



Agriculture and  
Agri-Food Canada

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**International  
Markets  
Bureau**

MARKET ANALYSIS REPORT | MARCH 2010

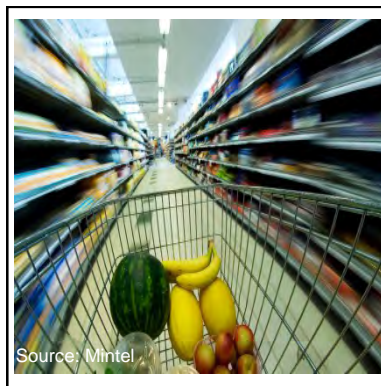


## **Global Trends**

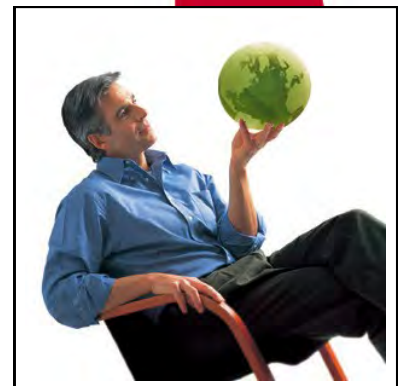
### Grocery Retailing Implications for Suppliers and Manufacturers



Source: Mintel



Source: Mintel





## ▶ EXECUTIVE SUMMARY

Turbulent economic conditions have led to a re-evaluation of channel strategies by many of the world's leading retailers. Capital expenditure budgets have been squeezed, resulting in a slowdown across virtually all channels. For this reason, it is more important than ever for retailers, manufacturers and suppliers to be sure they are investing in winning products and formats, and in the regions where success is most probable. The objective of this report is to provide insight into global channel strategies that have been adopted by some of the largest retailers to help suppliers and manufacturers gauge which formats and markets are winners for their business.

Despite the economic downturn, numerous grocery retailing trends have emerged in the past few years that have created various opportunities for Canadian manufacturers and suppliers to differentiate themselves in the increasingly competitive international market.

The increased level of competitiveness has forced retailers to pay closer attention to consumer behavior, lifestyle and needs, as a means of retaining consumer loyalty in various markets. The attention paid to consumers has a profound impact on suppliers and manufacturers, as retailers adapt their product mix to consumer demand.

It is essential for a supplier or manufacturer to understand retail strategies and the retailer's mindset, if they are to make their product more appealing to the buyer. Buyers work for the retailers. Therefore, understanding the needs of the retailers allows for the supplier or manufacturer to make a more targeted pitch.

### ***The Global Marketplace***

A retailer's strategy may vary from one market to another because strategies are determined by consumer lifestyles, behavior and the pace of growth in the region or country, as well as other macroeconomic factors. Therefore, being aware of the differences between markets, their grocery retail structure and their consumers, allows the supplier or manufacturer to gauge how best to position their product offering (i.e. which format to target and which market to enter.)

Opportunities for premium products are emerging as retail channels diversify and consumers become more demanding in developed markets where purchasing power is highest. However, despite the demand for higher quality and differentiation, pricing has also gained importance globally as a result of the economic downturn. This has direct repercussions for suppliers and manufacturers.

What's more, saturation in developed markets has created opportunities for retailers to expand into emerging markets. This, in turn, creates new prospects for products that may not have been as competitive in developed markets. By contrast, these products could enjoy novelty status in emerging markets, where aggressive growth is expected to return once the economy regains ground.

## ▶ INSIDE THIS ISSUE

<b>The Basics</b>	<b>3</b>
<b>The Grocery Retail Marketplace</b>	<b>4</b>
<b>Growth Trends by Region</b>	<b>6</b>
<b>Hot Markets in International Retailing</b>	<b>8</b>
<b>New Concepts and Trends in International Retailing</b>	<b>9</b>
<b>Know the Trends; Know the Markets</b>	<b>11</b>
<b>Bibliography</b>	<b>11</b>
<b>Annex 1</b>	<b>12</b>



Source: Mintel

## ▶ TOP TRENDS

- ▶ **COST REDUCTIONS**
- ▶ **DIVERSIFICATION OF SOURCING**
- ▶ **SHARPER FOCUS**
- ▶ **MARKET SEGMENTATION**



## ▶ EXECUTIVE SUMMARY (CONT.)

### **Key Trends and Concepts in Grocery Retailing**

#### Segmentation

The supermarket, which was the most common food store format, is being displaced to some extent by larger hypermarkets on one hand and smaller convenience stores on the other. Format diversification and channel variations have been key growth strategies for many of the world's largest food retailers over the past decade. This allows retailers to fine-tune their expansion strategies to meet specific market characteristics, demographics and real estate opportunities, both at home and globally.

#### Discounting

Retail strategies have been affected by the global economy, with many operators offering a range of heavily discounted items. However, as the economy recovers in global markets, both health and wellness and premiumisation will drive significant product development. As value becomes paramount, consumers will pay more for products that can offer them specific advantages such as better quality, lower environmental impact and competitive prices.

#### Premiumisation

Although the recession has slowed premiumisation, quality remains an important feature. In addition, the continuing evolution of many emerging markets has pushed the importance of segmentation, with mass-market brands venturing into premium extensions in hopes of noticeable share gains as consumer spending picks up.

#### Sustainability

Environmentally-friendly outlets, natural and organic supply chains, as well as products and concepts designed around health and wellness, have also become critical to future grocery retailing. Although these concepts remain secondary to convenience, price and service, they can act as differentiating factors in an increasingly crowded global marketplace. These concepts are ideal for niche players looking to offer consumers a unique product or service.

## ▶ THE BASICS

With the global economy facing unprecedented uncertainty, it may not seem like the best time to discuss retail globalization; however, in some parts of the world, it is an ideal opportunity. Economic growth will eventually return and surviving retailers will need to seek new arenas in which to expand.

### **Retail Globalization**

Despite the economic downturn, the internationalization of the grocery retailing industry remains in an early stage of development and most leading players have considerable scope to expand their international operations through various untapped channels.

Global retailers are expected to continue to invest in developed markets such as Western Europe, North America and Japan, in order to take advantage of high levels of purchasing power, but growth in these markets is expected to slow. Developed markets have the disadvantage of being saturated by world-class retailers, resulting in greater competition. In addition, retailers expanding into European markets will be prone to high regulatory interference, which has encouraged numerous European retailers to venture outside their home region. However, retailers may still choose to invest in developed countries if they believe they have a niche product offering that would appeal to a smaller market segment.

Of emerging markets, China, India, and Russia are the most sought-after by global retailers because they are large in size and are underdeveloped in grocery retailing. Brazil is also a sizeable market, but already has a large global retailer presence and has not seen the level of economic growth observed in the other three BRIC (Brazil, Russia, India, China) countries. In addition, plenty of investments have been made in Southeast Asia, Central Europe, Mexico, Argentina, Turkey, and the Persian Gulf; however, none of these markets are on the scale of China and India. Moreover, these markets offer fewer opportunities, given the large number of sophisticated global and local retailers already operating within them. Still, opportunities in these markets remain for those willing to seek niche market segments.

Retailers may choose to invest in emerging countries to take advantage of fast-growing consumer markets, especially if their home markets are stagnant. Meanwhile, some may choose to target these markets because they believe they can bring leading-edge practices to relatively unsophisticated markets, leading to opportunities to dominate the competition. Overall, the opportunities are reliant on supply, demand, and the retailer's ability to be competitive in the market of their choice.



## ▶ THE BASICS (CONT.)



### **Channel Fragmentation**

Numerous retail channels have emerged in the past decade which has caused fragmentation in the international marketplace. Retailers continue to fuel the fragmentation trend by offering smaller, more tailored stores in some markets, while also opening larger stores, such as hypermarkets, where the market is most responsive.

The current competitive landscape encourages retailers to be innovative in their efforts to adapt to international markets, through the introduction of new channel formats. While these formats include those with efficient supply chains, which translate into the lowest costs and prices, they also include those who do not attempt to match low-price retailers. These retailers succeeded instead by managing their brands well and differentiating themselves to consumers, either through premiumisation or by executing their branding efforts effectively.

### **The Evolving Consumer**

Consumers throughout the world are shifting their buying criteria to demand more value, better service, and greater convenience. Grocery retailers are being forced to adapt their services and products to meet these evolving consumer needs and to promote brand loyalty. Product mix adaptation to international markets, as well as the growth of discounters and the further emergence of private label ranges, has helped drive retail sales.

The increase in channel formats has also led consumers to shop at a variety of stores for diverse products, priced at various levels. This has resulted in switching. Customer loyalty has become less common as consumers pay closer attention to discounting, price-cutting campaigns, information available to them online and value-for-money. Pricing and branding has never been more important to grocery retailers globally.

### **Trends in Grocery Retail**

As the global economy struggles, four trends will lead the grocery retailing industry:

Cost Reductions—cost-conscious retailers are likely to examine the cost of their goods more carefully and attempt to negotiate better deals with suppliers. Energy prices, despite recent declines, are likely to be relatively high in the next few years and transport will be much more expensive than in the recent past.

Diversification of Sourcing—seeking lower costs in locations other than China, companies will shift some sourcing to areas closer to final markets to reduce transportation costs. This shift in the business landscape will lead to increased attention to risk mitigation and diversification of sourcing.

Sharper Focus—eliminating retail formats and merchandise categories that are underperforming may allow retailers to become more focused on core business and re-negotiate leases for appropriate format mixes. Providing consumers with a one-stop shopping experience has been the trend in recent years; however, big stores will not play as significant a role in retail growth as they have in the recent past. Retailers will increasingly focus on opening smaller stores, allowing them to appeal to niche consumer cohorts, as opposed to attempting to satisfy the needs of the masses in a highly fragmented market.

Market Segmentation—lastly, as consumer lifestyles diversify, market segmentation will become an ever more important part of the way the retail business is conducted as retailers increasingly focus on particular market segments and niche product offerings.

## ▶ THE GROCERY RETAIL MARKETPLACE

Between 2003 and 2008, grocery sales drove value growth in overall store-based retailing. Although rising commodity prices in 2007 and 2008 were strong contributors to the growth in grocery value sales, the convergence of long-held strategies related to globalization, market adaptation, the introduction of private label, as well as the short-term boost in consumer spending, also contributed to the industry's sales growth.



Source: Mintel

Eastern Europe and Latin America were the fastest growing regions for store-based grocery retailing from 2003 to 2008, while the slowest growing markets were the Middle East and Africa, and North America. Retailers also expanded quickly into Asia-Pacific, where vast differences are hidden by the region's slow pace of value expansion. For example, according to Euromonitor, a provider of global business intelligence and market analysis, store-based grocery retailing in Japan grew by a total of only 4% between 2003 and 2008, while Thailand (109%), the Philippines (72%) and China (69%) advanced much more quickly (Euromonitor).



## ▶ THE GROCERY RETAIL MARKETPLACE (CONT.)

### ***Rising Consumer Incomes Played a Strong Role***

As levels of disposable income and consumer credit have grown, grocery retailers have benefited. Annual disposable incomes rose by a *Compound Annual Growth Rate* (CAGR) of 15% between 2003 and 2008 in Eastern Europe, which saw the highest increase, and 5% in North America, where growth was slowest (Euromonitor). The outstanding balance on consumer credit alone grew at a global level by a CAGR of 13% (Euromonitor). These increases resulted in a boost in sales as people sought higher quality versions of products, while also allowing grocery retailers to stock non-grocery products and adhere to low margins, to help drive higher volume sales.

### ***Hypermarkets and Discounters Lead the Way***

According to a Deloitte research study on global retailing, 54% of the top 250 global retailers are involved in the food sector, which includes supermarkets, hypermarkets, cash and carries, warehouse clubs, hard discount stores, convenience stores, or some combination of these.

During the period of 2003 to 2008, the continued growth of hypermarkets and the strong emergence of discounters in certain countries underpinned rising value sales on a global basis. Both retail platforms became the growth formats for store-based grocery retailing globally. However, as the recession progressed, consumer shopping patterns changed, with price becoming increasingly important. As a means of competing against discounters in Westernized markets, grocers have moved toward offering consumers additional private label products. Thanks to their ongoing development over the past decade, major grocery retailers in key markets, such as the United States (US) and the United Kingdom (UK), have a greater ability than ever before to enforce lower pricing, even at the premium end of the market. The use of private label has expanded grocers' branding and supported consumer loyalty, while allowing for ranges in margins. As consumer markets evolve, developed markets will increasingly attract niche products and store formats to meet their various demands. Meanwhile, hypermarkets are becoming the format of choice for grocers looking to enter new markets, especially emerging ones.

### ***Going Global***

Although scale is important, saturating a market or appealing to a wide range of consumers at once is not essential to success. In many locations in Western Europe and North America, existing local and foreign retailers have already grabbed a considerable share of the market. For new retailers entering these markets, finding a niche in which to operate will be essential to differentiate themselves from the extensive competition. For example, in some markets where global hypermarkets have invested heavily, other food retailers may attempt to connect with consumers through smaller, niche formats, such as small supermarkets, discount stores, and convenience stores. Grocery retailers are continuing to innovate in terms of formats, and are increasingly becoming less reliant on large out-of-town stores in developed markets.

In addition to tight competition, extensive regulatory constraints in Europe have encouraged retailers to operate outside Western European markets and expand further into emerging markets, where increased purchasing power and economic growth provides a strong incentive. Expanding into large emerging markets will help offset stagnation in the mature markets affected by the recession which, for example, will drive the performance of Wal-Mart in China and Mexico, of Carrefour in Brazil, China and Romania and of Tesco in China and Poland.

In emerging markets that lack modern retailing, simply bringing modern supply chain management and merchandising, as well as large financial resources, can be sufficient to be highly competitive or even outweigh the competition. The emergence of new store formats in emerging markets appear to overwhelm traditional channels like independent small grocers, food/drink/tobacco specialists and other grocery retailers. The weakness in these channels will likely continue and increase given the current global economic difficulties, as these traditional retailers are unable to compete on price and product mix.



Source: Mintel

### ***Retail Today - Implications of the Global Recession***

The global economic downturn has hit economic growth around the world since 2008, leading to a corresponding increase in unemployment levels which, in the short term, has hindered disposable income growth. However, disposable income growth will recover in the longer-term, in line with a wider economic recovery. Long-term trends in grocery retailing are expected to see emerging markets underpinning value growth, as grocers increasingly globalize and adapt their channel strategies as they develop.

## ▶ THE GROCERY RETAIL MARKETPLACE (CONT.)



While, in the short term, the economic crisis has had the effect of reducing retailers' profits and their ability to invest abroad, it has, in the long term, heightened the need for international retailers to increase their presence in emerging markets to reduce their dependence on mature, developed markets. These retailers are increasingly looking to expand into markets where food items are sold predominantly in traditional markets because these markets are, for the most part, untapped and provide lucrative opportunities to launch new and appealing channels to consumers.

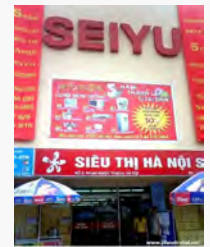
Despite positive results in previous years, the credit crunch has encouraged an aggressive competitive landscape for grocery retailers on a global scale, as consumers become increasingly price-sensitive and selective in their purchases. This has forced retailers to compete in price wars to maintain sales and market share. The uncertainty surrounding the global economy has led to a rapid fall in consumer confidence and retailers have been forced to re-evaluate their strategies and become more cautious.

## ▶ GROCERY RETAILING: GROWTH TRENDS BY REGION

The internationalisation of the grocery retailing industry is still in its infancy, and most leading players have considerable scope to expand their international operations. As retailers adapt to changing consumer needs, traditional store formats are giving way to newer retail channels. Both suppliers and retailers must continually monitor retail channel trends in markets of interest and identify the formats that are driving growth. The following sections will disclose retail trends by region with a focus on the channels that are driving growth and those that are slowly fading away.

### **Asia-Pacific**

Overall, store-based retailers grew by 39% in value terms between 2003 and 2008 (Euromonitor). Although Asia-Pacific saw a strong development of discounters (CAGR of 39% in current value terms over this period), hypermarkets (23%) and forecourt retailers (11%) at the channel level, they did not account for a large share of value sales (Euromonitor). The already important supermarket channel amounted to 31% of value sales, which accounted for 40% of added sales (Euromonitor). Supermarkets gained ground at a fast pace, due in large part to their growth in the region's three fastest-growing markets: China, India and Vietnam. Local companies have dominated the channel in China and Vietnam, while locally-based retailers have taken over operations in India. Nonetheless, as modern retailing grows, Asian populations still enjoy traditional channels, which saw strong growth between 2003 and 2008.



### **Australasia (Australia and New Zealand)**

According to Euromonitor International, the supermarket channel in Australasia accounted for 60% of value sales in 2008, and 64% of value sales added between 2003 and 2008 (Euromonitor). Due to the strong presence and performance of supermarkets, the development of other channels in the region has been hindered. For example, hypermarkets do not exist in Australia and only emerged in New Zealand in 2006. Discounters are present only in Australia.

Discounters appear to provide the most solid competition to supermarkets in the short term, given their similar size and global trends towards lower prices in grocery retailing. The food/drink/tobacco specialist channel is also important in Australasia as the channel continued to grow between 2003 and 2008, accounting for 20% of new value sales in the region (Euromonitor).

### **Eastern Europe**

As a result of rising consumer spending power and the availability of comparatively cheap land, many modern retailers have expanded into Eastern Europe. This region saw the fastest growth for grocery retailing between 2003 and 2008 with a 140% growth rate (Euromonitor). The most successful players in the Eastern European market are retailers based in Western Europe. Discounters, with a CAGR of 34% in current value terms, and hypermarkets, with 26%, were the fastest growing channels, supported by growth within the Russian market (Euromonitor).



## ▶ GROCERY RETAILING: GROWTH TRENDS BY REGION (CONT.)



### **Latin America**

The growing importance of hypermarket and supermarket channels in Argentina, Brazil and Mexico helped bolster their development at a regional level. These countries alone accounted for 61% of all the additional value sales made in the region between 2003 and 2008 (Euromonitor). The discounter channel has also gained importance in Latin America as a result of its success in Mexico, where Wal-Mart and Organización Soriana expanded the presence of their discounter brands between 2003 and 2008.



Visits to small, independent grocers remain embedded in consumer shopping patterns, as this channel still accounted for 36% of the market, between 2003 and 2008 (Euromonitor).

As wealth continues to grow, consumers will increasingly switch to shopping in stores that offer a wider range of products and/or brands, at cheaper prices. This will, in turn, help boost the growth of hypermarkets, supermarkets and discounters in the medium to long term.

### **Middle East and Africa**

Traditional channel sales in the Middle East and Africa accounted for above average market shares between 2003 and 2008. For example, Morocco's traditional market sales accounted for 90% of shares; while South Africa and Saudi Arabia were also well above the global average with sales between 40 and 55% of total shares (Euromonitor).



Despite these results, the Middle East and Africa could become an important source of growth in the longer term, as the region experiences growing wealth, urbanization and the mirroring of global strategies by local companies. The pace of development of modern grocery channels is expected to accelerate in the short to medium term, as the region becomes increasingly affected by global retailers attempting to benefit from the region's faster growing markets. While national laws may hamper modern growth, traditional formats will eventually lose ground in this shifting market.

### **North America**

Between 2003 and 2008, the grocery market in North America expanded by a CAGR of 6%, while the hypermarket channel accounted for 49% of additional sales, growing at a CAGR of 14% (Euromonitor). North American consumers have demonstrated a preference for convenience and "shopping on the go" during this period, which underlines why hypermarkets' share of total store-based grocery retailing sales rose from 18% in 2003 to 26% in 2008 (Euromonitor).

The strong presence of Wal Mart was underlined by the success of its hypermarket channel. The global retailer continues to dominate the region through grocery development at a fast pace, not only by converting some of its mass merchandiser stores, but also by building new outlets and extending smaller, existing ones.

Due to the strong growth of hypermarkets, supermarkets lost market share. Total store-based grocery retailing sales for supermarkets suffered a 6% decline between 2003 and 2008, while other channels within store-based grocery retailing maintained their shares of total value sales, with a small increase enjoyed by discounters and a larger decline experienced by small, independent grocers (Euromonitor).

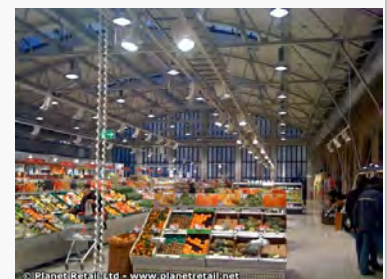
### **Western Europe**

In 2008, modern retailing in Western Europe accounted for more sales than the global average. Small, independent grocers had a sales share of between 11% and 27% in countries such as France, Spain, Germany and Ireland. Food/drink/tobacco specialists lost an even higher share of the market, as modern retailers continued to dominate.

While traditional markets struggled, hypermarkets and discounters benefited from consumers' changing shopping patterns. Although hypermarkets struggled in France, where they are being put under pressure by discounters, on a regional level the channel benefited from growth in a number of other markets, including Norway and Sweden.

Discounters' presence and influence over grocery retailing spread aggressively between 2003 and 2008; they are also gaining traction in markets like Ireland and the UK.

Due to comparatively high prices and a lack of range relative to hypermarkets, mid-market supermarkets lost ground between 2003 and 2008. In the medium term, this trend is expected to continue.



## ▶ HOT MARKETS IN INTERNATIONAL RETAILING



According to Euromonitor International, emerging markets are projected to show the fastest, medium-term growth in disposable income levels, in line with rapid economic development and growth from a lower base than more advanced economies. The development of a large middle-income consumer base will offer significant business opportunities for food retailers in the near future. The downturn affected consumer confidence more severely in advanced economies where the shift from spending to saving is likely to continue into the medium-term. As a result, grocery retailers should continue to globalize and expand into emerging markets, as home markets for Western retailers slow and become saturated.

### **China**



China's economic growth slowed as a result of the global downturn; however, it is expected to see the highest real annual growth of disposable income between 2010 and 2020, identified at 8.6% (Deloitte).

In efforts to get the Chinese economy back on track, the Chinese government has worked toward shifting growth away from an export focus, toward domestic demand, aided by the gradual appreciation of the currency. In the longer term, growth of consumer spending should be strong.

With the world's largest working-age population and rapid rural-urban migration, disposable incomes are projected to rise quickly. As a result, a large number of households will shift from poverty to the middle class, especially in China's secondary cities and rural areas. These markets are only now starting to see investment in modern retailing. Unlike China's big coastal cities, secondary cities have not yet experienced large-scale foreign retail investment.

Although the retail markets of China's big coastal cities are already dominated by a handful of global and local retailers, opportunities exist. These cities are still growing, due in part to migration from other parts of China. Moreover, as consumers in these cities become more affluent, their spending behavior will change, thereby creating opportunities for more specialized retailers to enter the marketplace.

### **India**

As a country that has only recently been touched by global grocery retailing, India is seen by many global retailers as a market filled with opportunity. Foreign investment and chain retailing remains minimal in India; however, this emerging market imposes some of the world's most restrictive regulations on foreigners. Foreign Direct Investment (FDI) in retailing is not permitted in India unless the retailer sells a single brand, such as vertically integrated specialty retailers. However, most of the interest in India is from the world's largest food retailers, given the country's low per capita income. Despite regulations, some global retailers have attempted to enter the Indian market by engaging in wholesaling activities, in close relationships with local retailers, with the hope that regulations may change in the near future.

More important than the ambitions of foreign retailers, are the plans of some of India's giant conglomerates, eager to take advantage of the expected boom in consumer spending in the coming years, as communicated in a Deloitte research study. Expansion plans in local retail are advancing more rapidly than in the past to take advantage of the rise of middle-class consumers and the expansion of consumer credit.



### **Russia**

Unlike India, Russia is quite open to foreign investment in retailing with limited regulation, strong consumer demand and relatively weak local competition. Due to its past perceived economic instability, the market did not become attractive until recently. As energy and oil prices increased, Russia saw steady, rapid economic growth that created a consumer spending boom, encouraging foreigners to invest more aggressively in a relatively fragmented market with few large local players.

Until recently, retailers who invested in this market saw rapid growth in the midst of a relatively benign regulatory environment. The Russian market accounted for 72% of value sales added in Eastern Europe between 2003 and 2008 (Euromonitor). This country has emerged as a viable and exciting market that all global grocery retailers want to become involved in.

In contrast to the rest of the Eastern European region, which is dominated by the likes of Carrefour, Tesco, Aldi and Schwarz Beteiligungs (Lidl), Russia remains firmly in the hands of locally-based companies. Global retailers have been deterred from investing in the market so far, due to the difficult business environment and the relative lack of opportunities to invest at the "right" price. However, the global financial crisis of late 2008 has taken a significant toll on the Russian economy and has threatened the strong growth to which the country has become accustomed. Moreover, the fallout from the credit crunch, which has hampered expansion for Russia-based companies, may provide interesting opportunities for foreign retailers.





## ▶ HOT MARKETS IN INTERNATIONAL RETAILING (CONT.)

Food retailers will be hurt less severely than non-food retailers, however, there is still a level of uncertainty as to what will become of the Russian market. Forecasts indicate the country will recover – however, at a slower pace than in recent years. This forecast is based on the assumption that energy and oil prices will rise again. Russia, therefore, remains an attractive market for global retailers in the long run.

## ▶ NEW CONCEPTS AND TRENDS IN INTERNATIONAL RETAILING

According to Deloitte, the best global retailers spend substantial resources and time in learning about local markets, their supply chains, regulations, sources of merchandise, and, most importantly, consumer tastes and habits. Often, months and sometimes years are spent learning about consumer shopping behavior, lifestyles, cultural attitudes, and sensitivity to branding and pricing. The result of this research is usually an approach that builds on the strengths of the retailer's core business at home, but is tailored to accommodate the differences in the foreign market. This could include introducing new channel formats and adapting the product mix to meet the needs of local consumers.

For example, Wal Mart's low-price positioning acted as a key contributor to the retailer's success during the downturn. Nonetheless, the company has ventured recently into new store formats, as a means of staying ahead of the competition and meeting the needs of local markets. New store formats include: Smart Choice, a store designed to attract budget-conscious consumers, and Marketside, an up market format offering name brands at lower prices.

Conversely, Tesco and Carrefour suffered during the downturn due to their mid-price positioning. This has led them both to venture into new store formats, as a means of regaining ground in the global marketplace. Tesco has moved toward department stores, while Carrefour is focusing on both the discounter and convenience channels.

In recent years, many new formats have emerged in grocery retail to respond to global market trends and various consumer behaviors. Both Euromonitor and Deloitte have identified five concepts in modern retailing that highlight current and future trends.

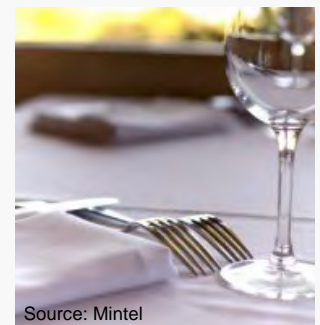
### ***Health and Wellness***

As older consumers remain health-focused, demand for health and wellness products is expected to accelerate globally. Moreover, manufacturers in every category should carefully select the contents of their products, as the health and wellness trend gains steam in developed markets.

There is substantial overlap between health-conscious and quality-conscious consumers. Both tend to be older, better-educated and more affluent; brands that have successfully made a health and wellness pitch tend to be those that combine it with an overall message of quality. At a minimum, quality must be on par with that of competitors—the consumers who are most receptive to a health-focused message are not willing to compromise on quality. Conversely, operators who are able to link the two trends should enjoy more durable sales in a time when spending is slowing, allowing them to secure a larger share of a shrinking pie. After all, health concerns among this group will only increase, even in a downturn.

### ***Premiumisation***

Long present in developed markets, premium concepts and products are gaining traction in emerging markets. These formats and products allow retailers to compete against more value-oriented competitors by offering high quality rather than low prices. As more middle-class consumers emerge, so has the demand for occasional indulgences. Even in a recession, this is a viable trend, as lower-priced operators look to take share from higher-end sectors with a more upscale offering. Although the recession affected discretionary non-grocery spending, premium grocery retail was better positioned as a result of the rise in spending on cooking from scratch and entertaining at home. These formats also benefited from the growing consumer demand for environmentally-friendly or ethically-sourced products.



Source: Mintel

In line with the premiumisation trend is increased interest in international flavours. As more consumers travel and migrate to various parts of the world, they are increasingly exposed to foreign flavours and cuisines. Many of these flavours and cuisines were formerly seen as exotic, but are now becoming part of the mainstream. Experimentation with fusion concepts that combine multiple traditions has also led consumers to seek out the newest, trendiest global cuisines.

## ▶ NEW CONCEPTS AND TRENDS IN INTERNATIONAL RETAILING



Large populations with high and/or growing household income levels for the top 20% of households represent markets with the highest premiumisation potential (Deloitte). Negative growth markets, such as the UK, are still fertile areas for premium retail due to high incomes, whereas progress in China must still overcome the obstacles of low income levels and income disparity. Overall, niche or single-store premium concepts have demonstrated the ability to thrive in all markets, emerging or developed. However, chains are difficult to establish and are almost exclusive to grocery retail in developed markets.

In response to the global recession and the growing importance of lower-income consumers, premiumisation is expected to be of less importance in the short term. The best method of reaching high-margin affluent consumers going forward will be through effective premium offers.

### ***Discounting***

In the midst of a recession, it is not surprising that discounting has emerged as a key strategy. Discounting uses low prices as a central part of the business model, both with price cuts and new low-priced items. This high-risk/high-reward strategy trades margins for traffic by offering value-pricing and aiming for high-volume sales.



Source: Mintel

Before the global recession, discounters had already begun gaining ground in mature or semi-mature retail markets; however, the drive for low prices has now accelerated the discount trend. According to Euromonitor International, discounter chains, including Aldi and Lidl, have become stronger in markets such as the UK, US and Ireland, as a result of the global recession. Recessions in a number of markets are encouraging retailers to develop a low-price option in order to retain customers as they trade down. Although this trend is expected to fade as the economy recovers, consumers are likely to remain conservative with their spending for some time.

The discounter grocery format is still establishing itself on a global scale and has focused largely on markets where they are able to obtain synergies with existing operations. Nonetheless, lower prices market-wide, lower incomes, and obstacles to implementing operational efficiencies on a legal and logistical front have made emerging markets less appealing to the discount model.

### ***Think smaller stores***

As a result of extensive regulatory restrictions on global retailers and consumer market fragmentation, big stores will not play as significant a role as they did in the recent past. Operating large stores requires large populations in order to be profitable. As a result, retailers will increasingly focus on opening smaller stores to better appeal to niche consumer segments. Moreover, to be competitive, large retail chains are likely to develop a combination of large and small stores, to satisfy different consumer segments.

### ***Know your consumers***

Some trends are likely to fare better in a slowing economy than others. Health and wellness is increasingly a concern for older consumers regardless of income level (though, as noted above, the most health-conscious consumers do tend to be more affluent). Likewise, demand for newer, bolder flavours should remain strong, although consumers' willingness to pay for them could suffer. Premiumisation, however, faces major challenges amid signs that even the wealthiest consumers are cutting back on spending in the slowing economy. While consumers still seek quality, value is paramount. The brands that are expected to reap the greatest benefits in the short to medium term are those positioned as lower-priced products, as consumers look to trade down from more expensive options.

### ***Segmentation***

Segmentation has become all the more important, as retailers increasingly focus on particular market segments and niche product offerings. The consumer market has become fragmented in terms of lifestyles, thereby creating opportunity for targeted concepts. Rather than targeting all consumers, retailers will begin focusing on a select, target audience, while avoiding overly narrow segmentation concepts that pose the risk of excluding too many consumers.

Through customer base identification and tailored concept designs, segmentation allows retailers to differentiate themselves within a saturated retail landscape by stocking hard-to-find products that they know will cater to their consumer base. Consumers are generally willing to pay more for specialist products that cater to their needs precisely. Studies show that developing a segmentation concept, such as Wal-Mart's Hispanic stores, can refresh a brand and make it attractive to a new range of consumers. Opportunities remain in targeting the elderly, a large consumer base, who, to this day, are not well targeted by retailers. Once the economic climate improves, segmentation concepts are likely to become more diversified.



## ▶ KNOW THE TRENDS; KNOW THE MARKETS

Trends in exports to global markets are closely linked to trends in grocery retailing due to the close connection between retailers and buyers. It is therefore important that suppliers and manufacturers are aware of the various strategies being executed in different parts of the world by world-renowned retailers.

Successful retailers take a number of approaches to determine which channel formats are driving growth and in which markets; information is key in making the right decisions. Canadian suppliers or manufacturers should keep this in mind as they gauge which formats/markets are best suited for their products, based on the offering and grading of the item.

By being aware of grocery retail activity, suppliers and manufacturers will be able to gauge which formats and markets are winners for their business and will be more prepared when travelling to various markets and attempting to sell products to a variety of buyers. Understanding the needs of consumers and the strategies of strong players in markets in which suppliers and manufacturers choose to export is vital to an effective and targeted sales pitch.

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Table 1: Store-based retailers by types

Store-Based Retailer	Definition
<b>Hypermarket</b>	A <b>hypermarket</b> is a superstore that combines a supermarket and a department store. The result is a very large retail facility that carries an enormous range of products under one roof, including full lines of groceries and general merchandise. In theory, hypermarkets allow customers to satisfy all their routine weekly shopping needs in one trip.
<b>Discounter</b>	A <b>discount store</b> is a type of department store that sells products at prices lower than those asked by department stores and other traditional retail outlets. Most discount department stores offer a wide assortment of goods; others specialize in such merchandise as jewelry, electronic equipment, or electrical appliances. Discount stores are not variety stores, which sell goods at a single price-point or multiples thereof (£1, \$2, etc.). Discount stores differ from variety stores in that they sell many name-brand products, and because of the wide price range of the items offered.
<b>Supermarket</b>	A <b>supermarket</b> is a self-service store offering a wide variety of food and household merchandise, organized into departments. It is larger in size and has a wider selection than a traditional grocery store and it is smaller than a hypermarket or superstore.
<b>Small grocery retailers/ Small independent grocers</b>	A <b>grocery store</b> is a store established primarily for the retailing of food. A grocer, the owner of a grocery store, stocks different kinds of foods from assorted places and cultures, and sells them to customers. Small grocery stores that mainly sell fruits and vegetables are known as produce markets or greengrocers.
<b>Convenience stores</b>	A <b>convenience store</b> is a small store or shop that sells items such as candy, ice-cream, soft drinks, lottery tickets, newspapers and magazines, along with a selection of processed food and perhaps some groceries.
<b>Forecourt retailers</b>	A <b>forecourt retailer</b> is an open area in front of a structure's entrance where small produce markets, specialty food markets, etc. can be found.



**Table 2: Countries in which opportunities will arise as a result of an underdeveloped grocery retailing market (Source: Euromonitor)**

Region	Country
Europe	Romania
Asia-Pacific	India, Vietnam, Indonesia
North Africa	Egypt
South America	Argentina

**Table 3: Fastest-growing markets for grocers**

Region	Country
Europe	Romania, Russia, Turkey
Asia Pacific	China, Malaysia

**Table 4: Slowest growing markets for grocers**

Region	Country
Europe	Austria, France, Germany, Denmark
Asia Pacific	Japan

The Government of Canada has prepared this report based on primary and secondary sources of information. Although every effort has been made to ensure that the information is accurate, Agriculture and Agri-Food Canada assumes no liability for any actions taken based on the information contained herein.

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Agriculture and Agri-Food Canada

1341 Baseline Road, Tower 5, 4th floor

Ottawa, ON

Canada K1A 0C5

E-mail: [infoservice@agr.gc.ca](mailto:infoservice@agr.gc.ca)

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