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INSIDE

Strategic Planning and Management in Retailing Program Runs for the 17th Time at William and Mary in September

Thirty-four retailing executives representing nine countries attended the 17th offering of the Strategic Planning and Management in Retailing Program in Williamsburg, Virginia, at the College of William and Mary. The program was held from September 28 to October 4, 2002. Program faculty included Larry Ring, John Strong, and Ram Ganeshan of William and Mary; Marty Anderson from Babson College; and Guillermo D'Andrea from IAE in Argentina.

The program featured cases on Wal-Mart, Best Buy, Zara, and Meijer, as well as lectures and exercises on financial and productivity analysis, strategic thinking and planning, category scorecards, supply chain management, and networked marketing. On Wednesday, October 3, the group participated in a store tour with visits to a Wal-Mart Supercenter, Target Greatlands, Costco, Sam's Club, Lowe's, Home Depot, World Market, Ukrop's, Best Buy, Circuit City, PETsMART, Toys "R" Us, and others. During the week, participants enjoyed an evening in the newly restored Great Hall of the Wren Building, the oldest academic building in the United States. In addition, they were given a guided tour of Colonial Williamsburg, followed by dinner at the King's Arms Tavern in the restored colonial area. Megan Burns handled logistical details for the group.

This program was founded in 1983 by Doug Tigert, Bert McCammon, and Larry Ring, and including William and Mary, has been conducted on an open enrollment basis 70 times around the world. It is currently offered twice in North America (at Babson and at William and Mary) and once in Australia and in Singapore (both sponsored by Monash University in Australia). The program is next scheduled to be offered May 3-9, 2003 at Babson College in Wellesley, Massachusetts. Those interested are encouraged to apply early. To register, contact Kathy Leonard at kleonard@babson.edu, or at 871-239-2923.

In this newsletter, our colleague, Ray Serpkenci, takes a look at the ongoing battle in Canada between Wal-Mart and Loblaws. His article, "Some Food for Thought for Food Retailers Everywhere," foreshadows coming developments in the U.S. supermarket industry. Also featured is Guillermo D'Andrea's piece entitled "International Expansion in Retailing," as well as our annual review of the strategic profit model for selected international retailers.

Some Food for Thought for Food Retailers Everywhere
How Loblaw Companies is Standing on Guard for Thee in Canada

By Ray R. Serpkenci, PhD
Principal, Retailing Research & Strategy Group

Historically, Canadian retailers and retail trends have tended to lag their United States counterparts by about five years. There is, however, one Canadian retailer in a tough retail sector who would beg to differ: Enter the Loblaw Companies Ltd. in food retailing in Canada.

To set the stage, let us first review a few facts about the Canadian marketplace, followed by an overview of the Loblaws organization.

"Food & Beverage" commodity group sales in Canada, through all channels, approximately totaled C$64 billion during 2001, with a long-term growth momentum pegged at 3 to 4 percent annually. Households, of course, spend more on food than what is spent at traditional food stores. When food-away-from-home and other dollars spent in non-traditional outlets are included, the total sector size perhaps is closer to C$75 billion.

Regardless, 3 to 4 percent annual growth rate roughly equals the Canadian population growth of about 1 percent plus food inflation at about 2 to 3 percent per year. Conclusion? There is no real growth in the food sector in Canada—and likely will have no growth in the future. If anything, we could see a "real" contraction in this industry over the next decade, if Canadian immigration rates fall below the current levels.[1]

Though people always have to eat, the prospect of feeding an aging and barely growing population might not be considered a fun line of retail trade! But Loblaw Companies appears to be having a grand-old time in Canada. In fact,

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some of their investors must be laughing uncontrollably all the way to the bank!

Over the last five years, Loblaw Companies Ltd. have consistently enjoyed a P/E ratio of 25-30x, and has returned more than $400 for every $100 investors might have put into this company since 1996. That is an astounding rate of return for any company in any industry, but especially so for an enterprise which essentially operates in a zero growth market in its core business.

Loblaw's financial and market successes are all the more intriguing, given the "dot-gone" induced collapse of stock markets everywhere, and the shellacking the food sector companies have been getting in the United States—at the hands of another retailer called Wal-Mart[2]. (For a brief history of Loblaw Companies, see the boxed insert).

A Brief History of Loblaw Companies

1919—T.P. Loblaw and Justin Cork open the doors to their first grocery store in Toronto. Adopting a somewhat controversial (for its time) self-service policy, they are able to offer a wider variety of products at better prices. This concept in food retailing becomes hugely popular. As stores expand their product offering to satisfy customer demand, the "supermarket" is born.

1930s—Loblaw Groceterias Co. Ltd. grows to 80 stores. During this decade, new developments such as self-serve meat and produce sections are introduced.

1947—George Weston Ltd. acquires a controlling share of what has now become Canada's largest grocery retailer. Loblaws continues to expand its supermarket horizons. Most notably it acquires a controlling stake in The National Tea Co. in Chicago. This makes Loblaws the third largest supermarket company in North America.

1956—Loblaw Companies Limited is incorporated. This consolidates the food retail and food distribution divisions of George Weston Limited. Loblaw Companies Ltd. goes on to become one of the largest private employers in Canada.

1978—Loblaws launches its NO NAME private label. The line consists of low priced products, but with strict adherence to high quality guidelines. As sales climb, every aspect of the line's development and marketing consistently returns to the principle upon which it was founded—value.

1984—President's Choice products are introduced. This product line offers superior quality products at low prices. Today the Loblaw private label program is widely considered the best in the world.

2000s—Loblaws continues to expand its quality and services portfolio…offering for all lifestyles a shopping experience beyond food. With the development of "market" stores, Loblaws provides the convenience of a one-stop-shopping experience by collecting specialty departments and shops under one roof. On a typical "run to the grocery store," customers can drop off their film at the Photolab and their prescription at the DRUGstore Pharmacy, consult with a tobacconist at the Holy Smokes cigar shop, sign up for a PC MasterCatd at the PC Financial Pavilion, purchase a bottle of wine, pick up dinner from the Meals to Go counter, and enroll in a cooking class offered by the "Upstairs at Loblaws" community room. And in a select number of markets, customers can consult with a cosmetician in the Refresh department, purchase electronics and office supplies, and squeeze in their work-out at the GoodLife Fitness Club.

Source: Loblaw Companies Ltd.

To give readers a flavor of some of the key performance metrics for Loblaw Companies, I have summarized the key measures of high performance retailing for Loblaws and Wal-Mart in their most recent fiscal years. On nearly all key dimensions of financial performance, Loblaw Companies consistently ranks in the upper quartile of most retailers, and certainly among its peers in the retail food sector worldwide.

These results are especially impressive when they are considered in the context of the Canadian market, where retail participants across all sectors have been punished hard by the relentless push of a host of large United States retailers such as Wal-Mart, Home Depot, Best Buy, Old Navy, Costco, etc. into Canada over the last several years.

What are the secrets of the Loblaw organization that seems to defy so many odds? Well, there are many to be sure, but here are a few that I believe are among the most salient.

Core Competencies of the Loblaw Companies Limited

Core competencies are unique organizational skills, resources, or technologies that help companies create unique customer value. A company's specialized capabilities are largely embodied in the collective knowledge of its people and the organizational procedures that shape the way its employees interact. Over time, investments in facilities, people, and knowledge that strengthen core competencies can create sustainable sources of competitive advantage.[3]

The key to understanding what makes Loblaws one of the most compelling food retailers in the world are five core competencies. But what is even more significant is how Loblaw organization appears to have found a way to meld them together, by making each element work for even greater synergy and ultimate market impact. Thus, though it is conceivable that another retailer could adopt any one of these elements into their competitive arsenal, it is unlikely that they

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Financial Profile of Loblaws and Wal-Mart for Fiscal Year 2001

			Loblaws		Wal-Mart
	(Year Ending)		*Dec. 29, 2001*		*Jan. 31, 2002*
	Net Sales (in millions)	**C$**	**21,486**	**$**	**217,799**
Operating Income	Earnings Before Interest, Taxes	C$	1,136	$	10,751
Net Income	Earnings After Taxes	C$	563	$	6,671
Sales Growth	FY2001 vs. 2000		6.8%		13.8%
Opr. Income Growth	FY2001 vs. 2000		16.4%		6.3%
Net Income Growth	FY2001 vs. 2000		19.0%		6.0%
New Profit Margin	Net Income After Tax ÷ Net Sales		2.6%		3.1%
Asset Turnover	Net Sales ÷ Total Assets		2.1x		2.4x
Return on Assets	Net Income After Tax ÷ Total Assets		5.6%		8.0%
Financial Leverage	Total Assets ÷ New Worth		2.8x		2.4x
Return on Equity	Net Income After Tax ÷ Net Worth		15.8%		19.0%
Retention Ratio	Net Income After Tax & Dividends ÷ Net Income After Tax		80.5%		81.2%
Sustainable Rate of Growth	Net Income After Tax & Dividends ÷ Net Worth		12.7%		15.4%
EPS	Basic Earnings per Share for FY2001	C$	2.04	$	1.49
Share Price	As At Closing Date on Dec. 10, 2002	C$	55.00	$	52.00
P/E Multiple	As At Closing Date on Dec. 10, 2002		27.0x		34.9x

Source: Corporate Annual Reports and Author's Calculations

can combine them similarly, or create a market impact that is larger. These core competencies are the following:

1. a hard earned and hardened core competence in brand management that extends from home office to store, and from inside the store to outside;
2. a portfolio of store concepts and a portfolio of store formats designed to attack and/or to defend their market position as the conditions dictate;
3. a growing emphasis on general merchandise which seeks to redefine their "product-market" space aimed ultimately to expand their sales base beyond food;
4. excellent market-sensing processes and intensive use of information technology that helps them strengthen their other core competencies; and
5. a renewed emphasis on store design aimed to house and showcase these competencies in a unique synthesis of food and non-food merchandise under one roof.

Loblaws—As Brand Managers

Private or controlled labeled products in Loblaw stores today account for more than 15 percent of their total volume of C$21.5 billion. These products range from no-name generic items, to their well-known President's Choice or PC line of premium products; from the Decadent Chocolate Chip Cookies to IceBerg bottled water.

Though for most Loblaw shoppers in Canada, President Choice is not a single, uniform line of branded products, but come in a myriad of distinctive variations such as Teddy's Choice for kid and baby products; TGTBT or Too-Good-To-Be-True line for jams, salad dressings, pasta sauces; GREEN line of environmentally friendly products such as paper towels and napkins; Splendido line for fresh bakery items and pizzas; and most recently, the Organics group of products, which as the name implies, are organically grown or prepared fresh produce, juices, or other traditional grocery products, such as canned soups or vegetables.

On an annual basis, Loblaw Companies brings to market more than 500 new or improved items with seemingly incredible ease, which rivals the best practices of most national brand producers in the world. The package and product design capabilities of Loblaws brand management teams are extraordinary. The resulting products, in their performance and attractiveness, are often so crisp and exciting that most Loblaw brands make the national brands look dated on the shelf.

The true power behind these products are not simply their better graphics (or their preferential shelf position), but that they are better or significantly superior products that do not command a perceptibly significant price premium. The cumulative impact of these brand qualities is enormous. Loblaws branded products:

- give the stores a unique and exclusive look and feel, and a shopping experience that can be found nowhere else;
- make it very difficult to do price comparisons, insulating Loblaws from pricing battles;
- encourage shopper loyalties both to the brand and the store, enhancing Loblaws market penetration;

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- increase product variety and consumer choice, as well as increasing costs of switching; and last but not least,
- enhance gross margins, and hence, the profitability all the way from SKU to category to store.

Branding and brand management at Loblaw Companies today appears so endemic to the organization's culture that their core competence in this area can no longer be viewed simply in the context of their controlled label products alone. The best way to "see" what this means would be to visit and see any one of their newer stores in Canada, either through their redevelopments of Real Canadian Superstores in the west or their new Loblaw HomeFresh units in Ontario.

In these stores, you will immediately note that many of the "traditional" departments are aggressively being "rebranded" to form in-store boutiques, while Loblaws continuously adds many nontraditional areas that are also "branded" to convey the products and/or services that they intend to offer. This remarkable "institutionalization" of branding acumen at Loblaws Companies—from products to departments to the actual store itself—is quite unprecedented in food retailing in the world today.

Loblaws—Portfolio Logic

Loblaw Companies owns and operates the largest number of stores under 20 different banners throughout Canada. Their core or "base business," however, is the corporately owned 617 stores operated under such banners as the Real Canadian Superstores in the west, Loblaws and Zehrs Markets in Ontario, Maxi and Provigo in Quebec, and the Atlantic Superstores in the east, which collectively yields nearly three-fourths of Loblaw's sales. Through franchised and associate stores, Loblaw Companies services an additional 1,095 stores, and through its wholesale arm, supplies a further 7,982 independent retailers throughout the country.

For most casual observers, the variety of banners and accounts Loblaws operates may appear unwieldy; they serve three very important strategic purposes for Loblaws:

- First, a multi-format operation minimizes risks by more closely matching to local market requirements, while increasing the flexibility of the organization in right sizing the stores, and in right assorting and pricing the product and category mixes.
- Second, and perhaps most important, by investing in such banners as the Real Canadian Superstores in the west, Atlantic Superstores in the east, Maxis in Quebec, and No Frills in Ontario, Loblaw Companies, in effect, *create a strong flank against prospective "price" players* such as Wal-Mart and others.
- Finally, the multi-format retail operation, in effect, enables Loblaws organization to pursue the true aim of their corporate base business, which is differentiation—while they still retain their ability to be "inclusive" in servicing a mass market. In lay terms, this would loosely translate as "having and eating one's cake too!"

With the announcement of Wal-Mart's intention to start building Sam's Canada units—beginning in Ontario in 2003, and the ever-present rumors of Wal-Mart's brand of supercenters also poised to cross the border to the north, many analysts have already begun downgrading their future expectations for Loblaws, and other food retailers in this country. With due respect, I believe many of these analysts do not really understand the competitive market dynamics of Canada, and some of the strategic thrusts of its leading food retailer.

The "discount" food retailing segment of the Canadian industry today is close to 20 percent of the overall retail volume, which is nearly four times the proportion found in the United States—excluding Wal-Mart. Perhaps the most significant reason Wal-Mart has been so intensely successful in U.S. food retailing is simply because they could! Under the big shade of a very tall pricing umbrella from the existing players, and their lack of any significant investment in discount retail formats, Wal-Mart supercenters could easily drive their trucks through an immense hole in the U.S. market! In effect, Wal-Mart single-handedly created the "discount food segment" in the U.S. to the tune of nearly $40 billion and growing, annually.

In Canada, such expansion is difficult to envision; one reason it can not is because we already have a large discount food segment with nearly all of its major players—Loblaws, Sobeys, A&P, and Metro as big participants.[4]

Loblaws—Move Into General Merchandise

One of the biggest challenges facing Loblaw Companies in the coming planning horizons is not so much the second coming of Wal-Mart to Canada with their supercenters, but how to grow their C$21.5 billon business at 7 to 10 percent per year. With already close to 40 percent of the retail food market in the country, it is pretty clear that retailing food alone will unlikely provide the volumes needed to sustain their need for growth.

Perhaps what makes things a bit trickier in Canada is that after taxes, shelter, transportation, and food spending, there are not a whole lot of dollars left to spend in large chunks in any one retail format or line of trade. At $71 billion, food is the largest spending category in Canada, followed distantly by the next major spending groups in clothing at C$27 billion, household furnishing and equipment at C$18 billion, and health and personal care spending at C$15 and C$8 billion, respectively. Even collectively, these amorphous spending groups do not add up to the size and scope of food spending—and retailing—in this country.

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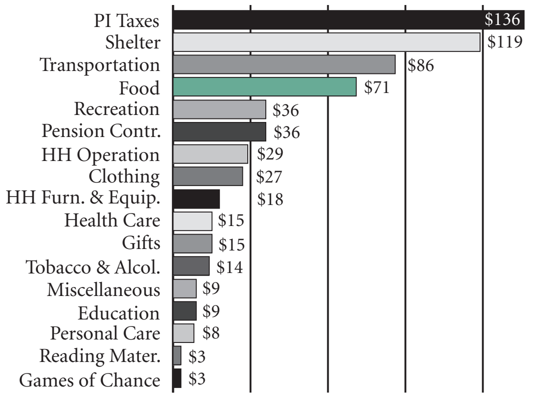
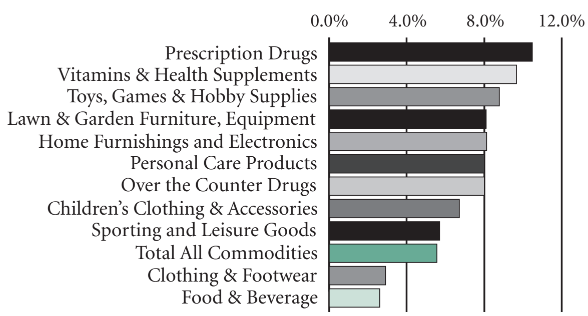


Source: Statistics Canada Survey of Household Spending and Author's Calculations

The good news, however, is that the aging baby boomers, and the coming generations of X and Y entering their home and family building years, several of these spending categories are expected to expand much more rapidly than food consumption. This chart—a summary of the "must-



Source: Statistics Canada Quarterly Retail Commodity Survey and Author's Calculations

be-in" merchandise categories in Canada during the 2000s, appears to be the road-map Loblaw Companies is following in their renewed push into general merchandise retailing in Canada, particularly in their largest and most profitable market in Ontario.[5] At year end 2001, for example, Loblaws has:

- already built 337 in-store pharmacies in their corporate stores, and is looking to double that number in the next two years;
- started building dedicated, service intensive cosmetics and personal care departments, named Refresh, in their new larger HomeFresh stores;
- already introduced 80 new products with their Organics line of products for the health conscious consumers, while expanding their Exact line of health food and vitamin supplements;
- rapidly been expanding their kids clothing line, Kloz for Kids, and have already become a much larger purveyor of baby and kids clothing in Canada than the Gap; and

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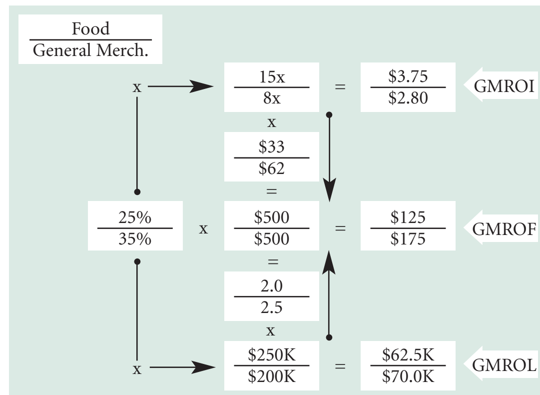
- introduced 20,000 to 25,000 square foot of branded home products for the kitchen, bath, and bedroom, designed by the former principals of Club Monaco, while testing selected home and personal electronics in their newer stores.

Loblaw's key to success in their quest for growth and larger share in general merchandise, no doubt, will be their ability to balance the economics of general merchandise retailing and food—which, by their very nature are decidedly different commodity groups. As we demonstrate in our familiar Strategic Resource Management Model (which should be



Source: Retail Research & Strategy Group

quite familiar to many readers of the *Retailing Newsletter*), it is a given that the inventory turns in general merchandise will be significantly lower than in food, perhaps as low as 4 to 6 times a year (vs. food from 15x to 20x and higher). Though some of this natural inertia (in general merchandise lines) can be controlled through opportunistic or seasonal buying and sharp pricing, it is unlikely that many items in this category will get too close to food turns.

Axiomatically, then, the gross margins that are generated in these new product categories have to be especially generous, yielding at least 35 percent, and perhaps closer to 40 to 45 percent. A key number to watch here will be Loblaws planned and realized merchandise intensity ratios. This early in the game, it is difficult to assess if the inventory per square foot will be uniformly higher in all general merchandise categories. Clearly some products such as pillows, comforters, linens, or candles do take very large "cubes" without the ability to stack them very high or deep, signaling moderately higher intensity ratios. Though their unit prices are generally much higher than average grocery products, their net effect on merchandise intensity ratios; and hence, on store sales per square foot will remain to be seen. However, if our assumptions of significantly higher margins, and merchandise intensity ratios are realized, Loblaw Companies should experience a very significant positive bump in their gross margin per square foot, or GMROF, even if they trade away significant turns and GMROIs. As we have argued in the past issues of this *Newsletter*, and elsewhere,[6] the number to really watch in retailing is the GMROF metric, and by extension, the NMROF ratio.[7]

Loblaw's push into general merchandise in Canada, as it is with most things that Loblaws does, is both offensive and defensive at the same time. It is an offensive move, in the sense that it is imperative for them to achieve new sales opportunities in a saturated base market in food. But it is also defensive in the sense of making it even more difficult for Wal-Mart, or others, to threaten their market position in food retailing in Canada.

Perhaps equally important, the renewed push for a piece of the general merchandise action for Loblaws is another testament to this organization's ability to leverage its core competencies in branding and brand management to yet another task at hand—that of expanding into a whole new product-market arena in Canada. Though they always are fairly keen on the cost side of their business, Loblaws organization appears even keener in engaging their customers in unique and surprising ways with their non-food offerings. Though their eventual success in this area is by no means assured, we certainly give them an A for effort, and more than an even chance of success.

Loblaws—Market Sensing

Legend has it that Dave Nichol, the former head of the subsidiary, *Loblaws International Merchants*, and then head developer of the President's Choice line of products at Loblaw Companies in the 1980s, tasked the IT department to generate SKU reports which appeared in color on the computer screens, so that the yellow bands would signify the no-name, generic products; green to color the environmentally friendly product SKUs; and red to indicate his fondest, the PC line. The white bands, the default color remaining for the national brands, then would be the lines he would endlessly study to see how and if he could engineer a controlled label product to replace them with! (Here, many of our former students can recall their assortment planning exercises for effect: Just imagine that you take any product category, and sort it by volume or GMROI, and then examine the products which are colorless and at the top of the page. Now imagine what happens if you were to delete and replace these products with like items that you hope will give you the same turns, but at better margins. If none of this makes any sense, perhaps you should consider revisiting your class notes, or better yet, attend a refresher course at Babson or William and Mary this April or May!)

But Loblaw legends aside, it is a fact that any brand manager from P&G, Nabisco, Kraft, and Unilever would readily admit that it is tough and rough doing business with Loblaws these days. And it is not because the Loblaws organization is unfair, or plays dirty, but because they seem to know so much about what happens at their POS everyday. Reputedly, most discussions in Loblaw buying offices today are not about what P&G principals think how a promotion will do for Loblaw, but how it performed the last time it was run, and by market, store, category, and like item, if it is so desired.[8]

During the last several years, in addition to their incursion into general merchandise, Loblaws Companies have also been taking steps to get into financial services. The President's Choice Bank, a recent subsidiary of the Company modeled after ING, has successfully launched the President's Choice Financial MasterCard, which appears to be reaching critical mass, as the company signs an ever-growing group of customers to the loyalty program.

The significance of this effort cannot be judged simply by the repeat business the member brings back to the store, but potentially the amount of data customers leave behind. If and when Loblaws is able to examine this type of purchase basket data, marry it with their POS—and the wealth of other data on local market demographics and psychographics that is readily available—we would think that it would have nothing to fear of Wal-Mart or any other intruder with similar capabilities into Canada. Clearly, the core competencies that are acquired or enhanced through these seemingly innocuous marketing initiatives are not only exceedingly difficult to develop or outsource, but also confer their owners' very significant and long-term competitive advantages.

Loblaws—From Branding Products to Branding Stores

Perhaps one of the most vexing problems in the conventional department store industry today is the distressing sameness one sees in their merchandise mix, in their uncreative display and store atmospherics, and simply, the physical plant of the very stores, themselves. I challenge anyone to tell me where they are, if I were to blind fold and walk them to any one of a dozen conventional department stores in North America. I propose a bigger challenge: to be blind-folded and taken to a traditional food store!

With the exception of the new generation Loblaw HomeFresh units, and a few others such as Whole Foods Market stores, many food retailers in North America, to put it charitably, are not compelling competitors. Though most retailers, by their own choice, are in the display business, it is shocking how many appear to be visually impaired!

Not so in Loblaws.

In the truest sense of a major cross-fertilization, Loblaws organization is in the midst of a new synthesis in recreating a "Canadianized" supercenter footprint, by integrating some of their learning in general merchandise retailing

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from their western stores into their eastern units, while they simultaneously upgrade their western stores with their best practices—e.g., in their controlled label products and their perishables departments—they have honed in the east. In the process, I believe they are creating some truly unique and attractive physical plants that are not only enabling them to bring all their core competencies together at the store level, but also creating stunning stores that are "branded" literally, inside and out.[9]

The new Loblaw HomeFresh units in Southern Ontario are perhaps the more significant of this synthesis—and for a reason—as this area of Canada tends to be the magnet for both new immigrants and competitors into the country. This geographical stretch, roughly from Windsor to Toronto, is home to nearly eight million people with relatively higher incomes which predictably forms one of the most lucrative retail trading areas in North America. The area is also significant, because this is the same market area where an earlier effort of Loblaw Companies, called the SuperCentre, failed miserably during the early 1990s.

I had believed then (with Loblaws former Supercenters) as I do now—that the supercenters of the Wal-Mart variety are highly unlikely to succeed in this critical corridor because the lower income consumers of metro Toronto do not have:

- the capability to support the large transaction sizes that are needed to support the volume requirements of a 190,000 square foot store,
- the ability to forward buy in large quantities to store them in relatively small residential units or apartments, and
- access to convenient modes of transportation of their purchases as many tend not to own cars in core metro enclaves.

And if a retail concept cannot be successful in metro Toronto, it simply cannot succeed in Ontario. And if a retail concept fails in Ontario, it can never achieve a critical mass in Canada.

I believe what the southern Ontario market is most likely to support are supercenters that are much smaller than the current Wal-Mart units in the United States, and perhaps in footprints in the 100 to 120 thousand square foot range as Loblaws appear to have settled on today. The research tends to indicate that the trading radius for such stores should have about 200,000 to 250,000 consumers or about 80,000 households. We believe such units would provide Loblaws sufficient room to showcase their full complement of food offerings with an edited variety of general merchandise that does not upset their overall supply chain flow and food retailer economics.[10] Interestingly, Loblaw's recent rebuild and retrofitting in Ontario—and other parts of Canada—come at a time when Wal-Mart is also on a tear to build their food offering in the traditional Wal-Mart discount stores in what is labeled as the Pantry or the Grocery Shelf departments. These are typically "islands" of about 10,000 square feet inside a typical Wal-Mart discount store, offering dry groceries, dairy and frozen foods (with no perishables) and with a predictably heavy price emphasis. Though the price points in all of these units are low, they are almost never lower than the discount retail banners of Loblaws such as No Frills, or their competitors such as Food Basics (A&P Canada), or Price Choppers (Sobeys). Despite their price parity, and a food offering that leaves a lot to be desired, Wal-Mart enjoys a market penetration of nearly 5 percent in Canada, with an estimated food volume that is approaching C$3 billion. With Pantries in a little more than a third of their current store base of nearly 200 units, Wal-Mart is certain to increase their penetration, but we expect that to top-off in the present format at or near C$5 billion.

For Loblaws, the bigger challenge is not Wal-Mart's current intrusion into their traditional turf, but Loblaws' own intrusion into Wal-Mart's, as they expand into general merchandise and roll out their new synthesis for a new supercenter concept in Canada. Clearly, their successes in both of these areas are very closely intertwined. And if their success is enduring, this will simultaneously put a stop to Wal-Mart's ambitions in Canada, and go a long way to give Loblaws the breathing room to grow *within* Canada. Of course, Loblaws success (versus Wal-Mart), if and when it comes to pass, will certainly be a beacon of hope for many a retailer worldwide, hoping against hope to survive the discounters' onslaught.

Ultimately, however, the story of Loblaws is the story of all large enterprises in Canada. And that is, once you swim from one coast of Canada to the next, where do you go next?

Ray R. Serpkenci is the founder and a principal of Retailing Research & Strategy Group in Toronto, Canada, a highly specialized strategic research and consulting organization. Serpkenci is also an educator who taught in the Strategic Planning and Management in Retailing Program during its early years at the University of Toronto. He can be reached at ray.serpkenci@sympatico.ca or at ray-serpkenci@canada.com.

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[1] This would be due to one of the lowest fertility rates in the world. If left to their own devices, the aging resident Canadian population would in fact decline fairly rapidly.

[2] While preparing for this article, I reviewed the stock market record for all publicly held food retailing companies in the United States over the last five 5 years of their stock market performance. Of the 55 such companies or stocks, I found only three that are higher today than they were five years ago: Whole Foods Market, Village Super Markets, and Krispy Kreme Doughnut Corporation.

[3] Readers who are unfamiliar with the notion of core competencies can refer to a seminal article by Prahalad, C.K., and Gary Hamel. "The Core Competence of the Corporation." *Harvard Business Review*, May-June 1990, pp. 79-91. It is available electronically at http://harvardbusinessonline.hbsp.harvard.edu.

[4] For this reason, with the rumors surrounding Wal-Mart entering Canada with the supercenters format, the chain will probably have to acquire their share as opposed to build it. And with Loblaw's market capitalization nearly identical to the price Wal-Mart paid for ASDA in the United Kingdom just a few years ago (currently at about C$16 billion), the thought is tantalizing. Aside from the fact that the two corporate cultures are miles apart—with Wal-Mart a cost leader and a model of efficiency, and Loblaws a differentiator and an emerging brand master in retailing, we believe such a scenario is highly unlikely for at least three other reasons: Loblaws stores are fairly heavily unionized in Canada which is anathema to Wal-Mart; Canadian anti-trust regulators most likely would not allow one entity to own 50 percent share in *both* food and general merchandise in the country; and the majority owner, Weston family, does not appear to have any intentions to part with their prized asset.

[5] Though nearly half of the sales of Loblaws Supercentre operations in their western stores are already in nonfood, that ratio is perhaps more like 5 percent in their core assets in central Canada. This is significant, because the central Canada provinces of Ontario and Quebec are where two-thirds of all Canadians live, and where Loblaws predictably have a similar proportion of their corporate stores.

[6] Readers who are unfamiliar with the concept and implications of Strategic Resource Management Model, should download and read "The Strategic Resource Management (SRM) Model Revisited" *International Journal of Retail & Distribution Management*, (November, 2002), which can be found at http://www.emeraldinsight.com/0959-0552.htm.

[7] If the margins are sufficiently high enough, I believe even the full-service departments such at Refresh, the health and personal care departments in Loblaws, should make a substantial contribution to their bottom line as we show in the SRM model.

[8] During late 1980s and early 1990s when this author was associated with the University of Toronto, Loblaws organization was a lead sponsor of a new research center there called Canadian Centre for Marketing Information Technologies. In one of our "calls" on our sponsor to consult and review notes from C^{2}MIT's research agenda, I was struck to find out that there was a small group of people working on neural networks, and investigating expert system technologies that could be used in harnessing some of their POS data!

[9] By "branded," I refer to the ease with which one can spot a Loblaws store or a supercenter from afar, without any explicit reference to any of their store banners as a Loblaws unit.

[10] The smaller foot-print of these stores are also likely to be less taxing to a rapidly growing group of baby boomers who despite their vain efforts to keep young will soon discover that immutable laws of physics applies to all people!

Some notes on the International Expansion of Retailing

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There are many early examples of retailers expanding internationally such as Woolworth undertaking operations in Canada in 1897; the UK in 1909, and in Germany in 1926; or Sears, Roebuck and Company in the 1940s operating in Cuba, Mexico, and Peru. However, a stronger wave led by European retailers began to develop in the late 1970s and consolidated by the mid 1980s.

During the 1990s, shareholder pressure to grow farther and faster was reflected in share prices, and encouraged many retailers to accelerate overseas growth. Pioneers like IKEA and Benetton were joined by others of different sectors. Most of them were grocery and general merchandise chains such as Royal Ahold, Carrefour, and Wal-Mart, but also clothing chains, C&A, H&M, Marks and Spencer, and Zara, appeared in the global landscape.

Having achieved significant growth and economies of scale in their home markets, more and more retailers were faced with higher retail density reflecting both store and format

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saturation, while regulations increasingly restricted further growth. Looking for new sources of growth and financial resources, many retailers began to look toward foreign markets, following the path that manufacturers had experienced decades before. The foreign (and new) markets often featured lower retail densities; likewise, socioeconomic and demographic conditions were receptive to receive new formats. Global communications, lower costs of logistics, increasing freedom of trade, and the universal presence of multinationals created opportunities in the new markets for building appealing product assortments for consumer segments that shared similarities with the ones that could be found in retailers' home markets.

However, a careful examination of international retailing reveals widely differing expansion patterns. Global strategies, followed by companies like Toys-R-Us, Tower Records, or Gap Inc., emphasized a standard format to rely on centralized management and private brands sourced globally. Benetton followed this pattern aggressively, while Marks & Spencer, Metro AG, and The Body Shop were more cautious in their expansion. More recent international players, Costco and Auchan, are joining this group.

Strategic Approach	Aggressive	Cautious
Global	Gap Inc. Benetton Tower Records	The Body Shop Marks & Spencer
Multinational	R. Ahold	C&A Carrefour

Other chains preferred a more tailored approach, where decentralized management adapted the retail formula according to cultural and consumer differences found in each market. Royal Ahold, with its several different formats out of its acquisitions, is probably the best example of this multinational strategy. More cautious followers include Tesco, C&A and Carrefour, the latter accelerating after its merger with Promodès.

Retailer	Countries	Stores	Formats	Percentage of International Sales
Wal-Mart	10	4164	4*	18
Carrefour	23	9276	5	52
Royal Ahold	22	8084	6	82
Costco	7	398	1	21
Tesco	8	1083	4	14
Metro AG	24	2162	4	21
Auchan	13	3324	3**	78
Casino	12	7790	3+	33

* except for Mexico, where Wal-Mart inherited seven formats from Cifra.

** except for Italy, where Auchan acquired four additional formats

+ in France, Casino's home market it runs seven formats

Looking at the hyper/supermarket sector, we can observe that retailers travel abroad with more than one format; although, this demands more explanation. Wal-Mart's expansion has relied on its supercenter format, and Sam's Club to a lesser extent. Exceptions to this rule appear upon its acquisitions of UK's ASDA and Mexico's Cifra,

Income Statement (millions)

	Sales	Cost of Goods	Gross Profit	Operating Expenses	Operating Income	I & T	Net Income
Wal-Mart	219,812.00	171,562.00	48,250.00	36,173.00	12,077.00	5,406.00	6,671.00
Carrefour	61,550.80	47,722.50	13,828.30	11,325.40	2,502.90	1,381.70	1,121.20
Ahold	59,354.40	44,888.60	14,465.80	11,959.60	2,506.20	1,513.70	992.50
Costco	34,797.00	30,296.80	4,500.20	3,507.90	992.30	390.20	602.10
Tesco	30,277.00	28,520.00	1,757.00	75.00	1,682.00	575.50	1,106.50
Metro AG	43,866.00	34,291.10	9,574.90	10,365.60	-790.70	1,085.70	295.00
Auchan	23,454.06	n/a	n/a	n/a	903.73	573.73	330.00
Casino	19,473.30	15,188.30	4,285.00	3,528.90	756.10	420.40	335.70

Balance Sheet				***Dupont***			
Total Assets	**Equity**	**Return on Sales**	**Asset Turnover**	**ROA**	**Financial Leverage**	**ROE**	
83,375.00	35,102.00	0.03	2.64	0.08	2.38	0.19	**Wal-Mart**
38,506.10	7,256.10	0.02	1.60	0.03	5.31	0.15	**Carrefour**
28,732.40	5,251.70	0.02	2.07	0.03	5.47	0.19	**Ahold**
10,089.80	4,882.90	0.02	3.45	0.06	2.07	0.12	**Costco**
16,924.60	7,726.60	0.04	1.79	0.07	2.19	0.14	**Tesco**
19,771.10	3,757.60	0.01	2.22	0.01	5.26	0.08	**Metro AG**
15,476.31	3,821.33	0.01	1.52	0.02	4.05	0.09	**Auchan**
13,299.70	4,144.80	0.02	1.46	0.03	3.21	0.08	**Casino**

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which brought in supermarkets in the first case, and an assortment of seven different formats in the latter. Carrefour exported its hypermarket until its merger with Promodes, which turned the Group into a multi-format player. Tesco's expansion abroad has been done mostly with a mix of supermarkets and hypermarkets. Metro has expanded mainly with its cash-and-carry wholesaler format, as Auchan has with its hypermarket, and Costco with its Warehouse Club. In the end, the truly diversified player in this list is Royal Ahold, who, through its different mergers, has ended up running a variety of supermarkets, hypermarkets, cash-and-carry and hard discount store formats.

The table above indicates that among broadline retailers, Ahold, Auchan, and Carrefour are the most global. But being more global doesn't necessarily mean being the most profitable, as can be observed in the table below that highlights profitability differences. The three with the largest percent of international sales (Ahold, Auchan, and Carrefour) achieve lower returns on assets compared to the others that rely more on their home markets. Both Ahold and Carrefour compensate their shareholders through higher financial leverage and correspondingly more risk. These results may show how difficult the global arena turns out to be, even for experienced players such as the ones covered here.

Various formulas are applied by the different players. Wal-Mart travels with its Everyday Low Price (EDLP) formula, but has discovered that as in the United States years ago, consumers in new markets need to be educated in its meaning. It is offering a global portfolio of private brands such as Ol'Roy, Great Value, Equate, and George. Entering belatedly into several countries, Wal-Mart has found the "price" position already occupied, many times by archrival Carrefour offering simply "the lowest price."

Until its merger with Promodes, Carrefour advanced internationally with just its Hypermarket format. Since then, it has added supermarkets under different local names, including the Día% hard-discount format. There, most of the limited varieties of products offered are private label wearing the stores name Día%. At Carrefour, food products also carry the chain brand, but appliances are branded Firstline, and apparel products, Tex.

On the other hand, Ahold aims at positioning its local store brands—Stop & Shop, Bompreco, Giant, Cobreros, Albert, ICA, or Disco—as reflected in its products and as everyday value. Tesco is on the way to building its global positioning around high quality at low prices and with superior service and store execution.

Global promotions are also emerging in the global retail arena. In October 1998, Carrefour was the first mass retailer to offer a global promotion. Since then, Auchan and Ahold have responded in some of the markets where they compete, turning October into a month for large-scale promotions. For Easter 2001, Tesco ran promotions in all its countries, with a common set of products negotiated with its suppliers by its global sourcing staff. At the backstage of these promotions are global agreements with suppliers on items and programs. Execution is tailored to local characteristics, and, in some cases, a global umbrella can be observed, which is adapted to the local context. In the case of Ahold "Best in Your Home" in the United States is changed to "Best for Your Family" in Guatemala.

The quest for new markets is progressively taking retailers into emerging markets, where there's still potential to take away from traditional mom-and-pop outlets.

Modern Format Penetration in Selected Emerging Markets

Country	**%**	**Country**	**%**
India	2	Argentina	65
China	13	Brazil	87
Indonesia	30	Chile	67
Thailand	40	Colombia	43
Malaysia	45	Mexico	49
Taiwan	81	Venezuela	49
		Perú	12

Source: Euromonitor, ACNielsen

As might be expected in retail, either under a standard format or using more adapted format strategies, execution at the local level seems to be the key to successful growth. And further problems appear on the global landscape. A look at many emerging countries shows that in spite of their attractiveness in terms of being less mature and the important efforts from organized retailers to modernize store systems and customer offerings, modern retail to date has achieved somewhat limited expansion there. Modern retailers in emerging countries seem to be able to build initial beachheads only to find limits from traditional formats that still appeal to mass consumers, showing how difficult it is to modern retail to serve the low income segments. Preliminary results from ongoing research shows that laxity in tax compliance doesn't quite explain the resilience of traditional retail, and that other aspects of the retail business model need further adaptation to local conditions. Stronger efficiency and discipline, and more effective collaboration with local vendors is required to attract the huge segments that form the bottom of the pyramid, representing 80 percent of the world population.

Strategic Profit Model Results for International Retailers for 2001

The table below provides the Strategic Profit Model Results for the 25 largest international retailing companies. This is our second year of compiling these statistics. Ten countries are represented here; although, most of these retailers have at least continental, if not global, operations. After Wal-Mart, Carrefour is the second largest retailer (by sales) in the world, and Royal Ahold is third. It appears that Ahold will soon pass Carrefour in terms of size, but both remain less than a third the size of Wal-Mart.

In terms of overall performance on return on net worth, the top five companies in 2001 were food retailers led by Woolworth's Australia, followed by Royal Ahold, George Weston, Carrefour, and Tesco. The poor performance of the Japanese economy continues to play havoc with its retail sector, which is outperformed by the Europeans and the rest of the world.

Besides Royal Ahold, other RONW that dropped significantly included Otto Versand, Pinault-Printemps, Jardine Matheson, Delhaize, Kingfisher, and Takashimaya. Daiei actually dropped the most, but its high number last year was largely due to very high leverage which has now come home to roost. Of the eight companies that improved on RONW, most achieved only modest upticks. Marks and Spencer made the biggest move, from zero to five percent RONW. Still, not a very exciting number.

In general, the largest international retailers carry significantly more leverage than their U.S. counterparts.

Strategic Profit Model Results

Company Name	Country	Business Area	Date	Net Sales Millions U.S.	Return on Sales '01	Asset Turnover '01	Return on Assets '01	Financial Leverage '01	Return on Net Worth '01	Return on Net Worth '00
Woolworth	Australia	Food	Jun-02	$13,790.5	2.30%	4.28	9.84%	3.14	30.90%	29.61%
Royal Ahold	Netherlands	Food	Dec-01	$59,354.4	1.67%	2.07	3.45%	5.47	18.90%	44.59%
George Weston	Canada	Food	Dec-01	$15,499.4	2.36%	1.52	3.58%	4.49	16.05%	16.75%
Carrefour	France	Food	Dec-01	$61,550.8	1.82%	1.60	2.91%	5.31	15.45%	13.16%
Tesco	UK	Food	Feb-02	$33,575.4	3.51%	1.74	6.12%	2.44	14.91%	14.80%
Otto Versand	Germany	Specialty	Feb-02	$12,529.8	1.28%	2.19	2.81%	4.72	13.28%	27.33%
Karstadt Quelle	Germany	Broadline	Dec-01	$14,232.3	1.46%	1.53	2.24%	5.64	12.61%	13.07%
Safeway	UK	Food	Mar-02	$12,203.1	2.90%	1.75	5.07%	2.32	11.76%	10.66%
Coles Myer	Australia	Food	Jul-02	$13,946.0	1.38%	3.10	4.27%	2.51	10.70%	11.65%
Pinault-Printemps	France	Broadline	Dec-01	$24,623.9	2.71%	0.79	2.15%	4.09	8.79%	17.32%
Groupe Auchun	France	Food	Dec-01	$23,449.5	1.26%	1.52	1.92%	4.40	8.45%	8.14%
Metro	Germany	Food	Dec-01	$43,866.6	0.67%	2.22	1.50%	5.26	7.87%	8.70%
J. Sainsbury	UK	Food	Mar-02	$24,466.1	2.12%	1.55	3.29%	2.26	7.41%	5.55%
Fonciere Euris	France	Broadline	Dec-01	$20,252.0	1.50%	1.28	1.92%	3.76	7.22%	10.56%
Marks & Spencer	UK	Broadline	Mar-02	$11,597.8	1.88%	1.13	2.13%	2.33	4.97%	0.03%
Ito-Yokado	Japan	Food	Feb-02	$22,352.0	1.74%	1.26	2.20%	2.11	4.64%	4.97%
Aeon	Japan	Food	Feb-02	$21,978.1	0.71%	1.43	1.02%	4.19	4.28%	2.98%
Jardine Matheson	China	Food	Dec-01	$9,413.0	1.22%	1.31	1.60%	2.57	4.13%	27.97%
Delhaize	Belgium	Food	Dec-01	$19,070.2	0.70%	1.77	1.24%	3.25	4.02%	11.77%
Migros	Switzerland	Food	Dec-01	$12,058.0	1.41%	1.22	1.73%	2.10	3.63%	5.24%
UNY	Japan	Broadline	Feb-02	$8,846.1	-1.44%	1.34	-1.93%	2.93	-5.67%	2.70%
Kingfisher	UK	Specialty	Jan-02	$15,892.9	-2.21%	1.56	-3.46%	2.29	-7.93%	14.33%
Takashimaya	Japan	Broadline	Feb-02	$8,753.7	-4.92%	1.31	-6.43%	4.70	-30.20%	3.87%
Daiei	Japan	Broadline/Food	Feb-02	$20,113.0	-13.31%	1.05	-14.00%	-8.60	nm	200.53%
Mycal	Japan	Broadline/Food	Feb-01	$14,194.2	Currently operating in bankruptcy				nm	-89.02%

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June 15 – 20, 2003:	Monash University, Singapore
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