

Emerging Market Opportunities and Challenges from the Rise of Supermarkets

Implications for Trade and
Technology

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- Talk at the USDA Agricultural Outlook Forum
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Key points

- Nearly 1 billion middle-class consumers, with the incomes to afford US agricultural exports, in “emerging-market regions” (Asia, Latin America, Central/Eastern Europe)
- The food markets of those regions are rapidly modernizing with the rapid spread of supermarkets

→ New and huge trade and joint venture opportunities for US producers in those regions

→ Challenges for suppliers in those regions and need for technology upgrading

Talk Outline

- Emerging Export Markets: Adding a billion new buyers!
- Supermarket takeoff in emerging-market regions
... and the modernization of their procurement systems
- Implications for opportunities for trade and joint ventures from the US perspective
- Implications for need for technology upgrading in the regions

1. International Markets for US food exports: expanding and changing

The “developed market” = 1 billion - slow growth, except for niche products

- Most US agrifood exports go to the “developed-market” regions: North America, Western Europe, Japan
- A market of nearly 1 billion middle-class consumers

- Very contested/competed markets (from around the world)
- Was a fast-growth market in the first stage of globalization/trade-liberalization in the 1980s/1990s

- But in the 2000s, in the “second stage of globalization” = a relatively saturated market
- Consumer incomes only growing at 1-3% a year
- Still a great growth market for niches/quality
... highly contested by suppliers from around the world

The “emerging market” = 1 billion middle class consumers – fast growth – but seen as “fragmented”

- A new market for food exports is the “emerging market” of Asia, Latin America, and Central/Eastern Europe

... Nearly 1 billion middle-class consumers (of a population of 5 billion)

- Consumer incomes growing 5-10% a year!
- Urbanization and industrialization

- Why is exporter interest in the “emerging markets” only starting?
 - > The traditional image: “few middle class consumers who can afford US products”
 - The traditional image: “a traditional, fragmented – difficult – market”

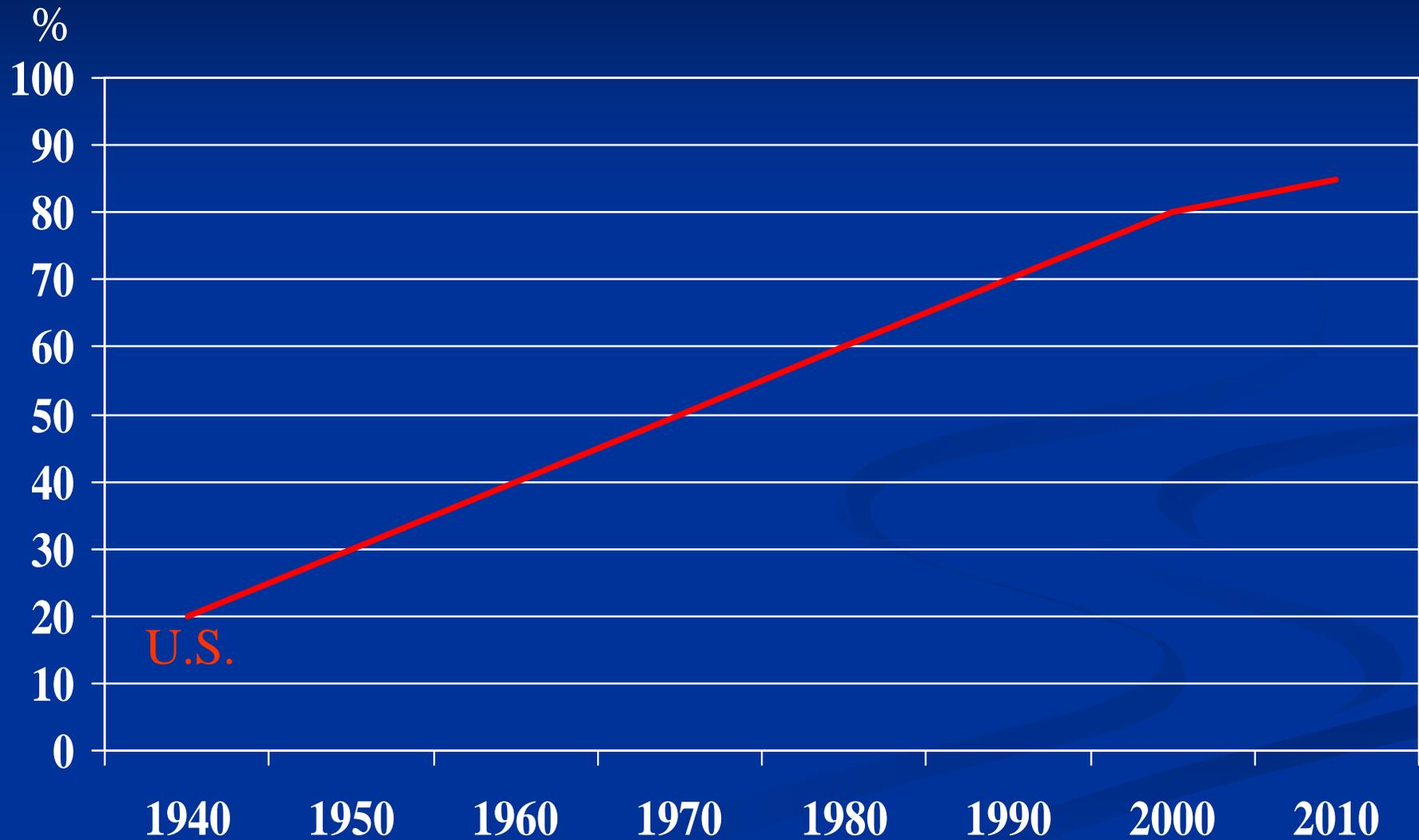
■ But all that is quickly changing...

... with the rapid spread of supermarkets in the
“emerging-market” regions

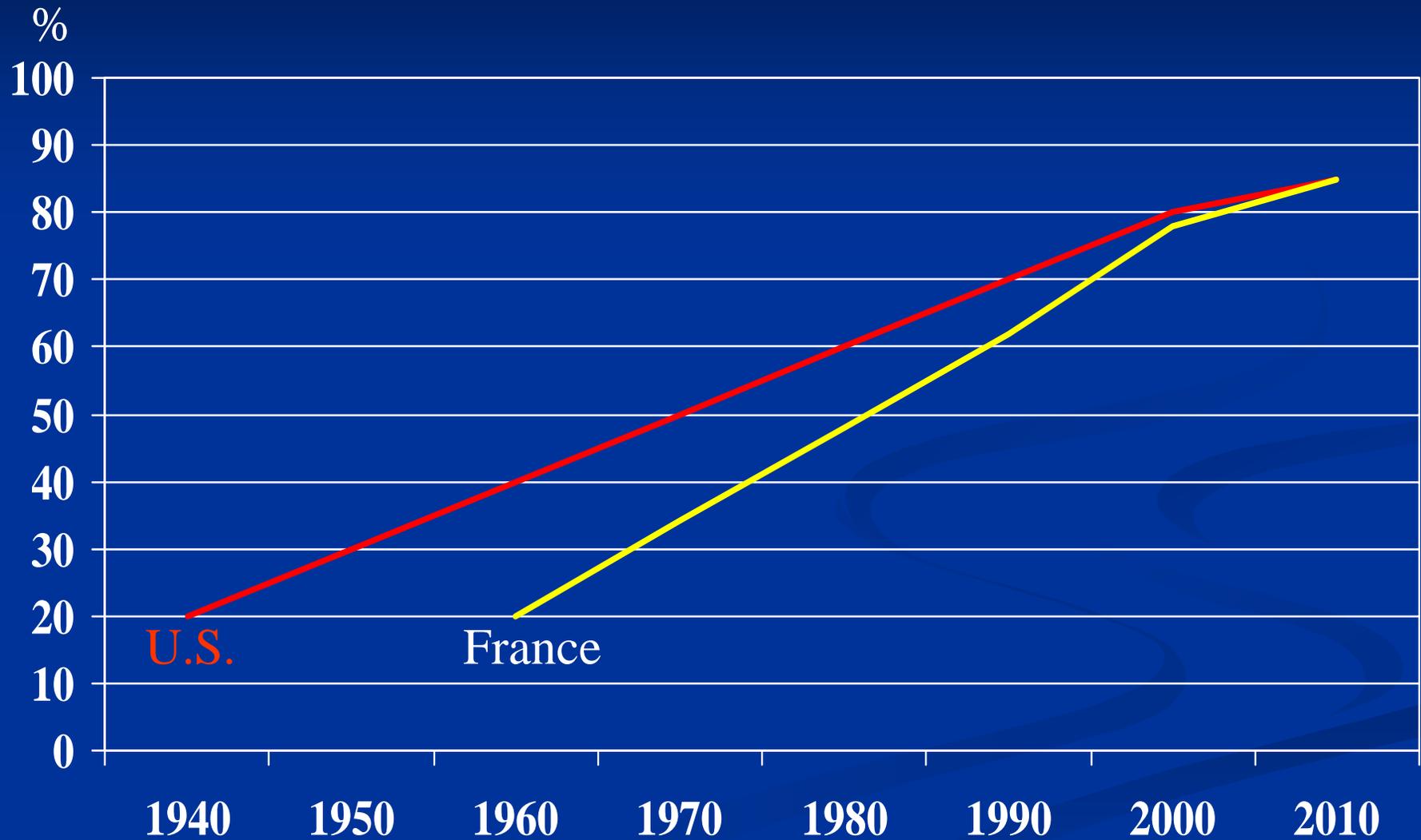
2. The Rapid Rise of Supermarkets in Emerging-Market Regions

- “Supermarket” starts at 300-400 sq meters or a certain number of cash registers
- “Hypermarket” 5-10 times larger
- for simplicity I use “supermarket” as general term for large format in talk

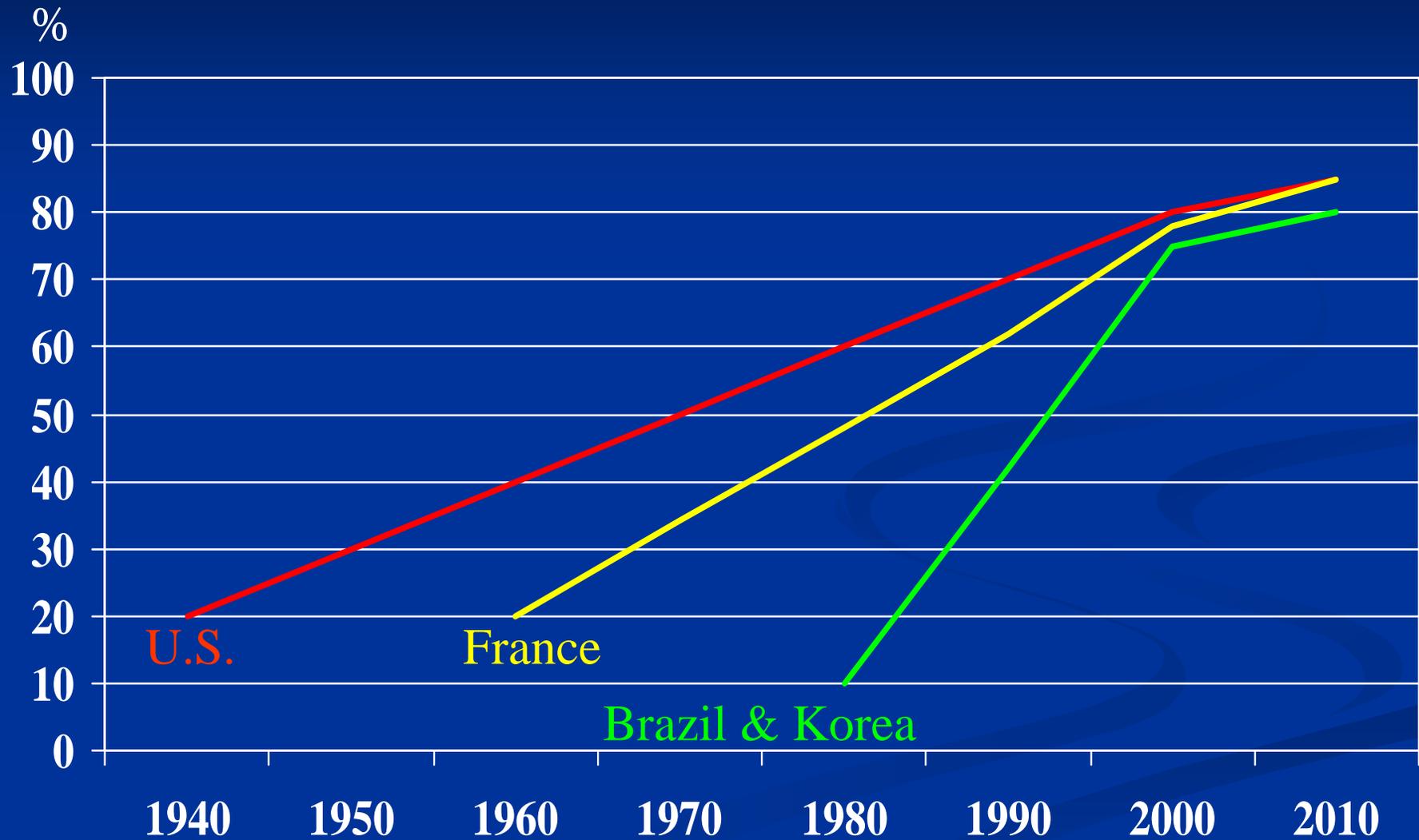
Share of Supermarkets



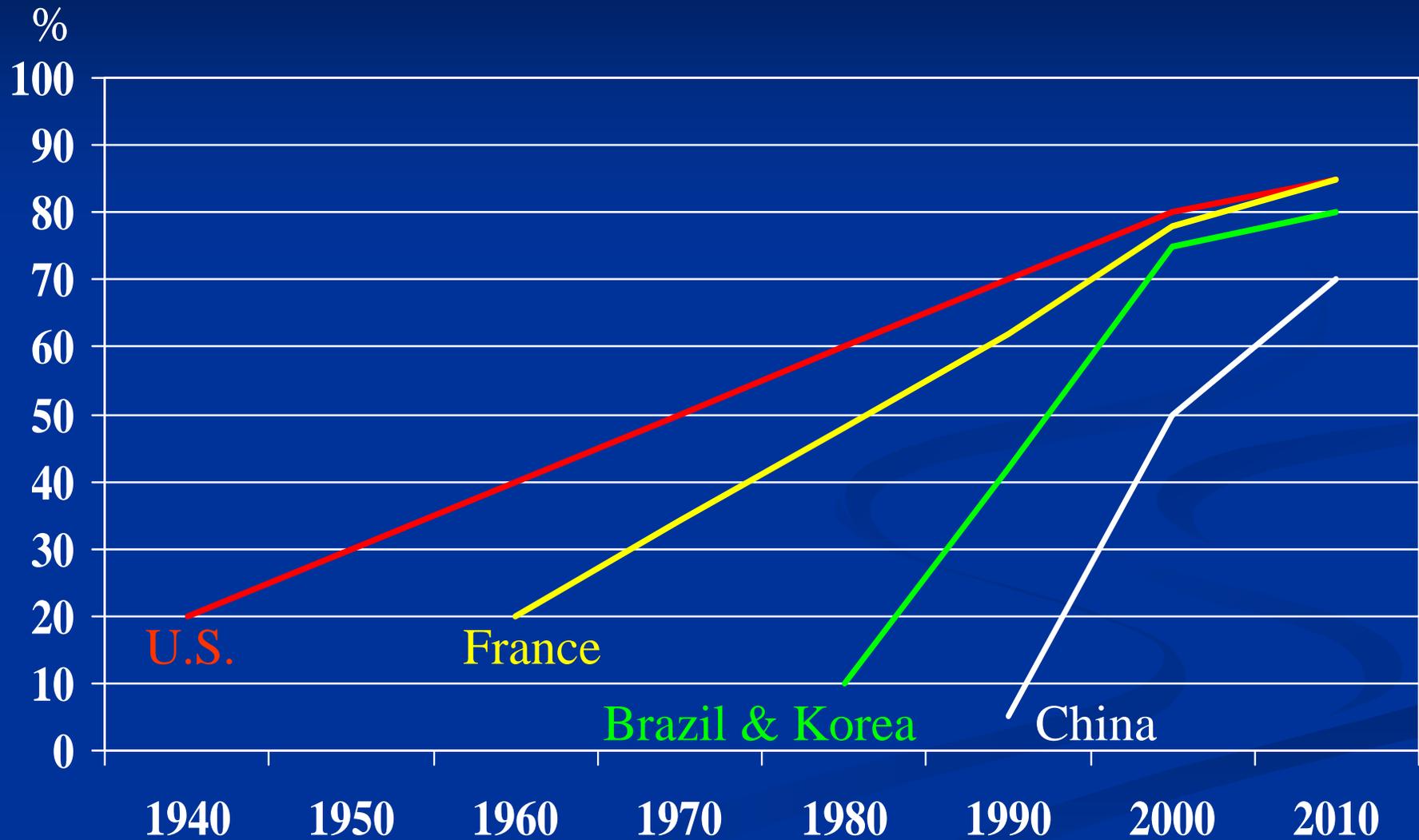
Share of Supermarkets



Share of Supermarkets



Share of Supermarkets



Share of supermarkets in food retail in the Americas

- US: 20% in 1940, 80% today
- Brazil: 20% in 1990, 75% today
- South America: (average) 10-20% in 1990, 50-60% today
- Central America: 5-10% in 1990, 30-40% today
- Mexico: 5-10% in 1990, 40% today
- Supermarket sales growing at 10-20% a year in Latin America!

East/Southeast Asia

- Southeast Asia: from 5-10% in 1990 to average 30-50% today
- Korea: 20% in 1990 to 50% today
- China: 0% in 1990, 30% of urban food market today

... from 0 to \$71 billion overall sales, of which \$50 billion food sales

... growing 30-40% a year!

Characteristics of the Supermarket sector

■ Consolidated & multinationalized

... Latin America: top 5 chains per country = 65% of supermarket sector

... 75% of top 5 = global multinationals (Walmart, Carrefour, Ahold)

Determinants of the rise of supermarkets

- Necessary but NOT sufficient
 - Urbanization
 - Rising incomes
- Also crucial for the big “takeoff” mid 1990s:
 - ... Liberalization of foreign direct investment in retail (FDI) – a HUGE rise from mid 1990s
 - ... Procurement system technology improvement that drove down retail costs

- Supermarkets in many countries have already spread FAR BEYOND the middle class

... into the food markets of the urban poor

Old: Mom & Pop stores (Mexico)



Old: Traditional markets (Nicaragua)



New: Supermarkets (Korea)



The supermarket-market is a huge new market

■ **Supermarkets IN Latin America sell 2.5 times more F&V to local consumers**

... than Latin America exports to the world

... Supermarkets in Mexico sell locally nearly twice the food exports of Mexico

... 30% of supermarket produce sales in Mexican supermarkets are imports

3. Modernizing Supermarket Procurement Systems in Emerging-Market Regions

... changing the face of local markets and trade...

Inside the Head of a Supermarket Procurement Officer in China

- Under INTENSE competition!
- Need to increase market share (VOLUME)
- Reduce COST (of product and transaction)
- Increase QUALITY and SAFETY
- Increase CONSISTENCY
- Differentiate Products

- 4 PILLARS of PROCUREMENT SYSTEM CHANGE

First 3 PILLARS: Organization Change

- (1) Shift from store-by-store procurement and use of wholesale markets
... to – centralized - Distribution Centers
- (2) Shift from traditional wholesalers to Specialized/Dedicated Wholesalers

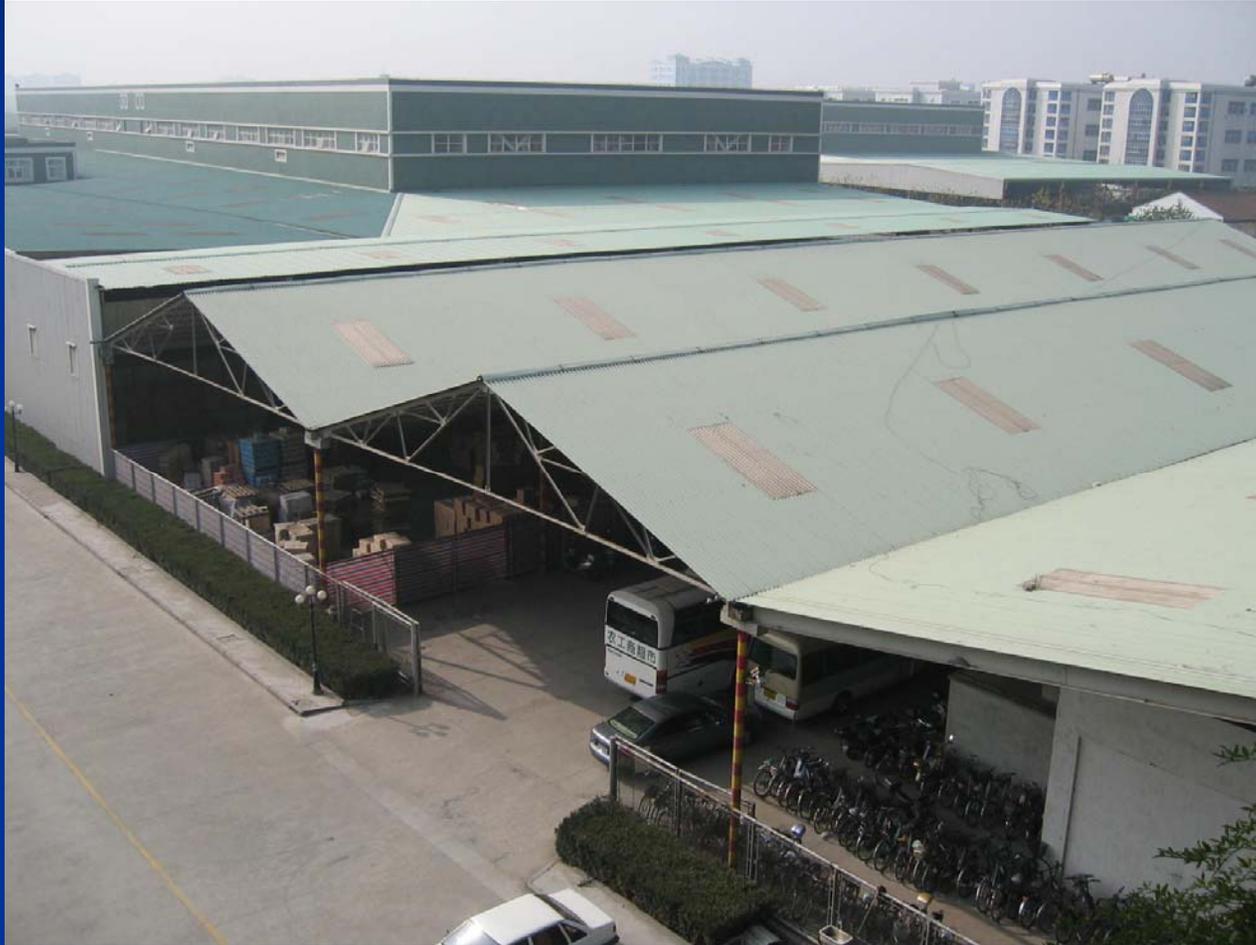
Old: Traditional markets (Nicaragua)



... Distribution Center in Nicaragua



... in China



Specialized Wholesalers





- (3) Shift from spot market to PREFERRED SUPPLIERS lists (under implicit or explicit contract)

→ Buy in bigger volumes, from big area, from bigger (or small but organized) suppliers

Combined with 4th PILLAR = the Rise of PRIVATE Standards

- to differentiate products from other chains
- to fight the informal market competitors
- to coordinate supply chains & reduce costs
- as substitute for inadequate public standards

Hortifruti demanding standards for Lemons in Nicaragua



Testing for food safety in supermarket chain in Thailand



4. Supermarket-driven Opportunities for suppliers to & in emerging-markets

- Big opportunities for local suppliers
 - ... case of melon producers in Northeast Brazil
 - ... Case of melon producers in Indonesia

Makar Buah melons in Bimandiri/Lembang... on their way to Carrefour/Indonesia & Singapore



- ...and for exporters to emerging markets
 - ... who now can sell to nearly 1 billion “new consumers” in the middle class
 - ... with incomes to buy US exported foods

Supermarkets “knit together” a formerly fragmented market: easier “target” for suppliers

- Centralizing/Regionalizing Supermarket procurement systems =
... powerful trade and regional market integration motors
- Cases of Tesco or Carrefour in Asia

Imported fruit – from California, Chile, Thailand – in a supermarket in China



Nicaraguan Supermarket with U.S. apples



Michigan, Chilean, Washington, Oregon apples: HORTIFRUTI, Nicaragua



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5. Challenges for local producers and need for technology upgrading

- New procurement systems bring competition for local suppliers
- ... And tougher product and transaction requirements

- Big challenges: Small & medium producers have big problems adapting to the institutional and organizational changes –
... and their technology and management requirements

- Opportunity for technology transfer and development assistance
- Opportunity for win-win joint ventures of US and emerging-market region producers, for example:
 - ... southern and central Mexico
 - ... Central America
 - ... China