3,277	3,780	3,666	4,462

Source: Planet Retail
GDP and other data presented in annual average exchange rates

This situation, combined with the euphoria surrounding Brazil's winning bid to host the 2016 Olympics, has made the global business community very optimistic about Brazil. It has also led to a flood of foreign investment. The latter has had the unfortunate effect of boosting the value of Brazil's currency, thereby hurting the competitiveness of the country's exports. On the other hand, a stronger currency is disinflationary, allows for a more aggressive monetary policy, and reduces the cost of imports – all positive factors for the retail industry.

Still, all is not perfect in Brazil. There are a large number of people living in poverty and amidst crime. Indeed, the crime rate is relatively high compared to other big emerging markets. Brazil's state governments continue to spend too much on subsidies, thereby damaging the ability to invest in infrastructure. Finally, the country remains highly dependent on commodity exports and, therefore, on the volatility of commodity prices. Indeed, the country is on the verge of producing more commodities given the discovery of oil off the Atlantic coast.

On the other hand, the government has spent heavily on programs aimed at lifting the poor. One result is that income distribution in Brazil has actually improved rather than gotten worse – which is what often happens during periods of rapid growth.

Today, the middle class represents roughly half the population, a significant increase from the past. Another positive factor for Brazil is that its population is relatively young and growing rapidly. A young population bodes well for strong economic growth and the rise of a youthful middle class. It also bodes well for household formation and retail selling of home-related goods. In addition, a young population means that Brazil needn't worry just yet about supporting a rising number of old people – which is the case in much of the world.

For retailers, Brazil's economic outlook offers tremendous promise. Although food retailing is already highly consolidated and dominated by foreign companies, non-food retailing remains fragmented. The country's many popular malls are populated by large numbers of relatively small chains. When it comes to home-related goods, there is a modest number of specialty chains that lack the scale of the "category killers" found in North America. Thus, an opportunity exists – both for foreigners and for home-grown retail concepts.

The Brazilian retail scene

The Brazilian grocery sector features a remarkably high level of internationalization. In fact, four of the top five grocery players are part of international retail groups, even though major player, Pão de Açúcar, in which Casino holds a 35 percent stake, could also be regarded as a local player. In December 2009, Pão de Açúcar announced that it was planning to build retail market share by taking a controlling stake in a joint venture with consumer electronics market leader Casas Bahia, with formal approval for the transaction expected in spring 2010. Also now ramping up expansion is Walmart, which kept a low profile after its market entry in 1994 through to 2004. However, in 2004 Walmart acquired Ahold's Brazilian assets, followed a year later by the takeover of Modelo Continente's operations. In late 2009, Walmart confirmed that Brazil was among its top priority markets for further investment. Carrefour has the advantage of a national presence, having been boosted by its acquisition of Atacadão in 2007.

Although consolidation has been a marked trend in recent years, with a number of high profile mergers and acquisitions, the Brazilian market is still fragmented with no player yet accounting for more than 10 percent of the market. With this in mind, there is still potential for further concentration in the future. The large chains are now pursuing multi-format strategies encompassing hypermarkets, neighborhood supermarkets, discount stores and convenience stores. 'Hard discount' stores were introduced in 2000. Also, weakness in the non-food sector has allowed supermarket groups to capture a share of domestic appliance and home entertainment sales.



Carrefour has also been boosted by acquisition



Grupo Pão de Açúcar (GPA)

Overview

Grupo Pão de Açúcar (GPA), with gross revenue of USD13.1 billion in 2009, will be the largest retailer in Brazil once it completes the acquisition of non-food retailer Casas Bahia. French-based retailer Casino has a 34.8 percent stake in the company, which was formerly known as Companhia Brasileira de Distribuição.

GPA's business is based on a multi-format structure, with a balance between supermarkets, hypermarkets, electronics/household appliances outlets, convenience stores and cash-&-carries. Such a strategy allows it to offer a wide range of formats catering to consumers in different regions and diverse social and economic classes. It also has a network of e-commerce businesses.

As part of the company's expansion strategy, GPA has developed through organic and particularly acquisitive growth. The company has generally sought to acquire local supermarket chains, to benefit from their existing know-how in local regions. As a result, the company has been able to expand its operations to cities outside the state of São Paulo.

Growth

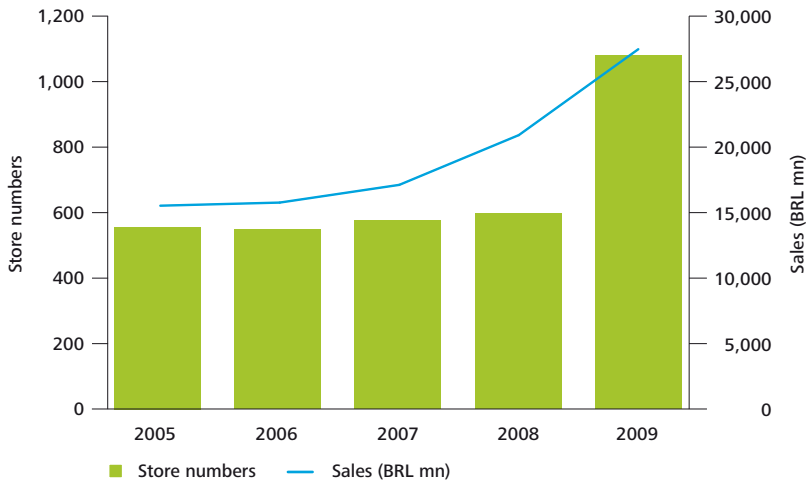
GPA mainly expands through acquisition as well as via organic growth and this is clearly illustrated by the recent purchases of Ponto Frio and Casas Bahia in 2009. Ponto Frio virtually doubled GPA's total store count from 597 in 2008 to over 1,000 in 2009 while the Casas Bahia acquisition will add an additional 500+ stores to the group's network.

Sales growth is reflected by its acquisition strategy with turnover increasing by 12 percent in local currency between 2008 and 2009. Profits have also been stronger than forecasted for the year with net profit up by 29 percent in 2009. Overall, between 2005 and 2009, sales have grown by 77 percent in local currency.

Key facts
Location São Paulo
Start of operations 1948
Main formats Hypermarkets Supermarkets Cash-&-carry Appliance store
Stores (2009) 1,080 (e)
Net sales (2009) USD11,638 mn
International presence 0

As part of the company's expansion strategy, GPA has developed through organic and particularly acquisitive growth.

GPA: Retail banner sales and store numbers, 2005-2009



Source: Planet Retail – www.planetretail.net

Reasons for success

- **Multi-format strategy** – Along with GPA’s significant inroads into non-food retailing, the company operates hypermarkets, supermarkets and cash-&carries (the latter being a popular format amongst lower income Brazilian consumers). In addition, the retailer is considerably growing its convenience store network and was the first major retailer (i.e. non-oil company) to launch outlets in this channel in Brazil.
- **Three-tiered format strategy** – GPA has always offered three pricing points through its formats, which has enabled the retailer to target the full range of Brazilian demographic groups, with Pão de Açúcar supermarkets targeted at higher income shoppers, Extra at middle income; and Comprebem and Assai cash-&carries at lower-income groups. The same type of strategy is likely to take place with the newly acquired electronics chains Ponto Frio (higher income customers) and Casas Bahia (targeting less affluent shoppers).
- **Benefits from Casino stake** – Although the French retail group only has a minority stake in GPA, it has brought and will bring additional benefits to GPA. In 2010, GPA will be introducing the dunnhumby loyalty data analysis to the market which should have positive implications for the product mix stocked in GPA’s network of stores. Casino will be closely advising the retailer on the roll-out of a retail/property model which should benefit the company’s overall financial performance.

- **Local loyalty** – Even though Casino is a key shareholder, GPA is considered by Brazilians to be very much a local player which has added to the chain’s popularity. Casino has never tried to impose its French brand values on GPA so it operates relatively autonomously.

Future strategic priorities

GPA has a promising future in Brazil. In total, GPA is looking to invest USD2.8 billion in Brazil over the next three years (2010-12), representing the company’s largest three-year investment plan which is 70 percent higher than the USD1.6 billion (including acquisitions) recorded in the previous period (2007-09). This should support the opening of around 300 new stores through 2012, raising the overall sales area by an average 8-9 percent per year.

For Chairman Abilio Diniz the planned investments underline the company’s and its shareholders’ confidence in Brazil and in its strong growth potential. “We are passing through exciting times and we expect to see an even stronger economy in the years ahead. We will be following this trajectory and accelerating our organic growth process, expanding our various formats and aligning them with their respective market and consumer profiles, in addition to boosting sales in our existing stores,” Diniz has declared.

The Brazilian grocery market is consolidating rapidly as supermarket and hypermarket chains strive to acquire good locations, achieve economies of scale and increase their leverage with suppliers. However, with the Brazilian food sector remaining relatively fragmented, there is potential for much greater concentration in the future.

Despite the relatively low levels of concentration in the Brazilian market, competition is still fairly fierce. Having kept a relatively low profile after its market entry in 1994, Walmart has accelerated expansion in recent years and in October 2009, Walmart confirmed that Brazil was among its top priority markets for further investment. In addition, through its acquisition of Atacadão in April 2007, Carrefour consolidated its place among the top players in Brazil.

Against this backdrop of ongoing competitive pressures in the grocery market, it is no surprise that GPA is therefore keen to establish a stronghold in the non-food market and e-commerce and build upon its first-mover advantage in the convenience channel.

Egypt

In the past decade, Egypt has experienced relatively strong economic growth after a long period of stagnation. As such, this relatively poor yet ancient country has become a focus for global retailers interested in finding new and untapped markets. With a formal retail sector that has only 2 percent of retail sales, this surprisingly fast-growing country is ripe for investment. Yet continued political unrest creates uncertainty that deters such investment. On the other hand, it is worth noting that unrest has been going on for almost the past 60 years and has not resulted in a regime change. In fact, there has not been a change of President in 29 years. In addition, it is widely expected that the next President will be the son of the current President.

The good news is that, in the past decade, economic growth in Egypt has picked up speed. In the three years prior to the global economic crisis, growth averaged roughly 7 percent per year, higher than the Middle East average and higher than the global average. This strong performance was due, in part, to reforms gradually introduced by the government. These included privatization of state-run companies (the effect of which is to boost productivity and temporarily boost government coffers), reductions in subsidies, and sensible fiscal and monetary policies. In addition, the government is developing public-private partnerships to finance much needed investment in infrastructure.

During the recent global economic crisis, Egypt did surprisingly well. While growth slowed, the economy performed far better than the rest of the world. The government engaged in fiscal and monetary expansion which helped to offset the negative impact of declining exports and Suez Canal revenue. Going forward, the global economic recovery will help boost exports, Suez Canal revenue, and tourism – all important contributors to Egypt's economic well-being. As long as the reform agenda is uninterrupted, and as long as there is a modicum of political stability, Egypt should be able to muster strong growth in the coming years. Further reductions in subsidies, however, could lead to more political unrest as retail prices of energy rise. Inflation could rise as well. In addition, rapid population growth will eat into per capita gains in income. Still, a youthful and growing population will be a good thing from a consumer business perspective.

Egypt: Key macroeconomic data

	2006	2007	2008	2009	2010
National statistics					
Inhabitants (mn)	71.300	73.600	75.200	76.704	78.238
GDP (USD mn)	106,174	130,201	163,152	185,436	213,696
GDP/capita (USD)	1,489	1,769	2,170	2,418	2,731
GDP (% real growth)	6.8	7.1	7.2	4.7	4.5
Consumer price inflation (%)	4.2	11.0	11.7	16.2	8.5
Consumer spending (USD mn)	74,960	90,047	111,472	132,503	151,322
Consumer spending/capita (USD)	1,051	1,223	1,482	1,727	1,934
Retail sales, net (USD mn)	43,647	51,628	62,895	73,456	82,934
Retail sales, net/capita (USD)	612	701	836	958	1,060

Source: Planet Retail
GDP and other data presented in annual average exchange rates

With 80 million people, Egypt is a big market. The population is geographically concentrated in a few big urban areas along the Nile Valley, with Cairo being the largest. Until about 10 years ago, Egypt's retail industry was almost completely composed of small, independent shops and street markets. Then, during the past decade, several domestic and foreign retailers started to roll out large stores, both supermarkets and hypermarkets. The development of chains is still in its infancy. In Egypt, there are only a handful of companies that operate more than five stores. The largest, Metro (no relation to the German company) operates 65 stores.

During the recent global economic crisis, Egypt did surprisingly well. While growth slowed, the economy performed far better than the rest of the world.

As for foreigners, their experience in Egypt has been mixed. British food retailer Sainsbury's had a brief and unhappy investment in Egypt. Competitors angered by Sainsbury's discount pricing strategy stirred anti-Western, religiously oriented attacks on Sainsbury's, ultimately leading to its exit from the market. On the other hand, French retailer Carrefour continues to operate hypermarkets under franchise with plans to open more. Carrefour's choice of a franchisee, UAE based Majid Al-Futtaim, was probably helpful in avoiding politically inspired opposition. The success of its hypermarkets has led to the development of a locally-owned hypermarket chain. In addition, other retailers from the Middle East and South Africa have made investments in Egypt in recent years. Now, a number of other leading global players are carefully considering Egypt.

There are, of course, problems in operating in this market. The infrastructure for moving goods is poor, the regulatory environment for foreign investors is complicated, there remain high tariffs, and there is a high degree of official corruption. On the other hand, foreign investment in retailing is not discouraged. Although foreigners may own 100 percent of their investment, obtaining government approval is likely to move more quickly when a local partner is involved. At the end of the day, foreigners will come if the market appears promising. This will depend almost entirely on continued economic growth and stability.

The Egyptian retail scene

The lack of large modern players means that the top five grocery retailers hold a combined market share of less than 2 percent. Although supermarkets are gradually extending their reach, it will take decades for them to make serious inroads into the dominant traditional sector. Elsewhere, hypermarkets have arrived in the major cities of Cairo and Alexandria, often as part of larger shopping malls. Apart from global operators, Egyptian retailers are also building the first hypermarket style outlets, signifying the market's progressive trends.

The Egyptian retail market has large potential for the coming decades. More foreign retailers are expected to enter in the medium to long-term, some of them Arab retailers from Gulf countries. Their impact will be small at first, but significant when looking at the wider implications this has for the development of retail structures across the Middle East. More importantly though, it is domestic operators that will be worth watching. Metro, for example, introduced a discount banner in 2006 to target the mass of lower income shoppers. Carrefour, Hyper One and Spinney (LEB) are also worth following. Carrefour, in particular, is expanding relatively fast, driving the new trend towards hypermarket shopping. Hyper One, a domestic retailer, is also confident that the Egyptian market has a bright future for setting up hypermarkets.

The success of its hypermarkets has led to the development of a locally-owned hypermarket chain.

India

India is often compared to China. After all, it is the only other country with more than one billion people. It is growing rapidly and is attracting the attention of the global business community. And India, like China, is more aggressively asserting itself on the global stage.

Yet that is pretty much where the similarities end. India has a very different economy, different demographics, and certainly a different retailing industry than China.

India is much poorer than China. Per capita income in India, when measured according to the purchasing power of the currency, is roughly 55 percent that of China. This partly reflects the fact that India started its economic reforms about 15 years later than China. Those reforms, which involved dismantling considerable state control of the economy, led to acceleration in economic growth which is still taking place. Yet many more reforms will be needed in order to sustain rapid growth without sparking inflation. For example, although foreign investment is far more welcome than in the past, it remains highly restricted in some sectors, including retail. India remains a relatively protectionist country with trade barriers far higher than that of China. India's investment in infrastructure remains pitifully low. This is the result of government resources being diverted to subsidies. Finally, India is not a single market. State governments can and do restrict the movement of goods within India, creating huge inefficiencies.

Yet if there are so many things wrong, why is India doing so well? The answer is that there are many things that are right. India's financial sector is mostly privately owned and provides a relatively efficient way of channeling the country's savings into profitable investments, especially to India's numerous entrepreneurs.

The result is that India generates more economic growth for each dollar of investment than does China. Another positive factor is that, combined with a high level of English language proficiency, India's large number of university graduates have been able to export their services to Western companies in large numbers. Finally, India has the good luck to have a young population. This bodes very well for future strong economic growth (while China's aging population suggests a slowdown in growth is imminent).

India: Key macroeconomic data

	2006	2007	2008	2009	2010
National statistics					
Inhabitants (mn)	1,152,047	1,169,228	1,186,311	1,203,281	1,220,125
GDP (USD mn)	875,195	1,101,095	1,208,836	1,244,143	1,515,525
GDP/capita (USD)	760	942	1,019	1,034	1,242
GDP (% real growth)	9.8	9.4	7.3	5.6	7.7
Consumer price inflation (%)	6.2	6.4	8.3	8.7	8.4
Consumer spending (USD mn)	509,241	627,725	664,938	679,301	812,716
Consumer spending/capita (USD)	442	537	561	565	666
Retail sales, net (USD mn)	358,302	436,763	457,616	461,795	545,422
Retail sales, net/capita (USD)	311	374	386	384	447

Source: Planet Retail
GDP and other data presented in annual average exchange rates

Indian consumers

India is a largely rural country with less than one third of the population in urban areas. Yet there are several very large cities with concentrations of middle class consumers. India is also a very young country where roughly a third of the population is below the age of 15. Thus, the number of new households and young families is increasing rapidly. This, combined with a rising middle class, augurs well for the development of modern retail distribution.

Already the middle class is showing signs of adopting modern shopping behavior. The savings rate among this group is declining as the desire for material fulfillment increases. This is especially true given the greater access to global brands than before economic liberalization. In addition, the market for consumer credit is expanding rapidly as banks increase the availability of credit cards. Hence, large purchases are becoming more accessible. Indian consumers are also more aware of material opportunities given greater global communication as well as information delivered by India's large overseas population. Finally, the middle class increasingly involves two-income couples with less time for shopping than in the past. That means that the traditional daily shopping at street markets and small shops is becoming more problematic. It also means that the one-stop convenience of large, modern stores is increasingly appealing.

Retailing in India

The top five retailers in India account for roughly 2 percent of retail sales. In other words, this is a highly fragmented market. Yet consolidation is taking place quickly through sizable investments made by indigenous retail companies. A few years ago, some of India's leading business conglomerates, as well as a few already existing retailers, came to the realization that the Indian consumer market holds enormous promise. They no doubt took note of the lack of modern retailing and the dominance of street markets and small independents. This evidently appeared to be low-hanging fruit. As such, they began to inject large amounts of cash into the development of a modern retailing sector. Although initial ambitions were overly optimistic, the result of these investments has been a dramatic change in the retail environment – so much so that some of the world's leading retailers have taken notice.

Yet that is pretty much all they could do as Indian regulations prohibit such retailers from directly investing in the Indian retailing industry.

There are, of course, serious obstacles to the further growth of modern retailing in India. These include the low purchasing power of most consumers, low levels of automobile and refrigerator ownership, relatively small homes with limited storage space, poor transportation infrastructure, and unreliable electric power to name a few. Yet these things are rapidly changing for the better as the country's economy grows. Instead, the enduring obstacles to retail modernization are political. The problem is that there are millions of independent retailers in India who have a political voice and who feel threatened by large scale retailing. Today, foreign retailers cannot directly invest in India unless they only sell a single brand (such as a vertically integrated specialty apparel retailer) or if they were already present in India prior to 1997. Yet the retailers most interested in India are the world's leading food and mass merchandise retailers. They are permitted to invest in wholesaling such as cash-&-carry, but cannot open their own retail stores. As of this writing, there is some hope that the reform-minded government will eventually obtain sufficient support to change the law.

Even Indian retailers face obstacles to growth. There have been violent attacks on large stores orchestrated by supporters of small-scale retailing. Some state governments have imposed restrictions on the development of large stores. Initial plans to roll out large chains of hypermarkets have been scratched. Instead, the major players are rolling out smaller chains of smaller stores in multiple formats. Yet despite these obstacles, the number of modern stores has increased quickly. Moreover, there has been considerable mall construction in India, providing the space necessary for foreign chains to eventually operate. On the other hand, the price of land is high in India and foreigners are prohibited from land ownership. Thus, retailers seeking large sites for large stores will face difficulties.



Malls have sprung up across India over the past five years

Source: Planet Retail

There have been violent attacks on large stores orchestrated by supporters of small-scale retailing.

The Indian retail scene

The Indian retail sector is one of the least concentrated in the world. The top five retailers hold around 2 percent of the market and there are few major chains of note. Retail sales of even the leading retailers are miniscule by international comparisons. With foreign players finding it problematic entering the market, local players dominate, many of which only entered the retail sector in the past five years. Reliance and Pantaloon in particular are looking to expand aggressively and have emerged as major players. Within the space of a couple of years, the fragmented nature of the market has encouraged such players to diversify into a wide number of retail channels – everything from groceries and electronics to clothing and home improvement stores. Perhaps never before have retailers attempted to open as many stores, across as wide a spectrum of formats, in as short a period of time, as occurred in India between 2006 and 2008.

In this climate of optimism and experimentation (mixed with a lack of experience), it came as little surprise that even the largest players (backed by huge amounts of capital) were unable to achieve their own ambitious opening plans. Reliance Retail, for example, quickly hit problems in its attempts to launch 4,000 Reliance Fresh stores by 2010, ending up with less than a quarter of this number. As the economic crisis bit, others were even worse affected, with the likes of Subhiksha (once a top five player) being forced to close all 1,600 of its stores in 2008/09.

The coming years will therefore see a readjustment in the market with some players burdened by debt and over-expansion slipping out of the market (e.g. Vishal Mega Mart). The most likely to succeed will be the larger players who have the financial backing of a larger parent company – such as Reliance or Bharti – which means that they will be able to sustain the investment to open such large numbers of stores, especially as they may not be profitable in the early stages.



Source: Planet Retail

Pantaloon Retail

Overview

Pantaloon Retail is one of India's first modern retailers and is now the largest in the country. Backed by the might of the Future Group conglomerate, Pantaloon's willingness and ability to experiment in terms of store formats means it now operates a diverse network of retail outlets across the country. Big Bazaar, the group's flagship retail format, was one of the first hypermarket-style concepts to be established in India, giving Pantaloon first-mover advantage in big-box retailing in many locations.

However, as Pantaloon launches into ever more new formats, it runs the risk of overstretching its brand identity. Naturally, such a wide-ranging approach to format innovation will mean that not all the new concepts are successful, particularly as the retailer has only limited experience in some sectors.

Growth

Starting out as a clothing retailer way back in 1987, Pantaloon Retail has since been a key protagonist in changing the face of the organized retail market in India. The retailer has established numerous food and non-food retail formats and has seen its sales accelerate on the back of this diversification.

Key facts

Location
Mumbai

Start of operations
1987

Main formats
Discount superstores

Stores (2009)
891

Net sales (2009)
USD2,044 mn (estimated)

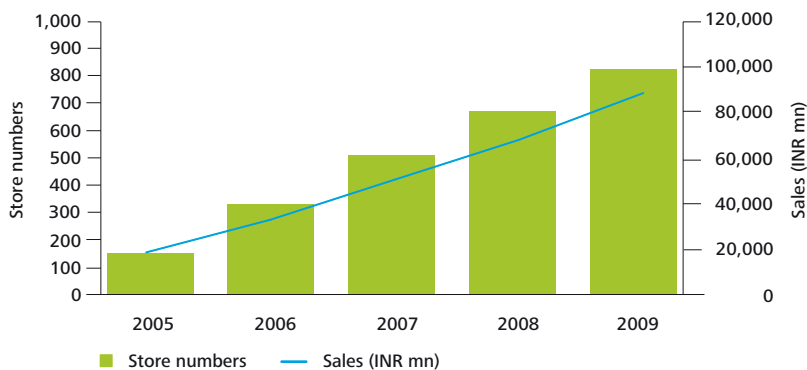
International presence
0

Pantaloon's store count rose rapidly from six stores in 1999 to more than 800 stores in 2009 comprising food, clothing, consumer electronics and specialty retail.

The development of more price-led formats targeting the mass to mid-market segments of Indian society began to take place in 2001, when the retailer launched Big Bazaar. This was followed by a more recent format called KB's Fair Price, which was set up in 2007, offering low-cost products within a no frills layout. Initially, the development of discount formats were part of the overall experimentation process of the conglomerate's foray into the retail industry but more recently, the development of price-led formats have become more important to woo value-conscious shoppers.

Between 2005-2009, the store count more than quadrupled from 162 to 891e (estimated for the current financial year ending June 2010). Retail banner sales in local currency rose by 379 percent between 2005 and 2009.

Pantaloon Retail: Retail banners sales and store numbers, 2005-2009e



Source: Planet Retail – www.planetretil.net

Reasons for success

- **Loyal customer base** – Pantaloon has become an important standalone brand with a growing number of loyal customers.
- **Acquisitions/mergers** – Pantaloon has signed up joint venture partnerships, undertaken mergers, acquisitions and strategic alliances to accelerate its growth.
- **Lack of competition** – Particularly in some specialist non-food sectors, the fragmented nature of the Indian retail sector offers a wide range of growth and expansion opportunities.
- **Experimentation** – Although not each of its ventures will necessarily succeed, Pantaloon's willingness to pioneer new chains and concepts stands it in good stead as a nimble, brave and diverse competitor. As further opportunities and routes to market open up, one can guarantee that Pantaloon will be at the forefront of new opportunities.
- **Diversity** – Pantaloon now operates over 30 different retail brands and concepts. Even though some may not stand the test of time, this approach means that Pantaloon is exposed to a wide array of activities that could help insulate it from any sector-specific downturns.

Future strategic priorities

Pantaloon Retail plans to spend nearly INR400 crore (USD82 million) on expanding its various retail formats by June 2010 with an additional 222,967 square meters of retail space. The company hopes to expand its retail space from 1.21 million square meters to 2.78 million square meters by 2014.

The retailer is diversifying and restructuring into three separate entities to allow better focus going forward. In addition, the retailer is also considering hiving off its value retail chains, such as Big Bazaar and Food Bazaar, which account for about 60 percent of group turnover, into a separate subsidiary which may lead to an IPO.

Pantaloon has embarked on a strategy to boost its private label business, aiming to double its private label turnover in the food category. Separately, the company is also planning to start selling its private label products including clothing and groceries through traditional mom and pop stores. With all these plans the retailer is expected to play a key role in driving forward Indian retail development.

Indonesia

When the phrase BRIC was introduced some years ago, there were some people who suggested that more appropriate acronyms would be IRIC or perhaps BIIC. That is, they believed that Indonesia rather than Brazil or Russia should be among the four emerging countries of the future (no one doubted the primary position of China and India). Why was this? The answer is that Indonesia, with 200 million people and a fast growing economy, is indeed an emerging star with a potentially very bright future.

When the original BRIC report was written, it was but a few years after the political and economic turmoil that engulfed Indonesia in 1997-8. At that time, the country suffered a large decline in GDP, the overthrow of a leader that had been in power for over 30 years, and considerable violence targeted at the large ethnic Chinese population. This did not seem like an environment suitable for wistful contemplation about the future. Yet in the years that followed, Indonesia has done surprisingly well. A messy yet stable democracy has taken hold, the economy has grown at a good pace, foreign investors have come back, and foreign retailers have been very active following the exit of Walmart and JCPenney at the end of the last decade.

During the economic crisis of the past two years, Indonesia fared reasonably well. That had much to do with efforts undertaken after the crisis of 1998. Then, the government chose to maintain a low valued currency in order to boost export competitiveness, to run balanced budgets to avoid excessive government debt, to accumulate foreign currency reserves in order to weather future troubles, and to liberalize financial markets and require greater financial market transparency in order to avoid unforeseen financial market stress. The result is that, when the global crisis came, Indonesia (and other Southeast Asian countries) was ready.

In 2009, GDP growth slowed modestly due to a decline in exports. The government responded with a more relaxed monetary policy as well as mild fiscal expansion. This partly involved cash handouts to low income citizens. Now that recovery is under way, the government is starting to reverse those policies.

Indonesia: Key macroeconomic data

	2006	2007	2008	2009	2010
National statistics					
Inhabitants (mn)	222,747	225,642	228,575	231,547	234,557
GDP (USD mn)	363,600	432,163	511,521	523,671	637,411
GDP/capita (USD)	1,632	1,915	2,238	2,262	2,718
GDP (% real growth)	5.5	6.3	6.1	4.0	4.8
Consumer price inflation (%)	13.1	6.0	9.8	5.0	6.2
Consumer spending (USD mn)	227,865	274,717	311,770	314,952	381,617
Consumer spending/capita (USD)	1,023	1,217	1,364	1,360	1,627
Retail sales, net (USD mn)	145,993	173,082	193,115	193,511	232,197
Retail sales, net/capita (USD)	655	767	845	836	990

Source: Planet Retail
GDP and other data presented in annual average exchange rates

Going forward, Indonesia is expected to maintain strong economic growth, driven largely by consumer spending. The country should benefit from relatively higher commodity prices given its role as an exporter of oil and other commodities. While higher commodity prices might boost the rate of inflation, this will be offset by a strong currency. Among the major risks to Indonesia's expansion are commodity price volatility and the possible implosion of the Asian asset price bubble that has developed. Plenty of money has flowed into Indonesia and other Asian countries, leading to a rapid and probably unsustainable increase in equity and property prices. If this bubble bursts, it could create stress in Asian financial markets. That could hurt Indonesia's growth.

Among the major risks to Indonesia's expansion are commodity price volatility and the possible implosion of the Asian asset price bubble that has developed.

With Carrefour's success, the hypermarket format appears to work well in Indonesia. Modern supermarkets and convenience stores are plentiful as well, although the market share of hypermarkets appears to be increasing.

Indonesia's population of roughly 230 million people is the fourth largest in the world after China, India, and the U.S. It is also very young, with about one-third of the population under the age of 15. This is not likely to change as long as Indonesia's population growth rate remains relatively high. In the near future, the population will rise rapidly. This is good news for retailers and their suppliers as a young and growing population is generally beneficial to consumer spending on goods. In addition, as the economy grows, the number of people in the middle class will rise quickly. Already, 42 percent of the country's population is urban, a number that is likely to rise as well.



Indonesia remains relatively poor. Its per capita GDP, when measured on the basis of purchasing power, is roughly 80 percent that of China. Yet income is more evenly distributed than in many other emerging markets. The top 20 percent of the population receives roughly 43 percent of income versus 52 percent in China and 61 percent in Brazil. Yet there is a vast difference between the lifestyles of the country's urban elite and rural peasants. The real purchasing power of the country resides in its big cities, principally Jakarta, the capital city.

Retail sales have grown rapidly in recent years owing to both population and income growth. Foreign investment has grown as well. Yet the number of foreign retailers remains lower than might be expected. This may be related to the unfortunate experience of external retailers during the 1998 crisis.

At that time, many foreign retailers chose to exit the country while others dropped plans to enter. However, France's Carrefour did enter at that time and has prospered. Yet it only became a significant presence after 2004 when it initiated a rapid expansion (see box).

With Carrefour's success, the hypermarket format appears to work well in Indonesia. Modern supermarkets and convenience stores are plentiful as well, although the market share of hypermarkets appears to be increasing. The rise of these food-related formats has challenged the traditionally strong position of department stores, most of which have diversified in order to meet the challenge. Today, however, the preponderance of shopping in Indonesia still takes place at small independent shops and wet markets. The modern sector remains small. Going forward, the leading players in Indonesia are likely to invest in rapid expansion of multiple formats. This includes the two leading foreign retailers, Carrefour and Hong Kong-based Dairy Farm.

Many other foreign retailers are either entering Indonesia or are known to be examining this market. Among recent entries have been Hong Kong's AS Watson, Korea's Lotte, and Germany's Metro. Although the regulatory environment is not benign, it is far better than prior to 1998. At that time, foreign investment in retailing could only take place through franchising. Today, foreigners can directly invest, but they do face a multitude of restrictions involving location, store format and size, and types of acquisitions.

The Indonesian retail scene

The Indonesian retail sector is highly fragmented with the top five grocery retailers holding a combined market share of less than 5 percent. However, the majority of the leading companies have ambitious expansion plans, which should see them capture an increasing share of the market in the coming years. This will be at the expense of small local players. Further consolidation should help this figure to rise substantially and the market is likely to become increasingly concentrated. Leading domestic players are important players, most notably department store operators, Matahari and Ramayana as well as c-store players Alfa Mart and Indomaret. The latter in particular has seen stellar growth in recent years, expanding from just a 1,000 stores in 2004 to almost 4,000 by 2009, making it now the market leader.

However, foreign retailers are likely to become increasingly important. In 2003, Dairy Farm acquired Ahold's Tops operations in Indonesia, allowing it to break into the top five. Carrefour is also the leader in the hypermarket sector, with its operations boosted by the 2008 acquisition of Alfa Retailindo (although it was subsequently ordered by the competition authorities to dispose of these stores in 2009).



Matahari is seeing continued growth from its core retail operations

Carrefour

Overview

Carrefour is the second-largest retailer in Indonesia where it operates some 60 hypermarkets and 15 supermarkets. With the acquisition of local retailer Alfa Retailindo in early 2008, Carrefour consolidated its position as one of the leading retailers in the country and diversified its store network, adding supermarkets to its existing hypermarket network.

However, in November 2009, the Business Competition Supervisory Commission (KPPU) ordered Carrefour to sell 79 percent of its shares in Alfa Retailindo within a year and fined it USD2.7 million, saying it breached competition rules by capturing more than half of the market.

In March 2010, however, Indonesia's competition watchdog said it had appealed against a court ruling that cleared Carrefour from having to sell its stake in Alfa Retailindo. At the time of writing, the eventual outcome is unclear.

Growth

Carrefour Indonesia has seen rapid expansion since 2004. Although active in the market since 1998, the retailer spent the first five or so years pursuing a fairly cautious expansion program – adding only one or two new outlets yearly between 1999 and 2003, for example.

In 2009, with the rebranding of 15 stores under the Carrefour hypermarket banner, the retailer expanded its hypermarket network to some 60 stores.

Key facts

Location
Jakarta

Start of operations
1998

Main formats
Hypermarkets

Stores (2009)
76

Net sales (2009)
USD1,132 mn (estimated)

International presence
39 (Carrefour Group)

With the acquisition of Alfa Retailindo in 2008, Carrefour's sales in local currency rose by more than 30 percent. In 2009, they only rose by 1.7 percent in total (a 4 percent like-for-like decline), a reflection – according to Carrefour – of a generally challenging economic environment in key Asian markets. On a more positive note, like-for-likes were moving into positive territory in the second half.

Reasons for success

- **Hypermarket leadership** – Local player Matahari attempted to set up its own hypermarket banner, Mega M, in the mid 1990s but the format was unable to compete with the arrival of Carrefour.
- **Positioned in growth market** – Indonesia has a large, youthful population and its recent economic growth has been among the most impressive in the world and – despite high inflation – there has been strong underlying real growth in recent years.
- **Hypermarket format set for a period of growth** – The rapid development of the modern retail sector should provide a prompt for future hypermarket growth. Hypermarkets are becoming increasingly popular with Indonesians. With their combination of large product ranges, low prices and impressive store environments, they will provide tough competition for the smaller supermarkets and the traditional retail sector.

- **Acquisition to diversify** – The acquisition of local player Alfa Retailindo (should completion be permitted) will allow Carrefour to bolster its presence and expand into the supermarket sector – essential for multi-format future growth.

- **Major city focus** – Almost all Carrefour hypermarkets are located in or around Jakarta which is the country's most important and prosperous city.

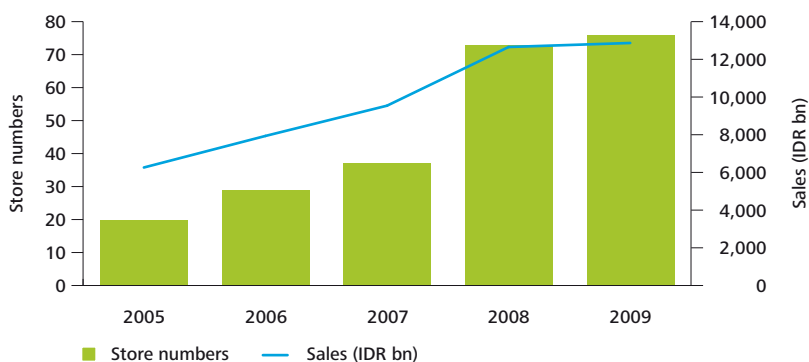
Future strategic priorities

Carrefour has not spelled out specific expansion plans for the Indonesian market. Rather, the retailer will be busy fending off accusations of monopolistic tendencies in the country following the acquisition of Alfa Retailindo and also evaluating expansion opportunities for its hypermarket chain.

Competition is increasing with rival chains, such as largest retailer Indomaret, keen to push on with expansion. Dairy Farm's Giant hypermarket format is now a focus for investment and consequently a credible competitor to Carrefour. A key part of Matahari's expansion is the "compact" hypermarket format, called hypermart, which was launched in 2004. The group admitted that the hypermarket sector is becoming too important to ignore and essential if it is to maintain its position in the market. Matahari announced plans in 2008 to boost the expansion of its hypermarket format to 95 outlets by 2011.

Despite this intensification in competitive pressures, Carrefour is well placed to make steady progress in the Indonesian retail sector. It faces limited competition from international competitors (Walmart having exited many years ago); it has global expertise in private label development and excellent credentials in hypermarket operations. Having established extensive experience in Indonesia, it can build on this position of strength to ensure that it is well positioned to fend off competition from new foreign entrants and local operators alike.

Carrefour: Retail banner sales and store numbers, 2005-2009



Source: Planet Retail – www.planetretil.net

Mexico

Mexico's economy is back on track after a deep recession and faces the prospect of steady if modest growth. Its politics have attained a degree of stability that should enhance business confidence. With the second largest population in Latin America (after Brazil) and the second highest per capita income in the region (after Chile), Mexico is an especially attractive market. It is no wonder, then, that the world's largest retailer has invested heavily in Mexico and is the country's largest retailer as well. Yet this daunting competitive landscape, combined with some other problems and risks, has led many other leading retailers to stay away. This could change, however, as Mexico becomes a more affluent and stable country.

The economic landscape is improving. For better or worse, Mexico's economy is highly dependent on the fortunes of the United States. When the U.S. went into recession and global credit markets tightened, Mexico suffered dearly. Export revenue fell, capital flowed out, and the currency depreciated severely leading to a substantial increase in inflation. Mexico's GDP decreased 6.8 percent in 2009 with consumer spending dropping a commensurate 6.7 percent. While the government loosened monetary policy and obtained lending facilities from the IMF and the U.S. Federal Reserve, economic recovery has largely been due to the turnaround in the U.S. economy and the recovery of global credit markets. The flight of capital has been reversed, the currency has stabilized leading to a decline in inflation, and export revenue is starting to recover. As long as the external environment remains benign, Mexico should continue to enjoy moderate growth. Moreover, it is expected that, after the next Presidential election in 2012, policy will remain steady regardless of the winner.

On the other hand, Mexico faces some structural issues. First, oil production is declining due to inadequate investment. As such, Mexico is losing its status as a significant oil exporter. Second, the government's war against drug lords has led to a dramatic level of violence along the border with the U.S. Such violence has poisoned U.S. views about the stability of Mexico and may have discouraged investment. Third, Mexico has traditionally relied on a high level of remittances from Mexicans living in the U.S. Many Mexican-Americans were involved in the U.S. construction industry which is now in retreat. The result is a reduction in remittance income which may take time to recover. Finally, as the U.S. economy shifts away from growth based on consumer spending, Mexico's exports to the U.S. may suffer. The solution will be to diversify exports to other countries and to focus more on domestic demand.

Mexico: Key macroeconomic data

	2006	2007	2008	2009	2010
National statistics					
Inhabitants (mn)	104.857	105.791	106.683	107.750	108.828
GDP (USD mn)	950,922	1,024,642	1,069,315	867,850	982,481
GDP/capita (USD)	9,069	9,686	10,023	8,054	9,028
GDP (% real growth)	5.1	3.3	1.3	-6.8	4.0
Consumer price inflation (%)	3.6	4.0	5.1	5.4	3.5
Consumer spending (USD mn)	614,687	668,636	710,740	578,023	647,658
Consumer spending/capita (USD)	5,862	6,320	6,662	5,364	5,951
Retail sales, net (USD mn)	273,314	294,851	310,957	253,287	282,060
Retail sales, net/capita (USD)	2,607	2,787	2,915	2,351	2,592

Source: Planet Retail
GDP and other data presented in annual average exchange rates

Mexico's consumer market grew at a healthy pace prior to the economic crisis. As the economy grew, more people shifted from poverty into the middle class and, consequently, increased discretionary spending – especially at modern retail formats. With economic recovery under way, this growth should resume quickly. In addition, the relatively young and growing population augurs well for strong growth of discretionary spending, particularly on home and fashion related goods. On the other hand, Mexico's fertility rate is declining and out-migration to the U.S. continues to slow the growth of Mexico's overall population.

The major retailers of Mexico have grown more quickly than overall consumer spending as the modern sector takes market share from the informal sector. This process is well along in the biggest cities but is starting to be seen in secondary markets as well, especially as transportation infrastructure improves. The most popular retail format in Mexico is the hypermarket or superstore. Several companies operate these one-stop Meccas, but the market is dominated by Walmart de México. The success and rapid growth of Walmart de México has contributed to a restructuring of the industry. Formerly regionally based, family owned food retailer expanded and consolidated in order to create a more level playing field. The end result is an industry with a handful of national players, each of which operate multiple formats, including partnerships with some foreign retailers.

In addition, Mexico has a successful department store industry with stores anchoring large, relatively upscale shopping malls. Some of the world's leading specialty operators now occupy many of these malls as well as high street locations. Moreover, Mexico's relatively skewed income distribution means that upscale retailing has a strong base in Mexico. Indeed the top 20 percent of households in Mexico have 55 percent of income compared to 46 percent in the U.S.

The liberal regime for foreign investors in retailing means that, as the country becomes more affluent, more non-food retailers from abroad will invest in Mexico. They will take advantage of growing discretionary income. So far, most such investment has come from the U.S. Still, the tremendous experience of European retailers in operating through multiple countries, as well as the considerable obstacles to domestic market growth, should encourage more Europeans to take an interest in Mexico.

Key facts

Location
Mexico City

Start of operations
1991 (joint venture with Cifra)

Main formats
Hypermarkets & superstores

Stores (2009)
1,472

Net sales (2009)
USD19,929 mn

International presence
Walmart de México is active in 16 markets; Walmart de México controls activities in five Central American markets

The Mexican retail scene

Traditionally, the big Mexican grocery chains tended to be regional. However, the arrival of Walmart, with its fast-growing network and undisputed leadership, forced local players to start stepping outside of their traditional power centers and compete with each other.

Walmart de México (WALMEX) is now by far the dominant force in Mexican retailing, operating a large mixture of different formats. These include hypermarkets, discount stores, membership warehouses and supermarkets as well as restaurants and clothing stores. In terms of sales, the company is already bigger than the following three local retailers put together. Walmart's aggressive expansion strategy in recent years, coupled with low prices, has enabled it to make massive inroads into the Mexican market.

Trailing far behind in second place is the largest local player, Soriana. The company is the most focused of the big groups, operating mainly hypermarkets. However, in recent years Soriana has been diversifying its store formats to increase its market share, which has seen it move into warehouse clubs, superstores and convenience stores. The third largest player, OXXO, operates almost 8,000 convenience stores in Mexico.



OXXO continues to expand at a rapid pace

Walmart

Overview

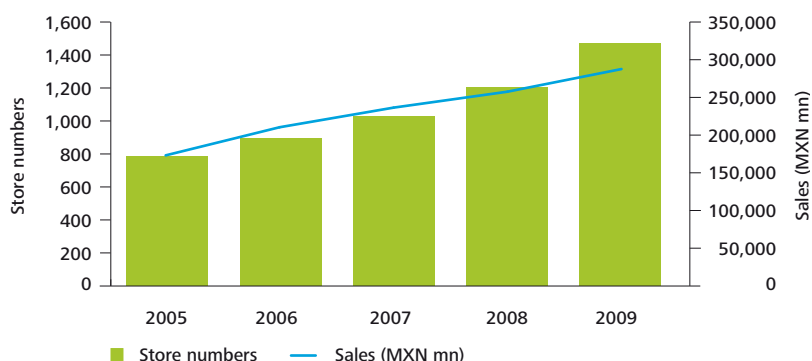
In 1991, Walmart entered a joint venture with Cifra with the opening of a Sam's Club in Mexico City, the first market in Walmart's International division. In 1997, Walmart acquired a majority position in Cifra, and in February 2000 its name changed to Walmart de México (WALMEX). In November 2006, Walmart de México received a license from Mexico's Finance Ministry to organize and operate a bank in the country. Walmart de México retail operations comprise: Sam's Club warehouse clubs; Walmart Supercenters; Bodega Aurrerá, Mi Bodega Aurrerá, and Bodega Aurrerá Express hypermarkets, superstores and discount supermarkets; Superama supermarkets; Suburbia apparel stores; and Vips and Portons restaurants. In terms of new stores, growth is firmly focused on the Bodega Aurrerá family of stores, although other areas such as banking and Walmart Centroamerica are also of strategic significance.

Walmart de México has unveiled an "unprecedented investment plan" for 2010 to open 300 new units. "In 2010, company performance will combine the growth of our traditional business formats with the drive of our three most recent platforms: Bodega Aurrerá Express, Banco Walmart and the merger with Walmart Centroamérica. In addition to the new units we are allocating over MXP1 billion to update our distribution and logistics network, and will increase the budget to remodel our existing units by 21 percent," said Scot Rank, CEO. The 300 new stores will comprise 37 Bodega Aurrerá stores, 34 Mi Bodega Aurrerá units, 186 Bodega Aurrerá Express outlets, 20 Walmart supercenters, six Superama supermarkets, nine Sam's Clubs, four Suburbia clothing stores and four Vips restaurants. With the openings, estimated sales area growth in 2010 will be 11 percent.

Growth

Walmart de México is far and away the fastest-growing division of Walmart International, seeing its sales almost double over the last five years. Operating income in local currency has grown by 77 percent over the same period. Despite being the market leader in Mexico, Walmart is showing little sign of tempering its growth ambitions in the country. In 2009, it achieved a record number of store openings, unveiling 275 units to end the year trading through 1,472. Given the economic turbulence in Mexico, the format that saw the most momentum was Bodega Aurrerá – the best in meeting the needs of low-income shoppers – which saw the opening of 246 stores spread across its three prototypes: Bodega Aurrerá, Mi Bodega Aurrerá and Bodega Aurrerá Express.

Walmart: Retail banner sales and store numbers, 2005-2009



Source: Planet Retail – www.planetretail.net

Reasons for success

- **Multi-format strategy** – With a store portfolio that varies from up market Superama supermarkets to the ultra-value proposition of the Bodega Aurrerá family of stores, Walmart has broad appeal and growing capabilities in servicing low-income shoppers.
- **Buying power** – As part of the Walmart empire – and with a number of private label brands in common with Walmart U.S. – Walmart de México is able to achieve price leadership across many categories.
- **Efficiency** – Walmart de México has also benefitted from taking best practice from its parent company in terms of best practice in operations and logistics. This means it is able to grow sales faster than expenses, underpinning its strong performance in profitability.
- **Proximity retailing** – With the rapid growth of the smaller-footprint, low-price proximity concepts Mi Bodega Aurrerá and Bodega Aurrerá Express, Walmart is able to service smaller communities that may have previously relied on more expensive independent retailers or the informal retail channel. By ramping up the growth of these concepts, the retailer adheres to the Walmart aspiration of "serving the underserved".



Future strategic priorities

As already noted, the two cornerstones of domestic growth are set to be the expansion of the Bodega Aurrerá trio of store concepts and the development of banking services. Of equal interest will be the growth of Walmart Centroamérica, the leading retailer in the region, with 519 stores in Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. The acquisition of the USD3.3 billion business opens up considerable growth opportunities for Walmart de México, as the addition of the five new markets increases the number of cities without a Walmart presence from 110 to 310, the number of potential new consumers over the next 15 years from 20 to 33 million, and potential market size from USD197 billion to USD241 billion.

The acquisition of the USD3.3 billion business opens up considerable growth opportunities for Walmart de México, as the addition of the five new markets increases the number of cities without a Walmart presence from 110 to 310 ...

Russia

For global consumer oriented companies, Russia represents a set of contradictions. On the one hand, it is relatively affluent by the standards of emerging markets, with a per capita income roughly three times that of China when measured according to purchasing power. The country experienced very strong economic growth during the past decade. In addition, Russia's consumer market has been relatively open to foreign investors and some foreign retailers have done well in Russia. On the other hand, Russia's strong growth was based largely on oil and gas exports which nearly collapsed during the global downturn. As a result, Russia's economy contracted faster than any G20 country and is only now starting to recover. Moreover, Russia's population is declining, foreign investment outside of energy is minimal, corruption is a serious problem, and future growth is heavily dependent on the volatile resource sector. Hence, global retailers and suppliers might wonder whether they should see Russia in a positive or negative light. The answer is probably both.

Russia's economy is improving quickly following a very deep recession. The recession was due to both the global decline in demand for energy – including a steep drop in the price of oil, as well as the collapse of global credit markets. This had a negative effect on Russian companies which had borrowed heavily overseas in order to take advantage of low capital costs. When credit markets seized up, Russians were unable to roll over debts. This led to investor fear and the shifting of money out of roubles. The result was severe downward pressure on the rouble, to which the government responded by expending reserves and increasing interest rates. That, in turn, hurt the economy further – although it prevented the ruinous inflation that might have resulted from a run on the rouble – although inflation did rise. Once the economy stabilized, the government cut interest rates and spent with abandon to stimulate the economy. This worked, and recovery is under way. Moreover, inflation has dropped thereby giving the central bank leeway to keep monetary policy expansive.

For now, it appears that Russia is back on track for good economic growth, especially as oil prices are far above their low levels of 2009. This bodes well for consumer spending which fell roughly 8 percent in 2009 after adjusting for inflation. Still, it will be a while before the consumer is back to pre-recession spending levels. In addition, the higher price of oil means that government revenue will be higher, thereby enabling lower budget deficits. This should give investors greater confidence and will help to keep the rouble stable and interest rates relatively low.

Russia: Key macroeconomic data

	2006	2007	2008	2009	2010
National statistics					
Inhabitants (mn)	142.800	142.200	142.000	141.391	140.367
GDP (USD mn)	989,481	1,294,454	1,604,263	1,281,239	1,547,604
GDP/capita (USD)	6,929	9,103	11,298	9,062	11,025
GDP (% real growth)	7.7	8.1	5.6	-9.0	3.6
Consumer price inflation (%)	9.7	9.0	14.1	12.3	9.9
Consumer spending (USD mn)	482,466	631,718	811,328	612,361	737,099
Consumer spending/capita (USD)	3,379	4,442	5,714	4,331	5,251
Retail sales, net (USD mn)	326,010	434,561	557,387	456,294	542,722
Retail sales, net/capita (USD)	2,283	3,056	3,925	3,227	3,866

Source: Planet Retail
GDP and other data presented in annual average exchange rates

Going forward, however, there are risks to Russia's forecast. First, Russia is vulnerable to commodity price volatility. A drop in the price of oil would be very harmful to economic growth. Second, Russia's banks hold a large amount of poor debt. This has required government intervention in the banking system. As long as this is unresolved, credit markets in Russia will be troubled. Third, given Russia's large external debt (which was accumulated during the days of high oil prices), Russia now must devote some of its oil earnings to debt service. Hence, Russia actually requires a higher price of oil than in the past just to stay even. Finally, Russia's economy is insufficiently diversified and riddled with corruption. Despite its dependence on oil, there is inadequate investment in new oil producing capacity. Hence, future economic growth appears to be constrained.

What does this mean for consumers? It means that future growth could be quite good, but it might also be very volatile. Russia's affluent and middle class consumers are relatively concentrated in two big cities; Moscow and St. Petersburg – although there is growth in some other big cities. Russia has a small number of very rich people, plenty of poor, and a modest but growing middle class. The country has roughly 140 million people, a number that is expected to decline considerably in the years ahead owing to a low birth rate. After the collapse of communism, life expectancy dropped but has since stabilized. Today, the population is relatively old and is expected to get older still.

That is bad news for economic growth, consumer spending, and the ability of the country to financially support its retired citizens.

Russia's retail industry is dominated by domestic players as foreigners have been relatively few and far between. Prior to 1998, several of the largest global retailers planned to enter Russia. Then the financial crisis of 1998, in which Russia simultaneously defaulted on foreign debts and massively devalued its currency, led most global retailers to shelve their plans. Yet not everyone stayed away. In the years that followed, major retailers such as IKEA, Metro, and Auchan launched successful businesses in Russia.

Yet the uncertainty and volatility that surrounds Russia has continued to keep the world's largest players away. Still, some other foreign companies have entered Russia. These include Korea's Lotte as well as a number of Western luxury brands. Some foreigners have exited Russia including France's Carrefour, Germany's Edeka, and Turkey's Migros Turk.

Retailing is dominated by food related formats, largely due to the relatively low income of most Russian consumers. The major players such as X5 and Magnit operate multiple formats in the country's major cities. Yet only in the top cities does modern retailing dominate the industry.

Key facts

Location
Krasnodar

Start of operations
1994

Main formats
Supermarkets &
Neighborhood Stores

Stores (2009)
3,228

Net sales (2009)
USD5,331 mn (estimated)

International presence
0

The Russian retail scene

The market concentration in Russia is very low due to the size of the country and the very fragmented retail scene. Modern grocery retail is dominated by domestic retailers such as X5 Retail Group, Magnit and O'Key. The majority of modern grocery stores are located in Moscow and St Petersburg. The leading retailers in Moscow include X5 Retail Group, Dixy Group, Kopeika and Sedmoi Kontinent. St Petersburg's retail landscape is almost saturated and dominated by X5 Retail Group, Lenta and O'Key. As a result of the global financial crisis, many retailers have had problems to refinancing their debts. Small retailers, who are having problems with their liquidity and do not have access to funds will be forced to put their businesses up for sale. Leading domestic retailers, which are receiving support from the government, are likely to take some of them over. In 2009, all Russian retailers cut their capital expenditure for long investment projects and are going to develop their small store formats. Foreign retailers, namely Auchan and Metro Group's Real may benefit from this and establish positions in new regions.

Auchan has significantly increased its store network through acquiring the Ramenka hypermarkets from Turkey's Migros Ticaret, while Metro cash-&-carry has already expanded into Siberia. By contrast, Rewe's store openings and Metro Group's Real store network have grown gradually. Carrefour, meanwhile, ended years of speculation by opening its first hypermarkets in mid-2009, only to announce it was withdrawing at the end of the year. This news has done little to dampen speculation that Walmart has been in talks with a number of local players with a view to entering the market, although it has not yet been able to complete a deal. With IKEA also having operational difficulties, it seems as foreign retailers are not having it all their own way in Russia.



X5 Retail Group dominates the Moscow retail scene

Elsewhere retailing tends to be very fragmented and dominated by small, independent shops and street markets. These formats still control roughly two thirds of Russian retail sales.

During the economic crisis, the government offered financial assistance to large-scale retailers. Smaller retailers facing financial difficulties were encouraged to sell their businesses to larger enterprises. As such, Russia's government is accelerating the process of market concentration. Moreover, troubled small and medium sized retailers can be sold to foreign retailers.

In the years ahead, the degree to which foreigners invest more in Russia will depend on its economic growth and stability. For now, the regulatory environment is relatively benign and foreigners don't face many formal obstacles to market entry. Yet informal problems such as corruption and arbitrary government officials remain.

Magnit

Overview

Magnit is the second biggest domestic retailer in terms of sales – and the largest in terms of store numbers – with a strong neighborhood store network and an emergent hypermarket chain in Southern and Central Russia. It has been rapidly expanding in cities with less than 500,000 inhabitants, where competition is very low.

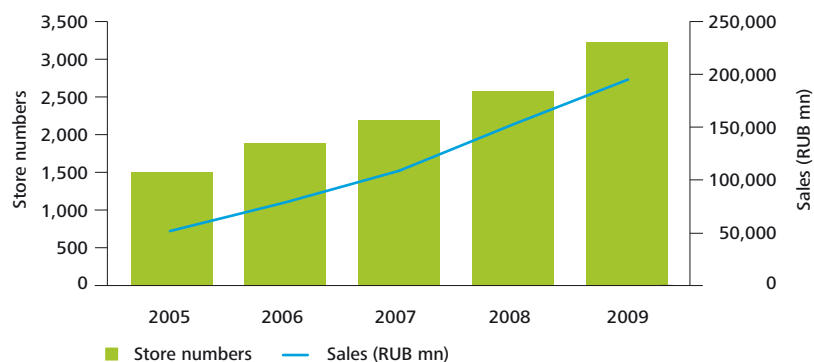
Thanks to its strong market position and solid financial resources, Magnit is likely to press ahead with its impressive organic expansion program.

Growth

Magnit has been growing rapidly since the beginning of the decade until the financial crisis broke in 2008. Its annual revenue growth was around 50 percent in the years immediately before 2008. However, even after economic conditions deteriorated, it has been able to maintain revenue growth of almost 30 percent (in local currency) which compares very favorably to rival Russian retailers.

Magnit opened between 300 and 400 new stores annually in the period 2004-2008. In 2009, when the Russian retail scene was hit hardest by the economic and financial crisis, Magnit took advantage of low rental and property values and opened over 600 stores. Since 2007, it has been expanding its embryonic hypermarket format, ending 2009 with 24 outlets.

Magnit: Retail banner sales and store numbers, 2005-2009



Source: Planet Retail – www.planetretil.net

Reasons for success

- **Trading in underserved locations** – Targeting small cities with populations of less than 500,000 inhabitants, Magnit is one of the first retailers to open modern grocery formats in cities and towns hitherto underserved by modern distribution.
- **Regional supremacy** – Magnit has been expanding in Southern Russia and Central Russia – regions neglected by some of its major competitors.
- **Strong logistics base** – Magnit operates nine distribution centers. Around 72 percent of stores are directly supplied from Magnit's warehouse facilities.
- **Financial solidity** – Being one of the largest retailers and employers in Russia, the state banks were more willing to restructure the retailer's debt in the financial turmoil.

Magnit has been growing rapidly since the beginning of the decade until the financial crisis broke in 2008.



Future strategic priorities

Magnit is set to remain one of the leading retailers in Russia. Apart from the development of supermarkets and neighborhood stores, the retail will also continue to expand its hypermarket chain.

The retailer is planning to invest up to USD1 billion in 2010. In comparison to the preliminary investment plan announced and unveiled in October 2009, Magnit has doubled the number of new store openings it expects to achieve and in the current year. It plans to open 25-30 hypermarkets and 450- 550 neighborhood stores during the year. The investment will be financed from a SPO placed in October 2009, as well as its own funds.

In the medium to long term, Magnit may face competition from X5 Retail Group, which is expanding its price-oriented Pyaterochka supermarkets and Karusel hypermarkets in Central Russia. Similarly, Magnit and X5 Retail could compete against each other in the Urals in the medium term. However, Southern Russia will remain dominated by Magnit's outlets.

... Magnit has doubled the number of new store openings it expects to achieve in the current year.

Turkey

After a deep recession in 2009, Turkey's economy is bouncing back in line with the global economy. The recovery was assisted by a combination of stronger external growth, revived global credit markets, a bit of fiscal expansion, and an expansionary monetary policy.

Going forward, the economy should grow at a moderate rate. Inflation, which declined during the recession, is likely to accelerate a bit owing to stronger demand, rising commodity prices, and the lagged effects of an expansive monetary policy. However, given the independence of the central bank it is expected that monetary policy will be tightened. This should help to quell inflation and keep it from becoming a serious problem. Moreover, the Turkish lira is expected to be stable to strong, thus allowing for further disinflationary pressure. This is not a trivial issue given that, prior to 2005, Turkey had a long-standing problem with inflation. A currency reform that year rendered inflation consistently lower. Maintaining the credibility of that policy will be critical to Turkey's long-term economic success.

Among the potential risks to Turkey's recovery are the following: a large budget deficit and the politically difficult necessity to bring it down, a high rate of unemployment which has the potential to create political unrest, and political turmoil involving the government's long-running conflict with the military. The latter could have the effect of discouraging foreign investment.

On the other hand, there are several positive factors for Turkey in the next few years. First, the market oriented policies of the past few years are likely to remain unchanged. Second, Turkey's relatively cheap labor and relatively uninhibited access to the European market make it an attractive place to produce goods for Europe. Finally, Turkey will benefit from economic recovery in neighboring Russia, Central Europe, and the Middle East.

In the longer run, the economic path of Turkey will depend not only on Turkey's economic policy, but on political events as well. Of particular importance will be whether talks about Turkey's potential entry into the European Union resume. Even if EU entry does not take place for a long time, the possibility of such entry is likely to have an impact on the degree of economic and political liberalization in Turkey. Thus, failure to make progress on this issue could undermine political support for market oriented economic policies.

Turkey: Key macroeconomic data

	2006	2007	2008	2009	2010
National statistics					
Inhabitants (mn)	68.133	68.894	69.659	70.431	71.213
GDP (USD mn)	525,322	642,921	727,392	604,908	680,438
GDP/capita (USD)	7,710	9,332	10,442	8,589	9,555
GDP (% real growth)	6.9	4.7	0.9	-6.5	3.7
Consumer price inflation (%)	9.6	8.8	10.4	6.2	6.8
Consumer spending (USD mn)	370,479	455,761	506,944	425,312	483,433
Consumer spending/capita (USD)	5,438	6,615	7,278	6,039	6,789
Retail sales, net (USD mn)	184,830	224,985	247,816	207,914	234,111
Retail sales, net/capita (USD)	2,713	3,266	3,558	2,952	3,287

Source: Planet Retail
GDP and other data presented in annual average exchange rates

Turkey's 72 million people are quite young compared to Europe with 30 percent of the population under the age of 15 and only 5 percent above the age of 65. Unlike Europe, Turkey's population is growing rapidly and is expected to reach 90 million by the year 2020. In addition, Turkey is rapidly urbanizing. Roughly 60 percent of the population lived in urban areas as of 2000 and the figure is certainly higher today. Istanbul has a population in excess of 12 million.

Turkey can be considered a middle income emerging market. Its per capita GDP is nearly twice that of China and slightly behind that of Brazil when measured based on purchasing power. Compared to the developed world, however, Turkey is still far behind. The per capita income is roughly one quarter that of the UK and one-fifth that of the U.S. Income distribution is slightly better than other major emerging countries but slightly worse than the developed economies. The preponderance of purchasing power resides in the Western part of the country, especially Istanbul. A visit to the suburbs of Istanbul evokes a living standard not much different than Spain or Italy.

In addition, as the economy grew rapidly in the past decade, the number of middle class consumers with significant discretionary spending power increased rapidly. The result was that food and household goods declined as a share of spending while fashion and home related goods expanded.



Teknosa is holding its own in the electronics channel

Turkish retailing remains dominated by more than half a million small, independent shops spread around the country. Yet their share is rapidly declining as modern retail formats proliferate. Of particular note are the number of hypermarkets, supermarkets, and discount stores. The hypermarket segment is dominated by foreigners such as Metro, Tesco, and Carrefour. The discount segment has grown rapidly, mostly through indigenous investment, although foreigners are becoming active in this segment as well.

Foreign investment in Turkish retail has been significant and is expected to accelerate in the years to come. The attraction stems from the stable, growing economy and rising middle class. In addition, the benign regulatory environment is appealing. The influx of foreigners has had the effect of stimulating investment in modern business practices by Turkish retailers. Some have become so strong that they have made significant investments outside of Turkey. This includes investments in Russia, Central Europe, Central Asia, and the Middle East.

The Turkish retail scene

The big trend in Turkish retailing over the past decade has been the rise of the discount store channel. Discounters were the main beneficiaries of the economic instability in the early 2000s and have seen uninterrupted growth since, with store numbers exploding across the country. BIM, for example, now has over 2,600 outlets, compared to just 21 at the end of 1995. Other significant players include Sok (Migros Ticaret) and Dia (Carrefour), while A101 only opened its first store in April 2008 and ended its first month with 121 outlets up and running. In fact, the downturn in consumer confidence from 2008, combined with accelerating food prices, means that discount stores are well positioned for further growth in the coming years. The growing popularity of the discount channel means that BIM is set to overtake long-standing market leader Migros Ticaret (formerly Migros Türk) in 2011 to become Turkey's largest grocery retailer. Migros Ticaret's acquisition by private equity in 2008 could open the possibility of its future sale to a rival in the market – or possibly Walmart.

Turkey has emerged as an important market for major foreign grocers, with Metro Group, Carrefour and Tesco all present. Also, the entry of DSGI, Kesa and, most recently, Best Buy illustrates that the market has become a priority for non-food retailers as well. However, local players continue to hold their own and in many cases are continuing to grow strongly, thanks to continued consolidation and also the popularity of the discount channel (which tends to be dominated by local firms). Local supermarket player Kiler is one worth watching thanks to its strategy of acquiring smaller local firms and its ambition to grow to become one of the top three retailers in Turkey. In terms of the electronics sector, Teknosa is also performing well against its foreign rivals, developing new formats, such as the Extra superstore concept. The company reported that even though the electricals market in Turkey contracted by 13 percent in 2009, Teknosa was still able to grow its sales by 15 percent.

BIM

Overview

Turkish hard discount retailer BIM was modeled on the Aldi operating concept by former Aldi Nord senior management. It has seen virtually unprecedented growth, with its store network growing from 21 outlets in 1995 to more than 2,665 in March 2010. For several years now, BIM has demonstrated that it is a profound success story, largely by virtue of the fact that it operates one of the most tightly defined concepts in global retailing.

However, while its role model Aldi has gradually evolved its concept, introducing more fresh and convenience foods, larger stores and more attractive designs, BIM's success reflects the fact that, for a developing retail market such as Turkey, the discounter has stringently adhered to its roots. BIM serves as a neighborhood discount store trading from a sales area of between 300-600 square meters, with a very limited range of fresh produce and just 600 products in total.

In general, BIM has benefited from the economic conditions which favor discount stores. The situation in Turkey, however, has worsened dramatically in the wake of the global financial crisis to such an extent that even BIM is being confronted by sluggish consumer spending, particularly for higher-ticket non-food items. It is now planning to open around 300 stores per year – still impressive, but fewer than before.

Growth

BIM has a quasi nationwide presence, but with a stronghold in the more densely populated west of Turkey. It has 27 distribution centers spread across the entire country that has underpinned its enormously impressive store opening program – from zero to well over 2,500 outlets in just 15 years.

Competition for BIM is applied by other discount operators in Turkey, which, however, are not only much smaller but have generated a much slower speed of expansion. Operations like Carrefour's Dia and Migros' SOK fall into this category. BIM faces a degree of more intense competition from fledging operation A101 – a very recent market entrant company that is clearly inspired by the BIM model. A101 opened for business as recently as 2008, and already runs more than 500 stores.



Competition from the European discount leaders, Aldi and Lidl, remains a remote possibility, at least for the time being. Although Aldi Süd and Lidl have long been the subject of speculation regarding Turkish market entry, high import taxes would make it difficult for them to achieve profitability. Rewe Group had originally planned to enter the market with its Penny discount banner, but subsequently put its plans on ice.

Competition for BIM is applied by other discount operators in Turkey, which, however, are not only much smaller but have generated a much slower speed of expansion.

Key facts

Location
Istanbul

Start of operations
September 1995

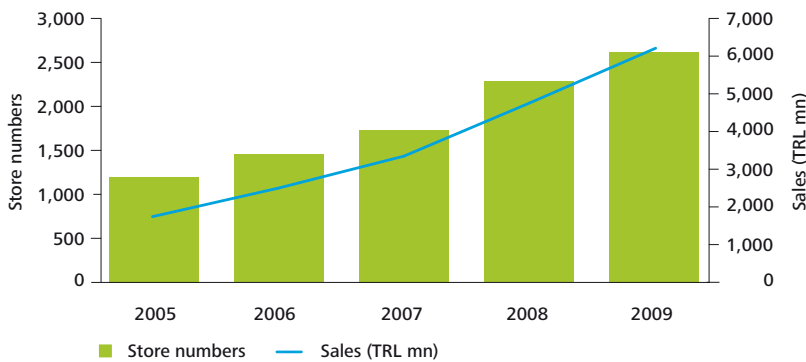
Main format
Discount stores

Stores (2009)
2,628

Net sales (2009)
USD3,420 mn
(estimated)

International presence
Morocco, launched
April 2009

BIM, Turkey: Retail banner sales and store numbers, 2005-2009e



Source: Planet Retail – www.planetretil.net

Reasons for success

- **First-mover advantage** – Has been able to expand at a rapid pace through organic store openings in an extremely fragmented market as the first real hard discounter.
- **Proven business model** – The founders’ experience brought in from Aldi has been transformed into a solid concept which focuses on efficiency and the lowest prices at high volume turnover.
- **Positioned in growth market** – Despite recent economic vagaries, BIM has been able to benefit from general economic trends such as a society growing in population, economic growth, rising incomes and a trend towards modern retailing.
- **Economic conditions** – Deteriorating economic conditions in the late 1990s/early 2000s and again from 2008 accelerated the popularity of discount stores in Turkey.

Future strategic priorities

BIM will still have enough scope for growth in its home market Turkey for many years to come. It can not only increase the density of its existing store network in the west of the country, but also exploit opportunities in the east. Opening around 350-400 new stores each year seems a feasible target for another couple of years, given that BIM focuses on inexpensive, small-sized locations in highly frequented areas, from Istanbul’s urban locations to small towns.

2009 saw the company expand abroad for the first time, opening stores in Morocco – a market where it sees similar market conditions to when it launched in Turkey in 1995. It is still too early to assess the likely success of BIM in this new market though.

BIM will try to further diminish its dependence on branded goods suppliers by extending its private label penetration, which has been progressing steadily for many years. BIM had a private label share of around 57 percent at the end of 2008. This was up from 50 percent in 2007.

In general, BIM in Turkey will be benefiting from a growing population with increasing consumer spending. As it matures, BIM will be able to gradually adjust its concept to meet demands in terms of product categories (more fresh foods, for instance), more sophisticated and premium products, services and store layouts.

Vietnam

Confusion reigns over economic policy in Vietnam, creating uncertainty in an otherwise promising market. In response to the global economic slowdown, the authorities unleashed aggressive monetary and fiscal policy which ultimately led to recovery from a modest downturn. Yet the reversal of that policy is a source of trouble. The direction of central bank policy is uncertain and fear of serious inflation is rising. The budget deficit remains high and the government is considering intrusive measures such as price controls. While a pickup in economic growth is expected, the long-term path of Vietnam will be hard to infer as long as the policy regime remains in flux. This uncertainty is reflected in the relatively high interest rate on Vietnam's sovereign bonds.

In some ways, Vietnam resembles China twenty years ago: a formerly communist nation, having undertaken market-oriented reforms, faces a conflict between the promise of the market and the instinct of governmental control. Like China in the past, Vietnam is poor, with a per capita income roughly half that of China today. And, like China over the past twenty years, Vietnam has experienced very rapid economic growth, averaging above 8 percent per year over the past half decade. This has been fueled by increasing foreign investment geared toward exports (which have also grown rapidly), partial privatization of state-run enterprises, the shifting of labor from agriculture to industry, and rapid growth of investment. Yet like China in the 1980s and 1990s, Vietnam has also endured a relatively high level of inflation.

Going forward, Vietnam's economic success will depend on several factors. These include continued market liberalization and privatization, continued foreign investment, and a structural shift in China's economy. The latter might seem surprising, yet as China shifts away from a focus on low value-added exports, Vietnam is one of the countries likely to benefit. Some of the low-wage manufacturing processes now done in China are likely to be transferred to lower wage countries such as Vietnam and India. The degree to which that capacity shifts to Vietnam will depend on Vietnam's openness to foreign investment, its investment in infrastructure, and the protection of private property rights.

Vietnam: Key macroeconomic data

	2006	2007	2008	2009	2010
National statistics					
Inhabitants (mn)	84,156	85,155	86,177	87,211	88,257
GDP (USD mn)	59,277	69,648	88,442	90,221	100,576
GDP/capita (USD)	704	818	1,026	1,035	1,140
GDP (% real growth)	8.2	8.5	6.2	4.6	5.3
Consumer price inflation (%)	7.5	8.3	23.1	7.0	11.0
Consumer spending (USD mn)	37,551	45,180	57,707	59,669	66,816
Consumer spending/capita (USD)	446	531	670	684	757
Retail sales, net (USD mn)	26,234	31,033	38,723	39,629	43,753
Retail sales, net/capita (USD)	312	364	449	454	496

Source: Planet Retail
GDP and other data presented in annual average exchange rates



Traditional retail still dominates Vietnam, even in the major urban areas

Source: Planet Retail

Vietnam has one of the largest populations in Asia with 87 million people. The population is expected to reach 100 million by the mid 2020s. About one third of the population is below the age of 15, although the population is gradually aging. Only about one quarter of the population lives in urban areas. This, too, is changing.

Consumer spending in Vietnam is limited. Per capita retail sales are the lowest in East Asia. Most shopping is done either at wet markets or independent shops. Only in the two biggest cities (Ho Chi Minh City and Hanoi) has there been even a modest level of retail modernization. Yet even in Ho Chi Minh City, it is estimated that there are 2,000 wet markets and 6,000 independent shops. This situation is very similar to what existed in other Southeast Asian countries prior to the development of modern stores. Those countries, such as Thailand and Malaysia, have seen massive retail modernization in the past 20 years. Vietnam is now moving in the same direction, with investment in modern formats rising, including some investments from overseas.

Consumers are evidently attracted to the modern formats. While they possess many attributes such as convenience and air conditioning, the most important seems to be hygiene. Following the avian flu crisis in 2003, Vietnamese consumers became more concerned about food safety. The better hygienic conditions of modern stores could not have arrived at a better time. Since then, modern formats have blossomed. There are now a growing number of hypermarkets, supermarkets, convenience stores, and department stores. Yet low incomes and lack of automobiles means that average transaction size remains very small. The government appears to be interested in promoting modern retailing. Authorities in Ho Chi Minh City are planning to reduce the number of street markets, thereby increasing the market share of modern stores. The largest chain in the country, however, is Saigon Co-op with only 70 stores.

There are only a handful of foreign retailers active in Vietnam. They include France's Casino, Germany's Metro, Hong Kong's Dairy Farm, Malaysia's Parkson, and Korea's Lotte. Others are expected to enter in the near future. This mini-invasion has led locally owned retailers to invest in further expansion so as to be competitive. While foreign retailers are welcome, there are a number of barriers to their entry and success. For example tariffs on imports are high, counterfeited goods are ubiquitous, and it can be difficult to obtain licenses to open new stores. Still, the prospect of rapid growth in a country nearing 100 million people may be too alluring for global retailers to ignore.

The Vietnamese retail scene

The Vietnamese retail sector is highly fragmented and there are few major chains of any note. The top five grocery players have a combined market share of less than 3 percent. By far the largest local player is Saigon Co-op, a state-owned superstore chain. Other important local players include Fivimart, Citimart, Maximark, Intimex and Hapro Mart. The threat of further foreign investment has acted as a catalyst to local companies to raise their investment in the sector, although it is important to note they remain relatively small both in terms of store numbers and sales.

Due to the embryonic state of the market and its recent relaxation of regulations concerning foreign involvement in the retail sector, foreign players play only a limited role. Until recently, the only major foreign entrants were Casino (through its 70 percent stake in Vindémia), and Metro Group, although each operate only a small number of stores. However, the past couple of years have seen renewed interest following deregulation. Malaysia's Parkson department stores, South Korea's Lotte Shopping (hypermarkets), FamilyMart (c-stores) and Dairy Farm (supermarkets) have all recently entered. The next few years are likely to see further entrants, most notably Japanese convenience store giant 7-Eleven.



Saigon Co-op

Overview

Saigon Co-op has emerged as the leading local grocer in Vietnam's embryonic modern retailing sector. In Ho-Chi-Minh City (HCMC), the company's stores have done much to introduce modern grocery retailing to the population and it now holds a dominant position in the city.

However, despite Saigon Co-op's important role in the sector, it is now facing increasing competition from foreign-based rivals, such as Metro Group and Casino, as well as local rivals. Despite its position in its home market, Saigon Co-op knows it cannot compete in terms of price and buying power and this is where the likes of Metro especially are gaining success.

Growth

Starting from a low base, Saigon Co-op has seen rapid expansion since the mid 2000s (most notably from 2006). Although operating since 1989, the retailer spent most of its existence pursuing only cautious expansion – only two new outlets were opened between 2002 and 2005, for example.

However, the threat of FDI deregulation and the subsequent arrival of foreign players spurred the company to adopt a more ambitious expansion policy from 2005. Between 2005 and 2009, for example, the number of stores more than tripled. At the same time, sales in local currency rose by almost 300 percent, with the company regularly reporting year-on-year sales rises of between 30-50 percent.

Reasons for success

- **First-mover advantage** – Has been able to expand at a rapid pace through organic store openings in an extremely fragmented market.
- **Lack of competition** – Until early 2009, regulations prohibiting entry of foreign retailers effectively gave Saigon Co-op valuable time to seize good store locations and expand to meet future challenges.
- **Positioned in growth market** – Saigon Co-op has been able to benefit from general economic trends such as economic growth, rising incomes and a trend towards modern retailing.
- **State backing** – Chosen to become a flagship local retailer to compete against foreign players, government-ownership means that Saigon Co-op has been given preferential treatment in terms of investment and real estate opportunities.

Key facts

Location
Ho-Chi-Minh City

Start of operations
1989

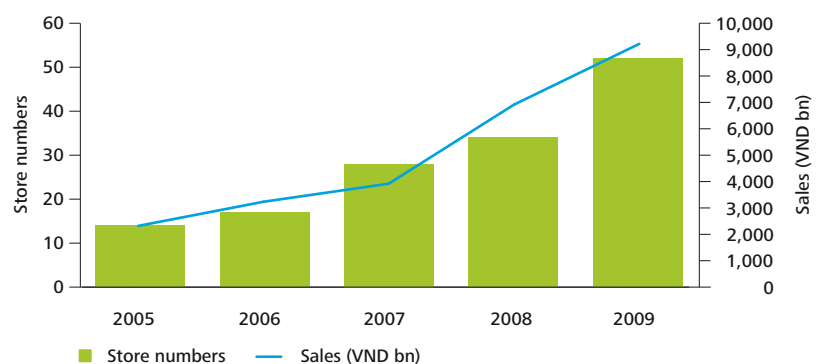
Main format
Superstores

Stores (2009)
52

Net sales (2009)
USD474 mn (estimated)

International presence
0

Saigon Co-op: Retail banner sales and store numbers, 2005-2009



Source: Planet Retail – www.planetretil.net

Future strategic priorities

The immediate future looks promising for Saigon Co-op. It plans to continue its expansion strategy with the company stating that it is planning at least one Co-op Mart hypermarket in each city or province with the aim of having 100 stores in operation by 2015. "We must rush against time as several international giants are eyeing the local market," the company explained. 2010 will therefore see 10 new hypermarkets and 10 convenience stores open, with the intention of generating net sales of VND11.5 trillion (USD615 million) – representing a year-on-year growth of around 34 percent.

Longer-term, major global grocers such as Walmart, Tesco and Carrefour will no doubt be attracted to the Vietnamese market. The next few years will therefore be crucial for Saigon Co-op, not just in terms of expanding rapidly, but also in improving key aspects of its operational efficiencies in order to better compete.

Early 2010 saw the retailer reveal that it was investigating the possibility of starting retail operations in Laos and Cambodia. With so much opportunity still left in Vietnam, diverting resources and focus to two new underdeveloped markets could be a step too far.

Others worth mentioning

While this report has focused on eight countries of particular interest, they are not the only emerging markets deserving of global retail attention. There are others that are starting to appear on radar screens. For example, Colombia is drawing attention following successful efforts to reduce the power of drug lords. The cities of Medellin and Bogota, long centers of violence and kidnapping, are now drawing global business leaders eager to invest in a market of low-hanging fruit. South Africa, as the leading economy on the African continent, is seen as an excellent base from which to launch continent-wide initiatives. Ukraine, with roughly 50 million people, is seen as a next step after entering the Russian market. And Iran, with its large, young, and growing population, is attracting attention.

Longer-term, major global grocers such as Walmart, Tesco and Carrefour will no doubt be attracted to the Vietnamese market.

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