3. Evaluating International Opportunities- BRIC Countries
Foreign Retail Entry in China

Expansion of Wal-mart in China (Cont.)

- Video: The 100th Wal-Mart store in China
  - [http://www.youtube.com/watch?v=x65efvLryqY](http://www.youtube.com/watch?v=x65efvLryqY)

- Video: 300 Wal-Mart stores in China
  - [http://www.youtube.com/watch?v=gGtQDL6OliI](http://www.youtube.com/watch?v=gGtQDL6OliI)
Agenda

- BRIC Countries

- Why is China an attractive market?
Target Decides to Become a Global Retailer

- What criteria should it use to evaluate international opportunities?
- Which country should they enter first?
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
Criteria For Selecting an International Market

- Attractiveness -- Large, Growing, Limited competition and regulation ➔ More Profits

- Exploit with Your Bases of Competitive Advantages
  - Brand image/reputation
  - Information systems
  - Supply chain management ➔ Sustain profits over time
  - Unique private label merchandise
  - Vendor relationships
Comparison of BRIC countries on Criteria

- Comparison among BRIC (Brazil, Russia, India, and China)
  - Market Size
  - Market Growth
  - Market Concentration
## BRIC Opportunities

<table>
<thead>
<tr>
<th></th>
<th>U.S</th>
<th>Germany</th>
<th>France</th>
<th>China</th>
<th>Brazil</th>
<th>India</th>
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<td>78.0</td>
<td>29.0</td>
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<td>1.8</td>
<td>3.3</td>
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<td>Airports (thousands)</td>
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<td>0.5</td>
<td>0.5</td>
<td>4.1</td>
<td>0.4</td>
<td>1.2</td>
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<td>Retail sales ($ trillions)</td>
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<td></td>
<td></td>
<td></td>
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<td>Growth in sales (%)</td>
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<td>10.9</td>
<td>12.8</td>
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<td>10.5</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>72.6</td>
<td>69.8</td>
<td>62.8</td>
<td>61.5</td>
</tr>
</tbody>
</table>
# 2010 Global Retail Development Index (A.T. Kearney)

![Image](image.png)

**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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<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>
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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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<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>
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<tr>
<td>4</td>
<td>Saudi Arabia</td>
<td>MENA</td>
<td>65.3</td>
<td>86.5</td>
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<td>31.0</td>
<td>58.4</td>
<td>+1</td>
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<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>
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<td>38.3</td>
<td>57.5</td>
<td>+1</td>
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<tr>
<td>7</td>
<td>United Arab Emirates</td>
<td>MENA</td>
<td>79.1</td>
<td>100.0</td>
<td>18.8</td>
<td>32.0</td>
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<td>−3</td>
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<tr>
<td>8</td>
<td>Uruguay</td>
<td>Latin America</td>
<td>67.7</td>
<td>74.3</td>
<td>58.6</td>
<td>23.1</td>
<td>55.9</td>
<td>N/A</td>
</tr>
<tr>
<td>9</td>
<td>Peru</td>
<td>Latin America</td>
<td>43.4</td>
<td>54.6</td>
<td>72.2</td>
<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

**Notes:** MENA = Middle East and North Africa; Scores are rounded.

**Sources:** Euromoney; Population Reference Bureau; International Monetary Fund; World Bank; World Economic Forum; Economist Intelligence Unit; Planet Retail; A.T. Kearney analysis.
2010 Global Retail Development Index (A.T. Kearney)

Figure 2: The GRDI window-of-opportunity analysis

<table>
<thead>
<tr>
<th>Opening</th>
<th>Peaking</th>
<th>Maturing</th>
<th>Closing</th>
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<tr>
<td></td>
<td></td>
<td>Poland (1990)</td>
<td></td>
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<tr>
<td></td>
<td></td>
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</tbody>
</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*
Expected average annual growth rates

Source: Goldman Sachs
Factoids about Brazil

- 71% of Brazilians agree that “music is an important part of my life”
- 33% have participated in trips to the beach in the last 30 days
- 76% agree that “it is important to be attractive to the opposite sex”
- 65% agree that “it is important to keep young looking”
- 32% express the desire for plastic surgery in order to improve their appearance
Factoids about Russia

- 31% of Russians agree that “I feel I get a raw deal out of life”
- 48% agree that “it’s difficult to survive nowadays without violating the laws”
- 39% agree that “there’s no point in having insurance”
- 31% agree that “I believe in miracles”
Factoids About India

- Top sports to watch on TV:
  1. Cricket (33m)
  2. Soccer (8m)

- Top sports paid to attend:
  1. Cricket (2m)
  2. Soccer (0.8m)

- Top sports to play:
  1. Cricket (8m)
  2. Badminton (4m)

- Value of Nike’s sponsorship of Indian national cricket team: $44m over 5 years
China

- Top three brands of cellphone:
  - Nokia
  - Motorola
  - Samsung

- Top three brands of washing machine:
  - Haier
  - Little Swan
  - Royalstar

- Many Chinese want to demonstrate their status and achievement, so buy western brands for ‘show’.

- But they aren’t made of money, so for items that aren’t seen by others, they buy reliable local brands.
Social Indicators: Education

Base: 20-54 year olds, living in main cities (BRICS); all (US, Europa)

Source: Global TGI
Social Indicators: Household Size

Base: 20-54 year olds, living in main cities (BRICS); all (US, Europa)

Source: Global TGI
Ownership of items: Automobile

Base: 20-54 year olds, living in main cities (BRICS); all (US, Europa)

Source: Global TGI
Ownership of items: PC

Base: 20-54 year olds, living in main cities (BRICS); all (US, Europa)

Source: Global TGI
Three Relevant Groups

- Answers are very similar in all the BRICs countries, indicating that they share the same pattern of attitudes or values:
  - Shared also by the western countries. This group is called **Universal** values.
  - Contrast between BRICs and western attitudes and values. We have called these **Specific** values.

- Attitudes and values which vary within BRICs countries, indicating that these may be too localized to be compared, or even divergent. These are the **Divergent** values.
Universal Values

“How I spend my time is more important than the money I make”

“I have a practical outlook on life”

“It is important to keep young-looking”

“I enjoy spending time with my family”

“I think it’s important to have a lasting relationship with one partner”

“I don't like the idea of being in debt”
Universal Values

"I don't like the idea of being in debt"

- Brazil: 68%
- Russia: 61%
- India: 67%
- China: 76%
- US: 75%
- Europa: 79%

"I enjoy spending time with my family"

- Brazil: 75%
- Russia: 74%
- India: 62%
- China: 68%
- US: 85%
- Europa: 81%

Base: 20-54 year olds, living in main cities (BRICS); all (US, Europa)

Source: Global TGI
Universal Values

- *Universal* values are heavily related to the importance of the family.

- They reflect conservative behavior and a lack of adventurousness.

- Brand images related to conservative and unadventurous values can be considered to be risk-free and can be positively associated with universal values.
“\textit{I like to pursue a life of challenge, novelty and change}”

“\textit{It's important my family thinks I'm doing well}”

“\textit{Because of my busy lifestyle, I don't take care of myself as well as I should}”

“I really enjoy any kind of shopping”

“\textit{Money is the best measure of success}”

“I would be prepared to pay more for environmentally friendly products”
Specific Values

"It's important my family thinks I'm doing well"

- Brazil: 74%
- Russia: 67%
- India: 57%
- China: 65%
- US: 42%
- Europa: 52%

"Money is the best measure of success"

- Brazil: 46%
- Russia: 58%
- India: 44%
- China: 57%
- US: 22%
- Europa: 27%

Base: 20-54 year olds, living in main cities (BRICS); all (US, Europa)

Source: Global TGI
Specific Values

- **Specific** values are related towards one’s image in the face of one’s family or society.

- Success seems to be the driving force behind most of these specific statements.

- Success and social aspiration can be positively associated with brands in most BRICs countries, as the struggle for social ascension is considered to be a sign of a healthy society.
Divergent Values

“I am a vegetarian”

“My faith is really important to me”

“Real men don't cry”

“I am very good at managing money”

“I like taking risks”

“It is important to be attractive to the opposite sex”

“I like to stand out in a crowd”
Divergent Values

"I like to stand out in a crowd"

Brazil: 35%
Russia: 30%
India: 25%
China: 23%
US: 25%
Europa: 30%

"It's important to be attractive to the opposite sex"

Brazil: 76%
Russia: 65%
India: 46%
China: 38%
US: 53%
Europa: 62%

Base: 20-54 year olds, living in main cities (BRICS); all (US, Europe)

Source: Global TGI
Divergent Values

- **Divergent** values are related to very local attitudes or values, and often involve controversial issues rooted in local culture.

- Global companies have to be extremely careful regarding controversial issues, which may work very well in some countries but can become destructive in others.

- The widest differences from international ‘norms’ exist in China and India. Especially in their major cities, status is a key driver. Brands that convey it can do well.
Brands – Experimentation and Loyalty

- **I like to try out new food products**
  - Brazil: 58%
  - Russia: 53%
  - India: 74%
  - China: 52%

- **Once I find a brand I like I tend to stick to it**
  - Brazil: 73%
  - Russia: 55%
  - India: 69%
  - China: 76%

Source: Global TGI

Base: 20-54 year olds, living in main cities
Communications – Openness and Word of Mouth

"I find advertising a waste of my time"  "I ask people's advice before buying things"

[Bar chart showing percentages for different countries]

- Brazil: 18%
- Russia: 36%
- India: 59%
- China: 32%
- Brazil: 46%
- Russia: 54%
- India: 51%
- China: 45%

Source: Global TGI
Base: 20-54 year olds, living in main cities
Orientation – International and Local Focus

- "I am interested in international events"
  - Brazil: 63%
  - Russia: 66%
  - India: 46%
  - China: 68%

- "I buy goods produced in my own country whenever I can"
  - Brazil: 50%
  - Russia: 50%
  - India: 52%

Base: 20-54 year olds, living in main cities
Source: Global TGI
And yet...

- 63% of Indian consumers agree that they “really like it that more and more international brands are available in India nowadays”.

- 53% of Chinese consumers agree that they are “drawn to the lifestyles of developed nations”.

- Opportunities for companies able to invest their brands with ‘status points’.
Why China?

Economic Factors
- The biggest market size
  - The market size of China is the sum of the other three BIRC countries in 2010
- Stable high market growth
  - China has kept two-digit growth rate from 2005 to 2010

Industry Structure
- The market is largely fragmented
- Chinese retailers are regional.
- The size of Chinese retailers are relative small.
Rebalancing Act

Consumer spending as share of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>U.K.</th>
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<th>China</th>
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<td>1991</td>
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</tr>
<tr>
<td>2010</td>
<td></td>
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Sources: Country sources; OECD; Moody’s Analytics
Why China? (Cont.)

- **Political environment**
  - Socialist market economy with Chinese characteristics
  - Stable government
  - Focus on reforms and economic development
  - Encourages foreign investment

- **Technology Environment**
  - China has better infrastructure than other developing countries.
  - Government investing in infrastructure
## Foreign Retailers in China

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Retailer</th>
<th>Sales (10,000 ¥)</th>
<th>Growth (%)</th>
<th># of stores</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Yum!</td>
<td>2,880,000</td>
<td>9.9</td>
<td>3,200</td>
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<td>15</td>
<td>Best Buy</td>
<td>2,570,000</td>
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<td>262</td>
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<td>20</td>
<td>Trust-mart</td>
<td>1,650,000</td>
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<td>104</td>
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<td>100</td>
<td>Home Depot</td>
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<td>Ranking</td>
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<td>2009 Sales (10,000 ¥)</td>
<td>Growth (%)</td>
<td># of stores</td>
<td>Growth (%)</td>
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<td>---------</td>
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<td>------------</td>
<td>-------------</td>
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<tr>
<td>1</td>
<td>Suning</td>
<td>11,700,267</td>
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<td>941</td>
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<td>2</td>
<td>Gome</td>
<td>10,680,165</td>
<td>2.1</td>
<td>1,170</td>
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<tr>
<td>3</td>
<td>Bailian</td>
<td>9,791,537</td>
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<td>Dashang</td>
<td>7,053,590</td>
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<td>160</td>
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<tr>
<td>5</td>
<td>China Resources Vanguard</td>
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<td>2,926</td>
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<tr>
<td>6</td>
<td>RT-Mart</td>
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<td>19.8</td>
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<td>7</td>
<td>Carrefour</td>
<td>3,660,000</td>
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<td>156</td>
<td>16.4</td>
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<tr>
<td>8</td>
<td>Anhui Huishang</td>
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<td>15.5</td>
</tr>
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<td>Wal-Mart</td>
<td>3,400,000</td>
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<td>175</td>
<td>45.8</td>
</tr>
<tr>
<td>10</td>
<td>Wu-mart</td>
<td>3,270,000</td>
<td>6.7</td>
<td>2,333</td>
<td>16.1</td>
</tr>
</tbody>
</table>
Case Study

Case Study

- Best Buy in China

Video On the Opening of Best Buy Shanghai Store
- http://www.youtube.com/watch?v=zMABUmlOQdE