

TOP 50 GLOBAL RETAILERS





# A GAME OF GLOBAL DOMINATION



The world's top retailers are sharpening their strategies and drawing up plans to march deeper into new markets. But who'll emerge victorious? **Catherine Wheatley** reports

**U**nderstanding local differences is key to successful mass retailing. When Walmart entered China a decade ago it was surprised when puzzled shoppers ripped open bags of frozen food in its newly opened stores and served themselves portions. They'd never seen frozen aisles before.

Avoiding cultural faux pas like this has never been more crucial. With sales in their home countries falling or flat, identifying and breaking into new markets – primarily in the developing world – will be a major determinant of future growth and profitability for the world's biggest retailers.

So who will emerge victorious? In The Grocer's first-ever survey of the Global Top 50 Retailers, carried out by Kantar Retail, Tesco is expected to turn in the steepest rate of compound annual growth (7%) of the world's 10 biggest retailers in the coming five years. The calculation was made partly on its heady expansion since 2010, and its now strong positions in China, Korea and Central and Eastern Europe.

But it's not all about geography. Tapping into the continuing evolution of online retail, particularly Click & Collect, developing own label, and the perfection of a wide range of formats put Tesco in a particularly strong position, says Kantar Retail's Bryan Roberts. "A lot of retailers are now turning towards smaller store formats as a means of filling in existing markets and growing in new ones." And no-one has more exper-

tise in small formats than Tesco, he says. "The opportunities for Tesco Express in China are staggering."

International expansion is nothing new for the world's biggest grocers, of course. Last year, revenues outside its domestic market accounted for 27% of Walmart's \$421.9bn retail sales. At Carrefour, international turnover was 59% of the \$124.3bn total, while at Tesco and Metro Group the figures were 33% and 62% respectively, out of \$93.1bn and \$87.3bn.

Lidl and Aldi are also hugely reliant on international sales. Lidl parent company Schwartz Group makes 54% of its sales in foreign climes; the figure is 58% at fellow German retailers Aldi Nord and Aldi Sud.

## Numbers game

But the market is changing. As well as slowing growth in many markets (see pp40-41), new delivery mechanisms – most notably the internet – are challenging conventional models. The inclusion of Amazon at 28th is no fluke. Its compound sales have grown 31% in the past five years. The CAGR is expected to grow by 22% – more than any other retailer, according to Kantar. And 46% of its sales are outside its home market. Last year, it even launched a food and drink delivery service in the UK and Germany offering 22,000 products. Most experts think the company poses little threat to domestic supermarkets – so far. "It currently lacks the logistical infrastructure to deliver all goods at a dedicated time slot and all at one time," says Ver-

RANK	COMPANY	HOME COUNTRY	2010 GLOBAL RETAIL SALES (B.MK)	2010 GLOBAL RETAIL STORES	SALES CAGR (05-10)	SALES CAGR (10-15E)	RETAIL SALES OUTSIDE HOME CONTINENT (%)
1	Walmart	US	326,577	8,535	5%	4%	17%
2	Carrefour	France	96,264	14,170	4%	3%	26%
3	Tesco	UK	72,124	5,380	5%	7%	17%
4	Metro Group	Germany	67,643	2,178	3%	5%	4%
5	Costco	US	60,684	574	7%	6%	7%
6	Kroger	US	60,632	3,609	5%	5%	0%
7	Schwarz Group	Germany	59,086	10,123	8%	5%	0%
8	Seven & I	Japan	53,890	22,485	6%	5%	15%
9	Home Depot	US	52,638	2,248	-3%	4%	0%
10	Target	US	50,947	1,750	4%	5%	0%
11	Walgreens	US	48,797	7,562	8%	6%	0%
12	Rewe Group	Germany	46,172	13,541	5%	0%	0%
13	CVS	US	44,519	7,226	10%	5%	0%
14	Auchan	France	44,231	2,627	5%	6%	4%
15	Ahold	Netherlands	43,557	5,299	1%	4%	42%
16	Edeka	Germany	39,450	15,334	4%	2%	0%
17	Aeon	Japan	39,438	8,087	4%	4%	0%
18	Best Buy	US	38,539	4,227	9%	5%	13%
19	Lowes	US	37,787	1,749	2%	5%	0%
20	Wesfarmers	Australia	32,574	3,257	65%	3%	0%
21	Woolworths (Aus)	Australia	32,480	1,951	9%	4%	0%
22	Sears Holdings	US	31,944	5,195	-5%	1%	1%
23	Leclerc	France	30,709	769	3%	3%	0%
24	Intermarché	France	30,075	3,714	1%	2%	0%
25	Safeway	US	29,760	1,699	0%	2%	0%
26	Aldi Süd	Germany	28,312	4,490	8%	6%	29%
27	Loblaw	Canada	26,738	1,485	7%	4%	0%
28	Amazon.com	US	26,491	-	31%	22%	45%
29	IKEA	Sweden	26,134	321	11%	6%	22%
30	Sainsbury's	U	25,304	907	2%	6%	0%
31	Casino	France	24,868	6,554	5%	4%	30%
32	Supervalu	US	23,978	2,436	19%	0%	0%
33	Aldi Nord	Germany	22,727	5,176	4%	3%	23%
34	Delhaize	Belgium	21,258	2,800	3%	5%	69%
35	Morrisons	UK	19,877	439	2%	7%	0%
36	Rite Aid	US	19,504	4,750	7%	1%	0%
37	Publix	US	19,408	1,173	3%	4%	0%
38	Macys	US	19,304	855	-5%	4%	0%
39	Yamada Denki	Japan	18,439	586	15%	6%	0%
40	CBD	Brazil	18,008	1,631	32%	7%	0%
41	Tengelmann	Germany	17,455	5,653	-10%	2%	36%
42	TJX	US	17,007	2,849	6%	5%	11%
43	UNY	Japan	16,751	7,845	2%	4%	0%
44	Apple	US	15,585	315	30%	15%	8%
45	Mercadona	Spain	15,267	1,310	10%	4%	0%
46	Otto Group	Germany	15,076	424	7%	4%	13%
47	Système U	France	14,678	1,775	5%	2%	0%
48	Lawson	Japan	14,410	9,854	8%	5%	0%
49	Gome	China	14,394	1,199	24%	8%	0%
50	Lotte	South Korea	14,369	2,766	12%	9%	0%

Source: © 2011 Kantar Retail / 617.588.4100 / CustomerService@KantarRetailIQ.com  
All figures are estimates based on 2010 Actual Results (primarily reported in March/April 2011)

dict analyst Natalia Grabov. "It will also have to develop a cold supply chain to deliver fresh foods." But Amazon's internet-only play is the kind of disruption that could transform markets. And others that may yet emerge as global players include Facebook and Ocado.

So how are the big supermarkets responding? Roberts insists the lessons of the past have been learnt. "Twenty years ago the global giants might have taken a cookie-cutter approach to opening stores overseas, but they're now much more sophisticated. They know their scale helps them, but they understand Chinese or eastern European suppliers don't necessarily care they're number one in the UK."

Since the start of the global recession, attitudes have changed dramatically, and each of the key grocery players has taken significant strategic decisions. So which countries have been selected for growth? And how do the strategies differ?

### Consolidation

The Game of Global Domination is a risky business, and the world's largest retailers have increasingly been forced into embarrassing exits. Walmart quit Germany in 2006 and Russia in 2010. Last year the global no2, Carrefour, retreated from Russia and left Japan and Mexico in 2005.

Rumours abound that Tesco will follow Carrefour in quitting Japan imminently; while Metro, having pulled out of Morocco last year, is now widely rumoured to be pulling the plug on its UK Makro C&C operations. Nor has new Tesco CEO Philip Clarke ruled out giving up on the US-based Fresh & Easy venture - hardly surprising as losses already amount to nearly \$900m.

Consolidation is taking many forms. Some disposals are format or fascia-based. Last month Carrefour won shareholder approval to spin off its Spanish discount chain Dia, which has outlets in southern Europe, China and South America. Valued at up to \$5.8bn by analysts, it's set to float in Madrid on 5 July. "The move makes strategic sense," says Grabov. "Carrefour is consolidating its brands under the Carrefour banner but the Dia name has become successful in its own right."

"Carrefour is at a crossroads," says Roberts. Profits in its core domestic markets fell by 35% last year thanks to the downturn and fierce competition, but with a presence in 31 countries, international performance is more impressive. "At home it is struggling to revitalise its core French hypermarkets business, and it is hamstrung by exposure to the moribund non-

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### HOT SPOTS



#### India

A land of opportunity. GDP grew 9% last year. Retailers are licking their lips after the government unveiled plans to deregulate the market. Rapid growth and urbanisation mean India will be hot property for some time



#### Kuwait

Small but attractive. High disposable income and a young urban population will outweigh fears over regional political unrest for many. Citizens received \$3,500 grants last year to mark the anniversary of independence



#### Brazil

The world's eighth-largest economy is only going to get bigger. \$50bn is expected to flood into Brazil ahead of the 2014 FIFA World Cup and the 2016 Olympic Games. GDP per capita is up 40% over the past eight years



#### Uruguay

Rapid economic growth and striking similarities with its larger Latin American neighbours make Uruguay a good choice as a test bed for retailers looking to roll out concepts more widely in the continent



#### Chile

Recovered quickly from the recession. Now AT Kearney estimates that the country's retail sector will grow 10% this year thanks to a young, urban population and an increasingly affluent middle class



food sector. But its disappointing performance at home is counterbalanced by a cheerier outlook overseas."

In Brazil, where sales account for 8% of Carrefour's turnover, it is rumoured to be planning a merger with the country's largest retailer, Grupo Pão de Açúcar, which could spark a battle in Brazil with French arch-rival Casino. But the whole region is ripe for consolidation, says Grabov. "South America, especially Brazil, is a very lucrative market right now for grocery players thanks to a rising middle class and surging consumer spend. As a fragmented market, large international retailers have plenty of opportunity to consolidate the market."

South America is certainly a key focus for Walmart. It plans to invest £759m in 80 new hypermarkets, discount stores and grocery shops in Brazil and its presence continues to grow in Chile, where it acquired a controlling stake in leading retailer Distribución y Servicio D&S in 2009.

Supermarkets are not afraid to develop new formats, however. Carrefour CEO Lars Olofsson believes a \$2.2bn refit of about 500 superstores across western Europe could transform its fortunes. The new concept, Carrefour Planet, will offer lower prices and more white-label products. But not everyone is convinced. In a recent note, Société Générale analyst Tim Attenborough said that Europe's ageing, time-poor population posed problems for superstores. "It implies a structural decline in hypermarket traffic at large stores," he said. "Planet doesn't propose any radical solution."

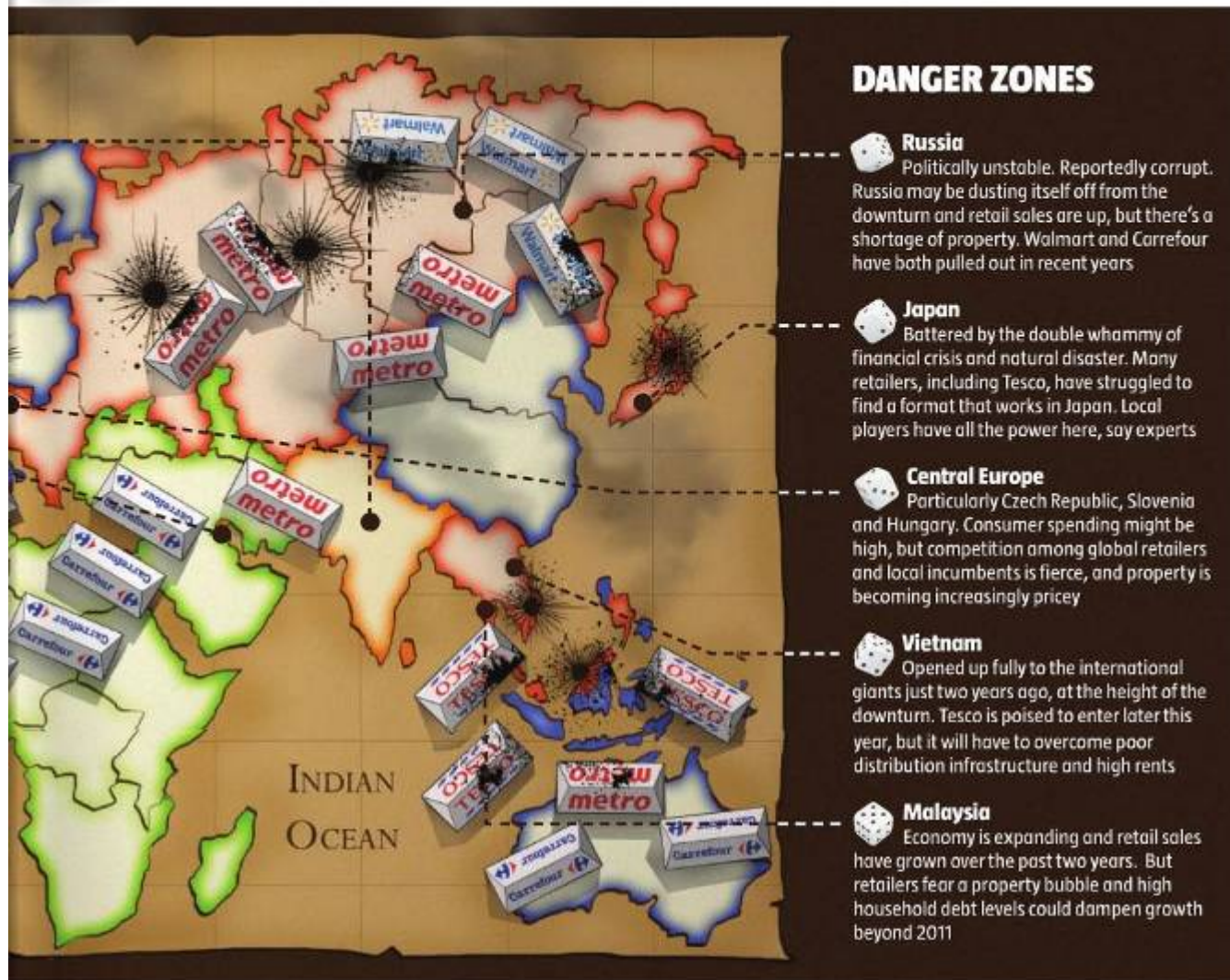
Walmart's new Express and smaller-format stores arguably make greater sense. Last year Walmart International increased its selling space by about 8%, generating a 12% improvement in sales, according to the latest annual report. In the US, however, where Walmart has suffered eight consecutive quarters of falling sales, its Express and Market stores are being rolled out to fit into

dense urban areas or serve more remote rural communities. "Walmart is obsessed with small store formats, as evidenced by the opening of Walmart Express in the US and buying Netto in the UK. They're also opening small stores in China. It's become a global strategy," says Roberts.

Whether a continued focus on a convenience-led store rollout will work for Tesco in the UK is a moot point. As well as Asda's acquisition of Netto, and Sainsbury's growing convenience estate, Morrisons is also promising to enter the fray via the possible acquisition of Iceland. In the meantime, sales at established UK Tesco stores fell for the second successive quarter in June.

But Philip Clarke's focus is also on e-commerce and Click & Collect in a challenging UK market, and Walmart also plans to drive online sales, especially in Brazil and China, by consolidating e-commerce activities in a single global division.

But in terms of markets, it's the East that



## DANGER ZONES

**Russia**  
Politically unstable. Reportedly corrupt. Russia may be dusting itself off from the downturn and retail sales are up, but there's a shortage of property. Walmart and Carrefour have both pulled out in recent years

**Japan**  
Battered by the double whammy of financial crisis and natural disaster. Many retailers, including Tesco, have struggled to find a format that works in Japan. Local players have all the power here, say experts

**Central Europe**  
Particularly Czech Republic, Slovenia and Hungary. Consumer spending might be high, but competition among global retailers and local incumbents is fierce, and property is becoming increasingly pricey

**Vietnam**  
Opened up fully to the international giants just two years ago, at the height of the downturn. Tesco is poised to enter later this year, but it will have to overcome poor distribution infrastructure and high rents

**Malaysia**  
Economy is expanding and retail sales have grown over the past two years. But retailers fear a property bubble and high household debt levels could dampen growth beyond 2011

holds the most attraction for the global retail giants. At home in Germany, Metro was stung by a fall in sales of 2.6% in the first quarter but international turnover rose 1.7%, helped by strong results in Asia and Africa. "Long-term prospects look positive, particularly in high-growth global markets," says Roberts. Performance will be buoyed by the opening of Metro's first C&C in Indonesia next year, he adds.

Staking its claim more recently has been Tesco. It has used its vast resources to develop a strong foothold in China and the Far East. It is now the biggest retailer in Korea and generating annual profits of £300m. In February, it agreed a joint venture to develop three Chinese malls anchored by Tesco hypermarkets, adding to over 100 stores it already runs in the country.

The biggest untapped opportunity is India, however. Restrictive laws and endless bureaucracy have exasperated the global giants. As a result, Tesco's Indian

operations are restricted to wholesale ventures, and operating the Tata conglomerate's Star Bazaar hypermarkets under franchise; while Walmart has opened wholesale outlets under the BestPrice Modern fascia. But after years of opposition from local retailers, in June the government signalled plans to scrap the regulations to attract overseas companies.

The Middle East is another interesting market. Carrefour became the first multinational retailer to enter Iraq since the war, when it opened an outlet in the more stable northern region with its local franchise partner Majid al-Futtaim Group last year. MAF will open 11 more Carrefour hypermarkets across the Gulf this year.

Walmart has also turned its attention to Africa. In May, regulators finally waved through its plan to acquire 51% of South Africa's Massmart after the \$2.4bn deal was dogged by union resistance. Walmart is expected to use Massmart, present in 14

African states, as a stepping stone to further growth in the continent.

Of course, retailers, more than most, use sales as a shorthand for operational scale and therefore profitability. But earnings don't always follow from growth. That's why operational improvements are just as prominent as expansion. At Tesco, the focus is as much on consolidating its assets as it is further acquisitions. That's involving tweaking Fresh & Easy in the US, for example; and even the return of key executives to the UK. "Ultimately, some 50% of Tesco's international space is less than four years old," says Shore Capital analyst Darren Shirley. "The key will be to demonstrate a return on capital investment."

And never discount Walmart. "If anything, Walmart's growth will be more robust than our estimate because it will be driven by new, unforeseen market entries," says Roberts. So long as it gets its frozen food strategy right. ■