1. Introduction to International Retail Strategy
Questions

- What is a retailing strategy?
- How can a retailer build a sustainable competitive advantage?
- What different strategic growth opportunities can retailers pursue?
“Strategy” Is Over Used

Retailers Talk About A Lot of Different “Strategies”

- Sales Strategy
- Advertising Strategy
- Merchandise Strategy
- Location Strategy

Strategy Is Not Just Another Term for A Management Decision
Elements in International Retail Strategy

- **Target Market**
  - Countries and market segment(s) toward which the retailer plans to focus its resources and retail mix

- **Retail Format – Offering to customer**
  - the nature of the retailer’s operations—its retail mix—

- **Sustainable Competitive Advantages**
  - advantages over the competition
Why Does a Retailer Need to Focus on a Specific Counties Target Market?
Why Not Sell to Everyone?
Military Analog
Criteria For Selecting A Target Market

- Attractiveness -- Large, Growing, Little Competition ➔ More Profits
- Consistent with Your Competitive Advantages
Internal and External Bases for Competitive Advantage

Retail Firm
- Low Cost
- Large Size
- Efficient Distribution, Operations
- Unique Knowledge
- Loyal Employees

Vendors, Suppliers

Sources of Capital

Customers
Can A Retailer Develop a Sustainable Competitive Advantage by:

- Dropping the Price of Your Merchandise?
- Building a Store at the Best Location?
- Deciding to Sell Some Hot Merchandise?
- Increasing Your Level of Advertising?
- Attracting Better Sales Associates by Paying Higher Wages?
- Providing Better Customer Service?
Sources of Competitive Advantage

More Sustainable
- Location
- Customer Loyalty
- Customer Service
- Exclusive Merchandise
- Low Cost Supply Chain Management
- Information Systems
- Buying Power with Vendors
- Committed Employees (HR)

Less Sustainable
- Better Computers
- More Employees
- More Merchandise
- Greater Assortments
- Lower Prices
- More Advertising
- More Promotions
- Cleaner Stores
Approaches for Building a Sustainable Competitive Advantage

- Customer Loyalty
- Relationship with Suppliers
- Internal Efficiencies
Approaches for Building Customer Loyalty

- Unique Positioning
- Location
- Customer Service
- Personalization using Information About Customers (Database)
- Unique Merchandise
Location

- What are the three most important things in retailing?
  - “location, location, location”

- Why is location a competitive advantage?
Unique Merchandise: Private Labels

Sears’ Kenmore -- appliances

Macy’s ING. – fine apparel

Kmart’s Martha Stewart -- home

JCPenney’s Arizona -- jeans
High Quality Customer Service

- Difficult to Achieve
  - People Are Not Machines -- Inconsistent
  - Retail Sales Associates At Bottom of Labor Pool
- Goes Beyond Hiring Good People at High Wages and Training Them -- Organizational Culture
Internal Efficiencies Human Resources

- “Employees are key to build a sustainable competitive advantage”

- Strategies for Recruiting and Retaining Talented Employees
- Employee Branding
- Develop positive organizational culture
Internal Efficiencies - Distribution and Info Systems

Flow of Information

Vendor → Distribution Center → Store

By decreasing costs here, there is more money available to invest in:

- Better services
- Increase in breadth and depth
- Decrease in prices
Vendor Relationships

- Low Cost - Efficiency Through Coordination
  - Electronic Data Interchange (EDI)
  - Collaborative Planning and Forecasting to Reduce Inventory and Distribution Costs
- Exclusive Sale of Desirable Brands
- Special Treatment
  - Early Delivery of New Styles
  - Shipment of Scare Merchandise
Critical Tradeoff In Developing Strategic Advantage

Focus Leads to Developing
A Competitive Advantage
But
Focus Reduces Flexibility

- Low Cost, Consistent Image, Vendor Relationships Reduces Flexibility
- Similar to Dating and Marriage – Commitment to a Relationship (Vendor) Reduces Flexibility
Criteria for Selecting a Country

- Economic Environment
  - Market size
  - Market growth

- Governmental Environment
  - Trade barriers
  - Regulations on foreign retailers
  - Political stability

- Social and cultural environment
  - Cultural proximity

- Technology Environment
  - Retail information system

- Retail Structure and competition environment
  - Market concentration and competition
  - Available partners
## Opportunities

<table>
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<tr>
<th></th>
<th>U.S</th>
<th>Germany</th>
<th>France</th>
<th>China</th>
<th>Brazil</th>
<th>India</th>
<th>Russia</th>
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<td>Railway (000 miles)</td>
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<td>78.0</td>
<td>29.0</td>
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<td>3.6</td>
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<td>Airports (thousands)</td>
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<td>Retail sales ($ trillions)</td>
<td></td>
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<td>Growth in sales (%)</td>
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<td>10.9</td>
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<td>Concentration (% sales top 4)</td>
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<td>Risk (100 least risky)</td>
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<td></td>
<td>82.1</td>
<td>72.6</td>
<td>69.8</td>
<td>62.8</td>
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</table>
Rebalancing Act
Consumer spending as share of GDP

Sources: Country sources; OECD; Moody's Analytics
## 2010 Global Retail Development Index (A.T. Kearney)

**Figure 1: The 2010 Global Retail Development Index™ — Top 10**

<table>
<thead>
<tr>
<th>2010 rank</th>
<th>Country</th>
<th>Region</th>
<th>Market attractiveness (25%)</th>
<th>Country risk (25%)</th>
<th>Market saturation (25%)</th>
<th>Time pressure (25%)</th>
<th>GRDI score</th>
<th>Change in rank compared to 2009</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>Asia</td>
<td>50.6</td>
<td>85.8</td>
<td>32.9</td>
<td>86.6</td>
<td>64.0</td>
<td>+2</td>
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<tr>
<td>2</td>
<td>Kuwait</td>
<td>MENA</td>
<td>75.4</td>
<td>94.3</td>
<td>56.2</td>
<td>24.5</td>
<td>62.6</td>
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<tr>
<td>3</td>
<td>India</td>
<td>Asia</td>
<td>35.4</td>
<td>51.3</td>
<td>62.2</td>
<td>97.8</td>
<td>61.7</td>
<td>−2</td>
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<tr>
<td>4</td>
<td>Saudi Arabia</td>
<td>MENA</td>
<td>65.3</td>
<td>86.5</td>
<td>50.7</td>
<td>31.0</td>
<td>58.4</td>
<td>+1</td>
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<tr>
<td>5</td>
<td>Brazil</td>
<td>Latin America</td>
<td>73.5</td>
<td>74.3</td>
<td>46.6</td>
<td>36.9</td>
<td>57.8</td>
<td>+3</td>
</tr>
<tr>
<td>6</td>
<td>Chile</td>
<td>Latin America</td>
<td>71.8</td>
<td>92.3</td>
<td>27.5</td>
<td>38.3</td>
<td>57.5</td>
<td>+1</td>
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<td>7</td>
<td>United Arab Emirates</td>
<td>MENA</td>
<td>79.1</td>
<td>100.0</td>
<td>18.8</td>
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<td>−3</td>
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<td>8</td>
<td>Uruguay</td>
<td>Latin America</td>
<td>67.7</td>
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<td>58.6</td>
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<tr>
<td>9</td>
<td>Peru</td>
<td>Latin America</td>
<td>43.4</td>
<td>54.6</td>
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<td>49.2</td>
<td>54.9</td>
<td>+9</td>
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<tr>
<td>10</td>
<td>Russia</td>
<td>Eastern Europe</td>
<td>63.5</td>
<td>55.1</td>
<td>32.0</td>
<td>61.8</td>
<td>53.1</td>
<td>−8</td>
</tr>
</tbody>
</table>

**Key**
- ☐ On the radar screen
- ☐ Lower priority
- ☐ To consider

**Legend**
- 0 = low attractiveness
- 100 = high attractiveness
- 0 = high risk
- 100 = low risk
- 0 = saturated
- 100 = not saturated
- 0 = no time pressure
- 100 = urgency to enter

**Sources:** Euromoney, Population Reference Bureau, International Monetary Fund, World Bank, World Economic Forum, Economist Intelligence Unit, Planet Retail, A.T. Kearney analysis

**Notes:** MENA = Middle East and North Africa; Scores are rounded.
Figure 2: The GRDI window-of-opportunity analysis

<table>
<thead>
<tr>
<th>Opening</th>
<th>Peaking</th>
<th>Maturing</th>
<th>Closing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low priority</td>
<td>High priority</td>
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</table>

**Definition**
- **Opening**: Middle class is growing; consumers are willing to explore organized formats; government is relaxing restrictions
- **Peaking**: Consumers seek organized formats and greater exposure to global brands; retail shopping districts are being developed; real estate is affordable and available
- **Maturing**: Consumer spending has expanded significantly; desirable real estate is more difficult to secure; local competition has become more sophisticated
- **Closing**: Consumers are accustomed to modern retail; discretionary spending is higher; competition is fierce both from local and foreign retailers; real estate is expensive and not readily available

**Method of entry**
- **Opening**: Minority investment in local retailer
- **Peaking**: Organic, such as through directly operated stores
- **Maturing**: Typically organic, but focused on tier 2 and 3 cities
- **Closing**: Acquisitions

**Labor strategy**
- **Opening**: Identify local skilled labor for management positions
- **Peaking**: Hire and train local talent and balance the expatriate mix
- **Maturing**: Change balance from expatriate to local staff
- **Closing**: Use mostly local staff

*Source: A.T. Kearney analysis*
Why China?

- Economic Factors
  - The Largest Market Size
    - The market size of China is the sum of the other three BIRC countries in 2010.
  - Stable High Market Growth
    - China has continued a double digit growth rate from 2005 to 2010.
International Expansion Opportunities

Why China? (Cont.)

Industry Structure
- The market is largely fragmented.
- Chinese retailers are regional.
- The sizes of Chinese retailers are relatively small.
- Huge opportunities for foreign retailers.
Why China? (Cont.)

- **Political Environment**
  - Socialist market economy with Chinese characteristics
  - Focus on reforms and economic development

- **Technological Environment**
  - China has better infrastructure than other developing countries.
  - Chinese government encourages retailers to adopt advanced information system
International Expansion Opportunities

Video on the interview with the CEO of Wal-Mart, China (Ed Chan)