


Retailing In Emergent Markets:

Strategic Foundations & Best Practices

The Coca-Cola Retailing Research Council

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Contents

Introduction
A Global Perspective

This report may change the way you think about retailing in emergent markets.

Based on rigorous research into leading retailers in six emergent country markets in Asia, Eastern Europe, Latin America and South Africa, this report examines the dynamics and subtleties of each market and then "connects the dots" to form an original global perspective and yield useful insights.

This report is a companion to a definitive multi-media presentation. The research was conducted for the Coca-Cola Retailing Research Council of Latin America and took place from over the course of 2009.

Our work was informed by two assumptions:

1. Useful knowledge of emergent markets requires learning both what they share in common and also how they differ; and

2. There is no single "right" way to succeed commercially in an emergent market. But there are certain attitudes, knowledge and capabilities that form the foundation of any successful engagement.

Preliminary Comments

1. **There is no one definition of an emergent market.** While complicated econometrics can help define what is meant by an emergent market, the most succinct and useful description is this: An emergent market is a place where people who thought their daily existence could never improve now believe that the future will be better than the past. Emergent market retailers contribute to—and benefit from—this sense of hope.

   Each of the markets studied for this report—Brazil, China, Peru, Poland, South Africa and Turkey—are changing at a different speed and in different ways. Each country sits along a continuum of cultural, social and economic development. How these characteristics fit together makes each market a singular place.

2. **There is no definitive emergent market retailing model.** Yet all successful retailers share some combination of attitude and culture that enables them to grow in these challenging business environments and to draw customers from all income levels. In most emergent markets, the majority of the population shops both in the organized and fragmented trades, often during the same day.

Note: For clarity we've used the following definitions:

- *Customer*: an individual who frequents a retailer
- *Shopper*: a customer who has made a purchase at some point in time
- *Consumer*: someone who uses a product purchased at retail, but not necessarily the shopper who made the purchase

Each of the six retailers studied is a home-grown leader: Magazine Luiza (Brazil), Beijing Hualian Group (China), Supermercados Peruanos (Peru), Biedronka (Poland), Pick n Pay (South Africa), and BIM (Turkey).

Each has profoundly understood the defining characteristics of its local market. Each faces a similar challenge: attracting and retaining consumers who historically have shopped in the small shops of the traditional trade and are generally unfamiliar with

Figure 1: This study on emergent markets involved six retailers on four continents to provide a global perspective and depth.

the expansive shopping venues of developed markets. While each company is shaped by local particularities, they share a core strategy: Each retailer has a clear retail proposition to its respective market, providing consumers with high-value products and services delivered at low cost.

Some of the retailers have cultures that empower employees and emphasize a social responsibility connection with the communities they serve. Other retailers focus on more basic commercial formulas for delivering a limited product assortment at the lowest possible price. Regardless of approach, all of the retailers studied share the value/cost core strategy along with several underlying characteristics.

1. **Strategic focus:** Emergent market retailers are highly focused in their direction and integration of planning. Characteristic of any successful retailer, strategic focus is especially important in emergent markets. Because the retailers have the additional role of educating the consumer about shopping in organized retailing, strategic clarity and consistency are paramount.

2. **Operational flexibility:** Emergent market retailers are flexible in executing strategy. They know that the unexpected is the expected. Some disruptions, like a sudden loss of electricity, can be costly in time and money. Other disruptions, such as government programs to help the poor, can help drive additional sales. Strategy moves forward, but rarely in linear or predictable fashion.

3. **Long-term vision:** Emergent market retailers understand that conducting business in an emergent market is not about making a quick profit. They take a long-term view, believing that today's investment in stores and infrastructure will provide a substantial return over time as their markets grow. These retailers understand that as markets are transformed by customers and competition, they will accrue rewards for early and sustained commitment.

4. **Rapid growth:** Emergent market retailers do not exist in a steady state. Success requires staying ahead of swift change. In maturing markets, retailers sometimes fret idly about discovering the next growth idea. Emergent market retailers do

not enjoy this luxury. Their challenge is daunting, but simple—to keep the engine revved at high speed. For them, to move quickly and fail is far less risky than to stand still and hope for real change to emerge.

Who Should Read This Report

Retailers and suppliers are the primary audiences for this report and the presentation. But the opportunities available in emergent markets make the topic of interest to other constituencies. Those who can benefit from this knowledge include:

- Emergent Market Retailers: Retailers already serving these markets have historical advantage and profound insight. For them, this research provides a window into markets other than their own.
- International Retailers: Rapidly growing emergent markets are tempting to retailers in the mature markets of the developed world. But expansion across these borders is more than just another store opening. This research will help assess the complications and risks.
- Suppliers: For a supplier, what could be better than reaching new groups of customers entering the consumer society? This research examines how these potential customers think and act.
- Investors: No longer at the mercy of wildly fluctuating inflation and political instability, many emergent markets are drawing investor attention. This research provides an unusually deep probe of one sector, retailing.
- Governments and Non-Government Organizations: Government intervention, often in collaboration with NGOs, improves living standards and impacts retailing directly. This research examines the positive correlation between improvements in retailing and society.

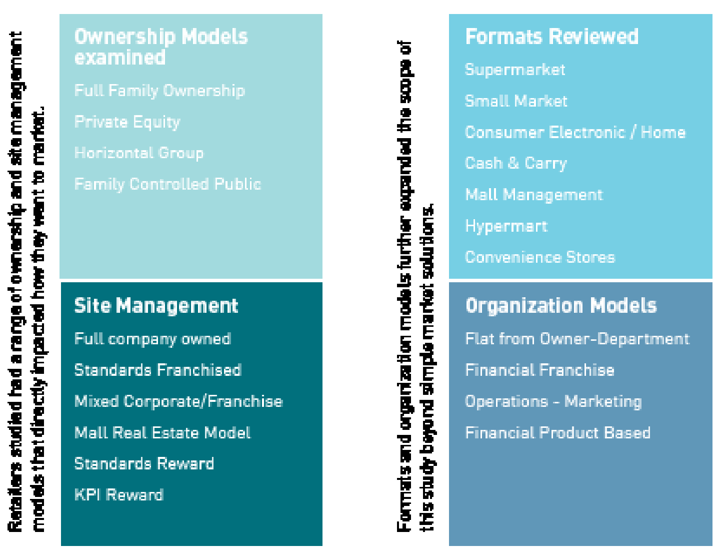
How the Report was Created

We audited stores across a variety of markets to study a range of categories and formats. We interviewed shoppers and retailers, including executives and other key officers, department heads, store managers, frequent customers and occasional shoppers. Most retailers invited us to visit their corporate offices to conduct interviews, allowing us to compare their publicly stated strategies with what we found on the ground and across the marketplace. Moreover, we were able to identify idiosyncrasies of particular markets and distill the characteristics that are common across all emergent markets.

We followed up by phone and email and complemented this extensive investigation with desk research. The featured retailers are profiled at the end of the report and summarized here:

- Brazil: Magazine Luiza, a family-owed chain of about 430 consumer electronics stores that fosters an entrepreneurial spirit among its employees and proactively adopts technology to boost efficiency.
- China: Beijing Hualian Group (BHG), a chain of more than 80 supermarkets and department stores located throughout

Figure 2: To enrich and broaden this study, a very wide set of retailer variables were gathered in relation to ownership, site management, formats, and organization.



China, in a variety of formats that match the specific location needs.

- Peru: Supermercados Peruanos, a retailer owned by the financial institution Interbank, focused on establishing best practices, with about 50 hypermarkets, supermarkets, and hard-discount stores operating throughout Peru under multiple banners.
- South Africa: Pick n Pay, a family-owned retailer that operates almost 900 company and franchise stores primarily in South Africa and surrounding countries. A separate format, Boxer, operates side by side with the traditional trade.
- Turkey: BIM, a hard-discount grocer whose limited assortment primarily targets the urban and rural poor, with more than 2,500 stores saturating the country.
- Poland: Biedronka, Poland's largest retail chain, owned by the Portuguese retail company Jerónimo Martins, offers a limited assortment of high quality food at more than 1,400 locations.[1]

We are grateful for the remarkable access to executives, employees and customers that we received across the majority of these organizations. This broad access enabled us to develop a rich research base of retail sectors; store formats and locations, both urban and rural; operating styles; and national, cultural, geographic and demographic characteristics.

To make the written report and multi-media presentation thorough and comprehensive, we examined a range of organizational models (Figure 2).

- Ownership: family, family-controlled public, private equity, horizontal group
- Formats: supermarket, small market, consumer electronic/home specialist, cash and carry, mall management, hypermarket, convenience stores
- Site management: Fully company owned, standards franchised, mixed corporate/franchise, mall real estate, standards reward, KPI reward
- Organization models: Flat from owner-department, financial franchise, operations-marketing, financial product based

We also studied retailers with a variety of banner strategies to optimize assortment and localization where appropriate. This mix of qualitative and quantitative information helped us understand how emergent markets are alike and different; how they are changing; and the attitudes and competencies required for success. We organized these insights into several overarching themes and then distilled the themes into best practice considerations for succeeding in emergent markets.

The Report Contents

To clearly and logically present the key findings and the extensive volume of corroborating and enhancing information, we have organized this report into several chapters:

- **Introduction:** Summarizes findings and explains the goals, methodology and audiences for this report.
- **Executive Summary: Topline Observations** Provides a context for the report with descriptions of the basic characteristics of emergent markets and emergent market customers.
- **Setting the Context: Emergent Market Characteristics** Offers explanations of the interplay between traditional and organized retail as well as market escalators and retail enablers.
- **Strategic Foundations:** The core of the report organizes findings around five key themes
    1. **Educate Customers and Employees:** Education is task Number 1, and it requires focusing both on customers as well as employees because both groups continue to learn about retailing as it exists in development markets.
    2. **Implement Best Practices:** In many disciplines—information technology, finance, human resources—emergent market retailers are well on their way to leapfrogging retailers in developed markets.

[1] *No study of emergent market retailing would be complete without a focus on Biedronka; however, this retailer was the only one for which we could not secure onsite interviews with corporate executives.*

3. **Meet the Communications Challenge:** Emergent markets are experiencing a powerful matchup between the need to communicate effectively and often with both customers and employees and the availability of advanced communications technology.
4. **Serve All Customers, All Incomes:** Emergent market retailers are reaching out to customers throughout society and across all income levels.
5. **Adapt to the Revolutionary Rhythm:** Change happens dramatically and unpredictably in emergent markets and in ways that impact retailers and how people shop.

- **Selected Best Practices:** This chapter provides a distillation of strategies and tactics that have proved successful in emergent markets.
- **Company Profiles:** Thumbnail sketches of the organizations studied.

Key Benefits

Among the many benefits readers gain from this report are the following:

- A global view of the dynamics driving retail in all emergent markets.
- In-depth understanding of the subtleties that differentiate emergent markets.
- Insight into how organized retailing grows organically in emergent markets and how indigenous retailers are influenced by global operators.
- Examples of innovations by emergent market retailers that have enabled them to appeal to customers at all income levels.
- Knowledge of common best practices and investment areas.
- A broad and unique perspective on emergent markets drawn from an unusually rich combination of local consumer research, global best practices benchmarking and cross-market comparisons.

Executive Summary
Topline Observations

Our topline observations are presented here in order to provide quick and easy access to some of the key research findings presented in this extensive report. At the end of the report, a complementary summary outlines key retail implications and best practice considerations.

Customers

- Retailing in emergent markets consists of both a fragmented and organized trade. It's not an either or proposition. Customers shop in both the fragmented and organized trades, often everyday.
- In all the markets studied, life is improving for more individuals as they enter an expanding middle class with a sense of rising hope and expectations.
- Retailers serve customers of all income levels. Lower income customers offer the greatest long-term opportunity.
- Lower income shoppers initially venture into the organized market out of curiosity and for entertainment, to "window shop" rather than to purchase, at least at the beginning.
- Retailers in the organized trade understand how to convert these "weekend browsers" into paying customers by carrying an assortment that fills basic needs but also inspires aspirations.
- Retailers in emergent markets have the potential to make changes in the lives of their customers because they are the only organized business customers deal with on a regular basis. The level of retailer interaction is a factor of company strategy and openness to the particular society.

Dynamics

- The dynamics of emergent markets—economy, politics, and legislation—can be unpredictable and volatile, creating risks for retailers that are mostly beyond their control.
- Successful retailers anticipate these risks when possible and attempt to turn problems into opportunities.
- Best practices in retailing cross both emergent and organized markets. It is the selection process in the emergent that differs as retailers must contend with supply chain and information concerns taken for granted in the organized market.

Finance

- Financial institutions have strengthened in emergent markets. Because of conservative investment policies, they fared relatively well during the recent global financial crisis.
- The conservative policies produce high lending rates and tighter credit availability, however.

Logistics

- Poor roads and heavy traffic create serious delivery and inventory problems in many emergent markets.
- Some retailers compensate by overstocking stores, but that option reduces inventory turns.
- The same logistical challenges apply to delivering merchandise from the store to the shopper's home. Home delivery is critical in most emergent markets because car ownership is limited, and consumers often depend on public transportation.

Security

- As in any market, providing a secure store environment is a basic requirement.
- In emergent markets, however, retailers rely less on electronic surveillance and more on an overt

presence of security personnel who are well trained to respond with restraint and respect.

Connectivity

- People at all income levels in emergent markets are sophisticated about internet access and the use of mobile phones.
- They are likely to use their mobile phones for activities other than voice communication, such as price comparison while shopping.

Women

- The presence of more women in the workplace is changing where stores are located (along commuting routes) and the products they offer (for example, apparel for work and ready-made meals).
- Many women still occupy traditional roles as mothers and homemakers. Typically, they also are the shoppers and control the household finances.

Credit

- Because lower income customers often are short of cash, selling merchandise to these individuals is difficult without offering credit.
- Until recently, retailer profit depended more on credit terms than on sales.
- Retailer credit still provides opportunities for competitive advantage and profit.

Stores

- Stores are not just stores, places to buy merchandise. In emergent markets, successful retailers operate stores as centers of community that play an important role in educating the customer about how to function well in a consumer society.
- Location, location, location remains important. But often poor roads and limited public transportation make the notion of location more complicated.
- Store employees are front-line "educators" in the process of integrating lower income consumers into the organized market. Consequently, programs to educate and prepare employees with technical and sales knowledge are critical.
- Retailers in the traditional and organized markets increasingly are learning from each other and imitating each other's "best practices." Many traditional stores are doing a better job of presenting merchandise, while their counterparts in the organized market are refining their product and assortment—and presentation—to meet the expectations of traditional-trade customers.

Brand

- Much of the market is fragmented and unbranded.
- Communicating a retail brand sometimes can be easier in an emergent market because the message is less likely to be lost amid media clutter. Communicating the retail brand is important in emergent markets.
- Of the many ways to communicate brand, the store may be the most effective.

Technology

- For a long time in emergent markets, it was possible to ignore inefficiency and still be profitable. That's no longer the case. Emergent market retailers are rapidly adopting state-of-the art information technology.
- Many of these retailers have an interesting advantage. Because they have not installed IT incrementally, they can take a big leap, and in one installation of an integrated IT platform, leapfrog retailer leaders in the developed markets.
- Of course there is a downside. The rapid introduction of IT sometimes has resulted in information overload, which leaves retailers with a lot of random facts and figures but little useable intelligence.

Assortment

- Product assortment is expanding in emergent markets. But it's still narrower than in developed markets with emphasis on merchandise at both the lower and higher price extremes and with relatively less middle-range merchandise available.
- As lower income shoppers move into the organized market, they initially purchase from a narrow range of low-price items, creating a challenge for retailers whose profit requires shopper interest in a wider assortment that includes higher margin merchandise.

Setting the Context
Emergent Market Characteristics

Abandon all preconceptions.

The best way to approach an emergent market is with openness and a sense of discovery. Looking for absolutes most likely will lead to frustration rather than enlightenment. Some characteristics tend to hold true across markets. By their very nature, however, they defy predictability.

International retailers often arrive in emergent markets because their home retailing market is saturated, and growth requires stealing market share from the competition. That's not typically the case in emergent markets, which is part of their appeal.

In emergent markets, growth depends primarily on attracting both occasional shoppers and repeat customers for whom contemporary malls and stores are a relatively new experience. The key challenges involve reaching these customers, educating them about organized retailing, and helping them smoothly transition to what for them is a new way of shopping.

Although wealth exists in emergent markets, until recently it has been concentrated in a narrow band of the population. Most emergent markets now include a rising middle class. Growing a retail business requires a proposition that appeals to potential customers at all income levels, and operators who are willing to take a long-term view of retail market development.

An Open Mind

To a great extent, success in an emerging market depends on an open mind.

It's not like dropping another store into a city in a developed market, which usually is an exercise in leveraging existing capacity. While the retailer makes some commitment to the local community, generally in the form of additional jobs, the expansion is strictly about business, a well-calculated attempt to derive revenue and profit from an expanding customer base.

There is no reason to enter an emergent market without an expectation of increased revenue or profit, of course. That's the main motivation. However, it is easier to succeed as a new entry if profit does not remain the only motivation. Once in an emergent market, the retailer becomes part of a dynamic effort to improve the lives of the nation's people. Successful retailers inevitably become agents of positive change.

This commitment is deeper than corporate philanthropy. It's not simply about funding the local orchestra. It has more impact than CRP, short for corporate responsibility programs. It is not only about embedding values of sustainability into the corporate culture. The retailer commitment in an emergent market involves marshalling all of the company's resources to help improve the lives of customers and employees through the products sold and the services offered.

The approach works because it is self-serving. It is about developing a consumer society whose customers appreciate and can afford products that satisfy more than basic needs. Customers in the emergent markets increasingly are familiar with organized retailing. But Lima is not London. And residents don't live at the edge of large collections of chain retailers with all of the retailing knowledge and consumerist instincts that implies.

The international retailers most likely to succeed in an emergent market are those that take the time to understand the current state of development and help customers move it forward. Three initial insights to guide this process are:

Figure 1: Credit is offered in both Fragmented and Organized markets. However, the better quality of information and finance available make more options possible for the Organized markets. This can be seen as a continuum of sorts from credit based on verbal assurance through to awarding a credit balance.

1. Everyone who walks into the store is a potential customer. This retail aphorism especially applies in emergent markets where retailers must understand how to turn customers, from all income levels, into shoppers.
2. Retailers need to become part of the local retailing landscape. Being perceived as the local outpost of an international retail chain is less likely to work.
3. Customers recognize when a retailer sincerely cares about their community. They will reward caring retailers with their patronage.

The Shopping Environments

Retailing in emergent markets divides into two separate trades: the fragmented and the organized. Most consumers typically shop both.

The Fragmented Market

The traditional or fragmented market is, by definition, fragmented. It comprises the many ways that consumers historically have purchased goods.

It is retailing in the purest sense of the term. Shopping at the local outdoor "wet market" is a daily event. Products are on display, but access to them often requires the help of the merchant. Price is determined by direct negotiation between buyer and seller.

The assortment is limited and availability is not assured. But sometimes the products are unique. Credit is offered. In fact, because people often are paid daily, their cash is limited, making credit mandatory. This credit usually is 'book credit' where the retailer keeps a written record of purchases. Retailer profitability sometimes depends more on the credit terms than on the sale price.

The Organized Market

The organized retail market consists of malls and stores of varying sizes that either specialize in certain categories or, as in the case of hypermarkets, include multiple departments. The stores are usually part of a chain within a larger retail or holding company.

Merchandise is available for browsing in store environments that often are self-service and provide other value-added services, such as banking, that can make the store not just the location to obtain products but also a destination, or new center of community life.

Pricing is fixed. Product range can be extensive with predictable availability. Retailers maintain credit programs but profitability depends more on margins. Credit helps drive sales by making merchandise affordable. It also feeds databases with customer information used for marketing.

Not "either/or"

It would be logical to expect that the entrance of retail chains wielding the advantages of technology and economies of scale would be followed by the disappearance of small shops. This conclusion could reasonably be drawn from a casual glance of retailing in North America or Europe.

But it would be wrong when applied to emergent markets. In these countries, organized retailing is not superseding traditional retailing—at least for the short or mid-term. The organized and traditional

Figure 2: Typical Fragmented Retail (Soweto, South Africa)

Figure 3: Pick n Pay Hypermarket (Soweto, South Africa)

markets coexist side-by-side. Shoppers move fluidly back and forth. Both options serve the needs of the emergent market consumer, but in different ways.

By definition, an emergent market is in transition. People do not live exclusively in a traditional or modern world. Rather, they shift easily between daily life as it has been and life as it is becoming. They may visit local merchants in their village but also shop in the superstores that they pass during their commute for work in the city. The format that's most convenient, or most flexible, often wins out.

Consumers may enjoy the broader selection in the organized trade, but they need the traditional trade to survive for several reasons. First, the shops sometimes provide products that are not available in the organized trade, or they provide a wider range of fresh options, or even the option to buy goods in very small (affordable) increments unavailable or impractical in the organized trade. Second, the shops are convenient. Third, the local merchants offer credit. And fourth, consumers enjoy ongoing relationships, often friendships, with retailers in the fragmented trade.

Place

Place is an important concept for understanding emergent markets. Place emphasizes how complicated and multifaceted these markets are, while at the same time it organizes the many facets into a comprehensible whole. Among the distinctions that place encompasses are:

- Geography: Is the market primarily urban or rural? Are there expansion opportunities to neighboring countries?
- Culture: What are the major holidays and what special foods and other items are needed for their celebration?
- Government: How stable are the politics and how extensive are education and other programs that can impact retailing?
- Location: How available is public transportation? Can the customer walk to the store from home or is the store a place to stop during the work commute?

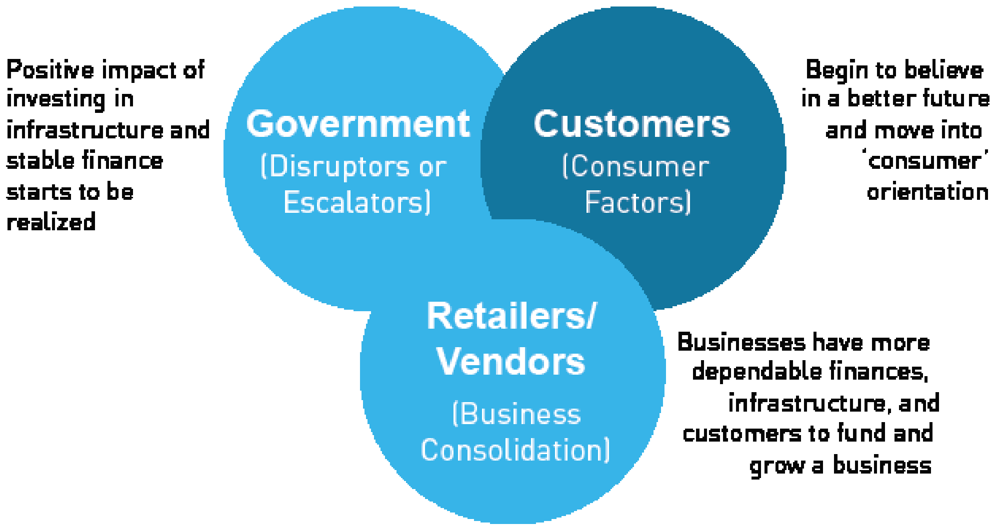
Drivers of Change

To understand retail development in emergent markets, and to find the points of comparison and contrast among the six markets studied, we focused on these three drivers: the consumer/customer, retail or business consolidation, and disruptors/escalators, such as government regulation, foreign direct investment (FDI), or prevalence of corruption.

The Customer

Emergent market consumers are shifting more spending to the organized market for several reasons:

Figure 4: Key components that spur Emergent Market development are Governments, Businesses, and Customers. Retail momentum accelerates as these three influencers start to realize the benefits of investing into the future as well as economic synergies. It is the combined energy that causes the market to emerge upward into a more dependable and stable environment for all stakeholders—and the resulting rise of the middle class, upon which long-term retail development depends.



	South Africa	Peru	Turkey	Brazil	China	Poland
Government	Post - Apartheid has focused on cross country and group equality	Infrastructure investments will move to integrate diverse cultures and geography	Moves to integrate rural and urban populations to economic opportunity	Long term investment in infrastructure, financial stability, and social programs	Shift to full capitalist model with rapid build of massive infrastructure projects	Continued adjustment to European Community models in post Warsaw-Bloc period
Retailers	Existing retailers have grown rapidly into multi-channel formats	Introduction of modern Chilean retailers accelerated market development	European retailers moved into market and local competition emerged	Three largest retailers are internationals, but larger local retailers have grown as well	Rapid changes in the market attracted international retailers, local retailers countered	European retailers entered market, limited local retailers
Customers	Changes in income distribution changed desirable consumer segments	Overall GDP growth of 8% has created a sizable middle class for the first time	Repeated financial instability has created "cautious shoppers"	For the first time, in 2008 over 50% of population is considered middle class	Major shifts in population to coast with sudden increases in income	Gradual improvements in life with additional income from EU workers

- Demographic shifts: People move from rural areas into cities where modern stores are located.
- Disposable income: Government programs, such as improvements in education, increase household spending.
- Product availability: Retailers in the organized trade expand the range of available products.
- Price: Economies of scale make item pricing more affordable in the organized market.
- Trip aggregation: Traditional daily shopping becomes inefficient as more women enter the workforce.
- Product quality: International retailers and their suppliers raise quality consistency.
- Shopping experience: Beyond filling basic needs, recreation becomes a reason to go to stores.

Consolidation

Several factors drive consolidation of the modern trade.

- Access to capital: As the emergent markets become more stable economically, they attract increased international investment.
- Information systems: Installing state-of-the-art information technology provides a competitive advantage.
- Supply chain: Organized retailing will benefit from improvements in infrastructure and advancements in technology.
- Wholesale structures: Retailers in the organized market operate from their own distribution centers and are less dependent on the wholesalers that serve the traditional trade.
- Homogenous customer base: In many of these markets, the populations are less ethnically and racially diverse than in North America or Europe, which have higher rates of immigration. Consequently, diets and other product needs are fairly consistent. This sameness perfectly suits the chain store approach.

Disruptors/Escalators

Emergent markets are much more unpredictable than developed markets. Some contributors to unpredictability are specific to the emergent markets. In other cases, the markets react in a more volatile way to factors that are present anywhere. For example:

- Taxation and duties: In some Latin American countries, duties on products are collected at state lines. Efforts to avoid those payments can make distribution more circuitous and less efficient.
- Election cycles: Some markets have democratic and dependable elections. Others do not. Regardless, in emergent markets, elections and political disruptions can have greater and longer impact on retailers.
- Economy: Inflation, short-term funds, and the value of currency along with external exchange rates sometimes are difficult to control.
- Legislation: Government intervention to stimulate the economy or to shape the society is common in all markets. The decision for China to stimulate consumer spending on home goods and consumer electronics in early 2009 is a good example of a positive disruption.

The interaction of these three drivers—consumer, retail consolidation, and disruptors—can be dynamic and complicated. However, these drivers form a useful framework for explaining the shape and speed of development in each of the six markets studied. This framework informs many of the findings in this report. Figures 5 and 6 provide two summary examples that illustrate how these drivers can combine in various ways to propel retail development.

The Customer

In all markets, developed or emergent, customers are on a journey.

In developed markets, we think of this journey as upward mobility. Customers see more and want more. This acquisitiveness is based on the assumption that more is always possible, that the future will be better. (Recessions, as we have seen, can remove this sense of future possibility, dampen

Figure 5

Brazil: Progressive government programs (Disruptor) are driving the expansion of the middle class (Consumer), which increasingly is shopping in the organized market, drawn, in part, by the availability of credit (Consolidation).

Figure 6

Poland: Entry into the EC has attracted international retailers to Poland (Disruptor and Consolidation). At the same time, porous borders have enabled the migration of Poles to higher-wage EC countries (Disruptor and Consumer).

consumer optimism, and create customer spending declines accordingly.)

In emergent markets, until recently, the future looked no different than the present and the past. Individuals primarily had focused on fulfilling basic needs to maintain life with food, shelter and clothing or to cope with death by providing ritual funerals.

Today, their concerns go beyond basics to include health care, education, and the acquisition of goods and services not only to sustain life but to *make it better*. People are changing their behavior, saving and spending in ways that match their aspirations for a better future.

Helping the customer move along this journey first requires understanding the realities of the customer's current existence: how much and how often they are paid; who in the household controls spending; and where they live in relationship to the closest store.

It also helps to appreciate that economic necessity and the reality of shopping as a daily routine have made emergent market consumers keenly aware of prices and extremely resourceful as shoppers. Many know the exact price for all of the key food commodities and will never spend more. Some underemployed consumers make shopping the day's main activity, with plenty of time available for store-to-store price comparisons.

They may shop everyday for basic needs, perhaps an article of clothing and certainly staple food items such as maize, sugar, oil or rice. And they may buy in a traditional outlet or at a large store in the organized market. Where, what and how much they buy are

Figure 7: Pick n Pay near Bara Transport Center

Figure 8: BIM Istanbul serves the daily shopping trip

Figure 9: Boxer shoppers often pool their money to purchase and share bulk commodities.

influenced by many aspects of how they live. (Figures 7, 8, 9)

Affordability

Does the customer have cash or need credit, which is more typically available in the traditional market?

In some markets people have bank accounts. But the bank account may be shared by the entire household. To understand household purchasing patterns, it is important to know who controls the money. Often the woman is the economic driver. If she is in the traditional and time-consuming roles of mother and homemaker, prepared foods and other convenience items increasingly make the shopping list.

It also is important for retailers to understand the flow of money. In developed markets, retailers are likely to target middle-class consumers whose ability to pay for merchandise is roughly even day-to-day. The situation is more complex in emergent markets. The ability to purchase constantly fluctuates according to when and how people are paid.

The situation varies by country, even by locality, but generally individuals receive small sums on some periodic basis, usually daily or weekly. Sometimes income is tied to the government assistance payment cycle. When people have money, if they're working, they may have limited time to spend it.

Despite this complexity, retailers in emergent markets reach out to low-income consumers because the middle class alone is too small to support a substantial business. The upper class is just as likely to spend away from the country as within, and these groups often lack appeal to emerging retail operators due to unpredictable purchase cycles and high expectations for variety often not found in market. Low -income consumers provide immediate revenue, and the prospect of future growth and growing aspiration for a better future can propel these individuals into a growing middle class—on which the organized trade depends for large-scale growth over the long-term.

Proximity

It's retailing, so location is important. But location can mean several things. Whether a consumer shops in a traditional or modern store can depend on which store is more conveniently located. Someone living in a city would normally enjoy more access to organized retailing. But a person living in a village and working in the city might shop in a modern store situated along the commuting route.

In an urban area, where shoppers might walk to a store, the amount purchased would be restricted to the size and weight that could be carried. The availability of refrigeration at home, either owned or shared, also influences the purchase.

Community

Shopping, especially in rural areas, tends to be more communal than in developed markets. This characteristic probably is driven by the ethos of village life and the practicalities of survival.

To save money, members of a village might combine funds to purchase commodities in bulk. The South African supermarket Pick n Pay has a format called

Figure 10: Value messaging is important in all formats.

Figure 11: Pick n Pay franchisee uses text messaging to communicate special offers to his loyal customers.

Figure 12: Plaza Vea neighborhood format, Peru.

Boxer, a hybrid cash and carry/grocery format, that serves this bulk purchase requirement (Figure 13).

Similarly, villagers might share the price of a taxi to visit an urban store if the total cost for the trip, including purchases and transportation, saved money. Two other considerations would influence this trip: having the time to make the journey and shop; and the greater assurance of product availability in the urban store.

It also is possible that the customer would need an item only found in the organized trade because, as the emergent markets develop, customers want more than basic items. Women, now more likely to be in the workforce, require ready-made, inexpensive meal solutions, for example (Figure 14).

It is increasingly important to offer some affordable luxury, for example, ice cream, that addresses the customer's desire to live a better, more pleasurable life. Many retailers find that it also is important to offer products that encourage shoppers' aspirations while frequent purchasing may remain beyond reach for some time.

Entering the Organized Market

Customers from lower incomes first visit the organized market out of curiosity and for recreation. They are not traveling to a mall or hypermarket to buy a loaf of bread. They buy fresh bread locally at the bakery in their neighborhood. More likely, they're visiting the hypermarket to spend a day out with family.

The retailer's proposition—some combination of high value and low cost—raises the customer's expectations. The retailer's challenge is to move the customer from simply an observer seeking to be entertained to a shopper buying for basic needs. Plaza Vea was a good example of a retail banner coping with the mass of entertainment-oriented shoppers working on getting them to make an initial purchase. A shopper who can be persuaded to buy basic items is more likely to return on a frequent, if not daily, basis. Once that shopper visits the store regularly, the provision of credit enables the trade-up in merchandise from strictly basic needs to more aspirational merchandise that satisfies wants.

Getting shoppers to buy basics sometimes requires helping them overcome their intimidation with the

Figure 13: Boxer's market environment offers a "high energy" atmosphere and gives shoppers value in large quantities.

Figure 14: Pick n Pay offers ready-made and 'on the go' meal solutions

large stores and educating them about self-service and other big-store characteristics. Pay cycles can also pre-determine shopping patterns and trade-offs between needs and wants. The process of moving customers into the organized market requires many interrelated initiatives including:

- Providing an experience that fulfills the need for recreation.
- Getting the basic assortment of products and prices correct in an affordable set of transactions.
- Offering a relevant credit program.
- Adding value to become a one-stop shopping location or solution.
- Becoming a community-oriented venue by moving the cultural center of an area to the store via events and meetings.

Shopping as Leisure

Shopping as entertainment or leisure is a new pastime in emergent markets.

Families filling stores and malls on weekends are a good indicator of a growing middle class enjoying the central perquisites of middle class life: disposable time and money.

The scene looks familiar to anyone who has strolled the malls or superstores of any developed market—crowds of people carrying their purchases, browsing shops and departments, stopping for food or even to listen to music.

But there are three chief differences and concerns: (1) getting to the venue; (2) feeling safe while shopping; and (3) returning home safely. Because relatively few people in emergent markets can afford to own cars, and public transportation is limited, malls and major stores usually are located near population centers and bus lines. Some retailers even provide bus service. In areas where crime is a concern, the merchants provide effective and appropriate security, making retailing a place where people go to feel comfortable and safe, and to socialize or enjoy a sense of community.

Connectivity

Nearly three-quarters of the world's four billion mobile phones are now used in emergent markets. Wireless technology arrived early and spread quickly in emergent markets, compensating for the lack of land lines and the inefficiencies of national postal services. The presence of extensive wireless technology enables retailers to transmit marketing messages to the mobile phones of customers.

Income is not a barrier to owning a mobile phone. In order to saturate their markets, the major mobile phone providers have designed products that are affordable even to people living in poverty. And they have aggressively introduced mobile phones though the rural village equivalent of Tupperware parties.

In joint ventures with banks, telecommunication companies have created micro loans aimed at women in rural villages. A loan enables a woman to buy a mobile phone, an antenna and a large battery. With this equipment, she sets up pay-per-call service for her village. The income generated enables the woman to pay back the loan and to better afford products and services that improve local living standards.

Suppliers

In the traditional market, suppliers and retailers enjoy long-standing relationships that smooth some of the bumps in an inefficient distribution system.

International suppliers can play an important role in improving processes and expanding product assortment in emergent markets. They can leverage the expertise they bring from developed markets by partnering with local suppliers. But it's not that easy for many reasons, especially logistics. Reliable delivery is a challenge when few distribution centers exist and the roads generally are poorly maintained and clogged with traffic.

Meanwhile, retailers in the organized market remain the main educators of local suppliers. The retailers are attempting to close the gap between their systems and the lack of process sophistication among local suppliers. Areas of focus include quality assurance, product movement, in-store activities, and electronic communications and payment/EDI (electronic data interchange) standards. Retailers entering or operating in emergent markets understand best practices. Implementation of best practices, especially in collaboration with suppliers, however, often presents the greatest challenge.

Educate Customers and Employees

Every sale is a teaching moment

Growing retail sales in emergent markets depends on educating customers and employees about the organized trade. Retailers are important mediators in this process.

A store is a secure setting that, along with merchandise, offers a mix of credit and other services to help customers enter, understand and succeed in a consumer society. A store is a contact point where retailers help people cope with daily realities and not lose sight of longer term aspirations.

This wider role for the stores serves the customer and is vital for the retailer whose success depends on cultivating consumers who want and can afford the products offered. In this context, converting a customer is not simply about making a sale. It is about fostering the sense of entitlement and self-confidence required to become a member of the middle-class and succeed in a consumer-driven society.

Employees are critical in this process. They have the power to build the business, not only by how they interact with customers, but also by the example they set with their own advancement and achievements. This outcome is good for the employee, the company and the society.

The problem is that retailing, until recently, has not been regarded as a desirable career in emergent markets. Families that sent their children to university expected them to graduate with professional degrees. And working in retail or in

Figure 1: A 'functional' employee or manager is trained and expected to work to standards set by the company. An 'expert' employee is trained to use greater creativity in attaining company profitability. In most emergent markets we found that a 'functional' model was more practical for most of the companies studied.

	Store	Metrics	Location	Motivation	Examples
Functional Employee	Process, space creates behavior	Task list to binary qualities	Training occurs primarily in store	Hourly salary	Pick n Pay BIM Biedronka
Expert Employee	Systems, culture, rewards, knowledge	Contribution to overall store metrics	Mix of office, off-site, and in-store via media	Salary and commission career	Magazine Luiza
Functional Manager	Execution to standards	Standards matched by % compliance	Training occurs mostly in office	Salary and bonus (compliance)	Biedronka, BIM, Supermercados Pervanos
Expert Manager	Space and culture is created by manager	Contribution to store and group metrics	Training in-store, office mostly in team settings	Salary and commission career	Magazine Luiza, Pick n Pay
Franchise / Contractor	Standards set by corp, store by manager	Compliance and store profit metrics	Training occurs in office or via corp representative	Store profitability	Pick n Pay

Figure 2a: Beijing Hualian Group's corporate Retailing Innovation Center near Beijing facilitates education and training.

Figure 2b: Employee camaraderie at Magazine Luiza

Figure 2c: Pick n Pay employees take great pride in their work

Figure 2d: Pick n Pay in-store media educates shoppers by day and employees off hours

Figure 2e: Awards and Promotion Night at Magazine Luiza

Figure 2f: Educating customers and employees at Pick n Pay

Figure 2g: Magazine Luiza's Training and Demo area helps customers and employees

fast food venues was not the "rite of passage" that it is in North America or developed markets in which stocking shelves, operating checkout and helping customers find the right aisle are ways that many young people earn extra money.

In emergent markets, employees often arrive with a high school education, but with no knowledge of how to perform or behave in a service industry. They lack the experience of politely helping a customer while moving along a sale. More fundamentally, new employees may need training in basic skills and time management—when a shift starts and ends, and how it may be divided into tasks.

The situation is changing as people gain some experience with organized retailing and view employment in this sector as a good opportunity that pays well and offers training, which can lead to advancement in retailing or another field. But the situation is not changing fast enough.

Employee Training

Retailers in emergent markets often have an organized training program that starts with formal interviewing and proceeds through hiring and an extensive orientation to skills screening and appropriate preparation for specific jobs.

New employees at Brazil's Magazine Luiza and Supermercados Peruanos, for example, receive a month of training prior to deployment in the stores. Pick n Pay, in South Africa, takes a similar approach for its company-owned stores. Its franchise owners also conduct training. At all these companies training is embedded in the corporate culture.

Magazine Luiza emphasizes enthusiasm in pursuit of the sale. The family-owned company stages upbeat events that foster a fiesta spirit while focusing on closing the deal.

Supermercados Peruanos, which is owned by a major Peruvian financial institution, manages top down and emphasizes adhering to best practices and standards.

Pick n Pay stresses its family heritage and South African roots with two interconnected ideas: We are the number one chain in South Africa, and we can get the job done. Because the company has the option of opening either company-owed stores or franchises, it also can be pioneering.

All of the retailers studied have dedicated significant resources to Human Resources. Their planning and support would be state-of-the-art, or at least best practice aspirants, in North America, Western Europe or other mature retail markets. These HR departments, like their counterparts in more developed markets, are primarily concerned with the finance and legal requirements associated with employees. Training, however, despite being planned in these departments, usually is accomplished wholly in the stores via department heads. As in other markets the legal and financial obligations imposed on retail companies with large workforces and fairly high turnover are of primary concern for HR.

Developing Management

The HR departments match their training plans, metrics and compensation to the company culture. The variety of approaches forms a continuum with control-and-systems-driven companies at one end and the more entrepreneurial at the other. There are nuances, of course, and even the most entrepreneurial cultures encourage creativity only within a clearly defined framework.

That said, the control companies primarily drive functional competence, while the entrepreneurial organizations value expertise. The following descriptions compare and contrast the attributes and tasks associated with the functional and expert approaches (Figure 1).

Functional

- Employee: This is an hourly employee whose training mostly takes place in the store and who is expected to perform tasks in a self-service store environment. (Examples: Pick n Pay, BIM, Biedronka)
- Manager: This manager, compensated with salary plus bonus, is expected to execute to specific measurable standards. Training takes place mostly in the office. (Examples: Biedronka, BIM)

Expert

- Employee: This employee receives a salary and commission, is career oriented and, beyond the store tasks, is involved in the company culture. Training takes place in the office, in the stores, at other locations and with company media. (Example: Magazine Luiza)
- Manager: This manager is encouraged to think and act with autonomy, to shape the store for the local market and to foster the store culture. The

Figure 3: Magazine Luiza

Magazine Luiza

In the education of employees, Magazine Luiza stands out from other companies studied in its focus on developing employees and managers in the expert category. Several factors drive this emphasis:

- Selling large ticket items to lower income individuals requires offering credit in a flexible but profitable way. Employees need to understand how to use credit as a tool both to help the customer and close the sale.
- While negotiating the sale, the employee needs to craft an offering that effectively manages product availability, cost and credit.
- Closing the sale also requires comprehensive product knowledge.

Magazine Luiza succeeds in part because it effectively educates employees to a high level of expertise, and it rewards them for their teamwork and creative selling.

manager is career oriented and compensated with salary and commission. Training takes place in the store, mostly in team settings. (Examples: Magazine Luiza, BHG)

Franchise

- With its extensive franchise store network Pick n Pay must provide expert training of owner-operators along with a support network of district managers that act as both company representatives for standards compliance on-site and mentors to the owner-operators. (This franchise network is described in more detail in subsequent sections of this report.)

Nearly all of the companies studied maintain sophisticated approaches for management development. In most cases, compensation for management is straightforward and based on sales or gross margin targets, although few bonuses are based on other metrics. Most of the recruitment is first from university and then through the ranks. Magazine Luiza has a program to subsidize university education for certain employees.

Ownership style influences the expectations for management. Supermercados Peruanos, which is owned by a financial company, prefers store managers to return to school to earn an MBA. In contrast, advancing in a family-owed company requires exceeding standards and demonstrating a deeper personal commitment.

Pick n Pay, a family company, also is somewhat different because it operates franchises and selects potential franchise owners from its store managers.

The Problem of Retention

One unintended consequence of developing excellent employees and managers is difficulty retaining them.

After a few months of experience, a person with technical knowledge, effective communication skills and a proven ability to interact with customers becomes a highly valued employee.

The person also becomes desirable to potential new employers. Client-facing businesses, such as banking and insurance, view retailing as an excellent source of talent. Government also likes to fill clerical and staffing positions by poaching from the retail ranks.

Among the retailers studied, turnover rates for entry-level positions ranged from 50-to-300 percent! These numbers are comparable to retailers in developed economies, but with the added burden of longer training cycles While the retention problem cannot be solved completely, the retailers studied have found ways to minimize it and to protect their investment in time and money. For example:

- Career ladder: Pay is important, but it is only part of the story. Any company can offer a job. Only some can provide a career. Most of the companies studied had created career ladders with stages of training, education and extensive review leading to promotion. China's BHG invested in developing the Beijing Hualian Innovation and Training Center for developing management and other employees at a state-of-the-art campus near Beijing.
- Corporate culture: Companies that provided a sense of inclusion inspired greater commitment among employees.
- Social responsibility: Companies that are seriously engaged in community and social concerns made employees feel like their work mattered.
- Training: Formal classrooms are good environments for teaching not only basic skills but also common goals and culture. Frequency is important; training that occurs on a random basis does not have impact. Most of the companies studied had training schedules in place—with the majority of floor employees attending a training event at least once a year.

The Franchise Opportunity

Perhaps the ultimate tool for recognizing and retaining employees is offering them ownership, the opportunity to become one's own boss as a franchise partner.

As an expansion strategy, franchising offers two primary advantages: it's fast and it minimizes risk. Limited risk is the main reason why South Africa's Pick n Pay includes almost 300 franchise operators among the almost 900 stores that carry the chain's banners.

With the franchise approach, Pick n Pay can manage risk while continuing to expand into some of the region's poorer and sometimes difficult to penetrate markets. The approach also demonstrates—to customers and employees—the organization's deep commitment to opportunity and equality.

Generally, the commercial advantages of the franchise model include:

- Ties to the community that ensure familiarity with local customs and languages.
- Higher levels of pride and performance that come with ownership.

These advantages, and others, generally outweigh the downside, which includes having less control over inventory and brand. Franchising can be an effective way for a retailer to signal its commitment to helping its employees advance and the communities it serves thrive.

Key Takeaways

1. Retailers play an important role in the development of emergent markets.
2. Organized retailing can be a new concept to both customers and employees in emergent markets. Succeeding as a retailer requires educating both groups. Customer and employee education is required in developed markets, but the need in emergent markets is much greater and more urgent.
3. Based on the retailers studied for this report, employee training requires more than a one-size-fits-all approach. The knowledge provided to employees and how it's imparted is a function of the company culture, and whether an organization needs capable people who can implement programs or creative people who can help shape them. Or both.
4. Chances are that an emergent market HR department is about as well-prepared as any in North America or Europe, but there are some contrasts. Training and career ladders are well planned in emergent markets although most training in effect occurs on the store floor. The difference here is that the store level management is often not as well trained to manage a store and train all employees. It is useful to research what some of the best companies are doing to cultivate and retain employees.

Implement Best Practices

Investing for competitive advantage

Retailers in emergent markets are rapidly adopting best practices.

Until recently, it was possible to make a good profit without them. That's no longer true.

Unlike in the developed retail markets of North America,Europe and Asia, profit in emergent markets did not depend primarily on growing sales and controlling costs. Instead, profit mostly was a function of how much credit was extended to customers and at what interest rates.

Retailers earned those high margins despite supply chain inefficiencies. And individual items generally carried higher margins than in developed markets because it was difficult to price compare.

Heightened competition provided the wake-up call. As international retailers with sophisticated systems and operations arrived in emergent markets, local executives, often educated at the business schools of North America and Europe, became knowledgeable about the latest management theories and practices.

Figure 1: Technology can provide a sense of connection for new shoppers

The rules changed. The profitability of credit eroded. Even today, it is not uncommon to see Brazilian retailers advertising sales that feature twelve months without credit charges. Inefficiencies that drain profit are no longer tolerated. Understanding and controlling costs has become a critical imperative.

And leading emergent market retailers are getting "organized" quickly, learning from their local best-in-class retail competition and benchmarking against best-in-class retailers worldwide.

Information Technology

The key idea is speed. In emergent markets, the right information has the potential to change a business quickly. The systems supporting the information can change quickly.

And major capabilities advances can result quickly.

The drawback of excessive speed is overload. Gathering too much unsorted information too quickly leads to confusion rather than clarity. Even companies still frustrated by information overload are committed to information technology (IT), however, for the competitive advantages it can yield.

One-Stop Solutions

Understanding the commercial power potentially unleashed by technology, many retailers in emergent markets are turning to major global systems solution companies for a one-stop installation of integrated systems and operations platforms. These markets are especially receptive to one-stop solutions for several reasons:

1. Retailers in emergent markets have fewer preconceptions compared with retailers in developed markets who are reluctant to retrofit their proprietary systems.

2. Retail executives in emergent markets often have advanced business education credentials from respected schools in developed countries. In some ways, emergent market executives are more receptive to these complicated systems than retail leaders in developed markets because they prefer solutions that are best-in-class rather than tactical.
3. Retailers in emergent markets are comforted by the implied reliability of a major global provider because of too many disappointing experiences with local companies.
4. The implementation cost in an emergent market is less than in North America or Europe because the work often is completed by the retailer's salaried staff.

Because retailers in emergent markets are shopping for IT solutions that apply to many disciplines across the entire company, they are more likely to end up with an integrated solution compared with their peers in North American and Europe where companies, until recently, have installed IT in a fragmented way, typically by selecting "best-of" solutions department-by-department.

Also, unlike in developed markets, where IT is considered a service department, with important but highly technical information that the CEO needs to know but perhaps not understand in depth, in emergent markets the CEO is likely to understand IT in a fundamental way and to become deeply involved in the selection of the IT vendors, in part because of the large capital expense.

The Early-Adopter Trap

Some of the emergent market companies that understood IT quickly and installed company wide systems now are facing issues that come with being an early adopter. Magazine Luiza has an existing integrated system. While the system does not handle all functions, it does cover product, ordering, procurement, distribution centers, back office, finance and human resources, for example.

Magazine Luiza now faces the challenge of upgrading. That said, Magazine Luiza is only one iteration into its IT system, which makes the challenges of upgrading painful but not excruciating. Supermercados Peruanos, in Peru, and China's Beijing Hualian have faced similar issues. Supermercados Peruanos is about to go live with an integrated platform.

Advantages

The open question facing all emergent market retailers is to what extent they will be able to convert higher mountains of data into useable business intelligence. Sometimes less is more. IT capability at store level, for example, can be wasteful if it exceeds the ability of employees to use it.

BIM, in Turkey, invested in a robust IT platform only to experience "technology overkill" that overwhelmed and distracted management in the stores. The company scaled back, selecting from the menu of options the system could provide only the data that store operations actually could use.

Also, it is not uncommon in emergent markets to hear complaints about accumulated transactional data mismatched with insufficient capacity to store or analyze it.

Most Latin American chains have found innovative ways to leverage their IT investment by mining their credit accounts. Brazil's Magazine Luiza, for example, analyzes its credit data to identify customers about to make the final payment on their loan.

Magazine Luiza alerts the manager of a store when a customer loan is soon to be paid off. This information is used for direct contact via phone for a conversation about future plans and possible purchases.

While the approach resembles a loyalty scheme, a credit database is denser with information. Many retailers mine their credit databases to expand their customer base. They find new micro markets among

Figure 2: Consumer Finance

Consumer Finance

Some of the retailers studied extend their own brand of credit to their customers. This retailer credit differs from commercial or bank credit. Here are the distinctions:

Commercial credit is offered by a financial institution, such as a bank, usually in the form of a credit card that acts as a substitute for cash in a buying-and-selling transaction. Generally, the bank sets spending limits but otherwise expects the card-holder to manage the account responsibly.

Retailer credit is offered by a specific retail company to facilitate sales and higher spending by enabling payments to be made over time. The terms are set at the time of purchase. And the use of credit is limited to the retailer's stores or other operations. The retailer may be more engaged in managing the account or marketing to it. By offering credit the retailer has another lever—along with price and product—to drive sales while managing risk.

extremely low-income individuals to whom they extend higher credit lines.

In addition, retailers in many emergent markets have major sums of cash floating between consumer loans and payment cycles. IT has enabled much more accurate tracking of product turns and cash flow. Technology also has added accuracy and a higher level of security to transactions with vendors, including purchases, returns and deliveries.

Challenges

Finally, we're talking about technology. In developed markets that means an occasional—and fixable—glitch. In emergent markets, *glitch* doesn't begin to describe the impact on productivity from surges in the electrical grid, protracted interruptions of power, and communication disconnects between stores and headquarters.

Retail top management contends with these disruptions as a fact of life, part of the revolutionary nature of emergent markets where the unexpected is the expected. Most important, the officers and boards of the leading retail companies understand that installation of state-of-the-art IT is a competitive requirement. IT will enable retailers to offer wider selection with faster inventory turns and greater profitability.

In short, the modifier *emergent* no longer will describe the character of retailing in these markets. As retailers complete installation of their IT platforms, these markets move with ever increasing speed toward this inflection point. It is important however not to confuse the capabilities of these new systems with the company's ability to realize them. As in the case of BIM, too much is sometimes too much too soon. In others those capabilities are expected to take years to realize.

Finance

The good news is that the financial institutions in many emergent markets have strengthened. In general, relatively conservative practices protected them from the more devastating effects of the global recession.

The bad news for retailers is that the continuation of conservative practices results in higher interest rates on borrowed funds and tighter credit terms. Emergent market retailers are likely to seek financing alternatives including:

Real estate: Because of the general scarcity of good commercial real estate, land parcels usually appreciate significantly even if left undeveloped. All of the retailers studied for this report maintained departments devoted to real estate investment.

Vendors: Discussions about payment terms are likely to increase in negotiations between retailers and suppliers.

Funding from international investors is also possible, but it depends on consistently showing strong financial metrics. Meanwhile, retailers are working on several financial process improvements, including installation of software programs that create and maintain the general ledger accounts. Adding this level of sophistication enables the companies to better track product, services and the flow of credit.

At least three key competitive advantages result from greater financial control:

1. **Improved accuracy:** Accurate tracking of cash flow and product turns becomes much more important as the driver of profit shifts from the interest made on credit to the margins made on sales.
2. **Operating flexibility:** Historically, these emergent market retailers operated conservatively because, lacking financial software, they had less control over their cash. The systems add knowledge. Knowing where the cash is enables the companies to assume greater risk.
3. **Increased speed:** In almost all of these markets, the retailers generally are more IT sophisticated than the vendor. Electronically integrating vendors with the retail business improves accuracy and speed while encouraging honesty.

Biedronka, with almost 5,000 outlets in Poland, is an excellent example of a retailer with a company wide systems platform that enables rapid store expansion by integrating financials and other functions.

Logistics

Poor infrastructure in many emergent markets can make getting products and supplies from location to location difficult.

Stores often compensate for this supply unpredictability by carrying higher levels of inventory. At one point, for example, some stores in Brazil stocked as much as six months of product. The consequences—inefficiency and lower inventory turns—become less tolerable as the competition becomes more intense.

Transportation inefficiency remains a problem as well. It is not just that roads often are inadequate. Especially around cities like São Paulo or Mexico City, they become jammed with traffic, causing severe delivery delays. The frustration of delays

Figure 3: Examples of retailers' metrics in use

Metric	Definition
Sales	Funds collected on selling product
Net Inventory	Inventory within the company that has been paid for
SPEH	Sales per Employee Hour, payroll hours paid as base
Initial Margin	Margin of product sold at intended retail price
Full Margin	Margin that includes credit and markdown over payment cycle
% on Credit	% of items sold on retailer credit
OOS	Out of Stocks, sometimes referred to as service level (% of product in stock)

Figure 4: Push systems to overcome local inabilities

Centralized Buying

Most of the retailers studied manage their inventory and procurement centrally to compensate for uneven levels of management expertise in the stores.

- The advantage of this headquarters-driven or "push" buying is control over the amount of product shipped and the inventory levels in stores.
- The disadvantage is that shipments lack the positive local influence that can happen when store management is trained to "pull" inventory.

This "push" approach allows the retailers to successfully regulate the flow of merchandise to their stores using centralized information technology.

is compounded when the inadequate tracking and communications systems of local vendors make it impossible to locate a missing truck.

Fixing the problem requires massive government investment in infrastructure. Meanwhile, it helps to locate stores close to local distributors. More, but smaller, distribution centers also would improve delivery. Retailers also would benefit by taking these steps:

- Implementing systems that constantly update and estimate a truck's estimated time of arrival.
- Heightening security on all high-value loads traveling along all routes.
- Validating the size and condition of the products carried at all stages of the trip.

The delivery trip becomes even more complicated in Brazil, and some other country markets where the routes for trucking product sometimes are designed to avoid crossing certain state borders and incurring local taxes. In some cases, suppliers revert to shipping freight by sea to move goods efficiently and lessen tax burdens. In addition, security issues, including hijacking and damage to loads, also are an issue in markets such as South Africa and parts of China.

In an innovative attempt to circumvent these logistics obstacles, Magazine Luiza operates a "virtual" store, a physical store location with no inventory. The staff sits at computer screens and facilitates online purchasing for customers, providing product knowledge and credit terms. As logistics have improved in Brazil, these stores have been more capable of defining the location of inventory to consumer with the end result of rapid home delivery.

Compounding the problem of getting product to the store is the problem of getting product out of the store—to the customer's home. Many customers do not own cars and rely on public transportation, which may not be conveniently located. Home delivery becomes a requirement, even a deal-breaker. In some country markets, such as South Africa, home delivery is the customer's expectation walking-in.

Business-Government Partnership

The good news is that change is happening quickly because improvement of infrastructure—roads, electricity, water—is a high priority for emergent market governments. Sustained economic growth depends on these changes. Retailers become the beneficiary of government investment as well as partners in the effort to improvement the welfare of a nation.

India is a good, if extreme, example. Because of the lack of modern roads, as much as 40 percent of fresh produce reportedly spoils en route from farms to stores. The situation is beginning to change as expanding chain retailers demand better highways to connect the agricultural villages with urban centers.

To these retailers, the improvement of infrastructure serves both their commercial self-interest and broader welfare of the nation. Improved supply chain efficiency, they believe, not only will propel business success but also dramatically improve life for the rural poor. Retailers in other emergent markets often share this sense of mission.

These changes depend on a strong business-government partnership, which sometimes is facilitated by personal relationships among government and business leaders who attended the same schools and often travel in the same social circles.

Metrics

If it can be measured, it can be improved. This is far easier to say than to implement—especially in emergent markets where executives are eager to apply metrics to their businesses but lack the tools.

This tension is best illustrated by GMROII (Gross Margin Return on Initial Investment, or Gross Margin Return on Inventory Investment). Simply put, GMROII—a product's gross margin cash multiplied by its inventory turns—is a tactical metric for measuring and comparing productivity and for investing cash most effectively.

Three different data points are required for computing GMROII, including the gross margin of a product or the cost when it actually gets sold. The usefulness of GMROII depends on the accuracy of information used to compute the formula. The measure is widely taught in business schools as a management best practice. In these markets using GMROII is better described as aspirational, given ongoing information challenges.

Of the companies studied, Poland's Biedronka probably is furthest along in implementation and use of advanced metrics in part because of its Portuguese ownership and also because of its major investment in information systems. Magazine Luiza is relatively far along in the use of metrics associated with consumer credit support by its early investment in IT. Supermercados Peruanos reports strategic metrics associated to costs of internal financing and inventory management. Pick n Pay, in South Africa, is also paying increased attention to business metrics. All the retailers studied for this report are seeking improvement.

Key Takeaways

1. It's possible to run a large and successful retail company without state-of-the-art information technology. But as competition gets tougher, it's much more difficult to succeed without IT investment and an overall best practices approach to information since it enables many other possible changes.

2. In contrast to retailers in developed markets, which have implemented IT incrementally, emergent market retailers can leapfrog by avoiding the fragmented approach to IT installation and going right to an integrated platform. However implementation is not the same as capability; they need to prepare and use the new systems, a process that takes time.

3. Metrics are a function of information availability and applicable use to the business. In emergent markets that varied greatly by each retailer studied.

4. The ultimate purpose of best practices in retailing is to make more products available to more people at lower prices. That outcome should expand the base of loyal customers and result in higher profits. In that context best practice as a by-product of advanced business learning is not as useful as practical day-to-day practices that make a discernable difference to the business.

5. Mutual interest makes government a reliable partner for logistics improvement. Better roads strengthen politicians, serve retailers and help the people. Greater ease of movement will enrich experience, stimulate curiosity and trigger the aspirations that drive the organized trade in emergent markets.

Meet the Communications Challenge

Establishing the brand and leveraging technology

Brand communication is especially important in emergent markets.

Consumers have limited knowledge about organized retailing. Although they probably know as much about price and value as consumers anywhere, they have spent most of their time in the traditional market. Shopping in large stores with wide assortment and set prices is a new experience. This lack of knowledge presents retailers with a serious challenge, but also with an opportunity to communicate the brand to an audience with few preconceptions.

The brand communication needs to resonate with the values of local life. People expect the brand to be consistent with what they believe is important, even sacred—including home, family, community and religion. Communicating value is important for a simple, if obvious, reason. Most people are poor or were until recently. When money is that tight, overpaying for an item can make it impossible to obtain other necessities.

Traditional media, such as TV or billboards, typically are used for institutional communication, which may focus on value, but without the actual details of price and product. Radio can be especially effective for reaching people during their fairly long commutes. Fliers often are placed in taxis. Nationwide campaigns can be difficult to execute, however, because of variations in dialect and language that require many different versions of a brand communications strategy.

Regardless, the marketing message is more likely to be synchronized with the store experience than sometimes is the case in developed markets. What you see on TV, for example, is actually what you get. Ultimately, the store itself may be the most important vehicle for communicating the brand in an integrated way through merchandising, signage, colors and other decorative elements. Expressions of the brand include:

Price: Competitive pricing is imperative. Even when pricing is sharp and changes as frequently as necessary, the clean and organized stores in the formal market may project a high price image in contrast to the messy disorganization of some stores in the traditional market. It's critical to correct this misperception with signage and other cues that establish price credibility.

Packaging: Consumers value freshness. In the traditional market, freshness means that food is presented as if it just arrived from the farm. Packaging connotes a lack of freshness. To reassure the customer that food is fresh, retailers in the organized market need to imitate the presentation style of traditional merchants or communicate that packaging or bagging food can help protect freshness.

Product: Product range usually is limited because of affordability, tradition or diet. But basics, like freshly baked bread, prompt daily shopping trips. Although life can be poor, that doesn't mean it's bleak. The range should include some affordable luxury items. These items can serve as a special occasion reward or an aspirational object to set expectations.

Quality: Shoppers need assurance of quality. Poland's Biedronka advertises that to assure the safety of the food it sells, the company has 200 items tested everyday by an independent laboratory.

Figure 1: All the retailers studied had marketing media inside the store, typically poster or banner types. Supermercados Peruanos and Pick n Pay had major digital displays, with Magazine Luiza having a dedicated television and radio network.

Presentation: Walls of product display can convey dominance in a commodity that shoppers normally associate with the traditional market.

Variations in local dialect and language, along with limited literacy, sometimes make it difficult to create in-store signage. Done well, the problem becomes an opportunity for building trust when the message is communicated respectfully and clearly, perhaps using icons rather than language.

Finally, communicating value is about more than product and price. It also involves creating a store environment that projects an overall sense of security and safety. The majority of retailers provide ATMs and other services that begin to make the store feel like a space for gathering as a community and not simply a place to shop.

In emergent markets, the success of retailing is intertwined with the progress of local communities. When engaging in social outreach, retailers help the communities they serve and communicate positively about the brand.

Emergent Market Advantages

In some ways, communicating about a brand is easier in emergent markets. A brand communication is less likely to be lost amid clutter and competitive messaging. This ability to establish brand identity is illustrated by the way retailers can introduce new, even radically different, store formats, with relative ease.

The basic store banners of Supermercados Peruanos include the high-end Vivanda as well as Mass, which is targeted at low-income shoppers. Pick n Pay can offer its highly branded banner as a supermarket or hypermarket while also having Boxer as a hard-discount banner. All these contrasting brands were established quickly and without confusing the consumer or blurring the image of the parent brand.

The speed and clarity of communication comes with a downside—bad news travels equally fast. And counter attacks by competitors can be brutal and direct.

In communicating about the brand, emergent markets also share one other unlikely advantage—technology, especially mobile technology. Emergent market retailers have experimented with these capabilities for awhile and use them to accelerate their marketing strategies.

It's not that these retailers had greater foresight as much as they understood that the revolutionary nature of emergent markets sometimes delivers advantages. And they intelligently responded to an astonishing reality of life in the communities they serve.

Rapid Transition

In the developed world, retailers and marketers are struggling with ways to effectively reach consumers with messages sent to their mobile phones. The technology exists, but cultural attitudes and laws that protect privacy often prohibit its implementation. With some exceptions, that also is the case in emergent markets.

Magazine Luiza, in Brazil, mines its credit records for customers who are reaching their last payment installment. Store managers are provided with the names and cell phone numbers and encouraged to have sales people call nearby customers to discuss potential future purchases. An offer even might be sent by text.

Figure 2: A Day in the Life

A Day in the Life

Middle Class Professional in Latin America

7:00am	Wake
8:00am	Get breakfast bread from vendor at door
8:30am	Stuck in traffic, buy a newspaper from street vendor
9:00am	Arrive at work, get coffee at corner kiosk
11:00am	Get a coffee and pastry from building vendor
1:00pm	Eat in company dining room
4:00pm	Coffee at corner kiosk
6:00pm	Meet with friends for snack
8:00pm	Stop at supermarket Buy ready-to-eat meal
10:00pm	Eat dinner
Midnight	Go to bed

Note: The contact to organized retail was at 11am, 1pm, and 8pm. The other four moments involved purchases from the fragmented trade. All classes of people use all types of vendors in an emergent market.

In South Africa, when a customer's store card is scanned at checkout, the register sometimes responds with an electronic text greeting that identifies the customer by name and adds a brief customized sales message. People in emergent markets are more likely to feel gratified by this recognition rather than offended by having their privacy violated. For them, this electronic marketing is sometimes accepted as positive acknowledgment of their individuality.

What seems especially consistent across all emergent markets is that they have transitioned faster than developed markets in the use of cellular phones and other mobile devices for purposes other than interpersonal voice communication. It is not uncommon, for example, for customers to pause in front of a shelf and conduct price comparisons on the internet using their cell phones.

In emergent markets, cell phones are used more for reaching the internet rather than for voice communication, which can be expensive. Connectivity is important even to people with limited financial resources. Offering free minutes for surfing the internet or checking a Facebook page is a way for retailers to strengthen the loyalty of these customers.

Using Wireless Media to Communicate with Customers and Employees

Wireless capability also means that digital flat screens are just as likely to be found among the retailers included in this study as they are in the stores of retail leaders in any developed market.

Digital screens provide retailers with many innovative and relatively inexpensive communication possibilities, such as taking existing content, a television advertisement from a supplier, for example, and inserting the retail brand. The screens

Figure 3: In Peru, Minka's mall solution, now ten years old, co-locates organized and fragmented retail under one roof

An Interesting Alternative in the Emerging Market

One of companies studied was Minka Ciudad Comercial del Perú. Located in the port city of Callao Peru, Minka is unique in purposely mixing the organized and fragmented market in one location. It is a mall solution aimed at bringing together these two dynamic markets so they can effectively attract more customers.

Opened in 1999, Minka was intended as an experimental alternative to the traditional central markets that the lower income groups normally shop. The name comes from the Quechua and Aymara languages of Peru, referring to cooperative work.

Minka provides a secure space, marketing, standards, and quality product for both its customers and retailers. It also works with the government to highlight locally produced products for sale.

Currently Minka is a contained compound of 1.2 million sq. ft. with 1,100 vendors and retailers, of which about two-thirds represent the fragmented trade. It averages 1.5 million shoppers per month, though during seasonal events the number of shoppers often jumps to 1.8 million.

also enable the retailer to combine colors and music into a multimedia expression of the brand.

Magazine Luiza typically has flat screen monitors located throughout the store. Most of the time, they broadcast advertisements along with education, health and public service announcements. The variety of programs helps customers and employees understand that, although the store primarily is a place for buying and selling merchandise, that is not its only function.

The store also is a center of community life that meets the broader concerns of its customers. This development often is a "tipping point" or escalator strengthening shoppers' affinity for, and reliance on, the organized trade.

When stores are closed, the programming focus shifts to employees with segments about technical product knowledge, sales techniques, or company culture. Most of the companies studied conduct e-learning for their employees. Some of the organizations, such as Supermercados Peruanos, might have training conducted on a terminal located in the store but away from the sales area.

Key Takeaways

1. Emergent market retailers have as many tools to use in communication as in the developed markets, just fewer that can be used effectively at one time. Care is needed to understand which media has the best resonance with the customer.
2. Because mobile technology is widely available and culturally accepted for marketing, emergent markets may be the best classrooms for learning about mobile retailing.
3. Emergent market consumers understand price better than most consumers in developed markets, but also have to contend with other issues such as product availability and possible quality concerns.

Serve All Customers, All Incomes

Immediate opportunity and future promise

Retailers in emergent markets serve customers from all income levels—rich, poor and all of those in the middle.

This approach differs from developed markets where retailers are more likely to focus on one economic band of customers, the middle class or those most capable of paying. That narrow targeting would not work in emergent markets for at least three reasons:

1. The middle class alone is not yet large enough to support the growth of a substantial retail business.
2. Lower income individuals and families already are important consumers. As their financial well-being improves, they will become higher spending customers and members of an expanding middle class.
3. People at all income levels shop in both the fragmented and organized markets.

These emergent market realities present retailers with a difficult challenge: convincing customers from across the entire income spectrum that they

Figure 1: Pricing, private label, and credit are enabling tools in the emerging market

Selling to Lower Income Customers

Price matters a lot in emergent markets. Lower income shoppers in particular spend a lot of time comparing prices because they have little if any discretionary funds. As a result, retailers are preoccupied with remaining price competitive. Their marketing primarily is about price and price alone rather than a more complex or subtle expression of value.

Retailers also lack the option of offering private label as a way to pick up some margin. Lower income shoppers depend on brand names for quality assurance. Buying private label brands leaves them feeling exposed to risks they can not afford to take.

In contrast, retailers use credit as a tool that builds in some margin for the seller while making the purchase affordable for the customer. In return for assuming some risk in offering credit, the retailer receives some benefits:

- The purchase price often is expressed in monthly payment terms, which makes the price of big-ticket items, such as home electronics, seem more affordable. This approach also shifts the customer's focus to affordability and away from the full sales price, which is open to comparison.
- Customers typically buy only one big-ticket item at a time on credit. Typically, credit customers make monthly payments in the store and each visit is another opportunity to generate a sale. Retailers monitor the customer's payment schedule and recommend new offers as the last payment approaches.

Figure 2: Tailoring the assortment—and banners—to local needs

Assortment and Banners

All of the retailers studied organize their product assortment into three general categories:

Basic Needs: This category includes staples such as rice, potatoes and meats along with certain services, such as cell phone recharging.

Mid-Level: This category supplements the basic needs and includes some processed foods, such as canned beans, small consumer electronics, basic home goods and apparel.

Aspirational: This category includes items that lower income individuals might select to celebrate special occasions, such as branded clothing, out-of-season fruits and better quality home furnishings.

Typically a retail banners carries a dominant assortment from only one of these categories. For example, Supermercados Peruanos offers higher end merchandise in its Vivanda stores while its Mass stores emphasize the lower end. Should the demographics of a neighborhood change, a retailer is more likely to introduce a new store banner than adjust the assortment of an existing store.

can meet their needs. The difficulty is compounded as more retailers enter emergent markets, and shoppers realize that they have increased choice.

To meet this challenge, retailers in both the fragmented and organized trades work to improve key aspects of their operations including price and affordability, allocation, assortment, and presentation.

Price and Affordability

How retailers achieve affordability differs market-by-market. In Latin America, retailers in both the fragmented and organized markets provide credit. In markets such as Turkey, where credit is less of a factor, retailers achieve affordability in other ways, such as engineering products to the price points that the core customer can afford.

Because the customer base comprises wealthier people as well, the assortment also includes some upscale items aimed at the higher income shoppers. BIM, in Turkey, and Poland's Biedronka take this approach. They also attempt to keep the shopping basket affordable without necessarily being the lowest priced option for each item.

In all emergent markets, affordability changes from day-to-day; it's connected to pay cycles. For people paid weekly, merchandise may not be affordable until Saturday, making the weekend prime shopping time. People who are paid daily are more likely to shop at the end of each day, on their way home from work.

Allocation

Most of the retailers studied allocate the same basic product selection across all of their stores. If a retailer operates stores under several sub-brands, the allocation may differ somewhat by banner. Within a banner the allocation is generally consistent regardless of the local variations in demographics surrounding each store.

The primary reason for this consistency is that distribution and other infrastructure and logistical shortcomings make it difficult to execute an allocation strategy that substantially customizes the product offering by store. In addition:

- Stores need a broad product range because they generally draw customers from all income levels.
- Stores need to signal respect for everyone and avoid singling out a particular group.
- Customer demographics can change quickly and radically. Given the revolutionary nature of emergent markets, the addition of a bus line, for example, can rapidly alter the size and income level of the local population.

Assortment

Good. Better. Best.

Figure 3: Fresh assortment, BHG (China)

Figure 4: Aspirational merchandise, Magazine Luiza (Brazil)

Figure 5: Boxer bundles essentials the low income shopper might buy in the informal market (South Africa)

This merchandising shorthand, so common in developed markets, is not yet found extensively in many emergent markets, where the value range often is reduced to a sharp dichotomy: cheapest; best.

This bifurcated model simply reflects the buying capability—and mentality—of lower income consumers. They usually can afford the cheapest and, for certain items, will save for the best. As the spending power of lower income people improves, retailers slowly fill out the assortment, making it more possible to find middle-quality products at good prices.

But low income levels still limit assortment, particularly in the fragmented market. These shoppers cannot afford many items. And they cannot afford to make many mistakes. Trying to feed or clothe a household on a tight budget leaves little room for error.

This need of the low-income customer to reduce risk and make every purchase count impacts product assortment in several ways. It increases reliance on brands and makes the introduction of private label more difficult. As a result, it is common to see manufacturer representatives offering product

Figure 6: Retailers deploy a variety of formats to meet local shopping needs

The Move Towards and Away From Multi-Format Operations

The Emergent Market exhibits tensions between income groups, transportation and infrastructure challenges, cultural change, and the movement of the population. Of the retailers studied there was in two cases a move toward a single banner/format that was intended to address the whole of the population. These were the two European retailers, BIM and Biedronka, which operate a limited-assortment market that is price-driven.

Magazine Luiza and BHG had one banner but different formats based on neighborhood and real estate needs. Examples include Magazine Luiza's Loja Virtual, Urban, and Mall and BHG's Hypermart and Market Place.

In the other cases the companies had multiple banners associated to specific formats that in turn were matched to specific population segments in locations or along key travel routes. Mass and Boxer were limited assortment grocery formats matched to lower income areas, Vivande and Pick n Pay's flagship stores were located in higher income or highly trafficked weekend areas.

There are trade-offs: Operating a single format company-wide provides the ability to focus on a single procurement/supply chain model, which translates to lower costs. In the cases of BIM and Biedronka this is a major market advantage. In the other cases the disparity of economic group in specific locations meant that the inefficiencies of managing multiple formats with an emerging market workforce were offset by greater customer response.

samples and providing the verbal assurance customers need to make a purchase. Larger manufacturers field two separate sales teams, one dedicated to the fragmented market and the other to the organized market.

Consumer shopping habits also influence how assortments found in stores of the traditional and organized markets compare and contrast. While most basic consumer packaged goods are likely to be found in stores of both the fragmented and organized trade, other categories are not equally present in both trades.

The fragmented market, with its vast number of stores, sometimes dominates certain specialty categories. The stationery category in Mexico would be an example of this phenomenon. In this case, stores in the organized trade might choose to exclude the category completely or to carry only a cursory offering. For such categories, customers from all income levels would necessarily shop in the fragmented market.

For certain other categories, the convenience of the location is more important than whether it is present in the fragmented or organized trade. For example, regardless of income level, customers often buy products for immediate consumption—a snack or a drink, perhaps—from the nearest trusted outlet. The trusted outlet could be in either the traditional or organized trade, although because of their omnipresence, traditional outlets often have the advantage for impulse or immediate consumption purchasing occasions.

Presentation

Retailers in the fragmented market rely on the competitive advantages of convenience and low prices, while retailers in the organized market promote the advantages of one-stop shopping and the experience of shopping as recreation.

In emphasizing their respective strengths, retailers in the fragmented and organized markets are pursing the same objective—increasing their appeal to customers at all income levels.

Each trade is learning from—and imitating—the other. The traditional retailers attempt to look more like the organized market retailers, while the organized market retailers work hard at appearing more like traditional vendors.

Traditional market retailers, for example, are making their stores cleaner and bringing some order to the sometimes haphazard layout of categories and products. They also are adding more signage, often asserting a price advantage over competition in the organized trade. In Latin America, the signs generally describe credit terms. In other emergent markets, retailers emphasize “their price/our price” comparisons.

Organized market retailers struggle with making their stores more informal without compromising important processes and efficiencies. For example, in the traditional trade customers expect produce to be piled into bins or onto tables. That kind of loose presentation signals freshness; careful packaging does not. The professional packaging and presentation style of retailers in the organized market sometimes puts them at a disadvantage. They need to work harder to achieve credibility about product freshness.

Customers bring to the organized market shopping habits they formed in the traditional market. Not only do they sometimes expect produce to be accessible and piled loosely, they also may feel awkward about taking their purchase to a checkout in the front of the store rather than weighing and paying for the food immediately in the produce department.

In the stores of the organized market, the checkout and other systems are designed to handle packaged goods. While shrink wrapping or packaging produce may reduce the appeal and impression of freshness, it does indeed make it possible to scan accurately and maintain perpetual inventory control.

Store Formats

The assortment and allocation decisions made in emergent markets are driven by store format and location. Smaller neighborhood stores, which are shopped daily, offer a limited assortment. Pricing is usually aggressive because spending is limited to the shopper's daily income. Stores of this type include Supermercados Peruanos' Mass, Pick n Pay's Boxer, BIM's standard store, and Biedronka's urban format.

In contrast, much larger stores such as Supermercados' Plaza Vea, Pick n Pay's hypermarts, and the large mall stores of Magazine Luiza or BHG are positioned to meet the varied needs of weekend shoppers. These stores are spacious enough to accommodate crowds of shoppers and offer a much larger assortment and price range of products.

Key Takeaways

1. Retailers in both the fragmented and organized markets serve customers of all income levels.
2. Satisfying all the needs of such a diverse customer base is complicated—but potentially enormously rewarding.
3. Retailers in the fragmented and organized trades have different approaches to meeting customer needs, but they are adopting some of each other's style and successful practices.
4. Store formats are a strategic means of establishing a position in a specific market related to timing of use, price, assortment, and product allocation.

Adapt to the Revolutionary Rhythm

Radical change shapes emergent markets

E-Commerce in Brazil is growing by 40 percent annually.

That statistic, from Euromonitor 2008, indicates the extraordinary pace of change in emergent markets. The markets are revolutionary. Not simply in the political sense, although many have experienced radical shifts in government. Emergent markets are revolutionary because change rarely happens gradually.

Like a body with a fragile immune system, an emergent market is susceptible to sudden change, and when stressed repercussions can be exaggerated and severe. On the other hand, the right intervention can produce swift and powerful recovery and progress. And successful retailers turn this volatility into opportunity.

- In 2001, for example, Turkey experienced a period of hyper-inflation that caused at least one retailer to adjust prices three times daily. In response, BIM, a hard-discount grocer, announced a price freeze on 100 key items and sustained the prices for three months. This bold and risky move earned credibility and customer trust.
- When the recent recession crippled consumer spending in Brazil, Magazine Luiza was part of a coordinated effort by retailers, suppliers and government to drop prices and credit terms on durable goods.

Along with drastic economic swings, other factors causing rapid change in emergent markets include government programs, urbanization, an expanding middle class, wide access to technology, the entrance of women into the workplace and the increased availability of credit.

Government Intervention

There is nothing new about government intervention to fight poverty.

What's new is the approach. In the past, governments often provided poor individuals and families with financial support to maintain subsistence living standards. Today's more progressive government programs provide education, health and other benefits that give people reasons to aspire for a better life—and the tools to achieve it.

In an approach initiated in Mexico and now succeeding in Brazil, government provides financial incentives that encourage people to educate their children and adopt good health practices and other behaviors that help secure a productive place in society. For the government, this approach are that it is less expensive than more traditional antipoverty programs and, most important, it seems to work.

Peru has a similar approach with an emphasis on the social integration of the country's diverse populations of indigenous peoples. Two aspects of this program affect retail directly: an agricultural policy that supports locally grown crops; and massive investment in infrastructure improvement.

These government efforts help expand the middle class. For many more people life becomes about making positive choices rather than adjusting to limiting circumstances. An increasingly educated, healthy and affluent population should result in a more productive and stable society that benefits all sectors, including retailing. Retailing then adds more jobs and infrastructure, enabling more people to spend. It's potentially a virtuous circle.

Urbanization

Retailing potential grows as these emergent economies continue the shift from agriculture to industry and people seeking work move from rural to urban areas. In Brazil, perhaps 75 percent of the nation's 190 million people are now crowded into cities. São Paulo, with a population of about 11 million people, is one of the largest cities in the world. By 2010, 82 percent of Mexico's 110 million people are expected to live in urban areas.

Rapid and intense urbanization has both positive and negative implications for retailing. The good news is that urbanization provides the density required to support multiple stores and to achieve economies of scale. The bad news is that the proverbial determinant of retailing success—location, location, location—can be difficult to execute. Because of poor infrastructure and unremitting traffic congestion, a store that seems close if measured by linear distance can be far away if measured by travel time.

The development of new infrastructure can ease the problem. It happens slowly, but it's possible as the experience of Chile illustrates. Before Chile's recent economic success, it was not unusual to see the nation's leading department stores side-by-side in the same locations because the country's transportation network limited retail expansion options. That problem has disappeared because of road construction during the past 10 years.

In countries where the problem persists, such as Brazil, retailers sometimes develop other solutions. Large retail chains have entered some difficult-to-access neighborhoods with stores about *one-tenth* the size of a traditional hypermarket. It is in these tight residential neighborhoods that the modern chains compete closest to the informal trade and has to respond with the same degree of customer service and recognition.

The Expanding Middle Class

New infrastructure and greater consumer choice, in the form of more stores, evinces the most important shift in the emergent markets—the rise of hope.

Figure 1: Brazil's Bolsa Familia: A Case Study in Tranformation

Bolsa Família: A Case Study

The Brazilian government's socio-economic improvement program is called Bolsa Família.

Bolsa Famlíia works in part as an electronic benefits transfer program. Members of the program receive a government-issued ID that works like a debit card. Payment transactions require a card reader, which tends to benefit the retail chain operators and the more sophisticated traditional merchants.

The Bolsa Família card is changing the nature of retailing. Traditionally, people shopped every day to buy needed items. With limited funds, the shopper normally required credit, which was dispensed by the retailer at high interest rates. Now, the customer can carry cash in the form of the plastic Bolsa Família ID.

As a consequence of the program, the government has increased discretionary spending, mostly on food, by 25 percent in poor areas and by 40 percent in areas of extreme poverty.

The shift from credit to cash changes the customer-retailer relationship. The customer, no longer dependent on the retailer for credit, is not necessarily tied to a daily shopping schedule and has the means to purchase more than necessities. Without the dependency created by credit, the retailer must cultivate customer loyalty with assortment, price and service. Retailers that successfully adjust will benefit from the customer's greater purchasing power.

One aspect of the credit-based transaction should not change—the mutual respect at the heart of the customer-retailer relationship. The need for credit historically has been free of negative connotation. For the customer, credit provided affordability. For the retailer, it yielded profit. The rest was a negotiation.

When people believe that their circumstances can change, still a revolutionary idea in many parts of the world, they begin to spend more and in turn prepare themselves and their children for earning more.

Figure 2: Brazil's now a middle class majority

Brazil: An Emergent Market Now with Middle Class Majority

According to a study by Marcelo Néri of the Getulio Vargas Foundation (FGV) the Brazilian middle class reached 51.89 percent of the country's population in April 2008. This group was defined as capable of affording a car and housing with income ranging from 1,064 Brazilian reals (US$ 676) to 4,591 reals (US$ 2,920). This was major leap from 2004, when this group represented 42.49 percent of Brazilians.

The FGV study has also identified lower social inequality and extreme poverty, which dropped 30 percent in the same period to 25.6 percent of the population. From 2001 to 2007, the poorest 10 percent of the population enjoyed a 49 percent increase in real income. This represented 27.8 million Brazilians (Brazil's population in 2009 is slightly less than 200 million) that joined the consumer economy.

In Brazil, 91 percent of teenagers say that they plan to attend university, according the 2008 Tru Global Teen Survey. Twenty years ago, most individuals would not expect their lives, or the lives of their children, to improve substantially.

For all of the challenges urbanization presents, it reinforces the emergence and collective economic power of the middle class. In cities, people constantly see others like themselves shopping for relatively expensive merchandise and speaking on the ubiquitous mobile phone, a symbol of the democratization of material goods.

These rising expectations result, to a great extent, from successful government programs supported by the World Bank and other international funding agencies. The impact of global commerce also is significant. Because emergent market countries are centers of manufacturing and assembly for products destined for North America and Europe, desirable merchandise often is available and affordable.

These observations about rising expectations and increasing well-being hold true for all of the countries studied—Brazil, China, Peru, Poland, South Africa and Turkey. Each country sits at a slightly different place along the developing market continuum.

Although Brazil is not without problems, it is an excellent example of government programs working. Because of its size and diversity, China's place on the continuum varies by region, with high development of the costal areas contrasting sharply with the situation in the interior. Peru is in the earliest stage. Turkey, like other emergent markets, has a growing middle class while people also live at the extremes, in poverty or affluence.

Impact on Retailing

An expanding middle class, with rising expectations and increased purchasing power, impacts retailing in ways that include:

- Expanded assortments: Consumers will expect more choice and retailers will expand their ranges in many categories.
- Higher margins: Retailers will add better quality merchandise that commands higher prices and earns higher margins.
- Increased spending on durables: New members of the middle class that lack durable goods, such as appliances, will be able to afford them.
- Increased spending on apparel: People will be ready to shop for wants as well as needs. Especially as more women work outside the home, those wants and needs will include dressing for the workplace.

Both the traditional and organized markets should benefit from the expanding middle class. Middle class individuals and families are more likely to shop in the organized market because better quality merchandise is available there. However, the fragmented market still exerts particular appeal including convenient locations and unique merchandise.

Trust, informality and personal connection between retailer and customer are hard to replicate in a genuine way in the organized trade. In the fragmented trade, credit sometimes is extended with a handshake, and product portions are more likely to be exactly what the customer needs, not what the supplier has packaged.

Technology

Unencumbered by a complicated heritage of accumulated hardware and software, retailers can adapt easily to state-of-the-art technology and leapfrog ahead of retailers in developed markets. They potentially can gain a competitive advantage by choosing and installing the right technology.

Similarly, consumers have missed years of iterations and expense when they purchase only the most current mobile phones and computers at today's much reduced prices.

And they feel confident. In 2008, 57 percent of consumers worldwide said that they felt confident about using new technology, according to The Futures Company Global Monitor. In contrast, the level of confidence reached 70 percent in Mexico and 77 percent in Brazil. Along with functional advantages, the ability to use technology confers status.

Impact on Retailing

The rapid acceptance of technology, especially the growth of internet and wireless, suggests dramatic implications for retailing:

Mobility: Mobile phones empower entrepreneurship. The GDP in developing countries grows by 1.5 percent for every 10 percent of mobile phone penetration, according remarks at a recent Davos World Economic Forum.

Transformation of in-store marketing: Cell phones are used intensely in emergent markets, where consumers are knowledgeable and concerned about price. Customers already make internet price comparisons by mobile phone, often while standing in the aisle during shopping visits.

Working Women

Women are rapidly entering the workplace in most of the emergent markets studied. Between 2003 and 2008, the employment of women rose by 23 percent in Brazil. During the same five-year period, the number of working women increased in Mexico by 21 percent, in South Africa by 20 percent, and in Poland by 13 percent. Only Turkey experienced a decline, in part because women lost jobs faster then men during the recent economic downturn.

Impact on Retailing

The increase in working women will mean better educated customers, with smaller families but increased household purchasing power. The change is likely to impact retailing in both predicable and unforeseen ways, such as:

Location: When women stay at home, where they shop is clear and somewhat limited. When women work, however, their shopping options expand and may be related to their commuting route.

Products: Along with more money to spend on necessities, women are likely to have more discretionary income to satisfy more shopping wants as well as needs.

Media: How marketing messages are communicated and where they are placed will change significantly.

Other: A related trend is that many men who remain unemployed often become primary home care-takers and increasingly house child care and household shopping duties.

Increased spending by women will continue to support traditional retailing. Women shoppers expect and are comfortable with the personal relationships and friendly reception associated with visiting the local merchants. The organized market also will benefit from higher spending potential of women, but the dimension of that impact still is an open question. Simply put, women will have more choices for their spending and will seek value based on a calculation of location, price and product availability.

Credit

Most customers in emergent markets would not be able to save enough from daily or weekly wages to afford expensive consumer goods such as durables, electronics and major home improvement items. The buying options for the very poor are even more narrowly defined.

Not surprisingly, traditional retailing in emergent markets has been driven by credit.

In the traditional trade, most of the credit is "book credit," a ledger maintained by the merchant to keep track of customers and their outstanding payment balances. That is particularly the case in Latin America. For the traditional retailer, the interest earned on credit is a more important profit component than price.

Retailers in the organized market depend on bank-issued credit cards. The interest makes money for the bank, while the retailer derives a profit from the margin between price and costs. In the emergent markets, the cards are likely to be store-issued with relatively low credit limits. In all cases, credit is a competitive tool that increases options for marketing and selling.

Impact on Retailing

Credit enables lower income people to actually buy something.

Credit enables higher income people to buy more and better things.

Both traditional credit and credit cards will continue to be available.

The increased availability for bank-issued cards should increase consumer spending, as it has in developed markets, driving more of that spending to the retailers that normally accept credit cards, meaning the organized market.

Security

Customers shop where they feel welcome, comfortable and secure.

That statement is true in any market. It is especially relevant in emergent markets. Crime happens everywhere. Shopping malls in the middle class neighborhoods of North America can experience high levels of shrink, and shoppers may feel vulnerable navigating their way through remote corners of parking garages. The solution in developed markets often is extensive electronic monitoring with closed circuit television. CCTV provides some deterrence and makes shoppers feel more secure.

This solution doesn't work as well in emergent markets. People expect a more overt security presence. That doesn't mean guards patrolling like paramilitary with automatic weapons, although, in some emergent countries it would be typical to find an armed guard posted at a large store or in front of a bank. It does mean an adequate and visible security presence mostly made up of people, not cameras.

But it requires the right people, individuals who empathize with the local population and can be trained to sensitively and respectfully manage conflict and handle crowds, which can be large especially on weekends. Customers rising from poverty sometimes can be reactive to real or perceived insults, since their dignity has been too often abused in the past. For some, store security personnel can evoke memories of regimes that empowered uniformed forces to protect the status quo. The presence of guns usually sends the wrong message.

The right security environment also sends a broader message about the store. When customers feel accepted and comfortable, the store becomes more than a place to buy merchandise. It becomes a place where people attend classes, visit a café, access the internet, or obtain certain health or banking services, especially access to an ATM.

Key Takeaways

1. Change in emergent markets is revolutionary, meaning that the outcomes, and forces driving the change, are difficult to predict and control.
2. Both the traditional and organized markets will continue to co-exist for some time unless the organized market is able to quickly meet all the location, product and price needs of consumers at every income level—and that's not likely to happen soon.
3. The entrance of women into the workforce may have the greatest impact on the speed of market development because it will dramatically raise incomes and impact where and when people shop and the products they buy.

Selected Best Practice Considerations

These selected best practice considerations, evident to different degrees across all retailers studies, are aimed at a primary audience of emergent market and international retailers and suppliers, but other readers—investors, government and NGO officials—also should find them useful.

Value and Brand Development

1. Store experience: Emergent market customers enjoy shopping in stores that are entertaining, that feel comfortable and safe, and offer quality products at honest prices. Surrounding the commercial offering with other services strengthens the bond with customers. Those services can include the availability of credit, delivery, product education and a venue for gathering, for making the store a community space.

2. Projecting the brand: Fine-tuning the message and projecting the brand are important activities in any market. They are particularly critical in emergent markets where both customers and employees need to understand the benefits of the organized market. It's relatively simple to begin establishing a brand as most of the market is unbranded and fragmented. It's more difficult to sustain the brand.

3. Educating customers: Customers who have spent most of their lives shopping in the traditional market will not immediately understand the "rules of engagement" in a modern store. For example, in a traditional market, shoppers usually pay for produce at the point where they select their fruits and vegetables. The need to pay later, at the checkout in the front of the store, can be confusing, even intimidating. Customers won't shop in stores where they feel uncomfortable because they don't understand, or are confused by, the rules or expected behaviors.

4. Gaining local knowledge: Part of the international retailer job description is diplomacy. Advancing company interests and participating as a good corporate citizen requires getting to know about local and national government, establishing relationships and understanding the process.

5. Assuring the shopper ROI (return on investment): Spending money is not a casual activity for most consumers in emergent markets. Customers usually are purchasing to fill needs. And when they are acquiring a "want" the purchase generally is well thought out and not made on impulse. Because both time and money often are in short supply, the retailer can strengthen the bond with the customer by making each shopping trip worth the customer's investment.

6. Pricing to basic needs: Many shoppers are paid daily. Others are paid weekly. In both cases the pay cycle governs affordability. It's most effective to match product availability and pricing with the customer pay cycle.

Associates

7. Educating employees: Employees who are knowledgeable about retailing are critical to growing businesses in emergent markets where customers are unfamiliar with organized retailing. It is relatively easy to attract employees because labor is abundant and relatively cheap. Educating them will improve the employee, the business and the community.

8. Creating an internal culture: For many employees the retail job will be their first employment. The downside is that they may arrive at the company

with no prior experience. That's the upside, too. It's an opportunity to help employees develop good work habits that will benefit them and their employer.

9. Shaping careers: Once employees are trained and experienced, retention becomes an issue. Employees who feel that they have a higher purpose, a career, are more likely to stay than those who feel they're only collecting a pay envelope, which is available from other employers, too. Providing genuine tangible and intangible benefits can dim the attraction of other potential employers.

Store Concepts and Design

10. Store environment: A comfortable and secure store environment is critical. Customers will not frequent the store unless they feel safe. In emergent markets the best way to assure safety is with sufficient security personnel trained to respond with restraint and respect. Customers who feel safe and well treated will return to the store to shop and to spend time.

11. Design: It's useful to express the brand in all aspects of store design inside and outside. This approach takes on new meaning in emergent markets because of the variety of locations. Regardless of whether a store is located in a city and opens to pedestrian traffic or in a rural area and opens to a dusty road, the store environment needs to feel like the same reliable place.

Systems

12. Competitive advantage: IT can provide tremendous competitive advantage in an emergent market. It can quickly add efficiencies that make a difference on the bottom line.

13. The right amount: How much IT is enough? It's important to install enough IT to get the job done, but not so much that it frustrates employees.

Logistics

14. Design: It is helpful for a delivery logistics system to include capabilities for validating estimated times of arrival, providing extra security for high-value loads and inspecting product condition at all stages of the journey.

15. Investment: The retailer's investment is important, but the retailer can do only so much. The condition of roads and the density of traffic are government problems and are not likely to be solved quickly. Retailer solutions include building more distribution systems and locating them near stores. High levels of in-store inventory can protect against chronic delivery delays. But the hedge can be expensive.

Finance

16. Credit: Lower income customers cannot purchase without credit. Historically, they have depended on "book credit" from the fragmented trade. It is not possible to operate as a retailer in an emergent market without offering some kind of credit, which can be factored into the overall profitability of the sale.

17. Borrowing: Interest rates fluctuate but may remain relatively high for a while because of conservative banking practices in emergent markets. Alternative sources of financing include commercial real estate, which is in limited supply and therefore tends to appreciate sharply.

Suppliers and Distribution

18. Educating suppliers: Local suppliers may be less familiar with logistics processes, but educating them accrues several benefits. It results in suppliers who are trained to the company's specific needs and are likely to be loyal. And it contributes to the overall welfare of the society.

19. Learning from suppliers: International suppliers have expertise to share and are looking for partnership opportunities in emergent markets.

Company Profiles

CHINA: BEIJING HUALIAN GROUP (BHG)

One of China's largest multiformat operators, with hypermarkets, supermarkets and department stores, BHG attempts to offer the best price in the market on key perishables and ingredients. The Beijing Hualian Innovation and Training Center, a state-of-the-art facility for training managers and other employees, recently opened on a campus outside of Beijing.

Headquarters: Beijing, China

Country Markets: China, Singapore

Ownership: Beijing Hualian Hypermarket Co. Ltd. was established in June 1996. Beijing Hualian Department Store Co. Ltd. was established in May 1998. In a mix of government and private ownership, these companies are controlled by Beijing Hualian Group Investment Holding Co. Ltd., which is one of the 15 largest retail enterprises supported by China's Ministry Commerce.

Stores: BHG owns stores in 35 key cities and 13 provinces across China. There are three formats under the general BHG logo, hypermart, supermarket, and department store. BHG also operates a number of superstore formats under the BHG banner in Singapore.

Beijing Hualian Group serves a variety of locations, demographic groups, and shopper segments with a variety of formats.

POLAND: BIEDRONKA

Poland's largest chain of food stores, Biedronka, has been able to successfully execute an EDLP pricing policy and to shift substantially into higher margin private label products. Today, about 80 percent of the assortment is private label. The assortment is continually being enhanced with more fresh goods, drugstore products and some luxury items to draw more up-market customers and to provide aspirational merchandise for less affluent customers.

Headquarters: Warsaw, Poland

Country Markets: Poland

Ownership: Biedronka is owned by Jerónimo Martins Dystrybucja S.A., a member of Jerónimo Martins Group, one of the largest food companies in Portugal, founded in 1792, when the first store opened in Lisbon. The company entered Poland in 1995 and purchased 243 Biedronka stores in 1998.

Stores: The organization attempts to be as close as possible to the neighborhoods it serves and operates over 1,400 stores throughout Poland. The stores carry over 900 SKUs, primarily from Polish suppliers.

Biedronka has a neighborhood focus.

The assortment features a majority of polish brands.

TURKEY: BIM

Turkey's food hard-discounter operates in a similar way to German-based Aldi or Lidl, competing on price and the convenience of its locations. Although the company primarily targets the urban and rural poor, like most emergent market retailers, BIM serves customers from all economic backgrounds. A limited mix of up-market products are included in BIM's assortment to satisfy the needs of more affluent shoppers.

Headquarters: Istanbul, Turkey

Country Markets: Turkey, Morocco

Ownership: BİM Birleşik Mağazalar A.Ş. The company was founded in 1995.

Stores: The company operates over 2,500 stores throughout Turkey, serving them from a network of 27 distribution centers. BIM leases all locations, rejecting real estate ownership as part of its focus on keeping the business simple. The stores, all operated under the same banner, are small, about 2,000 to 6,000 sq. ft., and carry a limited assortment of about 600 SKUs.

Like Biedronka, BIM offers a neighborhood market look and feel.

BIM's limited, price-focused in-store marketing.

BRAZIL: MAGAZINE LUIZA

Brazil's largest appliance and home electronics retailer, Magazine Luiza began as a family operation and maintains an entrepreneurial style, empowering employees with substantial decision-making authority. The company also uses its extensive customer credit database to create loyalty programs that especially recognize high-volume customers.

Headquarters: Franca, São Paulo state

Country Markets: Brazil

Ownership: Magazine Luiza was established in 1957, when José and Luíza Trajano Donato opened a department store in Franca, Brazil.

Stores: Magazine Luiza operates over 430 stores in rural, suburban and urban locations throughout Brazil, with 50 stores recently opened in an aggressive expansion around São Paulo. The company operates a total of about 370 full-service stores in two sizes: a large store for malls and a small size for street locations. Magazine Luiza also operates about 60 small "virtual" outlets; carrying no merchandise, these stores are physical locations for making online sales.

Magazine Luiza's urban locations provides shoppers with benefits of traditional and organized trade.

Magazine Luiza offers aspirational products and services along with credit options.

PERU:
SUPERMERCADOS PERUANOS

Peru's second largest chain of supermarkets and hypermarkets, Supermercados Peruanos originally operated around Lima but is expanding throughout Peru. The company's core product offering includes food, beverages, prepared foods, personal care, cleaning items, toys, hardware and appliances.

Headquarters: Lima, Peru

Country Markets: Peru

Ownership: Supermercados was founded in 2004, after the Peruvian financial institution Interbank bought Supermercados Santa Isabel from Ahold, the Dutch-based transnational.

Stores: The company operates multiple banners across a variety of formats—supermarkets, hypermarkets and discount stores. When possible, stores are located near public transportation hubs. These banners include Vivanda, Plaza Vea, Santa Isabel, San Jorge, and the discounter Mass.

Supermercados Peruanos operates six banners across three types of retail stores.

The Mass format competes effectively with a price, convenience and quality messaging.

SOUTH AFRICA: Pick n Pay

South Africa's leading chain of food stores, Pick n Pay, also operates in surrounding countries. To serve local markets most effectively, the company trades under a variety of store banners and also maintains a franchise network. Its Boxer stores, for example, offer product in bulk, giving poorer customers to gain a price advantage by pooling their resources.

Headquarters: Capetown, South Africa

Country Markets: Pick n Pay operates stores in South Africa, Botswana and Swaziland with a few stores also located in Namibia. It also runs the Franklins division, a discount supermarket chain in Australia. Pick n Pay is exploring Nigeria and Angola as part of a larger strategic initiative to defend against potential incursions by global retailers.

Ownership: Pick n Pay was founded with the purchase of four stores by the Raymond Ackerman family in 1967. The company was listed on the JSE Securities Exchange, South Africa in 1968. The company remains family controlled and operates three divisions: Pick n Pay Retail, Group Enterprises, and Franklins Australia.

Stores: The organization operates a total of almost 900 stores under many different banners including hypermarkets, supermarkets, apparel specialist, liquor, pharmacies, hardware stores, and small markets. These stores are owned and operated by the corporation or franchises under the Pick n'Pay, TM, and Boxer banners.

Pick n Pay's formats include upscale mall based chains.

The Boxer format blends elements of organized and traditional trade.

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The Coca-Cola Retailing Research Council – Latin America (CCRRC – LA) is dedicated to developing a better understanding of the food retailing and allied merchandise distribution in Latin America. It concentrates on identifying and studying selected relevant issues, and then presenting its findings to manufacturing and retailing communities, in order to assist in the development and enhancement of the food retailing business.

Consultants

The CCRRC commissioned the following consultancies to lead the development of this project:

WPP – The Store

The Store brings the vast resources and thinking of WPP, one of the world's largest integrated marketing agencies. The Store was co-author of the 2000 CCRRCE study on "The Store of the Future" and 2007 CCRRCE "Inflection Point" research.

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The Futures Company

The Futures Company—the coming together of Yankelovich, Inc. and Henley Centre HeadlightVision—is a ground-breaking global trends and futures research and consultancy business. The Futures Company integrates proprietary quantitative survey data with observational insights to create deep and dynamic perspectives on the consumer trends shaping their clients' businesses around the world.

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MVI, a Kantar Retail Company

MVI, a Kantar Retail company, studies and tracks retail on a global basis. The company's consultants and analysts work with retailers and manufacturers to increase their understanding of channels, markets, and shoppers, ultimately developing winning strategies by applying retail best practices and comparative market insights.

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Previous Studies

Latin America Council, *Successful Retail Innovation*, 2008

Latin America Council, *Inside the Minds and Pockets of Latin American Consumers*, 2006

Latin America Council, *Creating Value in Retailing for Emerging Consumers*, 2003

For more information about the work of the Coca-Cola Retailing Research Council – Latin America and for how to order copies of this report, please visit the Council Global website at www.ccrrc.org and follow the link to the Latin America page.

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