

PwC's Global Insights 2014

Drivers of growth for Cash and Carry
retailers in emerging markets



Evolution pathways and drivers of growth for Cash and Carry retailers



Questions that we sought to answer

- How has the Cash and Carry (C&C) retail model evolved in select emerging markets?
- What are the key drivers of evolution?
- What evolutionary pathways have countries like Brazil, Poland, Russia, India, and China taken?
- What are the key insights/platforms that could be leveraged for future evolution and why?

Our approach to this study



Our methodology

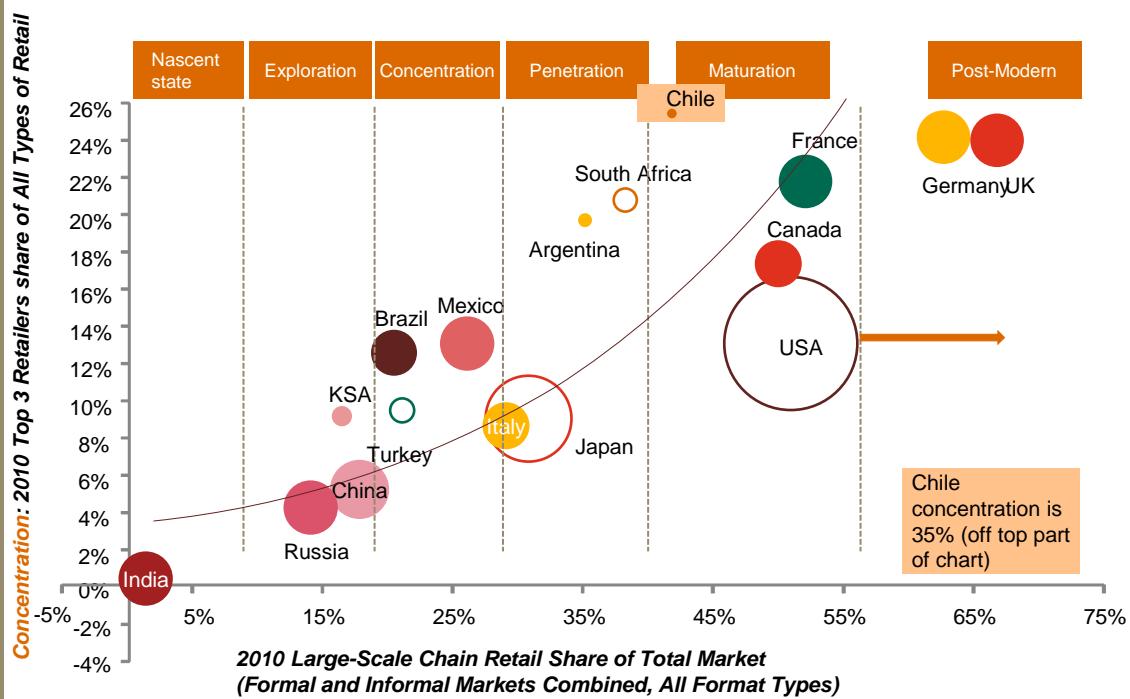
- Our analysis highlights four key category drivers and provides examples for how these drivers shaped the evolution of C&Cs in different countries.
- We formulated a hypothesis of five growth platforms that could be leveraged to define your future.
- We used the following resources to develop the analysis:
 - Interviews with PwC subject matter experts across 12 countries
 - PwC country reports
 - Third party research reports

Retail market evolution model

The retail industry is changing in all markets

We believe that C&Cs in emerging markets have an opportunity to bypass the traditional stages of modern retail evolution.

Retail market evolution model



Expanding global middle class allows for Cash and Carry growth potential

Global middle class statistics – Population in millions

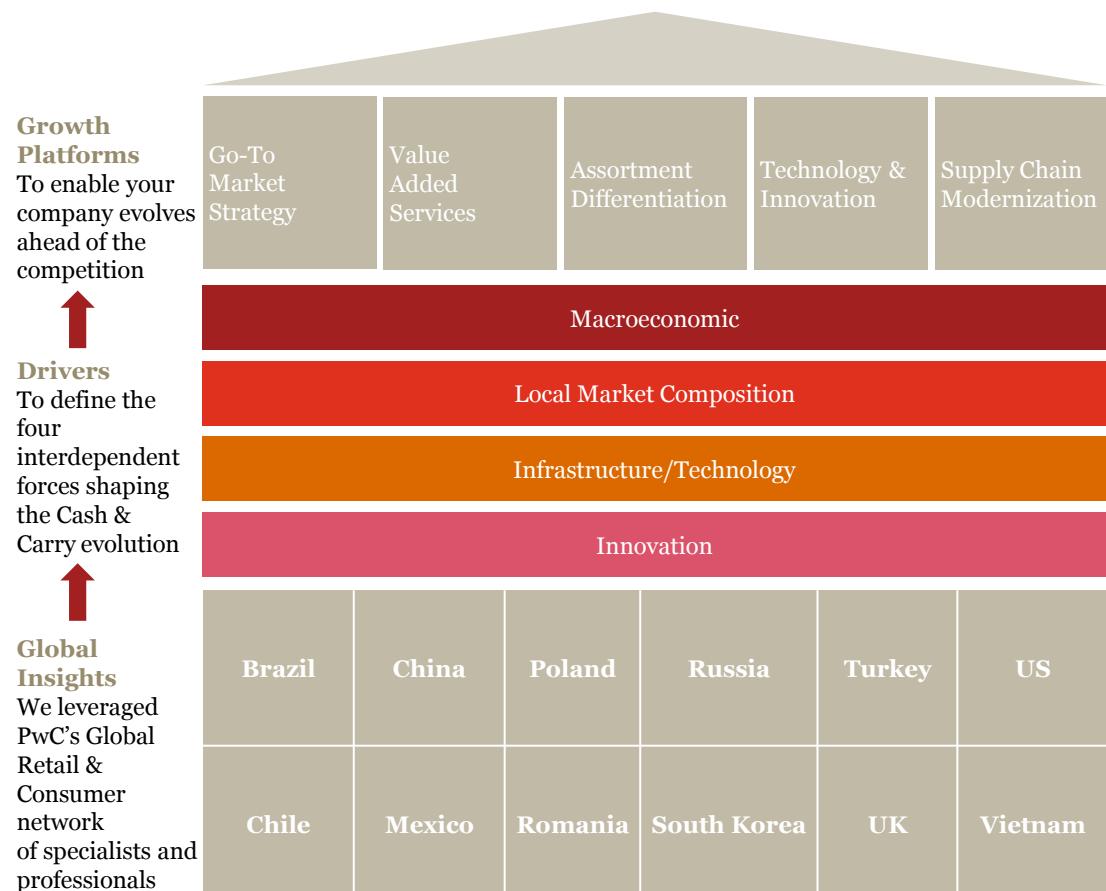
| | 2009 | | 2020 | | 2030 | |
|-------------------------------------|-------------|------------|-------------|------------|-------------|------------|
| North America | 338 | 18% | 333 | 10% | 322 | 7% |
| Europe | 664 | 36% | 703 | 22% | 680 | 14% |
| Central and South America | 181 | 10% | 251 | 8% | 313 | 6% |
| Asia Pacific | 525 | 28% | 1740 | 54% | 3228 | 66% |
| Sub-Saharan Africa | 32 | 2% | 57 | 2% | 107 | 2% |
| Middle East and North Africa | 105 | 6% | 165 | 5% | 234 | 5% |
| World | 1845 | 100% | 3249 | 100% | 4884 | 100% |

In 2020, the bulk of the “middle class” is expected to shift from North America and Europe to Asia Pacific – a shift that reflects the region’s surge in higher incomes.

Executive summary

Through our analysis we have identified four categories of drivers that define the evolution of the C&C retail model. We have also developed **five platforms** that **can be leveraged to accelerate and create differentiation from local and foreign competition**

Your company



Drivers



1 *Macroeconomic*

2 *Local market composition*

3 *Infrastructure/technology*

4 *Innovation*

Macroeconomic

Many aspects of the **macroeconomic** driver closely relate to those within the **local market composition** driver

Shaping the nature of competition and the success of transnational players

Regulation || Real Estate || Demographics || Ethno/Geo Diversity || Economy

Top Observations

- *Open Regulation* drives competition from transnational retailers and dissolution of traditional retailers (neighborhood stores and small format retailers)
- *High real estate costs* and large formats force C&C stores outside city limits
- *The rise of an affluent middle class* in developing countries is driving the growth and business model of the C&Cs (e.g. through product assortments and services)
- *Local market regulation allowing B2C operations vary by country and business needs*

Country Examples

- Poland, Romania, Vietnam, and Turkey have open markets; China, India, and Brazil allow foreign investment with heavy regulations; Chile, South Korea, and Russia have complex government regulations
- India's recent approval of foreign direct investments in multi-brand retail will intensify competition in the marketplace
- Big geographically and demographically diverse countries (e.g. developing markets such as India, Brazil, China, and Russia and developed markets such as the US) make regional/local adjustments to assortments and business strategies
- Local state taxes that differ by state dictate the business model instead of market forces (e.g. India)
- In almost all the emerging markets that we studied, real estate costs have driven C&C stores outside city limits

Local market composition

Many aspects of the **local market composition** driver closely relate to those within the **macroeconomic** driver

Differentiating in the marketplace

C&C Competition || Supplier Base || Retail Market Share || Growth || Centers/Urbanization

Top Observations

- *Local competition* in most countries stems from local traditional retail players
- C&Cs primary customer focus across countries is mid to large-sized Hotels, Restaurants and Cafés (HoReCas) and Services, Companies and Offices (SCOs) followed by the small to mid-sized traditional retail segment
- *Local supplier base management and relationships* could be a critical success factor
- *Growth and expansion* are driven by the proximity to urban centers and Tier 1 cities
- *Growth is also being driven by a network of C&C owned or franchised small format neighborhood stores*, to drive penetration and proximity to the end consumer

Country Examples

- Romania, Poland, and Vietnam have global players, whereas, Chile and South Korea are dominated by local players
- Foreign companies have misunderstood local consumer behavior and local supplier management in respective countries (e.g. Carrefour sold its control to local partners in Indonesia, Greece and Turkey)
- Romania is seeing growth in smaller format franchised stores by C&Cs
- C&Cs typically begin operations in Tier 1 cities and then Tier 2 cities (e.g. Brazilian C&Cs are mainly in the outskirts of big towns; Chinese C&Cs are in several Tier 2 cities)
- In India, most C&Cs are on the outskirts of the Tier 1 cities with massive expansion plans for Tier 2 cities where the competition is limited but the buying power of the middle class is growing.
- We predict that soon India and China will see C&Cs tapping the growing appetite of the rural areas.

Infrastructure/ technology

Many aspects of the **infrastructure/ technology** driver closely relate to those within the **innovation** driver

Optimizing and re-optimizing your business and leveraging the fast adoption of technology

Infrastructure || Location of Stores || Mobile Penetration ||
Internet/e-commerce || Big Data

Top Observations

- Advanced logistics and infrastructure (e.g. cold chain and 3PL solutions) could be strategic advantages
- Investment in building efficient, flexible, lean, and technology-enabled supply chains (as is being done in developed countries) could be a huge competitive advantage and drive revenue and margin growth
- By leveraging increasing penetration of mobile, internet, e-commerce, and evolving mobile applications for B2B customers and their end customers, C&Cs in emerging markets could leapfrog the West and in fact become test beds for them
- The nascentcy of modern trade investments in customer and consumer insights, enabled by data analytics, could help drive real-time innovation for B2B customer engagement and loyalty through customized promotions, services, and pricing

Country Examples

- Underdeveloped suburban infrastructure necessitates that stores be located near population hubs (e.g. Brazil, China, and India)
- However, there is a lack of transportation infrastructure such as cold chains, which limits the supply base. This in turn impacts the product differentiation opportunities (e.g. India)
- Access to capital is a constraint for local players (e.g. China)
- Buyers purchase small quantities due to high usage of public transportation (e.g. China)
- C&C call centers have been established to enable customers to place phone orders (e.g. Brazil)
- Several C&Cs have online solutions to facilitate business with their customers (e.g. China, Romania, Poland, and Russia)

Innovation

Many aspects of the **innovation** driver closely relate to those within the **infrastructure/technology** driver

Sustaining advantage and creating new markets

Brand Promise || Value Added Services || Customer Experience ||
Product and Assortment Innovation

Top Observations

- Private label, local and “global brands” are hustling for share – along value, brand or price leadership vectors
- Most C&Cs have achieved mixed success with private labels, playing mostly at a lower price range
- While product innovation is being driven by suppliers, C&Cs are driving assortment innovation based on customer needs such as specialty produce/ingredients for HoReCa buyers
- Service innovation and community initiatives are commonly seen across countries to drive loyalty (e.g. branding support or advisory services for small retailers and HoReCas)
- There are growing innovative formats across countries – the emergence of kiosks, technology interfaces, and small stores
- C&Cs are increasingly driving expansion through new and cost-effective business models such as franchisee networks

Country Examples

- Consumers in China and Turkey (post recession) are extremely price conscious and prefer local brands
- C&Cs are providing advisory and insurance services in Poland and Romania. They have also opened retail academies and have helped Russian retailers with branding
- To expand their footprint, some C&Cs in Poland are exploring medium-sized retail chain acquisitions
- Brazil has expanded its delivery services and sales depot on the shop floor to provide support to B2B buyers

Potential growth platforms



1 *Go-To Market Strategy*

2 *Value* Added Services*

3 *Assortment Differentiation*

4 *Technology & Innovation*

5 *Supply Chain Modernization*

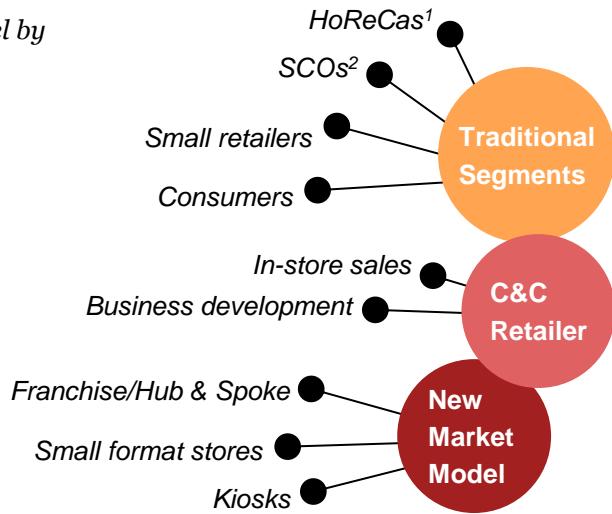
Potential growth platforms

While our five platforms are interlinked and interdependent, a distinct **Go-To Market Strategy** takes a lead role

1 Go-To Market Strategy

Pursue a multi-pronged strategy: penetrate neighborhoods and gain access to end consumers while lowering investments

- *Create a hub and spoke retail model by converting existing smaller format neighborhood stores to a franchisee network linked to its closest large format store (hub)*
- *Expand it to include traditional wholesalers who could become 'specialist spokes' dealing in specific categories only*
- *Drive economies of scale, reduce competitive threat, serve the emerging market consumer needs well (access to good quality neighborhood store) and reduce cost of expansion*



Consideration: Change the traditional structure of the trade in new markets to accelerate growth

Macroeconomic

Innovation

Drivers

¹ HoReCas: Hotels, Restaurants, Caterers, Cafes & Pubs

² SCOs: Services, Companies & Offices

Potential growth platforms

Build customer centric operations by offering value added services and differentiated assortments to increase loyalty, generate additional revenue, and meet diversified needs

② Value* Added Services

Build a differentiated customer experience

Initiatives (not an inclusive list):

- *Enhance key account management services* for large HoReCas and SCOs
- *Expand core services for small retail* to help them run their businesses more efficiently and effectively – deliveries, credit, automatic replenishment, business practice training, etc.
- *Expand services* – prepaid/credit cards, insurance, healthcare, store branding support, financial advisory services, chef advisory services, sales advisory services, etc.
- *Build a customer-focused “community”* to help build the local economy and infrastructure, especially in emerging countries

Consideration: Become a one-stop solution for the various business needs of your customers

Infrastructure/Technology

Innovation

Drivers

*Value pertains to both suppliers and customers (e.g. small retailers and small/medium/large HoReCas).

Potential growth platforms

Build **customer centric operations** by offering value added services and differentiated assortments to increase loyalty, generate additional revenue, and meet diversified needs

3 Assortment Differentiation

Build deep customer insights to drive competitive advantage

Initiatives (not an inclusive list):

- *Deepen differentiation for HoReCas in core categories such as high-quality meat products and exotic perishable foods*
- *Focus on high-margin product categories (e.g. wine) and emerge as an 'exclusive' wholesaler for such categories (Category Leader/Authority)*
- *Branded private label* for both top of the line and mass market products to drive greater loyalty with end consumers and channel pull

Consideration: Identify unique customer needs for priority segment and build deep product & services spikes to meet those needs

Innovation

Drivers

*Value pertains to both suppliers and customers (e.g. small retailers and small/medium/large HoReCas).

Potential growth platforms

Leverage technology as a competitive advantage to build visibility, efficiency, and transparency in your supply chain and to drive operational excellence to offset margin pressures

4 Technology & Innovation

Invest in technology to provide enhanced customer experience and drive loyalty

Initiatives (not an inclusive list):

- *Consumer technologies* such as e-commerce portals, mobile apps, and kiosk-based technology to create a greater outreach and more convenient way of doing business
- *Innovation driving technology* such as Big Data Analytics enabled customer insights for 1-to-1 marketing, real-time offer design, and social media analytics, to drive superior experience, engagement and loyalty
- Adopting leading practices for *efficient and effective store operations* (e.g. store layout format, trained inventory management teams, and knowledgeable/service-oriented staff)

Consideration: Invest early in digital technology and Big Data to build competitive advantage

Infrastructure/Technology

Innovation

Drivers

Potential growth platforms

Leverage technology as a competitive advantage to build visibility, efficiency, and transparency in your supply chain and to drive operational excellence to offset margin pressures

5 Supply Chain Modernization

Invest in your supply chain to build competitive advantage and to drive operational excellence

Initiatives (not an inclusive list):

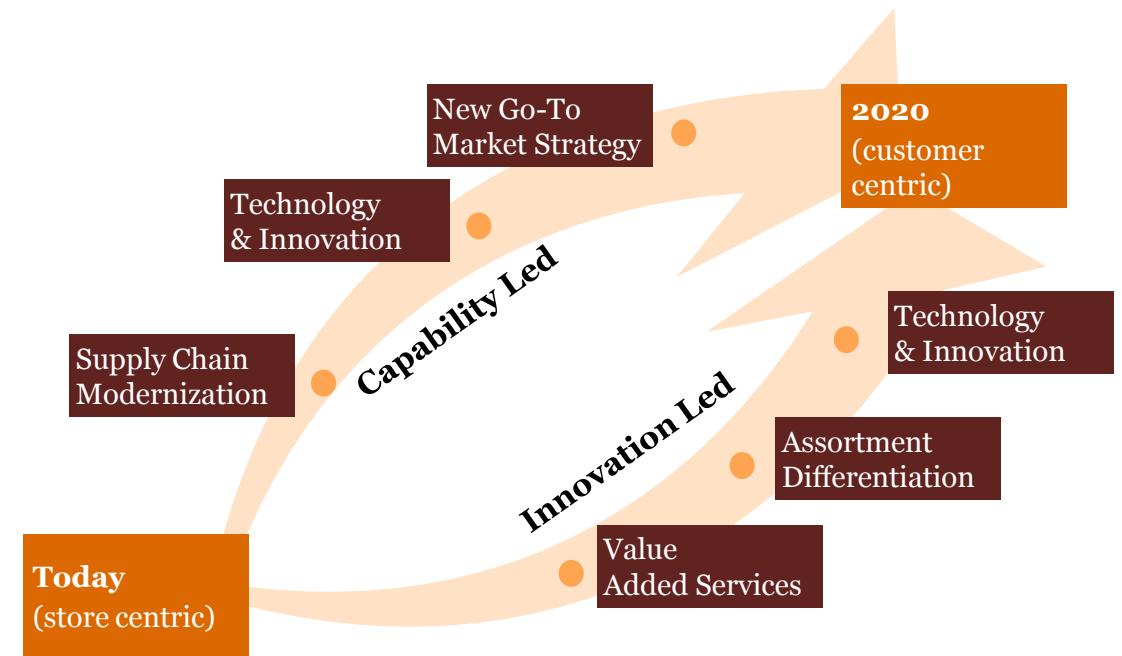
- *Invest in supply chain technology* and leverage proven techniques and tools for forecasting, network design, GDS, CPFR, RFID, etc. to drive operational excellence
- *Develop strategic sourcing* capabilities both locally and globally
- *Invest or partner in infrastructure and transportation* like cold chain to serve key customers better (e.g. HoReCas need for high-quality and exotic products)
- *Explore innovative partnership models* to drive superior customer service and higher growth for you and your suppliers

Consideration: Differentiate on the basis of excellence in operations

Innovation

Drivers

Evolving for the future



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Thank you