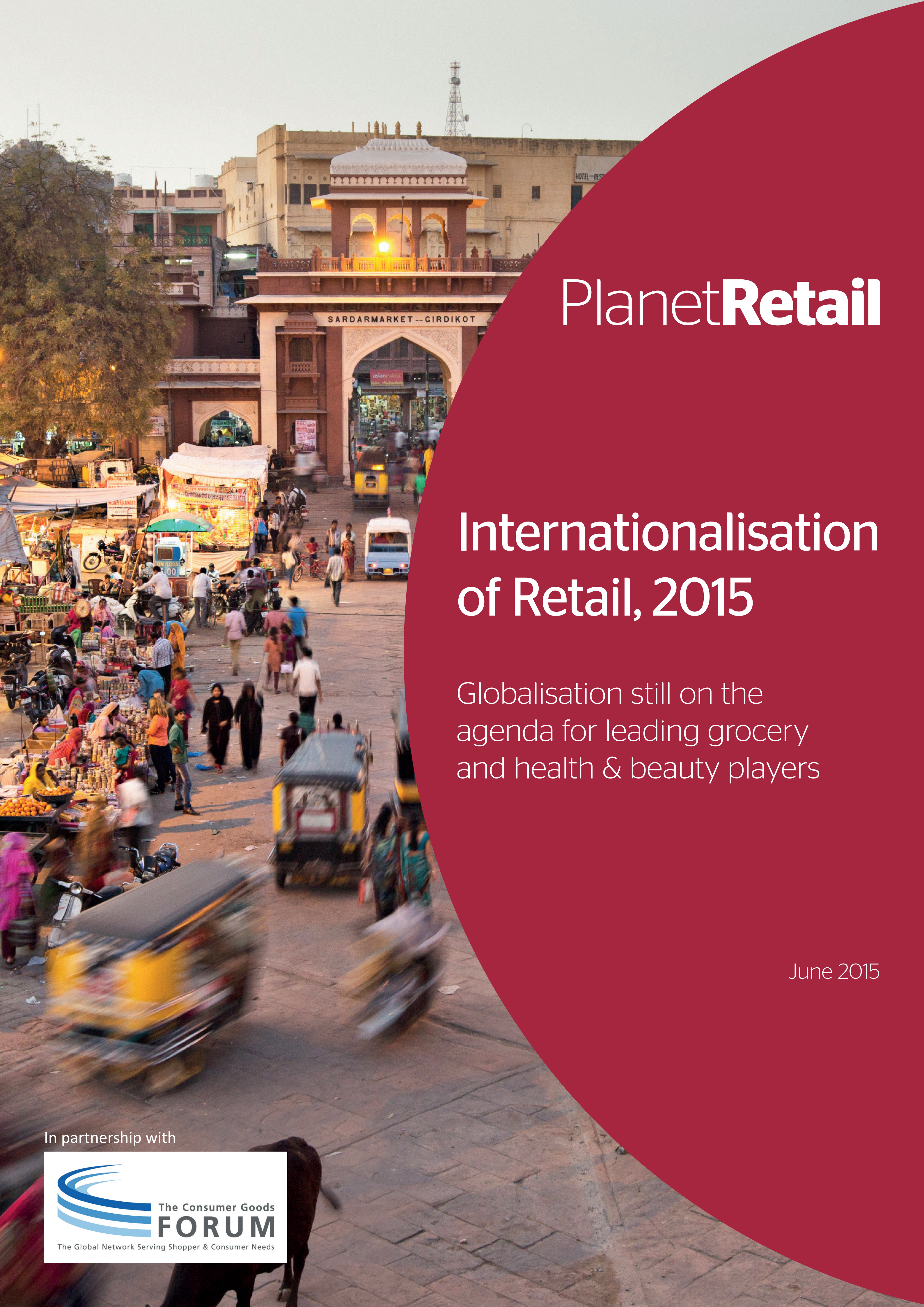

PlanetRetail

Internationalisation of Retail, 2015

Globalisation still on the agenda for leading grocery and health & beauty players

June 2015

In partnership with

The Consumer Goods FORUM
The Global Network Serving Shopper & Consumer Needs

PlanetRetail

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Planet Retail is the leading provider of global retailing information, from news and analysis to market research and digital media. Covering more than 9,000 retail and foodservice operations across 211 markets around the world, many of the world's leading companies turn to Planet Retail as a definitive source of business intelligence.

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Foreword

Peter Freedman, Managing Director - The Consumer Goods Forum

The Consumer Goods Forum is pleased to resume its collaboration with Planet Retail and to provide you with a fresh review of the *Internationalisation of Retail*. This survey is more important than ever today as the forces of globalisation adapt to new economic and geopolitical realities. It covers the key trends and developments in grocery and personal care retailing around the world.

The CGF supports global collaboration between consumer goods retailers and manufacturers in order to improve business efficiency and drive positive societal change. We hope that the data, case studies and best practices in this report will be useful for all our stakeholders across the industry. You will find fresh facts and perspectives on: the pace of retail internationalisation; the impact of the economic downturn; and the strategies that retailers have adopted to respond to it, including the ways in which they have balanced a focus on domestic markets with the pursuit of growth through international expansion.

The Consumer Goods FORUM
The Global Network Serving Shopper & Consumer Needs

The four areas that we at the CGF work on with our 400 members are critical for the future of our industry, of our planet and the 7 billion consumers we serve: Product Safety, Social and Environmental Sustainability, Health & Wellness, End to End Value Chain and Standards. Four areas that drive growth, add value, and create jobs. Four areas that matter to all our stakeholders and consumers.

Understanding the environment we operate in is critical to building the conditions of a sustainable future. This is the purpose of this report. We hope you will find it valuable and welcome your reactions and comments to improve its next edition.

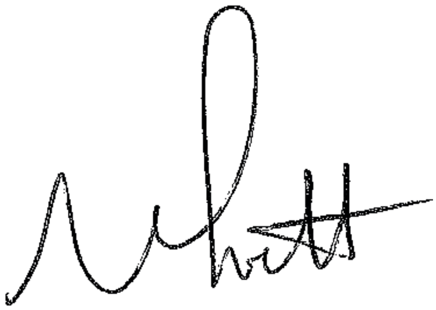
PlanetRetail

Nick Everitt, Global Insight and Strategy Director - Planet Retail

Although the retail landscape is facing unprecedented change, at least one thing remains constant - the world's biggest global grocers and health & beauty retailers continue to globalise and look beyond their home markets in search of future growth.

Here at Planet Retail, we are delighted to be partnering with The Consumer Goods Forum to bring you our latest study of the international activities of the 100 largest grocery and health & beauty retailers. This report highlights that leading players are not just seeing a growing share of their sales being derived from international operations, but also that the number of markets in which they are present continues to grow.

We're seeing signs that retailers are looking to go global through a more cautious (and seemingly modest) approach, with a greater degree of flexibility than before. We believe that the most successful global retailers of the future will be those that are able to adapt and tailor their approach on a market by market, region by region and even a city by city basis. These changes of course will bring new opportunities for suppliers, particularly those able to partner with retailers and adapt their own strategies to follow the trends.



1. Executive Summary

With retail entering an era of unprecedented change in both developed and developing markets, and with a number of the world's leading grocery and health & beauty (HBC) retailers facing challenging times in their core home markets, the role of globalisation is undergoing a period of re-evaluation.

Key learnings:

- Despite a renewed focus on solving problems at home, international markets are becoming increasingly important contributors to leading retailers' sales.
- Internationalisation has been, and will continue to be, pushed by the largest players – with the top 10 seeing the largest increases in average number of markets and international sales.
- Many leading players will have a renewed appetite to expand into new markets over the next five years, with particular focus on regions such as the Middle East and Africa.
- However, they are also approaching market entry with caution, seeking expansion through joint ventures and franchise partnerships in order to limit risk.

The latest research by Planet Retail highlights the fact that international expansion rates of the world's leading retailers slowed in 2014. While the top 100 Global Grocery and Health & Beauty retailers added an additional 61 markets between 2010 and 2012, only five net new markets were added between 2012 and 2014.

The first decade of the 2000s was characterised by an intense desire on the part of the world's largest grocery retailers to plant flags in what were deemed hot growth markets in Eastern Europe, Asia and Latin America. This led to a flurry of market entries across the globe, either organically or through acquiring smaller rivals. There seemed little reason to question the belief that, not only were the big only ever going to get bigger, they would also become more international.

Walmart saw its international presence grow from 16 to 28 markets between 2010 and 2014, thanks partly to its acquisition of Massmart in South Africa.

In the past five years, though, this belief has come down to earth with a crash. This is largely due to the global economic crisis, but also the emergence of a new type of consumer. The economic downturn impacted the availability (and cost) of financial credit available to retailers, while also seriously denting both consumer trust and their ability to spend. In certain markets, economic, political and regulatory uncertainty has dampened desire to expand in what were once deemed key markets for entry, such as Russia and India.

Simultaneously, longer-term socio-demographic changes fuelled by advances in technology were creating a new type of shopper. These valued proximity, convenience and value over the choice available in big-box stores. Meanwhile, the rapid growth of e-commerce eroded the key USPs of big-box outlets - their large product range and low prices. The widest choice at the lowest price was no longer to be found in a hypermarket or superstore aisle, but instead on the websites of players like Amazon. More recently, the advent of smartphones has given rise to even greater transparency on price coupled with the convenience of being able to shop anytime and anywhere (including globally).

The focus of retailers has therefore shifted away from risky large-scale acquisitions and investments in new, non-core markets and towards shoring up and improving the financial standing of core operations in their key (often domestic) markets. Weighed down by weak sales growth from their - predominantly big-box - operations in the saturated markets of Europe and North America, some are increasingly questioning their wider role internationally. In some cases this has seen them willing to dispose of overseas or otherwise non-core operations in order to refocus domestically.

Russia's Magnit is an example of a fast-growing local or regional retailer rising up the ranking. It aims to double sales over the next five years on its way to becoming the largest grocery retailer in Eastern Europe.

2. The Global Retail Macroeconomic Landscape

Retail investment - and especially investment in grocery retail with its high share of company-owned property and complex logistics systems - is usually a long-term investment. Therefore, the fact that the world economy is expected to grow by 3.5% this year and by 3.8% in 2016 is not quite as relevant as the underlying long-term trends that continue to shape industrialised nations as well as emerging markets. The industrialised nations may be over the worst now, with growth of 2.4% expected for this year and next, which should alleviate some pressure in the current trading environment. But it is growth rates of 6% to 7%, as projected for Asia, that indicate where rapid improvements in living standards are dominating the picture, even in a weak global economic environment such as this.

In a somewhat confusing and heterogeneous global picture shaped by overlapping short-term and long-term developments - with global commodity shocks pulling down oil-exporting nations; regional financial crises shaking Europe; emerging markets investment bottlenecks hampering Latin America, plus numerous further region-specific developments - a certain number of key developments will still be hard for retailers and their suppliers to ignore.

Firstly, fast-ageing societies in industrialised nations - entailing a need for painful increases in income redistribution - mean that standards of living will remain under pressure in Europe, the US and Japan as a long-term phenomenon. The idea that these wealthy regions are currently experiencing a minor financial crisis that will soon blow over and everything will then return to normal, is fundamentally flawed. On the contrary, the industrialised nations seem highly unlikely to be sustainable growth engines for at least a generation. Industrialised nations are under pressure, and the middle class is seeing its wealth eroded. It will be extremely hard to reverse the trend.

Secondly, with incomes, pensions and state benefits pressurised in the industrialised nations, lives will change, and this will change the way people shop. Smaller households living in smaller homes with less storage room, along with decreasing car ownership rates, will make the idea of embarking on big weekly shopping trips to out-of-town hypermarkets increasingly pointless.

To compound matters, the internet is now making large swathes of the hypermarket's non-food departments obsolete. In anticipation of this being a long-term issue, grocers are already readjusting store opening budgets towards small-box formats in residential areas, and thus the gravitational centre of grocery retail is slowly shifting from a 70,000 SKU big-box format to something significantly smaller, featuring far less space for products: supermarkets, discount stores, convenience stores. Suppliers' answers to this shelf space meltdown will increasingly be found in new opportunities in the fast-growing cities of emerging markets.

Thirdly, with the leading US and European retail giants preoccupied with challenges at home, globalisation is not what it used to be. As the Western behemoths approach internationalisation with growing caution, new operators are in the ascendant in emerging markets and are themselves beginning to expand internationally. Often, these are small-box specialists, putting them in a strong position to serve a burgeoning consumer base in expanding urban and provincial regions. Ten years from now, the global grocery top 10 might well include names from Russia, China or India.

> “With the leading US and European retail giants preoccupied with challenges at home, globalisation is not what it used to be.
>
> Boris Planer
> Chief Economist

And fourthly, independent trade will not disappear from emerging markets for decades. As such, it should play a role in the long-term distribution strategies of any forward-looking FMCG supplier. In fact, traditional trade is a definite growth segment across emerging markets, both in terms of dollar sales and store numbers. This is, not least, because new entrants to the middle classes will initially continue to spend additional income in the same local family shops they have frequented in the past. For shoppers rising out of poverty in Latin America, Asia and Africa, owning a car that can take the family to a hypermarket on a weekly basis is more of a long-term aspiration. FMCG suppliers are well-advised not to be idle and wait for that scenario to happen, and not to rely on Western hypermarket giants to lead them into emerging markets.

3. Internationalisation Trends

Tesco's Fresh & Easy banner in the US, which the company exited in 2013.

Costco is one retailer pushing on with expansion in Europe - having opened in Spain in 2014 and with plans to enter France next year.

Planet Retail's exclusive survey of the top 100 global grocery and health & beauty retailers shows that the rate of internationalisation slowed between 2012 and 2014. In this period, the top 100 added a net five new markets to their international operations, compared to 61 in the preceding two years.

Whereas 2010-2012 was boosted by a number of high-profile moves, such as Walmart's acquisition of a majority stake in South Africa's Massmart in 2011 (immediately giving it access to 12 new markets on the continent), the leading retailers have been far more cautious over the past two years. Carrefour, which had entered new markets like Iraq, Georgia and Macedonia between 2010 and 2012, taking its total to 39 markets, saw this fall to 35 in 2014 – the result of pruning non-core markets such as Colombia, Thailand, Malaysia and Singapore, along with India more recently.

Tesco has also scaled back its international presence. Markets such as Japan (2012) and USA (2013) were jettisoned, while it also sold a stake in its Chinese operations to China Resources Enterprise. The focus of investment and management energies are now very much on addressing the very real challenges in its UK home market, which still accounts for 70% of total company sales.

By contrast, Costco is a retailer that sees significant potential for its warehouse club concept in mature markets. Having entered Australia in 2009, it opened its first store in Spain in 2014, and is currently working on plans to launch in France (now expected in 2016).

Schwarz Group, meanwhile, has been busy focusing on refining existing operations rather than pursuing new market entries – which is why its international presence has remained stable at 26 markets. However, with openings in Serbia and Lithuania imminent, as well as serious exploration of a US market entry underway, the retailer may well have regained its appetite for internationalisation.

Global Grocery and H&B Retailers: Countries and Store Operations, 2010-2020[f]

Rank	Retailer	2010	2012	2014	2020[f]	Comments
1	Walmart	16	28	28	29	Kenya entrance in May 2015.
2	Carrefour	37	39	35	37	Carrefour's franchisee in the Middle East, Majid Al Futtaim (MAF), opened its first hypermarket in Armenia in March 2015, and plans to enter Kenya in September 2015.
3	Costco	9	9	10	11	Looking to enter France in 2016, after opening in Spain in 2014.
4	Schwarz Group	26	26	26	29	Expected to open in Serbia and Lithuania in 2015, as well as investigating US market entry in 2016-2018.
5	Tesco	13	12	10	10	No new market entries expected after scaling back in China, Japan and the US in recent years.
	Top 10	150	164	165	172	
	Top 50	407	437	444	448	
	Top 100	576	637	642	648	

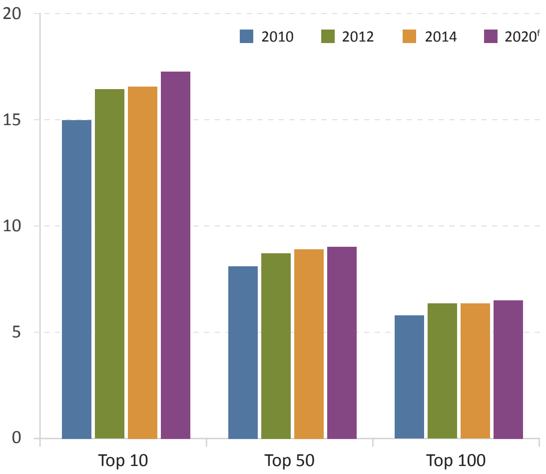
Note: ranked by banner sales; f - forecast
Source: Planet Retail

Our research also shows a noticeable shift in who is expanding where. With many of the largest European and North American players in the top 10 now restricting their Asian presence to selected core markets only, this has opened up opportunities for regional and local players further down the ranking.

Japan's AEON, for example, has entered Vietnam, Cambodia, the Philippines and Indonesia over the past two years, while compatriot Uny opened in China and Malaysia. Hong Kong-based Dairy Farm acquired local chains in Cambodia and the Philippines. FamilyMart, meanwhile, expanded into Indonesia and the Philippines, while SPAR International formed agreements to operate in India and Indonesia.

Indeed, the focus for leading players still searching for new international opportunities seems to have shifted towards the Middle East. Players including Casino (Qatar), SPAR International (Oman, Lebanon), El Corte Inglés (Saudi Arabia), and Auchan (Iraq) have all expanded their presence in the region in recent years – with more likely to follow in the coming years.

Global Grocery and H&B Retailers: Average Number of Markets, 2010-2020[f]



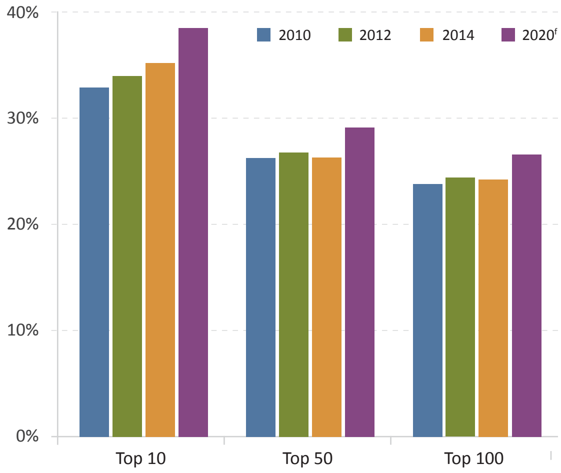
Note: f - forecast
Source: Planet Retail

Looking beyond simply market numbers, though, there is little doubt that internationalisation is becoming increasingly crucial to the top 100's overall growth, and to the top 10 in particular.

International markets accounted for 35.3% of total sales for the top 10 players in 2014, an increase from 34.0% in 2012 and 33.0% in 2010. This provides clear evidence that, although these players have become more selective in their global portfolios, it has often been the smaller, non-core markets that have been discarded.

In addition, with growth hard to come by (or even in decline) in their home markets, international markets have often provided one of the few avenues for additional sales in recent years. The result has been international markets taking a growing share of the top 10 players' combined sales at the expense of their domestic contributions. This trend is likely to continue, or even accelerate, as many in the top 10 look again at kick-starting a more ambitious phase of overseas expansion in the coming years.

Global Grocery and H&B Retailers: Sales From International Operations, 2010-2020f (%)



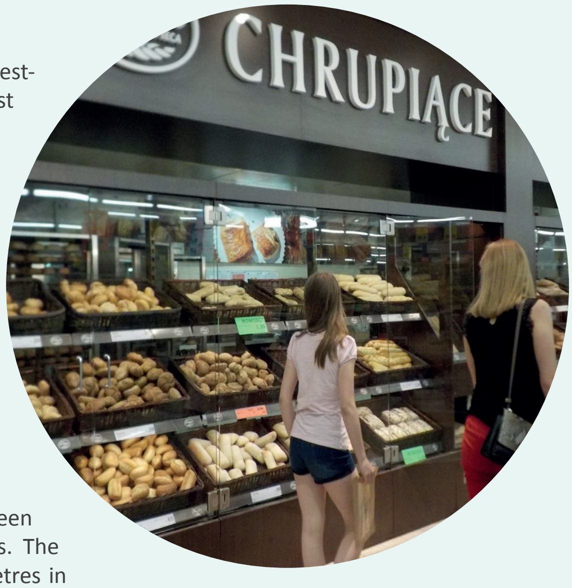
Note: f - forecast
Source: Planet Retail

Case study: Schwarz Group

Germany's Schwarz Group has been one of the fastest-growing retailers in the top 100 ranking over the past 15 years. Between 2001 and 2014 it rose from 24th on the global ranking (in terms of sales) to fifth. This growth is all the more impressive given that this has been achieved through organic expansion.

Schwarz Group's Lidl discount store concept increased from 4,463 to 10,087 outlets over this period, with its presence growing from 12 to 26 markets. With Lidl currently investigating market entry into the US, further expansion seems likely, albeit at a slower rate than in previous years. Closer to home, Serbia and Lithuania will be new market entries in 2015.

As the rate of expansion has slowed, Lidl has been repositioning its concept, including store extensions. The average sales area has crept up from 735 square metres in 2001 to over 900 square metres at present, allowing the retailer to introduce improved bakery and fish sections, thus widening its appeal to shoppers.

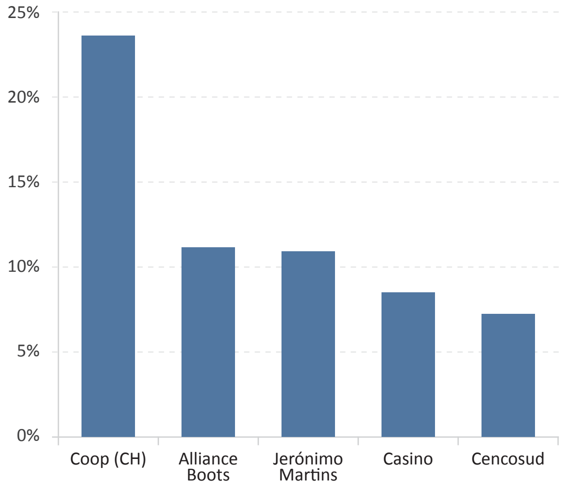


Lidl has focused efforts in recent years on improving the performance of its existing stores in Europe, including the roll-out of fresh bakeries.

Of the top 10 players, seven saw sales from international operations increase between 2010 and 2014. Carrefour and Tesco saw their proportion decline as they sought to exit a number of markets, primarily in Asia. The biggest gainer was Auchan, which continues to expand in China through its partnership with RT-Mart, as well as in CEE with its acquisition of around 80 former Real hypermarkets from Metro Group in Russia, Poland and Romania in 2013.

The top 5 fastest internationalising retailers, however, came from outside the top 10. Swiss retailer Coop (CH) saw the largest increase, thanks to its 2011 acquisition of TransGourmet, giving it an additional five markets in Europe. Meanwhile, Portugal's Jerónimo Martins was another big gainer, benefiting primarily from the rapid expansion of its Biedronka discount operation in Poland. Swiss-registered Alliance Boots also reached overseas for growth, its recent merger with Walgreens meaning the US retailer's international reach has broadened from just two to a current 20 markets.

Global Grocery and H&B Retailers: Top 5 Growth Percentage of Sales from International Operations[e,] 2010-



Note: e - estimate.
Source: Planet Retail

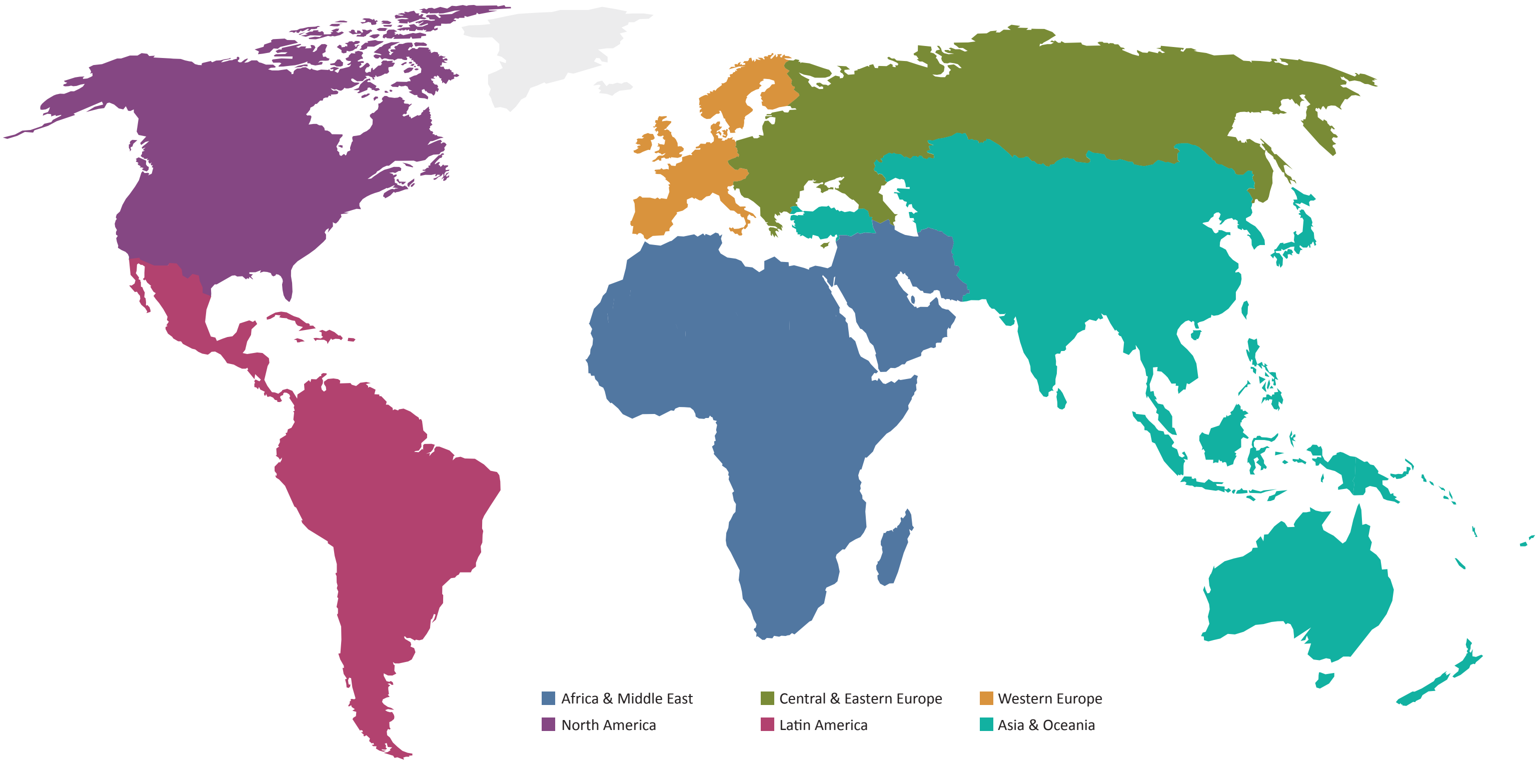
Global Grocery and H&B Retailers: Percentage of Sales from International Operations[e], 2010-2014

Retailer	2010	2012	2014	Change, 2010-2014 (PP)
Walmart	27.8	31.4	31.2	3.4
Carrefour	58.1	56.7	55.1	-3.0
Costco	26.3	28.1	29.8	3.5
Schwarz Group	56.3	57.7	59.2	2.9
Kroger	0.0	0.0	0.0	0.0
Tesco	32.7	32.9	29.6	-3.1
Aldi	55.7	58.6	61.6	5.9
Auchan	59.1	62.5	65.8	6.7
AEON	3.6	3.8	5.8	2.1

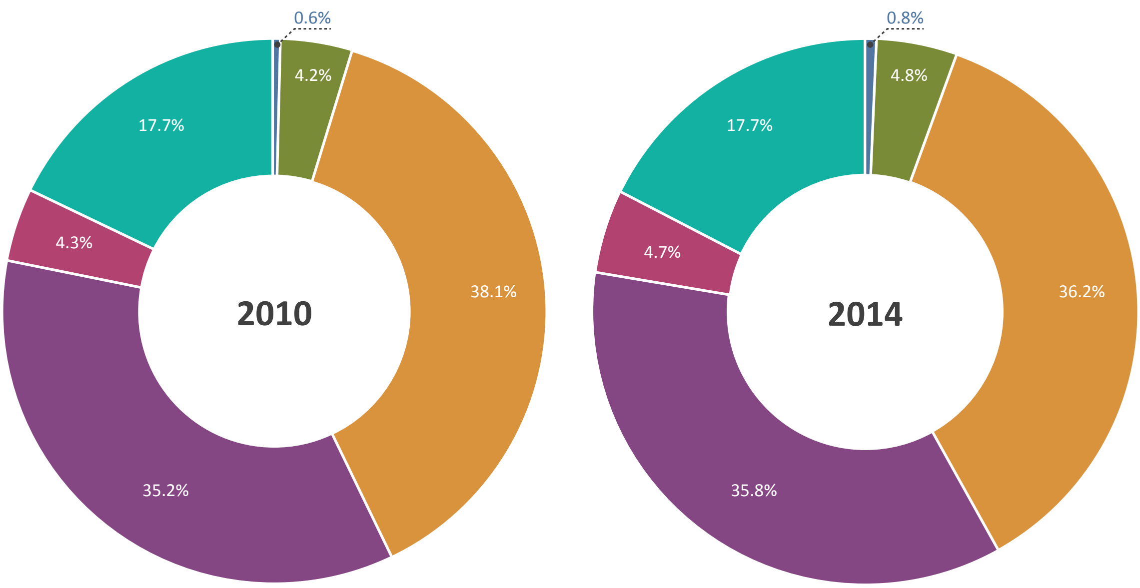
Note: ranked by banner sales; e - estimated; PP - percentage points.
Source: Planet Retail

4. Growth Regions

In terms of growth regions, our research shows a slight, but discernible, shift among the top 100 players between 2010 and 2014. The direction of travel is moving away from Western Europe (traditionally the largest sales contributor), with Africa & Middle East, Central & Eastern Europe and Latin America all making the largest relative gains - albeit from low bases. The fact that the proportion of sales from Asia & Oceania remained stable illustrates that this region has witnessed a number of market exits or scaling back on the part of many leading players over the past few years.



Top 100 Global Grocery and H&B Retailers: Percentage of Sales by Regions, 2010-2014



Source: Planet Retail

Africa & Middle East

Recent international moves to watch in the region include 7-Eleven's planned entry into the UAE in 2015, while SPAR International is also looking to expand into the region through openings in Lebanon and Oman – part of the group's ambitious plans to grow in partnership with Abu Dhabi Co-Op, with plans to operate around 30 stores in the region by 2016.

Further south in Africa, meanwhile, SPAR (South Africa) has also entered Angola – in addition to acquiring BWG in Ireland - while Walmart's Massmart has entered Kenya this year through its Game concept.

Central & Eastern Europe

CEE continues to present itself as a complex and heterogeneous region. Most Central European states are now EU members with well-developed retail landscapes, while the former Soviet territories of Russia and Ukraine are currently lacking in encouraging signs for retail investment. Import restrictions may make the Russian market difficult to access in the medium term, while the recent economic crisis has impacted consumer spending and confidence.

This climate has led to a number of recent exits, such as Delhaize Group selling up in Bulgaria and Bosnia & Herzegovina; Metro Group divesting its Real hypermarket network in Poland and X5 Retail Group departing Ukraine.

While the economic crisis continues to plague CEE -growth rates remaining disappointingly low for a region holding such potential - the long-term outlook remains positive. Per capita consumer spending in Central Europe remains three times - and levels in Eastern Europe nearly five times - lower than Western European levels, but will continue to increase.

It comes as no surprise then that some retailers are still keen on entering the region. These, most notably, are the discounters, with Schwarz Group's Lidl scheduled to open in Serbia and Lithuania, while Tengelmann is planning to take its Plus concept to Russia.

Asia

Asia remains the world's fastest-growing region. Markets such as Indonesia, the Philippines and Vietnam are all registering real growth and attracting investment from local and regional retailers (and, in some cases, global players).

However, such a diverse region presents numerous challenges. Two of the largest markets, China and India, have seen investment slow in the past year due to different reasons. In China, market conditions are tightening due to an economic slowdown and price deflation in many core food categories. Facing declining like-for-like sales and issues impairing profitability, a number of retailers have scaled back their presence in the market, such as Tesco. In India, meanwhile, despite an accelerating modern retail sector, uncertainty and frustration over the government's FDI policy has driven a number of multinationals like Auchan and Carrefour to exit completely.

> “Opportunities still exist. Many retailers are now looking beyond the major markets to carve out opportunities in upcoming Asian markets.
>
> Rob Gregory
> Global Research Director

However, opportunities still exist. Many retailers are now looking beyond the major markets to carve out opportunities in upcoming Asian markets such as Cambodia (AEON in 2014) as well as markets in Central Asia, such as Kazakhstan (AEON) and Tajikistan (Auchan in 2015).

Latin America

Entries by global players into Latin America have slowed appreciably in recent years, with few significant moves since 2014. In part this is due to deteriorating economic conditions in some key markets, Brazil for example, as well as increasingly competitive retail environments. Those global and regional players already boasting a presence, like Casino, Walmart and Cencosud, continue to expand and strengthen their positions through organic store openings and acquisitions. In this climate, the region has lost its allure to those from Europe, North America and Asia looking to enter the region for the first time – especially given opportunities and challenges elsewhere.

5. Selected Recent Market Entries/Exits

Global Grocery and H&B Retailers: Summary of Selected Market Entries/Exits, 2014-2015

Retailer	Country	Banner	Year	Entry/Exit
AEON	Cambodia	AEON	2014	Entry
AEON	Kazakhstan	Ministop	2014	Exit
AEON	Indonesia	AEON	2015 (Opening May)	Entry
Aldi	Italy	Aldi	Confirmed (2015)	Entry
Auchan	Tajikistan	Auchan	Planned (2015)	Entry
Auchan	India	Auchan	2014	Exit
Auchan	Vietnam	S-Mart	2014	Entry
Auchan	Iraq	Auchan	2014	Entry
Carrefour	Armenia	Carrefour	2015	Entry
Carrefour	India	Carrefour	2014	Exit
Carrefour	Cote d'Ivoire	Carrefour	Planned (2015)	Entry
Carrefour	Algeria	Carrefour	Planned (2015)	Entry
Carrefour	Kenya	Carrefour	Planned (2015)	Entry
Casino	French Polynesia	Casino	2015	Exit
Casino	Luxembourg	Monoprix	2014	Entry
Costco	Spain	Costco	2014	Entry
Costco	France	Costco	Planned (2016)	Entry
Delhaize Group	Bulgaria	Piccadilly	2014	Exit
Delhaize Group	Bosnia & Herzegovina	Maxi	2014	Exit
E-mart	Vietnam	E-mart	2015 (Planned Oct)	Entry
E-mart	China	E-mart	2015 (originally planned)	Exit was planned, but in March 2015 relaunched online on Alibaba
FamilyMart	South Korea	FamilyMart	2014	Exit
ITM	Bosnia & Herzegovina	ITM	2015	Exit

(Continued...)

Retailer	Country	Format	Year	Entry/Exit
LAWSON	Philippines	LAWSON	2015 (Opening March)	Entry
Metro Group	Turkey	Real	2014	Exit
Metro Group	Poland	Real	2014	Exit
Metro Group	Denmark	Metro	2014	Exit
Metro Group	Vietnam	Metro	2015	Exit
Metro Group	Greece	Makro	2015	Exit
Metro Group	Luxembourg	Galeria Inno	2017	Entry
Rewe Group	Bulgaria	Penny, Billa	Speculation (2015)	Exit
Schwarz Group	US	Lidl	Planned (2016-18)	Entry
Schwarz Group	Serbia	Lidl	Planned (2015)	Entry
Schwarz Group	Lithuania	Lidl	Planned (2015)	Entry
Seven & I (7-Eleven)	UAE	7-Eleven	Planned (2015)	Entry
SPAR International	Lebanon	SPAR	2015	Entry
SPAR International	Georgia	SPAR	2014	Entry
SPAR International	India	SPAR	2014	Entry
SPAR International	Indonesia	SPAR	2015	Entry
SPAR International	Oman	SPAR	2015	Entry
Système U	Cameroon	Super U	2015	Entry
Target	Canada	Target	2015	Exit
Tengelmann	Russia	Plus	Planned (2015)	Entry
Tesco	China	Tesco	2014	Exit (20:80 joint venture formed with CRE)
UNY	China	APITA	2014	Entry
Walmart	Kenya	Game	Planned 2015	Entry
X5 Retail Group	Ukraine	Perekrestok	2014	Exit

Source: Planet Retail

6. New Approaches to Internationalisation

With retailers juggling challenges in their core domestic markets with a desire to maximise opportunities overseas, latterly we have seen leading players look to embrace a more flexible (and perhaps more modest) approach to going global. Whereas the 1990s and early 2000s were characterised by a desire to be present in as many markets as possible, a changing retail landscape has seen retailers become more selective in recent years.

Of course, the climate has also been shaped by the introduction, or tightening, of regulation in many markets - Hungary and South Korea, to name two – with a particular bias against hypermarket expansion. In South Korea, for example, legislation was introduced in 2012 to further limit the power of hypermarket chains, partially through restricting their opening hours on Sundays – a measure which has negatively impacted the sales of many operators in this channel.

Embracing flexible routes to entry

With investment being increasingly focused on core market operations, retailers are becoming more flexible in their approach to internationalisation. The search for major acquisitions in new markets has been replaced by a growing willingness to form joint ventures with strong local retailers or establish their brand through franchise agreements. Such methods have the advantage of limiting risk while allowing the retailer to tap the expertise and connections of a local partner.

Carrefour has rationalised its international network in recent years (its number of active markets actually fell between 2012 and 2014). However, for the future it will again consider new market entries, but this time with a heavy reliance on franchise partners. Its Middle East partner Majid Al Futtaim (MAF), for instance, in which Carrefour sold its interest, is seeking development across the region. Meanwhile, in Central and Western Africa, Carrefour owns 45% of a joint venture with CFAO for store development in eight countries, beginning with Ivory Coast this year.

A Tesco Homeplus hypermarket in South Korea – the retailer’s performance and expansion in the country has been hampered by recent legislation.

© Tesco

Carrefour is growing its presence across the Middle East through franchising.

Other proponents of this strategy include Casino, which has tied up with numerous partners to expand its banners in franchise, such as Fu-com International in the Gulf or Groupe Mabrouk in Northern Africa. Auchan has also ventured into Senegal with franchised supermarkets and its master franchisee Schiever is scheduled to open its first superstore in Tajikistan this year.

Tesco, meanwhile, has been talking with potential Turkish partners as it looks to de-risk and limit its exposure to the market. This follows on from a similar move in China in 2013.

Elsewhere, more flexible approaches have been pursued to align with legislation. In India, which saw a scramble of market entries among the leading grocers five years ago (Carrefour, Auchan, Tesco and Walmart all entered) forming a joint venture or franchise agreement was required to satisfy the FDI regulations.

In China, beginning late 2014, Costco has forged an online presence through a tie-up with Alibaba, offering a limited merchandise range through its Tmall platform. Such a low-capital entry method will allow Costco to build brand awareness, gain working experience of the market and gauge its longer-term potential. We expect similar developments from other retailers in the future.

Focus on smaller stores

The reliance of many of the leading global grocers on big-box channels has hit them hard over the past half-decade as consumers have shifted towards favouring smaller proximity formats (discount and convenience) and online. Traditionally, retailers have viewed hypermarkets as the best and most efficient first step for retailers opening in a new emerging market, as it provided benefits in terms of scale, relationships with local manufacturers and supply chain efficiencies (especially in markets where many companies do not have their own distribution centres).

However, with a growing realisation that consumers - even in emerging markets - might be falling out of love with large stores and becoming increasingly enchanted with e-commerce, there are signs of retailers being more willing to use smaller-store formats as a market entry vehicle. In 2014, for example, Auchan entered Vietnam via a partnership with CT Group to operate S.Mart superstores. Principally known for success in operating giant-sized hypermarkets, this marked the first time Auchan has debuted in an emerging market with a smaller format.

As global retailers look to align with consumer behaviour and expectation shifts, and limit their own investment risk, we predict an ongoing shift away from new market entries with hypermarkets and a growing enthusiasm for a variety of smaller formats.

Emerging market megacities

There is also rising awareness that retailers are moving away from the very concept of full market entries. Instead, they are embracing entry at an individual city level. Planet Retail's latest Emerging Market City Data research highlights how retailers and FMCG suppliers alike are more and more targeting emerging megacities as investment opportunities. There are potential-laden markets available today even in some of the world's poorest countries. Even where only a small percentage of the population enjoys high living standards within a city, this usually translates into hundreds of thousands of individuals with significant purchasing power.

Emerging megacities are also the places where domestic and international businesses invest and set up operations. With transport, manufacturing and educational infrastructure above typical emerging market levels and talented workforces available, efficient operations are anything but impossible today.

Retailers and suppliers looking for smart and efficient investment opportunities will examine closely how many cities in a given country they need to enter to capture a specific share of national consumer spending. Even outside the BRIC nations, for example, there are a number of countries where presence in just one city affords access to a sizeable proportion of the consumer market. In Brazil, for example, a presence in the top 10 cities gives retailers and suppliers access to around 40% of national consumer spending.

Other significant cities to watch include the likes of Santiago (67% of consumer spending in Chile), Montevideo (66%, Uruguay), Ulaanbaatar (61%, Mongolia), Seoul (59%, South Korea), Lima (55%, Peru) and Budapest (54%, Hungary).

Please see Planet Retail's Emerging Market Cities report.

SPAR in China is an example of a retailer developing more compact hypermarkets to drive growth.

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7. Planet Retail's Forecast for 2020

Despite the rate of new market entries slowing over the past couple of years and many leading grocery and health & beauty retailers re-evaluating their international portfolios, there is no doubt that looking beyond their home markets for future growth is still key.

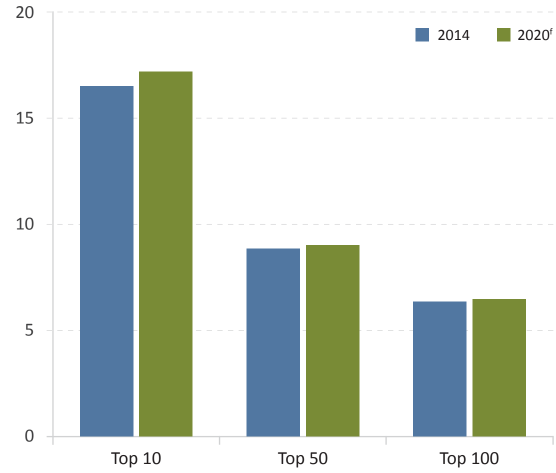
For the biggest global grocers this is particularly true: international markets accounted for 35.3% of total sales for the top 10 players in 2014, an increase from 34% in 2012 and 33% in 2010. This growth has come despite the clear need of many of these businesses to focus on improving core domestic market performance. However, on the flip side, there is recognition that internationalisation, especially in emerging markets and despite a number of issues, can provide a valuable alternative growth avenue.

The evidence suggests that leading companies have become more selective regarding their global portfolios. It has often been smaller, non-core markets that have been discarded, while focus on expansion in key overseas markets remains.

Looking ahead to the next five years, our evidence suggests the rate of internationalisation will pick up. Not only will the average number of markets operated increase (with the fastest growth among the top 10), but the percentage of sales derived from non-domestic markets will also rise. For the top 100 as a whole, the proportion of international market sales is predicted to grow from 24.4% in 2014 to 26.7% by 2020.

The largest gainers are those combining relatively slow growth in saturated home markets with heightened emerging market investment. These include Auchan, which is committing heavily to driving expansion in markets like China and Russia, but will also feature Carrefour and the European discounters Aldi and Schwarz Group. All plan to expand their reach in terms of the number of markets in which they operate over the next five years.

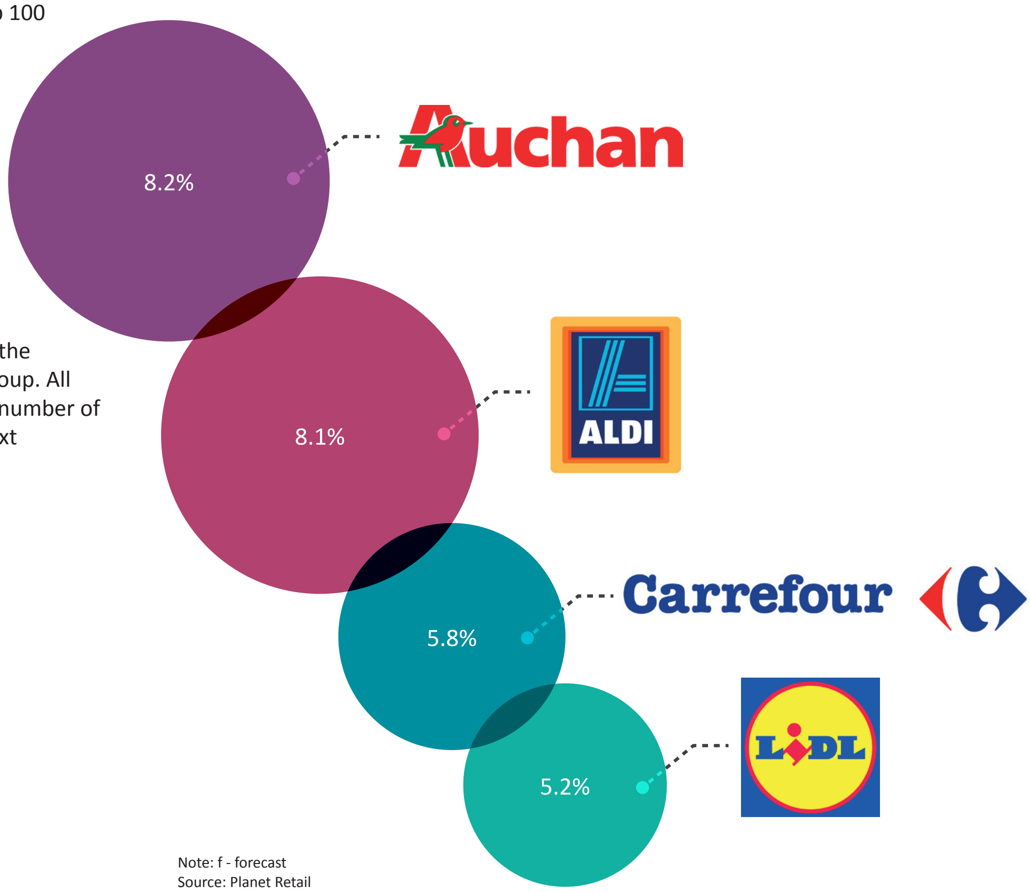
Global Grocery and H&B Retailers: Average Number of Markets, 2014-2020f



Note: f - forecast
Source: Planet Retail

Internationalising Retailers to Watch, 2014-2020f

Forecasted percentage point growth in international sales



Note: f - forecast
Source: Planet Retail

8. Methodology

Planet Retail has identified the top 100 largest grocery and health & beauty retailers globally ranked by Retail Banner Sales for 2014.

Planet Retail defines grocery retailers as retailers which operate at least one of the following formats: Agricultural supply stores, bakeries, butchers, bash & carries, confectioners, convenience stores, delicatessens, delivered wholesale (independent retailers), department stores (with food hall), discount stores, discount superstores, discount variety stores, duty free stores, food departments, forecourt stores, frozen food stores, , grocery e-commerce, grocery vending machines, health food stores, hypermarkets, hypermarkets & superstores, kiosks, liquor/beverage stores, mobile stores, neighbourhood stores, organic food stores, pet shops, specialist food stores, supermarkets, supermarkets & neighbourhood stores, superstores, variety stores (food), warehouse clubs, wholesale (other foods).

Our Health & Beauty definition includes all retailers which operate at least one of the following store formats: Drugstores, Drugstores/pharmacies, Health & Beauty e-commerce, Nutritionals stores, Optical stores, Perfumeries/ beauty stores, Pharmacies.

Retail Banner Sales relate to all banners owned or operated by the company, including VAT. This figure includes full revenues from franchised operations, and also full revenues from partly-owned operations.

Retail Banner Sales are based on a retailer's own reported revenue figures. Where this is not available, Planet Retail has estimated Retail Banner Sales. Sales by market (percentage of international vs. domestic sales) are typically estimated by Planet Retail's team of analysts and refer to markets where the retailer has a store-based presence.

Planet Retail allocates data to the calendar year into which most of the financial year falls. Therefore, all data for the financial year ending up to 30 June will be allocated to the previous calendar year, whereas all data occurring after 30 June will be allocated to the current calendar year.

While the report aims to provide a comprehensive record of leading grocery and health & beauty retailers internationally, it is not exhaustive, because of the difficulty of tracking these retailers' movements worldwide.

We have also forecasted out sales and market presence based on our knowledge of each retailer. This includes the retailer's own stated expansion and market entry plans, as well as our own judgement.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