

# The global strategy of french retailer carrefour



**ASSIGN  
BUSTER**

The last four decades has seen the French group Carrefour S. A. become Europe's largest and the world's second-largest retailer. The group presently operates the four major store format categories: hypermarkets, supermarkets, hard discount and also convenience stores. The Carrefour group presently operates more than 15, 500 stores which are either company-operated or franchises. The group employs more than 475, 000 people and generated sales (including VAT) of €96. 2billion approx. during 2009 (Carrefour Group, 2010, p 1-2).

Carrefour was incorporated in Paris by the Fournier and Deoffrey founder families during 1959. It launched its first supermarket during 1960 near a crossroads (Carrefour in French) followed by the first Carrefour hypermarket during 1963. Thereafter, the internationalisation of Carrefour began with the Belgian foray during 1969 (Ki, 2008, p 14-19).

## **Analysis**

### **Background**

Carrefour's success was primarily because of its involvement in creating hypermarkets across Western Europe. Carrefour pooled the American approach to supermarkets with the discount stores format by retailing non-food products along with self-service (Jung, 2006, p 1-3). Its hypermarkets success led Carrefour to establish the group's first store in UK and Italy. It's further expansion helped to establish markets in numerous other countries for instance Greece, Turkey, Mexico, China, Malaysia, Hong Kong and Indonesia during the 1970s and the 1980s (Ki, 2008, p 14-19).

A ground-breaking entrant in countries exemplified by its Brazilian investment in 1975 and the Chinese entry in 1995, Carrefour presently operates in three major European, Latin American and Asian markets. Present in 34 countries internationally, more than 57 percent of the group turnover is generated from the European markets excluding France. The group perceives strong potential for added international growth in future, principally in large national markets for example China, Indonesia, Brazil, Poland and Turkey (Carrefour Group, 2010, p 1-2).

## **Global Strategy**

Within France, the group faces an extremely competitive pricing environment. Its hypermarket sales have been declining for a while because of the increasingly popular discount stores. Carrefour's hypermarket comparable turnover (including petrol) for the third quarter dropped 8%, with non-food comparable turnover falling 9.5% (Stych, 2010, p 1-2). Perhaps the one way its investors will be truly satisfied is if its French hypermarket division performs better, since it contributes approximately a quarter of Carrefour's global sales (Stych, 2010, p 1-2).

Unlike some other global retail players like Metro (globally the 3rd. largest) which have financially independent global operations, Carrefour's overseas expansion is driven by funding from the French operations. Compared to the Metro Group, Carrefour's globalisation policy appears indecisive at the moment. Only time will reveal if the pressure to dispose off its Asian and Latin American businesses proves too hard to resist (Stych, 2010, p 1-2).

Carrefour is keenly committed to sponsoring local economic development wherever it is operating globally. Typically, in any country that it operates in, the Carrefour group is the largest private employer. Unsurprisingly, this is true for France, where the group originates from. The same also applies to countries such as Argentina, Brazil, Colombia, Greece and Italy. The group also strives to sustain local suppliers, with approximately 90 to 95% of its products sourced locally and based on the country of operations (Carrefour Group, 2010, p 1-2).

### **Global markets priority**

France remains Carrefour's recognised home market and also the group's key priority. The Group is taking initiative to reclaim its leadership within France. The aim is to produce growth, firstly through developing further its multi-format model, raising convergence and providing fresh momentum to its hard discount formats, followed by augmenting sales growth, price image and price competitiveness.

The group's second priority includes Spain, Belgium and Italy Belgium which, including France, comprises Carrefour's " G4" countries. In these established European countries, suitable measures will be adopted to sustain growth (in Spain) or improve its performance in Italy and Belgium.

Growth markets signify the group's third priority. It will focus its development resources for the most part on countries having stronger growth potential. The Group's progress in these regions will depend on various formats targeted at generating the customer base such as hypermarkets, cash and carry etc. (Carrefour Group, 2010, p 1-2)

## **Successful globalisation**

Twelve years after incorporation, Carrefour began its internationalisation journey with its Belgian expansion. Its strategy depended on building the group's market share in each market by developing the kind of retailing most suitable to the local market and also by maximising the way the group's formats harmonised one another (ICEP, 2008, p 189-197 ).

The company's self-branded products were commenced during the mid-1980s, thus highlighting Carrefour's pursuit of in-store market shares. A succession of acquisitions and takeovers during the 1990s culminated in Carrefour's 1999 affable takeover of Promodes, its main French competitor, thus crafting Europe's largest food retailer (ICEP, 2008, p 189-197).

It is seen that Carrefour is able to productively employ its capabilities and resources in creating a persistent competitive advantage with the right use of PESTEL and Ansoff Matrix methodologies to carry on catering to the unpredictable shoppers' distinct and localised goods' preferences and needs.

The macro environment, largely represented as the PESTEL diagnostic framework, typifies the political, economic and societal factors along with the technological, environmental as also the legal factors. It assists in systematically examining and finding the impact of all these criteria on the organisations (Gray, 1999, p12) (Alfino, et al, 1998, p 17-23).

The singular differentiator for Carrefour's success in China has been its more ingrained adjustment to the local environment and in the appreciation of the local consumer behaviour and culture in terms of the societal and environmental factors in PESTEL's framework (Gopalkrishnan, 2009, p 1-9).

<https://assignbuster.com/the-global-strategy-of-french-retailer-carrefour/>

Further, Carrefour is more successful also because it considers China as a group of local or regional markets whereas Wal-mart considers it as a single large market; Carrefour also has decentralised sourcing and distribution unlike Wal-mart (Mahajan-Bansal, 2010, p 1). The Chinese favour fresh poultry and meat, hence local sourcing results in faster and smarter logistics rather than central sourcing of merchandise (Mahajan-Bansal, 2010, p 1).

Another cause of the success of Carrefour is the decentralised organisational configuration, which permits it to continue the focus on local requirements and preferences. The corporate office in Paris is responsible for long-term strategy and policy. It also deals with financial and technical issues and offers advice when requested. It also offers intellectual capital and is responsible for new store locations and capital investments (Lal, et al, 2004, p 289-293).

The Ansoff Matrix is a strategic marketing planning tool that connects a firm's marketing strategy to its broad strategic direction. It presents four optional growth strategies as a matrix. These strategies look for growth through: (1) Market penetration by driving current products throughout their current market segments (2) Market development through developing new markets for current products (3) Product development through developing fresh products for its current markets and (4) Diversification through developing fresh products for fresh markets. The Ansoff Matrix was named after Igor Ansoff, its inventor and the father of strategic management and initially circulated in The Harvard business review in 1957 (Businessdictionary. com, 2010, p 1. 2).

Table 1: The Ansoff Matrix (Ansoff, 2010, p 1-2)

The Table 1 above illustrates the four optional growth strategies (Ansoff, 2010, p 1-2). It is evident that Carrefour has successfully continued to implement the market and product diversification strategy by localizing its product and service offerings in most of the countries internationally within which it operates. It is also observed that it is able to continuously diversify into new markets based on the expertise gleaned from earlier international forays and localizing their offerings to suit the local requirements and preferences.

### **Modes of entry**

The Carrefour group appears, through its choice of entry methods, to realise either the necessity or legal compulsion for a partner in nearly all international markets. Managerial control is typically sought after, and this is especially evident for Carrefour as well as for Delhaize, the Belgian retailer (Burt, et al, 2007, p 5-18).

Carrefour's conventional model of investment involves joint venturing and collaborating followed by either consolidation or divestment depending on whether the performance and market share grows or stagnates, states Burt (1994, p 391-410). Its merger with Promodes initiated broader variations of management control mechanisms leading to franchising and affiliation becoming more widespread than in the past. These mechanisms were actively followed in certain markets (Burt, et al, 2007, p 5-18).

It is, however, noteworthy that its " core" hypermarket operations remain mainly a Carrefour led activity. Carrefour currently controls directly only 58

percent of the approximately 12, 000 stores operating under the group's various fronts. Whilst 9 percent of its hypermarket network only is franchised, almost 93% of its convenience stores acquired from Promodes are franchised. Promodèss' origins as a wholesaler are mirrored in the strength of this small store network as well as the management control mechanisms deployed (Burt, et al, 2007, p 5-18).

During the subsequent few years post its Belgian expansion, it forayed into Spain and also brought the hypermarket format to Latin America during 1975. In Latin America, it adopted the self-funding model and restricted starting capital for ' one store and a half' only. It only launched its second store once it was able to produce sufficient funds from the first store's operations. This discipline compelled Carrefour to continue experimenting at the first store until its success within the local market (Lal, et al, 2004, p 289-293).

The entry and exit activities of three of the major European retail players, Carrefour, Delhaize and Ahold (Dutch), bears observation. Considering that there is a proliferation of individual markets, a possibly astonishing conclusion of the geographical mapping of businesses of these three groups is that, in none of these markets, do they compete directly (Burt, et al, 2007, p 5-18).

One result of the recent reconsideration of the retailers' market portfolios is the " asset swops" that are in effect now. Globalising retailers, including the ones that are comparatively new to globalisation have the prospect to obtain



chains, stores or sites in other countries from other global retailers instead of local market operators (Burt, et al, 2007, p 5-18).

Carrefour's experience is that it pays to be the earliest to penetrate the foreign market and also that the entry mode should be via Greenfield operations (Lal, et al, 2004, p 289-293). But, in several foreign markets, there may not be a choice in this regard because of local market regulations and the entrant may be forced to follow a joint venture formula (Lal, et al, 2004, p 289-293).

### **Some Countries exited**

Carrefour operates 42 stores in Thailand, counting 34 hypermarkets. It is the fifth largest organised food distribution retailer in Thailand with a 6% market share, €723m of net sales and EBITDA of €67m for the 12 months to 30 June 2010 (Carrefour, 2010, p 1-2). Big C, Groupe Casino's subsidiary, is Thailand's second largest hypermarket operator, with 69 hypermarkets generating € 1. 7bn net sales over the same period (Carrefour, 2010, p 1-2).

Carrefour has recently confirmed an agreement with Big C for the divestment, after 14 years, of its operations in Thailand with the deal valued €868million. This valuation amounts to 120% of the net sales of the business being sold with 13. 0 x EBITDA multiple. The deal is anticipated to close during the first quarter of 2011 (Carrefour, 2010, p 1-2).

Carrefour's strategic sale of its operations in Thailand is to enable the group to direct its resources towards the markets where it can occupy or occupies a leadership position and can get the maximum return on its capital employed. The growth prospects for its Thai operations did not permit the

<https://assignbuster.com/the-global-strategy-of-french-retailer-carrefour/>

Group to envision a leading position either within the medium or short term (Carrefour, 2010, p 1-2).

On the back of its successful retail history, Carrefour on its own ventured into South Korea, a completely unknown territory, without a local partner. Due to this reason, it was unable to understand the market. Carrefour deployed most of its top management personnel for South Korea from France which was not appreciated by the local employees (Khan, 2010, p 7-11).

The company did not localise its stores and the products were not stocked as per the requirements and inclinations of Korean consumers. Though bulk purchases were proffered at economical prices, suitable research was not conducted. They did not realise that there were only a few customers that preferred bulk purchases. As such, during April 2006, Carrefour sold its South Korean operations for approximately \$1.3 billion (Khan, 2010, p 7-11).

Carrefour's departure from Russia is rather astonishing given that its first store in the country was launched just two quarters earlier. The reason given has been the influence from the key shareholders Bernard Arnault and Colony Capital. These are the same investors pressurising Carrefour to exit its business from the Asian and Latin American markets. These businesses are forecasted to be valued anywhere from \$17 billion to \$20 billion. Their sale could shore up Carrefour's underperforming share price (Stych, 2010, p 1-2).

## **Conclusions**

Carrefour has successfully evolved over five decades from being the largest retail player in France to becoming the largest in Europe and the second

largest globally in terms of net sales. This has resulted largely from its successful European play and the further globalisation through Latin America and Asia.

Its success stems from its relentless quest for localizing its product and service offerings to fulfil the needs and preferences of its local customers in each of the countries that it ventures into. The mode of entry has largely been through the greenfield and joint venture strategies subject to the local legal requirements. The management control has been largely with the parent Carrefour.

Yet, there are lessons to be learnt from unsuccessful ventures in certain countries, though the overall strategy of targeting leadership positions wherever it operates has brought success. Due to shareholder pressures to exit Latin America and Asia, it will ultimately either need to aggressively maximise its operations in those countries or redirect their resources as needed in the larger interest of all the stakeholders.