

THE RETAIL MARKET AROUND THE WORLD

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Abstract

The global economy has continued to perform reasonably well, lifting retail sales and profitability. However, heightened concern about the growing risks facing retailers is changing the management agenda from one of managing for profitable growth to one of managing and mitigating risk. There is growing awareness among senior management and corporate directors in the retail industry - whose risk management agendas heretofore have been focused primarily on financial integrity issues - of the non-financial risks confronting their organizations.

The paper presents the situation on the global retail industry based on the last year's dates and prediction its course in the near future. The studied markets are: North America, Europe, Latin America, Asia/Pacific, Africa/Middle East. The global economy has emerged from its doldrums, which has put more money in consumers' pockets. Profitability and cash positions have risen. Investments in technology are beginning to pay off. Various international markets are showing increasing signs of promise. Competition remains intense in the industry, but the successful industry players have developed the focused strategies that are allowing them to flourish.

The globalisation process has contributed to a growing risk of “commonality.” Despite a mandate for innovation from growth-minded players, retail strategies are becoming increasingly convergent. As continued expansion places retailers in head-to-head battles in more markets, competition for market share has become almost exclusively price-oriented in many sectors of the industry. A lack of clear differentiation in merchandise assortments, service levels, and marketing messages creates commercial risk by positioning many retailers as product distributors, rather than distinctive concepts targeted to specific customer segments.

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Competition among retailers has never been tougher. A retailer without a significant competitive advantage doesn't stand a chance. Superstores are battling each other on every major corner while direct marketers (including catalogs and online sites) are stealing customers from stores¹.

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The global retail industry's improved financial position is allowing numerous companies to solidify their standings in the rankings. No one, however, is standing still. The steady flow of recent announcements on exciting new technology, deployments, merger activity and expanded global positioning suggest that the industry is just beginning to fire up and that even more exciting times lie ahead.

Positive forces in the retail market today include:

- Relatively low interest rates
- Easy availability of consumer credit
- A very strong job market coupled with low unemployment rates
- Moderate inflation
- A relatively low personal savings rate (indicating a willingness to spend rather than save)

- Higher stock market and personal investment values

Negative factors in the retail market today include:

- High consumer debt levels
- Higher health care costs for consumers
- Global terrorism, tension and uncertainty
- Consumers burdened with much higher energy costs including gasoline, home heating fuel, natural gas rates and electricity rates
- A slowdown in the housing market.

Compared with last year's Top 10, the top 6 retailers remained in the same positions in 2005, with only minor changes occurring in the bottom half of the list.

¹ Deloitte – 2007 Global powers of retailing

Table 1: Global Top 10 retail leaders(2005)

No	Company	Retail sales (US\$ billions)	Country of origin
1.	Wal-Mart	312,4	USA
2.	Carrefour	92,8	France
3.	Home Depot	81,5	USA
4.	Metro	69,1	Germany
5.	Tesco	68,9	UK
6.	Kroger	60,6	USA
7.	Target	52,6	USA
8.	Costco	51,9	USA
9.	Sears Holdings	49,1	USA
10.	Schwartz	45,9	Germany

[2]Source: Planet Retail

Wal-Mart has remained the undisputed leader in the retail world. Carrefour has maintained the #2 spot for 6 consecutive years, having risen from #8 in 1996. Home Depot captured its current 3rd place ranking in 2002, rising rapidly over the preceding years. Metro, #4 ten years ago, dropped to 6th place in 2001, before climbing back to the #4 spot in 2003. Tesco has seen a jump in the rankings similar to Home Depot. Currently at #5, Tesco ranked 18th in 1996. Sixth-place Kroger ascended the ranks from #13 ten years ago. Target (formerly Dayton Hudson Corp.) climbed back into 7th place in 2005, surpassing Costco. Costco became a Top 10 retailer in 2002. Despite slipping one place to the #8 position behind Target, Costco has risen 14 notches over the past ten years. Sears and Kmart made return trips to the Top 10 in 2005 study as the combined entity Sears Holdings Corp., earning the 9th spot on the list. Sears, Roebuck & Co. was the world's second largest retailer in 1996 and 1997. It then suffered a steady decline, bottoming out at #20 in 2004. Kmart, among the Top 10 until 2002, fell precipitously to #33 last year. Rounding out the list, Schwarz Group has overtaken Aldi as the world's biggest hard discount retailer, entering the Top 10 for the first time. The company rose from 11th place the year before. While the Top 10 retailers have been a fairly stable group over the past few years, a longer look back reminds us that the retail life cycle cannot be extended indefinitely without continuously adapting the business to changing market forces and competitive dynamics. Ahold, ranked #3 just five short years ago and #9 last year, is no longer among the elite Top 10 as it continues to sell off operations around the world in an effort to reduce debt and focus on more stable markets closer to home. Albertsons LLC is all that remains of what was once the 2nd largest grocery chain in the US. As recently as five years ago, it was also the world's 8th largest retailer. Pressured by shareholders to put itself up for sale, the company was sold to a consortium of investors in 2006.

Table 2: Top 10 American Retailers

North.America rank	Top 250 rank	Company	Retail sales (US\$ billions)
1.	1.	Wal-Mart	312,4
2.	3.	Home Depot	81,5
3.	6	Kroger	60,6
4.	7.	Target	52,6
5.	8.	Costco	51,9
6.	9.	Sears Holdings	49,1
7.	13.	Lowe's	43,2
8.	14.	Walgreen	42,2
9.	16.	Albertsons	40,4
10.	18.	Safeway	38,4

[2]

The Top 10 North American retailers are all US based. All are among the top 20 retailers worldwide. The only significant change from last year's lists is the addition of Sears Holdings which substitutes at #6 for 10th ranked Sears, Roebuck.

The Top 10 European retailers are based in four countries: France, Germany, UK and the Netherlands. All are among top 25 retailers worldwide. Changes from last year's list include Ahold's fall from the 4th largest European retailer to #9 in this year's study. ITM has fallen off the top 10, having sold its German operations in 2005 to Edka-Zentrale, which takes its place.

Table 3: Top 10 European Retailers

Europe rank	Top 250 rank	Company	Retail sales (US\$ billions)	Country of origin
1.	2.	Carrefour	92,8	France
2.	4.	Metro	69,1	Germany
3.	5.	Tesco	68,9	UK
4.	10.	Schwartz	45,9	Germany
5.	11.	Aldi	45,1	Germany
6.	12.	Rewe-Zentral	44,0	Germany
7.	15.	Anchan	41,2	France
8.	17.	Edeka Zentrale	39,4	Germany
9.	21.	Ahold	36,9	Netherlands
10.	22	E.Leclerc	35,5	France

[2]

There are 9 retailers from Latin America among the 250, 3 of which are new to the top 250 in 2005. The Latin American companies are based in Brasil, Mexico and Chile. All fall in the bottom half of the top 250 list. Brasil-based Pao de Acucar, 2004's largest Latin American retailer is now accounted for as a part of France-based Casino's International Operations.

Table 4: Top 10 Latin America retail leaders

Latin America rank	Top 250 rank	Company	Retail sales (US\$ billions)	Country of origin
1.	2.	Carrefour	92,8	France
2.	4.	Metro	69,1	Germany
3.	5.	Tesco	68,9	UK
4.	10.	Schwartz	45,9	Germany
5.	11.	Aldi	45,1	Germany
6.	12.	Rewe-Zentral	44,0	Germany
7.	15.	Anchan	41,2	France
8.	17.	Edeka Zentrale	39,4	Germany
9.	21.	Ahold	36,9	Netherlands
10.	22	E.Leclerc	35,5	France

[2]

Seven of the top 10 Asia/Pacific retailers are based in Japan. The largest, Aeon operating a variety of formats is nr 20 among the top 250. The second largest Asian retailer Seven&1 Holdings is a new company established in September 2005. Hong Kong based, AS Watson has also joined the Asia top 10 as a result of numerous acquisitions. None of the top 10 Asia/Pacific retailers is among the top 10 retailers worldwide.

Top 10 retail leaders of Asia/Pacific

Asia/Pacific rank	Top 250 rank	Company	Retail sales (US\$ billions)	Country of origin
1.	20	AEON	37	Japan
2.	24	Seven&1 Holding	32,9	Japan
3.	29	Woolworths Ltd.	27,7	Australia
4.	30	Coles Myer	27,4	Australia
5.	60	AS Watson	11,4	Hong Kong

6.	61	Yamada Denki	11,4	Japan
7.	65	The Daiei	10,7	Japan
8.	67	Uny Co.	10,6	Japan
9.	79	Millenium Retailing	8,6	Japan
10.	83	Takashimaya	8,3	Japan

[2]

The Africa/Middle East region has 5 companies among the top 250.. All are based in South Africa. Metcash Trading has dropped from #81 in 2004 to #230 in 2005 ranking, having sold its Australasian operations to Metcash Group.

TopAfrica/Middle East retail leaders

Africa/Middle East rank	Top 250 rank	Company	Retail sales (US\$ billions)	Country of origin
1.	122	Pick'n Pay	5,5	South Africa
2.	123	Shoprite Holdings	5,4	South Africa
3.	140	Massmart Holdings	4,7	South Africa
4.	230	Metcash Trading	2,7	South Africa
5.	246	Edgars Stores	2,6	South Africa

[2]/Top 10 retailers by major product sector

As most of the world's Top 10 largest retailers operate primarily food, drug and/or mass retail formats, the Top 10 Retailers of Fast-Moving Consumer Goods look almost identical to the overall Top 10 list, with the exception of Home Depot and Sears Holdings. But even that is starting to change as Home Depot has begun testing a new gasoline/convenience store concept called Home Depot Fuel in the parking lots of several of its stores. Fifty-three retailers (or 21% of the Top 250) are predominantly Hardlines & Leisure Goods retailers. Home Depot (#3 overall) is the highest ranking company in this group. The remaining Top 10 Hardlines retailers range from 13th to 81st among the Top 250 and include mostly US companies.

The Fashion Goods sector is comprised of 47 retailers that operate primarily softgoods retailing formats. As a group, these companies tend to be smaller than retailers in the food or hardgoods sectors. None of these retailers is among the top 10 largest retailers in the world, or even the top 25. The top Fashion Goods retailer in 2005 was Federated Department Stores, which surpassed JCPenney for the first time, following its 2005 acquisition of former rival May Department Stores Co.

The Diversified sector has the fewest representatives on the Top 250 list, with 17. Sears Holdings, the largest company in this group, is the only one to rank among the world's Top 10 largest retailers, the result of Kmart's 2005

acquisition of Sears, Roebuck. The geographic make-up of this group is diversified as well, with representatives from nine countries.

Top 10 Fast Moving Consumer Goods retailers in 2005

Sector rank	Top 250 rank	Company	Retail sales (US\$ billions)	Country of origin
1.	1	Wal-Mart	312,4	USA
2.	2	Carrefour	92,8	France
3.	4	Metro	69,1	Germany
4.	5	Tesco	68,9	UK
5.	6	Kroger	60,6	USA
6.	7	Target	52,6	USA
7.	8	Costco	51,9	USA
8.	10	Schwartz	45,9	Germany
9.	11	Aldi	45,1	Germany
10.	12	Rewe-Zentral	44	Germany

[2]

Top 10 Hardlines & Leisure Goods retailers in 2005

Sector rank	Top 250 rank	Company	Retail sales (US\$ billions)	Country of origin
1.	3	Home Depot	81,5	USA
2.	13	Lowe's	43,2	USA
3.	25	Best Buy	30,8	USA
4.	35	IKEA	18,8	Sweden
5.	39	Staples	16,1	USA
6.	42	PPR Group	15,8	France
7.	44	Kingfisher	14,5	UK
8.	46	Office Depot	14,3	USA
9.	52	Dell	12,2	USA
10.	56	DSG Int'l (Dixons)	11,7	UK

[2]

Top 10 Fashion Goods retailers in 2005

Sector rank	Top 250 rank	Company	Retail sales (US\$ billions)	Country of origin
1.	32	Federated Dept.Stores	22,4	USA

2.	36	ICPenney	18,8	USA
3.	40	TJX	16,1	USA
4.	41	Gap	16	Sweden
5.	45	Karstadtquelle	14,3	Germany
6.	48	Kohl's	13,4	USA
7.	59	Otto Group	11,5	Germany
8.	72	Limited Brands	9,7	USA
9.	79	Millenium Retailing	8,6	Japan
10.	81	H&M	8,4	Sweden

[2]

Top 10 Diversified retailers in 2005

Sector rank	Top 250 rank	Company	Retail sales (US\$ billions)	Country of origin
1.	9	Sears Holding	49,1	USA
2.	43	El Corte Ingles	15,8	Spain
3.	47	Marks& Spencer	13,9	UK
4.	89	Lotte Shopping	8	S.Korea
5.	90	Kesko	8	Finland
6	112	Tokyu	6	Japan
7.	137	Maxeda (Royal Vendex)	4,8	Netherlands
8.	140	Massmart Holdings	4,7	S Africa
9.	144	LVMH	4,5	France
10.	145	Gr.Galleries Lafayette	4,5	France

[2]

The last two years have been rewarding for many retailers as a result of improved fundamentals. The global economy has emerged from its doldrums, which has put more money in consumers' pockets. Profitability and cash positions have risen. Investments in technology are beginning to pay off. Various international markets are showing increasing signs of promise. Competition remains intense in the industry, but the successful industry players have developed the focused strategies that are allowing them to flourish.

Technology, for one, continues to be the great enabler in helping retailers achieve profitable growth¹. The industry remains one of the major purchasers of technology, and the benefits are paying off for many companies. Supply chain

¹ Kenny and Marshall (2006, p. 72-74).

execution has become critical to improved business performance. Optimized merchandise assortments are providing great rewards. Customer-management systems are being enhanced by detailed segmentation and profiling.

The economy's upbeat performance, coupled with the benefits being derived from technology, helped lift retailer profitability. In 2003, only 6 percent of retailers reported a net loss; this percentage was less than half of what it was in 2001. Among retailers that were profitable, the average net income represented 3.3 percent of group sales.

Additionally, the analysis of retail stock performance showed that a number of companies are currently valued favorably by the equity markets. Some of the strong valuations are likely due in part to various success factors, such as strong branding efforts or enjoying a unique position in the marketplace.

As the retail environment has turned more positive, retailers' cash positions have improved, resulting in increased merger and acquisition activity. Some recent examples: Canada's Alimentation Couche-Tard purchased the Circle K convenience stores in the US. In 2003, private equity groups purchased Debenhams in the UK. CVS and

Jean Coutu purchased Eckerd from JCPenney. The Sports Authority and Gart Sports merged in 2003, and more recently, May Department Store Co. purchased Target's Marshall Field's, upscale apparel retailer Barney's was purchased by Jones Apparel and Albertsons bought Shaw's and Star Markets. Perhaps most striking was the late- 2004 announcement of the Kmart-Sears mega-deal. The combined company will have annual revenue of approximately \$55 billion and operate more than 3,400 stores.

Food retailing recently has been buffeted by several newsworthy events. In early 2003, reports of bird flu outbreaks and mad cow disease influenced sales of various meat and fresh produce sectors throughout Europe, North America and Asia. A more lasting impact, however, has come from the media spotlight on the growing number of individuals around the world who are overweight. Obesity was recently voted the top food news story of the year by American newspaper and magazine food editors. In 2003, Ireland became the first nation to set limits on prime-time junk food commercials on TV. Retailers are responding to these developments in numerous ways. The growth in organic and natural foods remains strong in Europe and the US, with many food retailers continuing to successfully introduce private labels in these areas. Apparel retailers are increasing their selections of plus-size clothing to accommodate the expanding girth of consumers.

Other demographic trends that have taken on added relevance include the aging and growing diversity of Western populations. In Japan, for example, "silver spenders" have become an important target because of their high levels of

savings, and hence, spending power. In the US, retailing concepts that cater to older women are growing. The Gap in the US recently announced a new concept for Baby Boomer women. Additionally, multicultural marketing has taken off as populations become more diverse.

The prevalence of today's 24/7 culture is creating both challenges and opportunities for retailers. Time-starved consumers today often seek the convenience of one-stop shopping, although the trend is creating channel blurring. The Internet continues to grow in importance as retailers improve on their ability to provide an efficient, fully merchandised e-tail experience. Multi-channel retailing is proving to be very popular with consumers. A research report noted that 2004 holiday shopping on the Internet was expected to be greater in Europe than in the US. Privacy and unscrupulous vendors, however, continue to be issues that need favorable resolution. The Federal Trade Commission in the US recently noted that the chances of getting "dot-conned" are greater now than ever before. Risk management has come to the forefront in many retailers' operations. The Sarbanes-Oxley Act of 2004 and Europe's International Financial Reporting Standards are influencing such accounting topics as revenue recognition and vendor rebates and allowances. Many retailers are promoting social, environmental and ethical responsibility to enhance public perceptions.

Retail sales in the last year were affected by the following factors¹:

1) Sales of both new and existing homes slowed, particularly in the second half of the year. While homes themselves are not counted in retail sales figures, buyers of these homes are a significant force at retail stores where they purchase furniture, appliances, linens, consumer electronics and garden supplies to fill up their new residences. Likewise, builders and remodelers are a strong factor in retail sales, when they purchase supplies, materials, appliances, etc. at retail outlets. The 2006 slowdown in building and remodeling led to reduced sales at home centers such as Home Depot.

2) Another factor is interest rates on consumer loans and mortgages: From 1998 through 2005, Americans were refinancing their existing home mortgages in record-setting numbers. In doing so, they took advantage of very low mortgage interest rates. Many homeowners also increased the balance on their mortgages, taking advantage of rapidly rising home values that increased their borrowing power. Borrowing against home equity lines of credit was also high, and much of that money went to retail purchases. Homeowners were spending this cash windfall freely, driving up retail sales in many categories. However, by the second half of 2006, the slowing real estate market, along with higher mortgage rates, meant that the party was over. This has definitely had a negative effect on

¹ Annual Groth in US Retail Sales, Retail Industry Statistics.

retail sales. Meanwhile, consumer interest rates in general were up a bit in 2006, leading to higher loan payments on new or adjustable rate loans and on some automobile loans and installment loans for household items.

3) The sale of gasoline at the pump is included in retail sales figures. Extremely high prices per gallon for gasoline have shown up as growth of total retail sales in America. At the same time, consumers have been forced to allocate a larger portion of their household budgets for gasoline, electricity and heating oil, leaving fewer dollars left over for discretionary retail spending.

4) Another matter to consider when evaluating retail sales growth is the relatively low rate of inflation that the U.S. has enjoyed in recent years (due to factors that include growth in business productivity and low prices for imported goods-especially those made in China). To get the actual rate of retail sales growth before inflation, subtract the rate of inflation from the yearly change in retail sales.

Direct selling through online retailers, catalog companies and home-shopping television channels continues to increase. Sales via the Internet rose dramatically in 2006, up an estimated 18% to \$104 billion thanks to savvy marketing by online giants like Amazon.com, as well as the e-commerce efforts of traditional retailers such as J.C. Penney and Wal-Mart. Likewise, the sale of merchandise via television home-shopping channels racks up several billion dollars in annual sales. Companies engaged in this activity include the Home Shopping Network and QVC, Inc.

Conclusion

The global economy has continued to perform reasonably well, lifting retail sales and profitability. However, heightened concern about the growing risks facing retailers is changing the management agenda from one of managing for profitable growth to one of managing and mitigating risk. There is growing awareness among senior management and corporate directors in the retail industry - whose risk management agendas heretofore have been focused primarily on financial integrity issues - of the non-financial risks confronting their organizations. Retailers also face increasing risks in other areas that are less well-recognized or understood. The nature of global commerce now requires retailers to take into consideration a number of serious issues that did not exist before. Being a good global citizen-minimizing a company's impact on the environment and maximizing benefits to the communities in which it operates-is becoming an increasingly important topic on the corporate risk management agenda. Being seen as part of the solution to society's problems rather than part

of the problem is key. Food safety concerns and product counterfeiting are having significant repercussions throughout the global supply chain.

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