

Retailing in a global marketplace
to achieve high performance

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Leading retailers know and understand their customers exceptionally well. But when it comes to global retailing, the sheer diversity of customers can confuse the best of brands. Success in a global marketplace requires a fine balance of two essential capabilities—a global approach to the business and a local view of the customer. Winning companies view their organization as a single

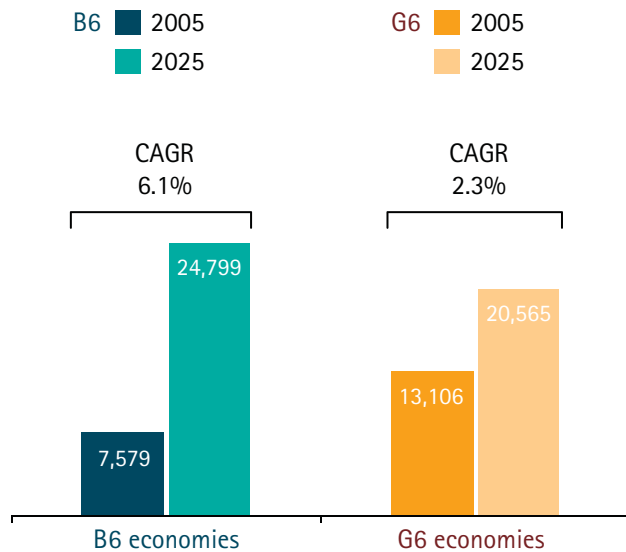
worldwide entity. They build standardized, integrated back-office operations to secure the economies of scale that can handle the complexities of selling in multiple markets. Even more importantly in such a customer facing industry, they take a view of the customer that leverages the core brand and offering in each local marketplace.

Going global is a tantalizing proposition in today's multi-polar world

No longer just passive partners in a world economy dominated by the United States, Europe and Japan, countries like China, India and Brazil represent increasingly robust consumer markets. Emerging economies will account for more than half of

global consumption by 2025, adjusted for differences in purchasing power. Emerging markets for many products and services already rival those of industrialized countries. Indeed, our research suggests that, by 2010, China and India together will contain 123 million middle-class households—more than the total number of households in the United States—all of them potential consumers of the retail industry's products and services.¹

Figure 1—Consumer spending in the G6 and B6 (real US\$ billions at PPP)



B6: 'Big Six' = Brazil, China, India, Mexico, Russia and South Korea
 G6: France, Germany, Italy, Japan, United Kingdom and United States
 CAGR = Compound Annual Growth Rate

Figure 2—Top 15 consumer markets in 2025 (consumer spending: real US\$ billions at PPP)

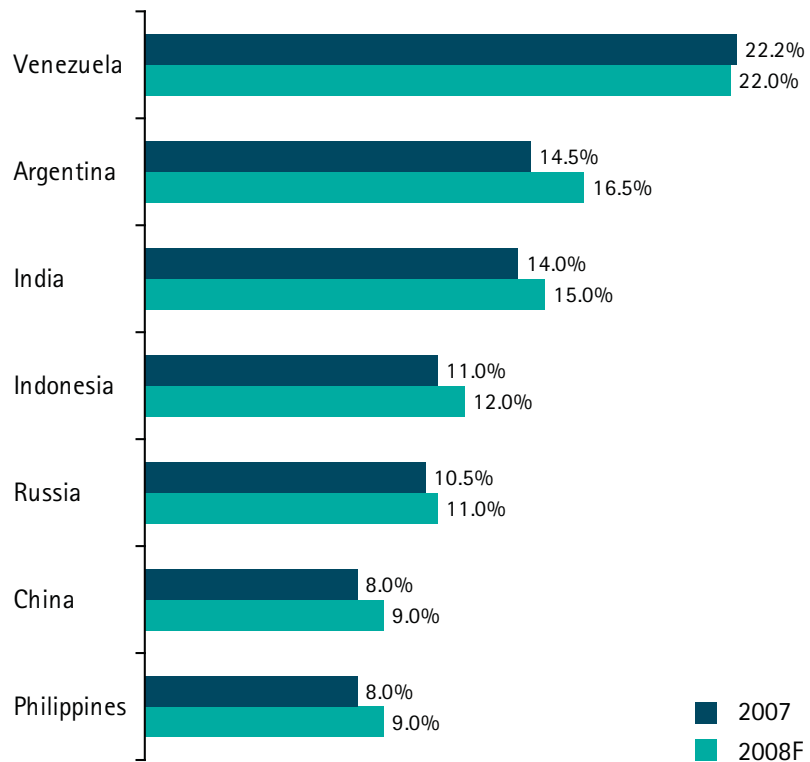
	2005	2025	CAGR
China	3,038	14,527	8.0%
United States	7,335	12,512	2.7%
India	1,924	4,264	4.1%
Russia	749	2,489	6.2%
Japan	1,780	2,291	1.3%
United Kingdom	1,058	1,707	2.4%
Germany	1,180	1,512	1.2%
Brazil	757	1,465	3.4%
France	917	1,374	2.0%
Italy	836	1,168	1.7%
Mexico	648	1,139	2.9%
Canada	539	1,045	3.4%
Spain	560	945	2.7%
South Korea	413	914	4.1%
Australia	229	592	2.8%
G6	13,106	20,565	2.3%
B6	7,579	24,799	6.1%
World	30,374	54,998	3.0%

1. "The rise of the multi-polar world"—Accenture

Yet going global is also becoming more and more challenging.

Rapidly emerging markets are home to nimble competitors who are getting better and better at copying and commoditizing innovations, as well as developing innovations of their own. Moreover, there's fierce competition for talent and other resources. Not only are emerging market employers competing head-to-head with overseas multinationals for new recruits and experienced managers, they are also trying to lure home workforces that left when conditions were less promising than they are today. Retailers seeking to leverage new opportunities in multiple markets where the sources of competitive advantage are in constant flux must grapple with multiple risks.

Figure 3—Wage inflation in emerging markets (annual percentage increase)



Source: Towers Perrin, Global Compensation Planning Report 2007

So is going global right for you?

It may not be the right strategy for every retailer. Nor does successful globalization require a presence everywhere. Each new market presents different tax, labor and real estate environments and regulations. Heavily regulated retail sectors may actually be barred from entering some countries. And restrictions on foreign owners can be so onerous that setting up in certain geographies just isn't worthwhile. Even when it is, compliance issues associated with operating internationally pose huge challenges. In China, for example, few local retailers pay for Microsoft software. Yet foreign firms must pay this cost. And they must comply as well with SOX, GAAP and other international standards.

It's also important not to over estimate the growth potential of rapidly emerging markets, however enticing they may look. Recent independent research suggests, for instance, that the actual value of retail sales in China may be only about half official estimates.² Equally, companies should avoid under estimating the enormous effort involved in approaching new markets successfully.

Be bold and go

Despite these caveats, the case for globalization is compelling. Accenture research on high performance businesses reveals that international expansion is integral to the "relentless growth agenda" that distinguishes high performance in the retail industry.³ Our extensive experience of working with retailers that have gone global confirms that successful globalization can significantly boost revenues and eventually profitability as well. It can also help repel unwanted suitors. An international expansion strategy originally designed to prevent a Wal-Mart takeover, has become key to Tesco's remarkable growth, for instance. The UK retailer is now active in 13 European and Asian markets and recently opened in the United States.

2 Wall Street Journal, August 7, 2007 "When the Best Buy Is No Buy", by Paul French

3 Accenture POV "Sustaining growth in retail" and HPB Grocery research

So how do Tesco and other successful retailers do it?

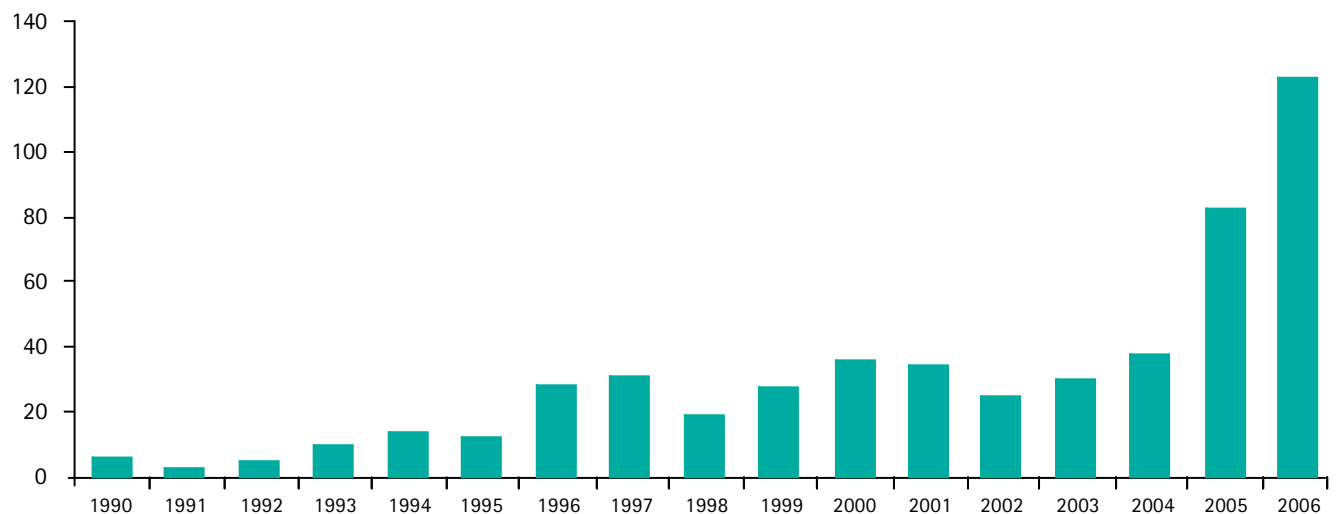
Globally minded retailers have attacked new markets in different ways. Some have gained entry via joint ventures or franchises, securing swift access with a lot of local knowledge, though perhaps at the cost of some control over the brand and how it is represented locally. Others have chosen to be bold, tackling local regulations head-on and pursuing mergers and acquisitions. Still others have opened their own stores in new marketplaces and mastered the localization challenge over time. What distinguishes the success stories in every case is a striking degree of mastery over two core and inter-related capabilities:

- A differentiated face to the customer that blends a combination of the core brand with a localized assortment to leverage the strength of the global brand while addressing the needs of local consumers
- A global view of the business from an operational perspective, streamlining operations to achieve economies of scale

Not surprisingly, customer focus is the key to successful retailing in any market, and winning retailers apply this skill globally. They take on each local market individually, tailoring their brand offering to the requirements of local customers

by varying opening hours, product and service assortments, and even the ways that employees approach customers to suit local tastes. Leading retailers enable such differentiation by simplifying, streamlining and integrating their global operations to achieve economies of scale. Thus, they gain swifter entry to new markets while maximizing the likelihood of customers finding the products and services they want, when they want them.

Figure 4—Cross-border M&A deals where the purchaser is from an emerging market (total value of deals, US\$ billions)



Source: United Nations Conference on Trade and Development

Successful companies will build a plan that mirrors their desire to be global into their corporate strategies. By striking just the right balance between a global view of the business and a local view of the customer, these companies can move swiftly and successfully into new markets. They become profitable more quickly and capture market share. What's more, they exhibit just that combination of capabilities—simplicity on the inside and differentiation on the outside—that Accenture research suggests will underpin high performance in a multi-polar world.

A differentiated face to the customer

Understanding local requirements can be challenging. And some leading US retailers have not paid sufficient attention to cultural differences before entering new markets.

Wal-Mart, for example, didn't realize that German shoppers do not take kindly to having store employees bag their groceries, or that German employees would find the company's code of ethics (common enough in America) highly intrusive.

When it comes to dramatically different cultures, these differences in attitude and outlook can be really daunting. In countries as huge and geographically diverse as China and India, for instance, one size just does not fit all. Products that fly off the shelves in hot, southern climates may not do so well in the chillier north. And ethnic tastes can vary enormously, even within regions.

In most emerging markets, moreover, price remains the bottom line—witness the experience of several retailers that have attempted to export the shopping "experience" so successful in Western markets to China.⁴ Indeed, in China's volume-driven, fiercely price-competitive market, margins are razor-thin or non-existent. IKEA, for example, still operates only four stores in China and has managed to grow sales largely by decreasing prices.

Established local competitors create more complexity. Foreign retailers often find themselves competing for customers with homegrown rivals as well as with other foreign chains. They are competing as well for middle management talent at a time when demand for such talent in developing markets is far out-stripping supply.

Successful retailers develop an exceptionally keen and detailed knowledge of local markets—knowledge that allows them to tailor their product assortment, store layout, staffing and training to local requirements. Tesco, for example, literally lived with American consumers in an effort to understand how they differ from the British in their habits and buying patterns before opening for business in the United States in specially formatted convenience stores.

Some retailers, like Carrefour, have responded to the talent challenge by putting expatriates in key managerial positions abroad. These managers maintain and instill the company's core culture and ways of working, establishing best practices while building local talent for the long-term. Others have risen to the challenge by leveraging local contacts to gain the local knowledge they need. To enter Russia, for example, Starbucks has partnered with M.H. Alshaya, a Kuwaiti firm that operates Starbucks coffee shops in the Middle East and which, despite its non-Russian origins, has plenty of experience operating other Western retail brands (including The Body Shop) in Russia. Having recognized that Russians want to sit down and savor their coffee, preferably with food, Starbucks' Russian coffee shops will serve most of the company's coffee in ceramic, not paper cups, as they do in the United States, and provide more croissants and sandwiches than in the United States. The chain is also offering coffee blends tailored to the Russian market.

There are also different approaches to brand building, several of which have been strikingly successful. Carrefour is one of the leading foreign brands in China, where it has been steadily brand building locally for a decade, starting small and becoming a player. The company, indeed, is actually considered a local brand—pronounced "Jar-a-foo" and with its own Chinese logo displayed alongside the French one.

4 Accenture POV "Up Close and Personal"

A global view of the business

Winning global retailers centralize management of non-core functions like planning, IT and procurement that drive standardization globally. They also maintain central control of the core brand, decentralizing customer-facing functions like customer insight, merchandizing, marketing and local product procurement.

These retailers ensure successful centralization by standardizing business processes to support operations globally. They support a common business process with a standardized IT platform, which allows them to manage the complexity of operating globally. There are different approaches to this process and much depends on cost effectiveness. However, as a general rule, globally optimized business processes and IT sustain global retailers' ability to handle complexity. Equipped with a simplified global footprint in terms of systems, infrastructure and planning, they can tackle various challenges—success being contingent upon continually improving and updating both business processes and the operating model

Carrefour, which makes extensive use of Shared Service Centers (SSCs) to support its global operations, recently simplified its main board structure to reflect its international scope. Tesco, which has created a common, global set of operating processes and IT systems, also has a continuous improvement, step-change program that regularly renews and even reinvents the operating model on a three to four year cycle for every country in which the retailer operates. The system allows the company to adapt exceptionally swiftly to local requirements. Tesco also uses a type

of balanced scorecard—the Steering Wheel—that provides the simplified and consistent metrics to help ensure ongoing operational excellence. And Best Buy, which recently bought Five Star, China's third-largest appliance and consumer electronics retailer, leverages such metrics right across the global business.

Truly global planning is an essential aspect of successful global operations. While many companies operate in emerging markets as part of global supply chains serving Western markets, globalized retailers actually manage all aspects of their supply chain—capacity, sourcing, procurement, logistics, costs and service—globally. Thus, "Project Refresh", the multi-year change program designed to improve the operating model at Australia-based Woolworths, is continually seeking ways to improve supply chain efficiency right across the group.

Simplicity of approach is also fundamental. The more customer-focused retailers become, the more complex their operating models. But it's critically important to avoid creating working environments that are too complicated for individuals to handle. Everything, from structuring tasks and designing roles to creating a business model capable of accommodating new trading circumstances, must be clearly designed and easily understood. Most importantly, people must feel empowered to live up to their responsibilities: Responsibility and support must align with planning and accountability. And if employees in disparate geographies are to stay connected, organizations must maintain constantly open lines of communication.

When to go global

The answer to that question hinges on two key considerations:

- Growth in your home market
- The extent of competition you confront

It is time to go global if you have exhausted the growth potential of your home market (or are close to doing so), your domestic competitors are starting to expand abroad and foreign competitors are arriving on your home turf in sufficient numbers to pose a challenge.

Plainly, there is no single route to success for globally minded retailers. All successful companies, however, will have maintained the integrity of their core brand by combining a global view of the business with a local view of the customer. Their success, moreover, will reflect a strategic planning process that is fully aligned with their globalization goals and an operating model that is standardized, streamlined and globally integrated.

By making globalization integral to your strategic planning, standardizing and streamlining your operating model and being prepared to differentiate your face to the customer you too will be able to tackle the challenges of globalization successfully.

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