Chapter 6
Retailing in Emerging Markets

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Abstract Emerging markets are more than a lucrative business opportunity for retailers in developed markets today. Retailers today see emerging markets as an irresistible opportunity to go global. Opportunities and growth rate of emerging economies provide a perfect platform for modern and traditional retailers to grow and expand their business. These markets are viewed as a fuel which will drive a retailer's growth. But historical data suggests that there are more failure stories known to us than success stories. In this chapter, we are going to understand and analyse what the successful retailers have done right and why is it that when retailers try to expand into emerging markets, fail.

Introduction

Retailers from developed economies today are shifting their focus to emerging markets. They are trying to diversify globally and are aggressive on investing in less-developed economies as they see a greater scope and potential in these markets (Khanna and Palepu 1997; Hoskisson 2000). From introducing innovative retailing formats, strengthening back end, optimizing assortment, achieving faster inventory replenishments, maintaining SPF's and MPF's, developing the most advanced supply chain, introducing the most customer-friendly planogram retailers have been doing and experimenting it all. We have seen some great success stories of Retailers who are doing very well in international markets especially in emerging economies. But on the contrary failure stories outweigh in numbers. In this chapter, we are going to understand what the successful retailers have done right and why is it that when retailers try to expand into emerging markets, fail.

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Overview

Emerging markets or (Ems), this term was first coined at the International Finance Corporation in the year 1981 in Thailand at an investor's conference by an economist Antoine van Agtmael, as a marketing catchword when his group was promoting its mutual fund investments first in developing countries (Thailand) (Adhikari 2017). Since then there has been a lot of hype and uncertainty over the term emerging markets.

At any given level of management, when executives are asked to define emerging markets, we get references of Brazil, India, China and Russia. On a few discussions, we even heard the definition of emerging markets as the markets which have not emerged fully yet and hence are emerging. Some name the above countries because they believe that the growth rate in these countries is more than developed countries and because the economic indicators give a luring result. Howsoever the definition of emerging economies varies widely.

A fundamental characteristic of emerging market is a setup where sellers and buyers are not conveniently efficiently or easily able to interact and trade. Every economy tries to facilitate a set up where both the parties can interact conveniently; emerging economies fall short on this in lot many ways. These institutional shortcomings make it difficult for marketers to operate in these markets. These operating challenges and high transaction costs make it difficult for marketers to operate in emerging markets.

If GDP was a criterion to judge and rank world economies United Arab Emirates would rank as the most developed economy, whereas we know that UAE is an emerging economy, only because of its market structure (Adhikari and Roy 2017).

Retailing and Emerging Markets

It is speculated that by 2025, most of the investments in retail will be in developing countries or emerging economies. Consumer spending in these countries or economies is speculated to be higher than in the developed world and modern retailing will continue expanding in order to meet the demand for branded, value added and the segment of luxury goods and elite services.

Rationally judged the opportunities in emerging markets outweigh the challenges.

Siboniso Nxumalo, co-head of Old Mutual Investment Group's Global Emerging Markets boutique stated to FIN 24 that "In a world with low growth, low returns and higher debt levels, emerging markets are offering high growth, high returns and have less debt, there are innumerable prospects that make these markets attractive. Structurally over the long term, emerging markets are where investors want to be"[1] he said. The younger populations in emerging markets are favourable for longer growth prospects. This contrasts with developed markets which face a shrinking workforce and a consumer population.

In 2008, the GDP of emerging economies such as China and India grew at an average rate of more than 7% when compared with the GDP of USA which grew at less than 1%.[2] The opportunities that an emerging economy provides and the rate at which developing nations grow give a perfect platform for modern and traditional retailers to continue expanding their bases here.

In last 15 years, the retail segment has witnessed tremendous growth and remarkable changes. Emerging economies have witnessed a population growth rate of 21%. The per capita retail sales have nearly tripled from $500 to $1500 in 2015. Global retail sales share of emerging economies surged to a massive 32%. When compared to developed countries, the retail sales growth of emerging economies was 11.7% against 5.7%. From 2009 to 2015 the growth rate decreased to 7% while the developed economies de-grew at 1% (Jha and Adhikari 2016).

Retailer's Paradox

Emerging markets pose their own challenges. The slower growth rates, political risks, entry challenges and various other challenges make it difficult for a retailer to enter and do business in an emerging economy. Probably, this is the only reason that statistically only 20% retailers have proven to be successful in emerging markets. This indicates the importance of strategic marketing plan for a retailer before it plans to expand in an emerging economy.

In the current global economic condition, where we witness weakened currencies, unstable political conditions, changing social environments and rising commodity prices pose a serious threat to retailers. Today there is a clear distinction between winners and losers, with which we can clearly conclude that differentiation and not generalization for retailers is the key.

Today retailing is as much art as it is science. Today the modern retail landscape offers the consumers a plethora of channels such as direct selling, catalogue selling, e-commerce, m-commerce, and brick and mortar store selling, mixed formats selling which includes click-and-collect and small pop-up-stores selling. Until decades ago, retailers had an option of integrating e-com into their operations, today it is a necessity, and in fact businesses today start with launching of their web mode first and then evolve into being a traditional retail player. This growth of theirs is fuelled by the growth that they achieve in emerging markets. Today's retailers understand the convenience is the driver of business.

[1]Emerging Market Retailing in 2030: Future Scenarios and the $5.5 Trillion Swing. ATKearney.

[2]Growth, employment and inequality in Brazil, China, India and South Africa: An Overview. OECD Secretariat. Page 5. Source: OECD (2009a) and World Bank, WDI 2009 Database.

Today the aim of every retailer is to become that crucial link in the modern day economy where consumers can get their food clothing health and hygiene goods at the most competitive prices conveniently. Hence, today a very common term globalization of retailing has come into existence. Every retailer tries to stick to a Glocal (Global + Local) framework.

Before a retailer enters a territory, it defines a market into one of the three areas.

(a) Mature Markets
(b) Emerging Markets
(c) Less-developed Markets

Mature markets are markets which have matured over time and where the growth rate is slow and entry costs are too high. Markets of Western Europe and North America is considered as mature markets, whereas Asia, Central and South America, Eastern Europe are generally considered as emerging markets. Markets as in Africa, parts of Asia and South America are generally considered as less-developed markets. This categorization helps a retailer formulate its go to market and marketing strategies accordingly.

Differentiation Strategies in Emerging Markets

Lack of storage areas, infrastructure, connectivity, transportation, mass media and an organized distribution network makes it very difficult for a retailer who is already established in a mature market to sell its goods and services in an emerging market, especially in the rural network. A lot of multinationals like P&G and Hindustan Unilever have invested a considerable amount in developing distribution channels by building strong networks. Project Shakti is a classic example of how strong a network Unilever has built in India. P&G has invested a lot in training retailers about merchandising, supply chain, efficient retail practices, etc., and has built its network in both rural and urban areas.

Retailers also face a lot of consumer-based challenges. Global retailers first need to intercept the consumers need, study their lifestyle and then design solutions accordingly. According to Verhoef Krafft and Reinartz, global companies of today over a period of time have recognized that best retailing innovations happen when they engage their consumers in the innovation process (Sinha and Adhikari 2017). Global retailers also invest heavily in technology and supply chain development in order to innovate solutions which give them an advantage over existing setup in emerging markets. Deciding on the retailing formats is the next strategic question that global retailers face. What works in mature markets might not work in the emerging markets. Huge departmental stores have had little success in emerging markets. In emerging markets, we have seen that small brick and mortar stores (departmental store format) have proven to be more efficient.

Almost all global and Indian retailers that have entered Indian market today are withdrawing from giant hyper formats to smaller stores. Recently, we have seen that Spencers, Tesco, Spar, Hypercity, ABRL (MORE) and Walmart all have cut-down space or closed their stores which were over 50,000 sq. ft. in size in India. According to these retailers, smaller stores with optimum assortment yields better SPF's and MPF's.[3] Hence, they have invented a new store format called compact Hypers. Click-and-collect is an upcoming format which these retailers are eyeing currently.

Branding and private labelling have proven to be very effective in emerging markets as there exists a big brand gap in certain categories. Walmart, Carrefour, Tesco have all proven to be very successful in innovating private label and achieving category leadership. This way they are able to position their products effectively hereby eliminating competition.

Hence Comes the Question of What Have These Global Retailers Done Right?

The basic answer to this would be that they have sincerely decided on a strategy, tested it, judged it and have executed it well. Deciding on a prospective market which looks promising is not enough. Forming a strategy which is relevant to the market, anticipating outcomes and implementing it well decides the future of a retailer in an emerging market. As mentioned earlier retailing in emerging market is as much an art as science. Some retail pundits argue that a retailer should bank upon its core strengths in the existing markets and replicate the same in the new territory that they are entering. However, we have seen that this has been the cause of failure in innumerable cases. eBay is a classic example of an online retailer which followed this strategy. eBay has implemented the same model which it uses worldwide. Probably that did not suit the Indian environment both on the buyers and sellers part. That is the reason that the market leader of a developed economy is ranked 6th amongst top ten e-com marketplace players in India.

A rather wise concept is to adapt to the new market and then bring in innovation. Hence, there is no thumb rule or a set framework that a retailer can follow. Every market is different, consumers are different. Hence, a retailer should formulate a strategy for every new territory that it enters. However, we can conclude that the devil is always the execution. Before deciding on the go to market strategy, a retailer should always learn about the local consumer, their taste and customs (Goldman 1974; Cavusgil 1982; Minten 2008). KFC launched their set menu in USA in India and failed miserably. McDonald's did the same with the same result.

[3]Sales per square foot (SPF). It is net sales divided by the square feet of retail selling space. Margin per square foot (MPF). These terms generally denote the key measurement parameters that are used to compare the performance of retail stores.

They then studied the local customs, religion, tastes, preferences, regulations in India and decided on their set menus. Their success story in India is today known to everyone.

Most successful retailers in a new territory use majorly the local talent. They hire as less expats as possible, the logic behind this is that the local talent will always have a closer connection with the community and the legal framework. This way an organization is also able to establish better credibility in a new market. In an emerging market being credible is very important. Hiring local talent helps a Global retailer overcome these barriers better.

The next challenge that most successful retailers have overcome is of developing a hybrid culture. Most successful retailers try to bring out the best of worlds, the market where they currently operate and the emerging market where they want to enter and merge them together. This way they merge in technological improvements, supply chain efficiencies, process improvements while keeping the characteristic local.

When SPAR entered India, they did a very innovative study before they designed their assortment. They studied 7-day pattern of an average consumer and then designed their strategy for Indian markets, particularly Bangalore. The study was made on a working class professional. For our convenience, let us name him Rohan. Rohan is 30 years old who works in a software company. They studied hourly pattern of Rohan for seven days. In these seven days, SPAR identified interaction points. Interaction points are the number of times in a week when Rohan had to buy something for his home from a retail store. This study helped SPAR to identify the interaction points at which it could add better value in Rohan's life.

Why Businesses Fail in Emerging Markets

Emerging markets are more than a lucrative business opportunity. These markets are the fuel which drives a retailer's growth. The opportunity to go global is irresistible for every retailer. But one size fits all is a cliché in retailing. Historical data suggests that there are more failure stories known to us than success stories. For example, grocery retailing is dominated in every nation by local grocers. According to Walmart's CEO Mr. Krish Iyer, the category of food retailing offers limited margins, for a retailer to be successful it needs an adequate turnover. In context of nascent Indian retail environment, it is very difficult to achieve that in case of hypermarkets. There are a few successful grocery retailers who could expand successfully. It is known that the retailers who enter an emerging market just for the sake of going global have failed miserably. Companies which enter into emerging markets often choose to go global because their current market is saturated, and they are looking to expand to show their attractiveness to investors as retailing is a low-margin business. Every retailer today has tasted failure when they try to expand just for the sake of expanding their base in emerging economies.

Second retailers which try and expand in emerging markets fail because they face many barriers to enter into the emerging market territory. Carrefour exited India in less than 4 years. It was cited that the French retailer was not able to find a suitable partner. The time target for retailers to launch has often failed. Hence, it is wise for a retailer to maintain a strong position at home to fuel overseas growth.

Third retailing is a high investment low-margin business and returns in that come only over time. Companies have to invest a lot before they are willing to enjoy economies of scale in emerging economies. Citing the example of Carrefour some analysts believe that it takes nothing less than a decade for a retailer in India to establish itself as a renowned player. Retail pundits believe that Carrefour's exit from India was too soon.

Retailers which have tried to expand all at once have also miserably failed. Probably, this is the reason that retailers choose one particular city, maintain a strong position there and then look for further expansion. Target Corporation is the second-largest discount store retailer in the USA but when it entered the Canadian market it opened more than 100 stores in 2 years of its operation. It suffered huge losses and was not able to maintain its position in the new market. It announced complete exit soon. SPAR is the world's largest food store chain with over 12000 stores in 38 countries across 4 continents and meets the needs of over 10 million consumers every day. However, when it expanded its base in India in collaboration with the Landmark Group Dubai was very careful about expanding only after it had established its dominance in one particular region.

Local retailers also face tough competition from the country killer in an emerging economy. To compete with an existing retailer who has already expanded in an emerging economy is a very tough task. The retailer which is entering an economy has to face many challenges a few of which we have mentioned above. A lot of time retailers withdraw their operations as they are not able to face competition. GAS, Etam, Replay, Argos all have ended their JV's and have exited India as they were not able to sustain and compete against local players. Best Buy had to exit China for similar reasons. The Chinese consumers flanked the local stores as the perceived that the prices in Best Buy were too high when compared with the small local shops.

The biggest mistake the retailers make is that they divert their whole attention to the market they are trying to enter. They many a times ignore that they have to focus at home. As we mentioned above, a retailer has to focus on its home ground to sustain its position overseas. As stated earlier, innovation is something that is very crucial for a retailer to stay relevant in the market. Most retailers have failed because in lieu of expansion they forget that they need to innovate in their value offering. One size fits all does not prove to be a successful strategy for retailers today. Most retailers often sell what they can buy rather than trying to buy what the customer wants. Economies of scale are achievable only when a retailer is relevant in the market.

Also entering into the emerging markets at the right time is very critical. Retailers often enter a market very quickly. This is the time when the consumer and the market are not ready to accept a particular format. Retailer often exits a market too soon after launching without even assessing the full potential of the market.

We can conclude by stating that though emerging markets is a lucrative opportunity a retailer should do a rigorous SWOT analysis before it enters into a territory. It should frame a perfect entry strategy and execute it well. Retailers should measure their success on a perpetual scale rather than on dollars. The retailers should only focus on adding value for the consumer's; this will yield profits over time. First to market is always an advantage. It is never good to be a laggard. The one which enters the right market at the right time with the right format and the right strategy will WIN.

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