CASE Carrefour: Finding Retail Space in All the Right Places

Carrefour, which opened its first store in 1960, is now the largest retailer in Europe and Latin America and the second largest worldwide.[1] By 2009, it had more than 15,000 stores and about 495,000 employees, selling a combination of food and nonfood items. In 2008, Carrefour derived 54 percent of its sales and 58 percent of its profits outside its home country of France. The Institute of Grocery Distribution ranks Carrefour as the world's most global retailer, based on foreign sales, number of countries with operations, and ratio of foreign sales to total sales. As of 2009, it had a presence in 33 countries.

Carrefour must continue to decide which countries to emphasize in its expansion and where in each country to locate the new stores. In 2009, Carrefour announced its future priorities in choice of country. Its first priority is leadership in France. The second is to maintain growth or improve performance in three other European countries—Belgium, Italy, and Spain. And its third priority is to establish operations in countries with strong growth potential—mainly BRIC countries (Brazil, Russia, India, and China). Of these four, Carrefour entered Russia in 2009 and plans to begin operating in India by the end of 2010. Finally, the lowest priority is made up of other countries. Map 12.1 shows those countries.

Concomitantly, Carrefour must decide what to do with underperforming stores and countries. It sells stores and moves from countries that offer less potential profits than if capital is placed elsewhere. For instance, in 2006, it sold its operations in South Korea and Slovakia while expanding heavily in Poland.

Carrefour sells in five types of stores: hypermarkets, supermarkets, hard discount stores, cash-and-carry stores, and convenience stores. Its hypermarkets account for the largest portion of its sales, retail space, and number of countries with retail operations. Carrefour invented and opened the first hypermarket—an enormous store combining a department store and a supermarket. Whereas a typical supermarket might have 40,000 square feet, a hypermarket might have 330,000.

MAP 12.1 Carrefour's Priority among Countries

In 2009, Carrefour published its priority among countries. Note that defense of present positions is most important; large growth markets are next in importance.

Source: The order of countries was taken from "Strategic Orientations March 2009," http//www.carrefour.com/cdc/group/our-strategy (accessed July 20, 2009).

As a rule of thumb, a hypermarket requires 500,000 households within a 20-minute drive to derive sufficient business. Carrefour's supermarkets carry less variety than its hypermarkets, and its hard discount stores and cash-and-carry stores carry even less. The cash-and-carry stores cater strictly to the trade, such as to restaurant owners and hoteliers. Its convenience stores (more than 95 percent are franchise operations) are still smaller and carry fewer items. One of Carrefour's key contributions to franchisees is helping to select locations for their stores.

Carrefour's French hypermarket operation was a success from the beginning, due largely to the timing for introducing the concept. French supermarket operations were not yet well developed; consumers generally shopped for foods in different outlets—such as bread, meat, fish, cheese, and fresh vegetables in different specialty stores or markets. Moreover, few retailers had convenient or free parking, so customers had to make frequent and time-consuming trips to numerous stores. Carrefour came along when more French families had cars, refrigerators large enough to store a week's supply of fresh products, and higher disposable incomes to spend on nonfood items. Further, more women were working, and they wanted one-stop shopping. Thus French consumers flocked to Carrefour's suburban hypermarkets, which offered free parking and discounted prices on a very wide selection of merchandise.

However, French government authorities at times have restricted new hypermarket permits to safeguard town centers, protect small businesses, and prevent visual despoliation of the countryside. As a consequence, Carrefour decided to expand internationally. Figure 12.1 provides a chronology of Carrefour's expansion into foreign markets via company-owned outlets. Its first foreign entry was a partnership in Belgium, and its first wholly owned foreign store was in Spain. Both are in neighboring countries, both entries were with hypermarkets, and both countries had consumers who were going through lifestyle changes similar to those we described for France.

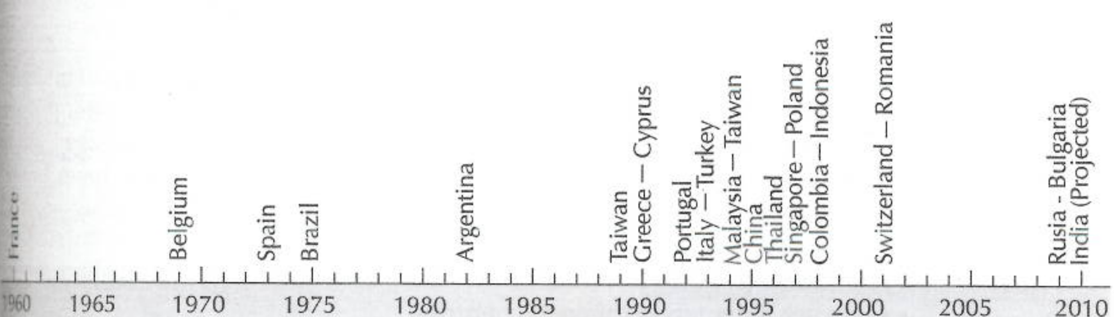
Carrefour easily managed these ventures because its French suppliers provided much of the stores' stock and because its French managers could easily travel to oversee the operations. Since then, a guiding principle for Carrefour's international expansion has been countries' economic evolution. Its former CEO, Daniel Bernard, said, "We can start with a developing country at the bottom of the economic curve and grow within the country to the top of the curve." When Carrefour has deviated from this principle, it has failed. It expanded unsuccessfully into the United States and the United Kingdom after both countries had gone through economic transitions and other distributors had satisfied the changed consumer needs. It also entered the Mexican, Japanese, Korean, and Chilean markets late and sold their operations there. Bernard said later, "To go global, you need to be early enough. Generally, in new countries you need to be the first in for the first win. When you arrive as number three or four, it is too late."

Some additional factors caused problems for Carrefour in markets it has abandoned. In the United States, customers simply have not wanted to spend the time shopping in a hypermarket where they had to walk long distances before reaching even the first aisle. In the United Kingdom, Carrefour did well on food

FIGURE 12.1 Carrefour's Major Locations and Entry Dates

Data refer to company-owned outlets and do not include franchises. Carrefour also entered and exited some foreign markets, including the United Kingdom, the United States, and Japan.

Source: Based on data from Groupe Carrefour, "The Carrefour Group's Store Locations," at www.carrefour.com (accessed June 11, 2007) and updated via a variety of sources.



sales, but consumers preferred to shop for durables in city centers where they could compare the products offered by different distributors. In Mexico, Carrefour was up against an established Wal-Mart, which could integrate buying and distribution with its successful U.S. operations. In Japan, consumers were disappointed not to find a French shopping experience. In both Hong Kong and Chile, Carrefour was unable to build enough stores to gain the needed economies of distribution.

Another factor influencing Carrefour's choice of country has been the ability to find a viable partner familiar with local operating needs. It has found these with the Maus group in Switzerland, President Enterprise in Taiwan, the Sabanci group in Turkey, and Harbor Power Equipment in China. However, Carrefour entered Mexico well after Wal-Mart, which had teamed with the best local partner, Cifra. It entered Japan without a partner because management believed its traditional operating costs, which were lower than those of Japanese rivals, would enable it to compete. At the time, a retail analyst prophetically noted "Their [Carrefour's] chances of success are zero." Carrefour lasted only four years before selling out.

Why would another company want to partner with Carrefour? Aside from financial resources, Carrefour brings to a partnership expertise on store layout, clout in dealing with global suppliers (for example, it runs a global sales campaign, "Most Awaited Month," in which the largest manufacturers of global consumer goods provide its stores worldwide with lower prices for a one-month sale), direct e-mail links with suppliers that substantially reduce inventories and the need for Carrefour's buyers to visit suppliers, and the ability to export unique bargain items from one country to another.

Carrefour also considers whether a location can justify sufficient additional store expansion to gain economies of scale in buying and distribution. To help gain these economies, Carrefour and some of its competitors have recently been expanding via acquisition. However, some analysts have felt that Carrefour may be expanding retail operations to too many countries and will not be able to build sufficient presence in each to gain necessary economies of scale. In contrast, the British retailer Tesco is expanding to fewer countries but is building a large presence in each one.

Carrefour depends on locally produced goods for about 90 percent of its sales, using manufacturers' trademarks or no trademarks at all. This strategy contrasts with such retailers as Tesco, which depends heavily on own-label products. Thus consumers can easily compare prices of most Carrefour products with those of competitors because few of its products have unique labels.

Nevertheless, Carrefour has recently been pushing global purchasing. For example, when stores in one country find an exceptional supplier, the management passes on the information to Carrefour's merchandising group in Brussels, which then seeks markets within Carrefour stores in other countries. The Malaysian operation, for example, found a good local supplier of disposable gloves, and Carrefour now sells them in its stores worldwide.

Despite Carrefour's success in many markets, analysts feel that it will never become the world's largest retailer without a significant presence in the United States and the United Kingdom. Its only presence in either is a minority interest in Costco in the United States. CRN

Introduction

Companies lack resources to take advantage of all international opportunities.

The old adage that "location, location, and location" are the three most important factors for business success rings quite true for international business. Countries offer different opportunities and risks as companies try to create value from increasing sales or acquiring competitively useful assets. Furthermore, because all companies have limited resources, they must be careful in making the following decisions:

1. In which countries to locate sales, production, and administrative and auxiliary services
2. The sequence for entering different countries
3. The amount of resources and efforts to allocate to each country where they operate