

Delhaize's retailer

Literature



Introduction

In this presentation, we shall analytically review the performance of Delhaize's retail in the past ten years. In the second part, there will be an analysis of some possible forecast of opportunities and challenges this same company in the next five years is a player in one of the renowned international markets.

Delhaize group is a Belgian international food retailer. It was founded by Jules Delhaize in 1867; this was over a century ago. There are several store formats which include neighborhood, convenience, and specialty stores. United State subsidiary Delhaize America happens to be one of the largest supermarket operators on the East Coast. Its known top competitors are Ahold USA, Carrefour and Royal Ahold (Delhaize, 2008).

Motives

Forming the foundational basis of its institution was Alexander (1997) who reviewed that "push and pull" factors emerged as an important method for interpreting retailers' motives as a prerequisite before expanding into foreign markets.

Many countries have strict policies thereby limiting retailers' expansion, restricting the number of stores, compromising the size of stores and also in the regulation of operation hours. On the other hand, most European countries put some laws in place to ensure enhancing the interest of small-scale retailers. There is a 'Padlock Law' from Belgium, the law defined "the large-scale retailers as those with five or more employees in a choosing town of more than 100, 000 population or three people in smaller communities"

(Sternquist, 2007). As a result of that, Delhaize group can only remodel existing stores, but became somehow difficult to build new stores in the area where such law exists.

There are high levels of competitions with low profit margin from local players. Many retailers decide to move to other markets, with greater growth potential and less competitions. Belgians retailers who moved to other countries are good examples. In Belgium, many citizens prefer shopping at traditional food stores. Over half of the marketers buy their meat and bread directly from local traditional food stores, such as butchers store and bakeries. Delhaize decided to expand other business to where it would battle with limited competition. Some of the focus includes Greece, Germany, Romania, Luxembourg, United States and Indonesia. However, Delhaize group are not usually successful in their plan at all time. This gave account to the company's withdrawal from some countries where gain is not forthcoming as planned.

Furthermore, there are still few "push" factors that derive retailers' participation in the international expansion and growth. Some of these factors are; effects of saturation, lack of productivity, flexibility and insufficient number of supplies to meet constantly increasing demands.

On the other hand, some pull factors from the outside markets also dictates the extent of retailers' participation. Delhaize has its stores in nine countries as at 2004. It opened about 1, 500 stores including both convenience stores and large-scale supermarkets in US. This constitutes over 50% of the total Delhaize's stores owned. The US market's pull factors might be one of the significant examples of expansion. America has larger population and good

transportation system; and the retail market is much different from other countries. In contrast, the US government has the most freedom policies that favor retailing business.

Compared to Belgium law, the freedom gives Delhaize such a huge opportunity to thrive on opening large-scale supermarket. As Stermquist mentioned in 2007, "...new nationwide network of railroads allowed businesses to distribute goods throughout a broader area." Transportation is another important pull factor for Delhaize in the US. In addition, high use of automobile in US gives an advantage in location. Moreover, large population provides enough labour and produces a larger market. American people have similar life style to the Belgian; for instance, they both spend a lot of money on food; the only different is in Americans' preference for supermarket when purchasing food. There are other benefits for Delhaize to network within US market; this is exemplified in the provision of slotting allowances and free market system where it can operate profitably.

Method

By 2007, Delhaize operated 2545 stores in seven countries viz. Belgium, Greece, Germany, Romania, Luxembourg, United States and Indonesia. Delhaize implemented different strategies to gain entrance to different markets. It has attempted and experimented with acquisitions, joint venture, franchised and affiliated, in which 85% stores are in supermarket format. Other store formats include neighborhood, convenience, and specialty stores.

Acquisitions and affiliated store

Acquisition is where a company acquires local company(s) within foreign country, in order to gain leading position in the retail market. Delhaize Group has made relatively fill-in acquisitions: Alfa-Beta Vassilopoulos, the second largest food retailer in Greece. Delhaize currently holds 61.3% stock of Alfa-Beta with operation of 148 stores at the end of December 2006. However, there are disadvantages to this acquisition method. Of notable is the presence of high cost and bearing of high risk for international retailers.

Affiliated store is the only method that does not share existing company's secrets. Affiliated store can be operated by independent retailer who can sell products at wholesale prices. They can benefit from the world of assurance of both companies.

Joint venture

Joint venture agreement can be defended as an overseas company and a local company joint together to form a new business. Delhaize Group has used this mode on a number of occasions, usually aiming for majority stake in the venture in order to control overall management and strategy. Delhaize Group has opened stores in joint venture with local partners as guided under Indonesia law. They entered Indonesia by acquiring an interest in Lion Super Indo in 1997 (51% owned by Delhaize Group). Joint venture may be a good way to share risk and to benefit from the local experience of a domestic associate. However, it may be difficult to find a local partner, especially when operating in a highly competitive environment. Moreover, local business culture may even ban joint ventures of industries for reason(s) best known to them.

Franchised

Franchise is when the retail formula and the idea of the franchiser from the originating country are replicated under contract by the franchisee in the host country. As has been identified in the literature, franchise is one of the most preferred ways to gain access to international market at low cost and low risk to the franchiser. Franchisers have the right to operate and distribute their products independently. Delhaize group has franchised and company-operated pet food stores (Tom & Co) in Belgium.

However, a number of retailers failed to achieve international operating status through the organic growth methods. The organic method distinguished their domestic development from initial development in international markets (Alexander & Quinn, 2002).

Direction

Under the influence of "push and pull" factors, Delhaize decided to expand its business world-wide. US market was the first foreign market that Delhaize gained access into. Geographical, cultural proximity and competitive conditions of the foreign market are the major considerations for this success (Bruce & Moore, 2004). Delhaize did not follow this track initially, but however, the manager identified likely opportunity in US market, and Delhaize had a huge success when it worked upon the opportunity in US. Geographically, USA has a large country scale with more potential. Delhaize opened 226 supermarkets in USA just within twenty years.

The success has served the company large amount of income. In 1991, the company turned their direction back to Eastern Europe to open its first store

in Czech Republic. Due to the geographical proximity, similar country background and language, Delhaize quickly expand to Greece, Germany, Romania, and Luxembourg. At this time, Delhaize became one of the key retailer chains in both Europe and America. Furthermore, Delhaize successfully entered Thailand and Far East in Indonesia, because of the quick economics growth of Asian continent.

Alfa-Beta Vassilopoulos

Alfa-Beta Vassilopoulos Company was established in Athens, far back in 1939. Delhaize entered Greece retail market by 50-50 joint venture agreement with Alfa-Beta Vassilopoulos Group in 1992 (Wikipedia, 2008). Alfa-Beta significantly expanded their business in past few years, consisting of 154 stores all over Greece. It is a big consideration for international retailers to enter foreign market on the basis of available Macroeconomic environment; it consists of players like Government, Economic, Social, Technological, and other Competitors. (Sternquist, 2007) In this part, we will discuss the limitations and opportunities of Alfa-Beta via the macro environment of Greece.

Government and Legal system

Government Organization & Regulations

Every country has its own law for foreign retailers. The law regulates the extent to which international retailers can open new stores, the open hour's period retailers can operate, and also regulation of products international retail can sell. In addition, some countries also have their own economic policies to control interest rate and taxation (Cox & Brittain, 2000).

In 2008, the price-fixing scandals will continue to fuel distrust amidst large organizations, including multinational food processing companies who are unlikely to achieve higher market penetration. In fact, Greece being currently ranked as the most corrupt country in Europe (2008 Greece Food and Drink Report Q2) would significantly limit the brand expansion by unpredictable government organization.

In order to protect domestic commerce, some regions in Greece instituted policy to ban opening of big departmental stores and supermarkets. That is the limitations of multinational industries. For instance, the average selling area of Alfa-Beta is 795 m (2008 Delhaize Brothers And Co.), if the outlet is larger than 2000 square meters, a district committee has to review the request and determine what effect it will have on the local industry. Furthermore, multinational supermarket shopping hours are the only regulated outlets in tourist areas that are allowed to be open on Sundays to protect employee rights, among others. The regulations were designed to reduce the power of large multinational supermarkets and unregulated marketing.

Social and cultural environment:

Social factors

Social and cultural environments have great influences on retail markets. Greek consumers spend around 40% of their income on food, drink and tobacco products, which is significantly higher than that in other EU countries (European Retail Handbook, 2008). The population of Greece had reached 11, 200 and has grown by about 1. 5% in the last five years. The

growth is boosted by increasing birth rates and declining death rates. Immigration has also contributed to the rising population. The high population is expected to bring more potential retailing opportunities.

Retailing Environment & Lifestyle

The Greek food sector has a high degree of fragmentation in other European countries with the top five retailers'. This only accounts for nearly 30% of all food retailers' sales with negative impact on international retailing. The reasons for poor performance is not unconnected to the lack of growth in food and drink market for lifestyle impact on consumer's shopping behavior, Greek consumers showing few signs of varying their traditional dietary preferences include home cooking. Moreover, pre-cooked meals and frozen foods have market limitation in achieving the prominence they hold in Western Europe. Nevertheless, fresh and some consumed local products would be brought when there is significant opportunity.

Brenda Sternquist (2007) who shares the Greek lifestyle reinforces the need for customers to have personal interaction with the people they are buying merchandise from. Open markets operate once a week in most neighborhoods, but a rush of mergers and acquisition, primarily in the supermarket area. The Alfa-Beta confirmed the confidence and opportunities in accelerated network growth, market renewals as well as continuous price positioning with hard discounts. Alfa-Beta continues to invest in the country; however, the room for expansion in the mass grocery retail sector is limited.

Economy

Economic Variations

Substantial economy growth is recorded in Greece for the period 2000-2006. The GDP and customer expenditure rate were steadily rising 4% every year, and unemployment rate fell from 10.6% (2004) to 7.3% (2007). This made Greece become the country having lowest unemployment rate in Europe. However, there is still significant impact from the storm of global economic crisis. In June 2008, the unemployment rate has the largest one-month increase since 1986 (Greek News, 2008). Inflation is a serious threat to Greek economy, rapidly increasing prices of food and petrol slowed down the speed of purchasing power of Greece, as well as the GDP of Greece has no indication for any expect growth. That directly caused retail market to decline, and the crisis cannot be solved in short term, retailers may face more difficulty of sale over next few years through forecast from extrapolation.

The Greek retailing style is becoming an intermediary of traditional style. The number of traditional store decreased over 50% from 1980, and there is only 7% market share of traditional stores in Greece at that moment. There are opportunities for organized retailers to gain more market shares by opening more stores.

European Union

According to Travel documentation system, EU will continue to transfer approximately \$24 billion structural funds to Greece until 2013. These funds will help the banks of Greece recover from the global economic crisis; EU funds will support the major public companies to increase job opportunities, improve the condition of Greek economy, lift their standard of livings and

improve the sale of retail market. There will be more opportunities for international retailers to expand their business in Greek retail market.