ROUTLEDGE STUDIES IN INTERNATIONAL BUSINESS AND THE WORLD ECONOMY

Retailing in Emerging Markets

A policy and strategy perspective

Edited by
Malobi Mukherjee, Richard Cuthbertson
and Elizabeth Howard

ROUTLEDGE

The international variety and inconsistencies in public policies towards retailing are well illustrated in this collection of studies. The editors, in drawing together contributions of specialists from each country, provide invaluable in-depth analyses of retail change in rapid growing emergent economies.

John Dawson, *Professor Emeritus, Universities of Edinburgh and Stirling, UK*

This book looks in detail at the challenges and opportunities which retailers face in nine very different countries across three continents. The authors provide an incisive description of the context in which retailers have to operate in emerging markets, and the book provides an in-depth analysis which reveals the complexity and nuances of the historical, legal, political, competitive, socio-economic and cultural factors at work in each market. While an excellent reference work which summarises previous academic findings, punctuated by illustrative case studies, it's an accessible and enjoyable read, it should be required reading for retailers and policy makers alike.

Alan Giles, *Former Chairman of Fatface and CEO of HMV Group*

There can be no doubt that retail development that took decades in Europe or North America happened and is happening much faster in emerging markets. However as many multinational companies have discovered the hard way, the changes follow very different patterns in different countries and markets according to the traditions, history, government and other unique influences. There is no one size fits all solution! This book should be required reading for those desiring to understand why the differences happen and those who are planning new ventures, new marketing plans or managing existing retail operations in an emerging market.

Randy Guttery, *CEO, Reliance Market, India*

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Retailing in Emerging Markets

Retailing is changing extremely rapidly in the emerging economies, both as a driver of social and economic change, and a consequence of economic development and the rise of consumer societies. Changes that took many decades in Europe or North America are happening at a much greater speed in emerging markets, while regulations continue to be hotly contested in these markets, raising questions about appropriate business strategies for both globalising firms and local contenders.

While much has been written about retail in emerging markets, the focus has been primarily on the nature of entry strategies for Western retail companies. This book seeks to capture the impact of both internal and external regulations on retail development and strategy in emerging markets. It provides a comprehensive and up-to-date assessment of the development of retailing in a wide range of emerging economies, and seeks to capture the interplay between both retail policy and retail strategy and the theoretical implications of this on retail development as a whole.

This book will be of interest to academics, researchers and advanced students with an interest in retail development in emerging markets, international business/strategy and international marketing.

Malobi Mukherjee is a Research Fellow at the Oxford Institute of Retail Management, Said Business School, University of Oxford.

Richard Cuthbertson is Research Director at the Oxford Institute of Retail Management, Said Business School, University of Oxford.

Elizabeth Howard is Emeritus Fellow in Retailing at Green Templeton College and a founder member of the Oxford Institute of Retail Management.

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Contributors

Atish Chattopadhyay, S. P. Jain Institute for Management and Research, India.

Richard Cuthbertson, Research Director, Oxford Institute of Retail Management, Said Business School, University of Oxford.

Nikhilesh Dholakia, University of Rhode Island, USA.

Ruby Roy Dholakia, University of Rhode Island, USA.

Igor Dukeov, Associate Professor, EMT Area Principal, Stockholm School of Economics, Russia.

Elizabeth M. M. Q. Farina, School of Economics, Business and Accounting – University of São Paulo, Brazil.

Guilherme Fowler de A. Monteiro, Insper Institute of Education and Research, Brazil.

Elizabeth Howard, Emeritus Fellow in Retailing, Green Templeton College and a founder member of the Oxford Institute of Retail Management.

Octavio Ibarra, Dean of the Business School, Universidad del Norte, Colombia.

Boonying Kongarchapatara, Adjunct Faculty, Retail Marketing, College of Management, Mahidol University, Bangkok, Thailand.

Brent McKenzie, Associate Professor, Department of Marketing and Consumer Studies, University of Guelph, Canada.

Masayoshi Maruyama, Graduate School of Business Administration, Kobe University, Kobe, Japan.

Malobi Mukherjee, Research Fellow, Oxford Institute of Retail Management, Said Business School, University of Oxford.

B.S. Nagesh, Deputy Chairman, Shoppers Stop Ltd., India.

A. Y. Agung Nugroho, Senior Lecturer/Senior Researcher, Faculty of Business Administration and Communication Sciences, Atma Jaya Catholic University of Indonesia, Jakarta, Indonesia.

Rubens Nunes, School of Zootecnic and Food Engineering – University of São Paulo, Brazil.

Nitin Sanghavi, Manchester Business School, University of Manchester, UK.

Randall Shannon, Program Chair of Marketing and Management, College of Management, Mahidol University, Bangkok, Thailand.

Lisa Qixun Siebers, Senior Lecturer in Marketing at Nottingham Business School, Nottingham Trent University, UK.

Angeline Tay, Associate Professor, International University Malaya–Wales, Malaysia.

Nguyen Thi Thanh Tan, Graduate School of Business Administration, Kobe University, Kobe, Japan.

Le Viet Trung, Research Center for Petroleum Economics and Management, Vietnam Petroleum Institute, Petrovietnam, Hanoi, Vietnam.

Sih Yuliana Wahyuningtyas, Postdoctoral Researcher, KU Leuven – Interdisciplinary Centre for Law and ICT (ICRI)/The Centre for Intellectual Property Rights (CIR) – iMinds, Leuven, Belgium; Lecturer/Researcher, Faculty of Law, Atma Jaya Catholic University of Indonesia, Jakarta, Indonesia.

Mark Williams, Professor of Law, Melbourne Law School, University of Melbourne, Australia.

Jiyao Xun, Associate Professor in Business and Administration at SHU-UTS SILC Business School, Shanghai University, China.

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Abbreviations

AEC	Asian Economic Community
APAS	Association of Supermarkets of São Paulo (Associação Paulista de Supermercados)
B2B	business-to-business
B2C	business-to-consumer
BBB	big box boulevard
C2C	consumer-to-consumer
CADE	Administrative Council of Economic Defence
CBD	central business district
CCEC	China National Commodity Exchange Centre
CCM	Co-operative Commission Malaysia
CEASA	Regional Centre of Supply
CECF	China Export Commodities Fair
CEO	chief executive officer
CGOS	China Goods Ordering System
CIP	Interministerial Pricing Council
COD	cash on delivery
COFAP	Federal Committee for Supplies and Prices
CSR	corporate social responsibility
CVR	China Resources Vanguard
EBITDA	earnings before interest, taxes, depreciation and amortization
EDI	electronic data interchange
EDLP	everyday low price
EIAR	environmental impact assessment report
ENT	economic needs test
EPP	entry point project
EPU	Economic Planning Unit
ETP	Economic Transformation Programme
FAMA	Federal Agriculture Marketing Authority
FDI	foreign direct investment
FFV	fresh fruit and vegetables
FIC	Foreign Investment Committee
FIE	foreign invested enterprise

FMCG	fast-moving consumer goods
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GNI	Gross National Income
GOI	Government of India
GRP	Gross Regional Product
GSO	General Statistic Office
GST	Goods and Services Tax
HCMC	Ho Chi Minh City
HoReCa	hotels, restaurants and caterers
IC	investment certificate
IMF	International Monetary Fund
IPO	initial public offering
JETRO	Japan External Trade Organization
JSC	joint stock company
JV	joint venture
JVC	joint venture company
KLIA	Kuala Lumpur International Airport
LOP	Law on Prices
M&A	merger and acquisition
MBR	multi brand retailing
MDTCC	Ministry of Domestic Trade, Co-operatives and Consumerism
MLM	multilevel marketing
MOFCOM	Ministry of Commerce
MOH	Ministry of Health
MOIT	Ministry of Industry and Trade
MOST	Ministry of Science and Technology
MRA	Makro Retail Alliance
MRP	maximum retail price
MSO	modern status orientation
MyCC	Malaysian Competition Commission
NDP	national development plan
NKEA	National Key Economic Area
NRDC	National Reform and Development Commission
ODA	official development assistance
PCI	per capita income
PNL	National Dairy Farm Programme
POS	point-of-sale
PPP	purchasing power parity
PRC	People's Republic of China
SAIC	State Administration of Industry and Commerce
SBR	single brand retailing
SEBRAE	Support Service for Micro and Small Companies (Brazil)
SKU	stock keeping unit
SME	small and medium enterprise

SOE	state-owned enterprise
SOP	standard operating procedure
SSL	Shoppers Stop Limited
SUNAB	Supplies and Pricing National Department (Brazil)
TNC	transnational corporation
TRIM	Trade-Related Investment Measure
TSO	traditional status orientation
UHT	ultra high temperature
VDA	Vietnam Distribution Association Network Development
WFOC	wholly foreign-owned company
WFOE	wholly foreign-owned enterprise

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1 Introduction

Malobi Mukherjee, Richard Cuthbertson and Elizabeth Howard

Retail change is a key element of economic development in many countries, and a powerful driver of consumer and environmental change. Changes that took many decades in Europe or North America have been happening and continue to occur at a much greater speed in a number of emerging economies. We see the growth of large firms, the integration of supply chains, the presentation of wider ranges of goods, and the development of new malls and stores in new locations. The implications of such changes are profound. The urban and cultural landscapes as well as the business landscape are affected. Retailing is part of the everyday fabric of life and changes in it are hugely important for consumer welfare and lifestyles (Cuthbertson *et al.* 2005). Retail development is bringing a greater, more consistent, better quality supply of basic goods as well as luxuries to more and more people across the globe. The race for economic development and the efforts of governments of all kinds to improve the lot of their citizens are also dependent on the development of the consumer economy. Change can be seen to have both benefits and disadvantages, however, and there are varying interpretations of the significance of the social changes implied in increasing consumption, as well as of the disruptions of economic development. Regulation is often hotly contested in this situation. This is particularly so where foreign firms enter new markets as part of their internationalization strategies. We want in this book to explore what is happening in a variety of rapidly changing economies, and especially to look at the interplay between retail business and regulation. Our aim is to understand similarities and differences across countries.

There has been a great deal of retail change since the mid-twentieth century, part of a complex interplay of global and local economic trends with national regulatory changes. This book focuses on those from the mid-1990s until today. We would argue that there are strong converging trends in retail patterns across many countries, yet there are still profound differences among countries, and the outcomes of the interplay of regulation and enterprise vary.

The 'Asian financial crisis' of 1997 was one turning point, marked by a loosening of regulation and an upsurge in foreign investment in certain countries. Thailand is a prominent example of extensive deregulation and the book begins with an examination of its situation. Regional neighbours Malaysia and Indonesia have retail histories that are both similar and different in key aspects and discussions of them follow. Malaysia is a middle income, emerging economy where the political rhetoric is that it will soon be a 'developed' not 'developing' country and there have been government initiatives to make it a world class shopping destination. Indonesia – like many countries, but more than most – has been a battlefield of regulation seeking to protect small to medium enterprises while opening the market to foreign investment. Vietnam is the next Asian country in our study. A country that remained isolated from foreign retail development until much more recently, and where economic and social change is now happening more rapidly, is it a 'new tiger'? We may ask what lessons may be being applied here from the experience of its neighbours.

Is retailing becoming more homogenised across the world? Are the public policy issues similar in different countries across the world? Examining change in the continent of South America helps to answer this key question. Brazil, a large and growing economy, has seen growth related to trade liberalization, but consequent questions about smaller firms and about agriculture. The contrasting case of smaller Columbia shows some of the same questions but also the strategic use of the development of law, which aims at achieving greater policy stability. Political and legal stability has been one of the major questions in the eyes of foreign investors in Russia. Chapter 8 examines how this large economy is and has been dealing with the interplay of consumer demand and business development.

China is of course the country with the largest scale change underway. The chapter here examines how it has moved from an entirely regulated system to the dynamic and rapidly growing market of today. India is the other huge globally significant country that we must examine if we are to understand global retail change. The story here is of much less deregulation.

The choice of countries for the book chapters shows a mix of retail progress (very rapid in some cases, such as Malaysia), retail slowdown (very rapid in the case of Russia) and slow progress despite their varying market attractiveness and country risks. We acknowledge that the coverage of emerging economies is far from comprehensive, but we believe that this selection of countries will provide an overview and perspective on the multifarious and complex issues that concern us.

Key issues in retail development in the emerging markets

Traditional vs modern retailing

In the environments described, how do large and small retailers, international and local firms, compete and develop? Consumer demand is increasing hugely but issues about fair competition can be seen, as bigger firms start to influence markets. In the emerging economies we examine, the competitive situation is evolving very quickly, with a complex battle between international and local firms, and between large firms (which are sometimes local and sometimes foreign) and small ones, and between those with new formulas and small or medium sized firms with more traditional offers.

We would argue that a key (but not sole) driver of strategies in the countries we examine is the influence of international retailers, and the responses of indigenous firms to them. Globalisation takes many forms. Retailing ideas are just as important travellers as retail firms, and it is not only the arrival of particular new competitors that produces change. Waves of modernisation in many countries demonstrate the strategic ambition of local firms as well as of global ones – ambition to respond to growing consumer prosperity (see Table 1.1). The most successful retailers have been riding those waves of change.

Existing theoretical models have been developed, applied, criticised and refined to capture the nuances of retail development, retail change and international retail strategies, but the context of this research has usually been Western mature markets (the US and Western Europe), so we must question applicability elsewhere. Academic interest in emerging markets has been on the rise since the early 1990s and with the backdrop of successive global slowdowns. Perhaps there are parallels between the current context of retailing in emerging markets and the environmental context of the Western markets during the 1970s and 1980s (Bates 1976; Davidson and Rodgers 1981) that might promote the relevance of theories developed then and there. Moreover, if we take into account that modern retailing is an accumulation of incremental steps over time then such retail development theories such as the retail life cycle, the wheel of retailing, the scrambled merchandising/ retail accordion may be valid and useful in the study of retailing in emerging markets. We may, however, gain further support for the many criticisms of the state of retail theory, as applied in mature markets, in this look at emerging markets. We will return to this question in the concluding chapter, with a particular look at the nature of change itself. Is it disruptive, or part of a more orderly and managed process, and how much do countries vary in their experience?

Table 1.1 Forecast for personal disposable income per head in USD up to 2016

Country/region	*2013*	*2014*	*2015*	*2016*
Brazil	7,490.00	7,970.00	8,450.00	9,000.00
China	3,130.00	3,610.00	4,140.00	4,720.00
Colombia	5,850.00	6,170.00	6,530.00	6,940.00
India	1,270.00	1,450.00	1,640.00	1,850.00
Indonesia	1,180.00	1,310.00	1,500.00	1,690.00
Malaysia	4,700.00	5,060.00	5,540.00	5,910.00
Thailand	2,860.00	3,030.00	3,220.00	3,450.00
Vietnam	692.00	759.00	811.00	851.00
Russia	7,930.00	8,370.00	9,030.00	9,900.00

Source: Adapted from Economist Intelligence Unit, 2013.

One particularly important point that will arise through the following chapters is that, as modern retailing institutions and practices move towards greater global acceptance, the need to identify the opportunities in emerging markets and gain insights into the role of smaller (but dominant) retailers in these markets becomes an imperative (Evans 2011). Lenoartowicz and Balasubramaniun (2009) noted from their analysis of the operational business model of smaller retailers that an understanding of the smaller retail formats in emerging markets is fundamental to contemporary academic retail research. Global retailers will not only compete with them in the future but market entry strategies will need to account for the competitive advantage the small stores have in terms of light infrastructural requirements, personalised relationships with consumers, understanding of the local demographics and flexible distribution models.

A combination of global and local economic trends, changing socio-demographic patterns and the resultant shifts in cultural trends over the years have given rise to an aspirational class of consumers in emerging markets. Rising aspirations suggest that there will be an increase in hedonic shopping attitudes. However, where increasing modernity exists in parallel with traditionalism, where poverty and affluence exist side by side, there is unlikely to be a simple movement along the consumer behaviour spectrum. The combination of changing aspirations and existing traditionalism therefore creates opportunities for a number of retail formats to evolve over a period of time. A key question for us is how and to what extent a combination of traditional and modern retail formats can continue to exist. One assumption is that big box formats, large firms and integrated supply chains benefit from economies of scale and scope unlike the traditional retailers who are eventually driven out of the market. The chapters in this book show, however, that it is not a simple story: agglomerations of traditional and modern continue to exist in emerging and developed markets. The pertinent question to ask is about the nature of competition between the traditional and modern retailers. Is the competition price based or service based? Do traditional retailers revamp their businesses to make themselves more competitive? Do modern retailers adapt to the local requirements and scale down their operations to make themselves more akin to traditional retailers? Or is there a dual model of retailing that develops in emerging markets with two distinctive groups of retailers, each operating on the basis of their respective strengths? These are some of the overarching issues that will be explored in the book, with the aim of gaining an overview of the interplay among different retailers. Chapters address the specifics of retail strategy with an emphasis on customer strategies, employee strategies, locational and planning strategies. The changing nature of consumer behaviour in these markets and its impact on retail strategy is also assessed.

Public policies in emerging markets

Retail modernisation has been and continues to be a very politically sensitive issue debated in most emerging markets (Reardon and Hopkins 2006; Fels 2009). The issues are to do with opening of borders and freer trade; with fair competition among firms and with consumer protection from too powerful enterprises. They concern small businesses, the encouragement of entrepreneurial activity and the protection of jobs. Environmental issues arise too, related to patterns of building, urban and regional development and the use of resources. Whichever dominates the rhetoric in a particular country, they all seem to arise, and the following chapters explore their different outcomes. Myriad issues result in a balancing act that regulators have to perform in order to address the economic, environmental and political rationale of retail development. While the economic rationale of liberalising the sector to aid development has triggered retail modernisation, in all emerging markets to a greater or lesser degree, regulators have found themselves in a quandary over the future of traditional retailers in their countries. Economic rationale has demanded liberalisation, political rationale has demanded caution. Regulators have had to make a choice between the pursuit of credit for retail sector liberalisation or blame-avoidance from the possible demise of traditional retailing. Whether a development actually provides tangible benefits can seem relatively unimportant in such cases; what gains predominance is whether the use of policies provides politicians with something they can claim credit for (Wolman and Spitzley 1996).

Are retail regulations in emerging markets transformative, assisting in retail becoming a key driver of the economy in these markets? Or are the regulations more collaborative, creating enough opportunity for old and new to engage competitively in a thriving environment? Alternatively, are retail regulations in these markets restrictive in nature, so that modernisation is allowed only in specific measures in order to protect the interest of traditional retailers? Are governments becoming more concerned with the long-term structure of the sector, or focused on particular, perhaps more short-term, issues? Within these overarching themes, the following chapters on the various countries will examine the nature of planning and building regulations, business and competition laws.

Convergence or divergence

A shopper in mature retail markets may be forgiven for complaining that all shopping centres are alike these days. They are not, of course, but undoubtedly the developments of the last 40 years have increased their similarities. We might argue that similar developments are bringing a much wider convergence across the world, as ‘modern’ retailing, international retail firms, and rapid building of stores and malls bring similar facilities to many different countries. The big trends that have brought retail markets to maturity, and to resemble one another, in Europe, have been clear enough. Consolidation of markets and firms; a trend to greater scale in stores, firms and supply chains; the decline of both small specialists and department stores, and the growth of branded large-scale specialists and of food-based general stores; the professionalization of retailing; the internationalization of businesses (Krafft and Mantrala 2006). All these and more are well known and can now be identified in emerging markets too. Does this mean that we are seeing homogenisation of the industry and of the offers available for consumers? Or are cultural, environmental and regulatory differences, along with the strategic choices of retailers sufficient to ensure that ‘locality’ remains key to the industry? These are questions that we believe the following chapters will illuminate.

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2 Transformations in Thailand's retailing landscape

Public policies, regulations and strategies

Boonying Kongarchapatara and Randall Shannon

Introduction

With an economy of approximately GBP 200,000 million, measured in terms of Gross Domestic Product (GDP), the Kingdom of Thailand is relatively small compared to leading developed economies, such as the United Kingdom at GBP 1.4 trillion, Japan at GBP 3.4 trillion and the United States of America at GBP 9.0 trillion. Nevertheless, Thailand is considered as one of the high potential emerging markets and has been very attractive for global investors, including property developers, food and grocery retailers and a wide range of other purveyors of goods and services. Thailand has a population of nearly 70 million, roughly half of which is under 35. Many global retailers have shown their interest by joint venturing or independently investing in Thailand, such as Tesco (the United Kingdom), Carrefour (France), Casino Group (France), 7-Eleven (Japan) and IKEA (Sweden). In addition, as stated on the Tesco website, Thailand is currently its second largest international market.

Many emerging markets, including Thailand, are seeing rapid transformations in the retailing sector, changes happening within 10 to 20 years whereas it took 50 to 80 years in the United States and many countries in Europe (Reardon and Hopkins 2006). The major development in Thailand occurred in the late 1980s and early 1990s, with the introduction of several modern retailing formats into the market, including convenience stores and hypermarkets, while supermarkets had opened approximately two decades earlier. This expansion was partially because of the financial crisis and devaluation of the Thai baht, which occurred in 1997.

The beginning of modern retailing in Thailand

Although the history of the retail market in Thailand can be traced back over the last several hundred years, the major move into modern retailing formats has taken place only since the middle of the twentieth century. Prior to the 1950s, almost all retailing activities were performed by traditional traders. Modern trade in Thailand was introduced by the Central Group with its first department store Central Wangburapa in 1956. This was the first time in Thailand that a retail store used newly designed displays and fixed price tags on product shelves. In 1964, Daimaru, the Japanese department store, opened in the Rajdamri area of Bangkok, but later on relocated to a suburban area and ultimately failed and decided to depart the Thai market.

In 1973, the Central Group introduced the first time ever concept in this market of a 'one-stop shopping place' by opening its new branch, Central Chidlom, that 40 years later is still one of the most popular shopping destinations. The 1980s were a rising time for department stores in Bangkok. A number of new department stores were established by local investors, including The Mall (Rajdamri), Robinson, City, Bang-lumpu, Merry Kings, Tang Hua Seng, Metro, Excel and a few Japanese ones such as Yaohan, Sogo, Tokyu and Isetan. There was a French department store in Bangkok, Printemps, but it had only a brief stay in the market. Tokyu and Isetan are the only remaining Japanese department stores, each having one location in Bangkok, while presently Central, Robinson and The Mall department stores are the key players in the department store and shopping mall market.

During the 1970s there were two local supermarkets founded in Bangkok: Foodland and Villa Market. These two supermarkets have not developed or expanded much, having only about thirteen and twenty-five locations respectively. By the year 2000, these local supermarkets were forced by the fierce competition to develop their store presentation and atmosphere and increase their number of store locations in order to stay competitive in the market, but they have been among the least aggressive of all brands in terms of expansion.

The attack of new retailing store formats

Although the period of the 1970s to 1980s was a booming period for department stores and shopping complexes, the competitive scene was about to change. In 1985, Jusco (owned by Aeon) was the first to launch its superstore in Thailand. In 1989, the Charoen Phokaphan or CP Group, a local agricultural conglomerate, decided to launch three new retailing businesses in the same year: 7-Eleven convenience stores, Sunny supermarkets and Makro, a cash and carry big box retailer (joint venture with SHV of the Netherlands). These new format retail stores have moved the retailing market to a new stage of competition with more specialised businesses, rather than a wide variety of departments in one shopping place.

Subsequently, in 1994, the CP Group also launched Lotus, the first hypermarket in Thailand, with the technical and operational assistance of some former executives of Wal-Mart, USA. In that same year, several global retailers also established their retailing stores in the Thai market, including Auchan (which failed relatively quickly), Carrefour and Big C Supercenter (partially owned by Casino). From roughly 1986 to 1997, the Thai economy saw double-digit economic growth. Several more new retailers founded their businesses in Thailand during this booming time, including supermarket chains, Tops (Royal Ahold) and Foodlion (Delhaize) and drug/beauty specialty stores, Boots and Watsons.