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Geographisches Institut, Humboldt-Universität zu Berlin

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Introduction

General retailing is still considered to be a prevailing domestic economic activity in most countries. In the last two decades, however, an increasing internationalization of retailing resulted in a coexistence of both domestic and international structures (Dawson & Mukoyama, 2014, p.5). Hereby, grocery retailing represents an extraordinary interesting sub-segment within this sector. Despite the remarkable persistence and resistance of traditional domestic retail formats like small-scale grocers including 'Mom 'n Pop' stores and wet markets, there is a general tendency towards 'supermarketization' and/or 'hypermarketization' of both domestic and international grocers especially in emerging markets (Reardon et al., 2003, 2004a, 2007). These developments have already led to and will further provoke major changes in regulatory frameworks, market structures, and consumer behavior patterns; moreover, they are accompanied by substantial business opportunities as well as threats. From our viewpoint, the inexorable process behind the scenes will undoubtedly contribute to a genuine global retail system in the near future, and is mainly propelled by the following circumstances favoring modern retail formats and retail internationalization.

First, the regulatory side facilitates the liberalization of national, international, and global markets by means of novel, adjusted, and updated governing frameworks. These modifications open up new possibilities referring to the ease of cross-border trade in goods and services, to accelerated foreign market entries, and to consumer accessibility for international grocers. Second, the supply side enables higher rates of capital and labor productivity through enhanced technologies and techniques in transportation and logistics, information and management systems, and workers/ consumers' awareness, education, and motivation. Among others, the outcomes are the realization of internal economies of scale (internalization advantages) or the establishment of global or regional commodity chains of boundary-spanning retailers cutting transaction costs and boosting efficiency (ownership and localization advantages). Third, the demand side quickens by a general increase of income, a greater share of women participating in formalized employment, advanced household infrastructures and a higher mobility of customers, contributes to changes in their behavior and general needs; these transformations in lifestyles and personal equipment support the development of modern retail formats.

Despite the enduring success of globalization's benefits in many industries, the 'big picture' in grocery retailing is – with a few exceptions – somehow different. On the contrary to other industries or general retailing, grocery retailing is still dominated by local companies in most countries. Even in the wake of general trends such as a worldwide liberalization of retail trade, a growing middle class and a higher penetration with personal vehicles or refrigerators in many developing countries, international players are often unable to set a foot in or are actually absent from the key retail markets. There are manifold examples showing that almost every grocery retailer that had tried to expand to overseas markets has failed as often as it has succeeded (Corstjens & Lal, 2012).

Simultaneously, those circumstances create manifold global business opportunities for investors, venture capitalist and in particular business executives from grocery retailers themselves. A successful exploitation of these commercial prospects, however, requires a profound and detailed understanding of the principles, the complex relationships, and the multidimensional and multiscalar framework behind grocery internationalization in order not to replicate mistakes made by former ventures abroad. The latter is, in particular, crucial when dealing with idiosyncrasies of emerging markets.

Against this background, our chapter analyses global business opportunities derived from the process of internationalization of grocery retailing with special attention on developing economies and emerging markets in South America, Africa and Asia. While the first part explores the **pillars of grocery retail internationalization** investigating general trends of internationalization, conditions for market penetration, types of market entry, transformation of retail formats and spatial patterns of expansion, the second part highlights **economic impacts of**

grocery retail internationalization by means of a stylized model with regard to the supply and demand side, to the structure and dynamics of as well as the regulatory framework within the different market systems.

The pillars of grocery retail internationalization

Grocery retailing represents a low-margin business and is, therefore, forced to step into global markets to satisfy shareholders for a number of **push-factors** (e.g., limited possibilities for market expansion, strong competition, already realized operational optimization, and high cost pressure in saturated home markets) and **pull-factors** like internalization (i.e., exploitation of economies of scale and scope), ownership (e.g., diversification of risks) or locational advantages (e.g., preventing trade or market entry barriers, new markets).

Theoretical considerations of general conditions and drivers for market penetration in emerging markets

Generally, internationalization attempts and foreign ventures usually start from a careful and balanced consideration of the targeted market(s). Therefore, as a first step we have compiled the most important factors and drivers from the demand, supply, and policy sides collected by means of the extant literature with regard to grocery retail internationalization in emerging markets.

A classical approach to assess the market potential for modern retailing formats is a **demand side** analysis. For this reason, innumerable studies have been conducted in which researchers have identified critical conditions enabling far-ranging access to consumers (e.g., Goldman et al., 1999; Reardon et al., 2004a, b; 2007); namely:

- rising urbanization rates
- a consequent entry of women into the workforce outside household activities
- increasing incomes and a growing middle class
- a change of consumers' literacy (e.g. abilities, values and habits)
- an increased ownership of refrigerators / vehicles

Other studies have emphasized **supply side** factors as equally important entry facilitators. The following drivers provide a selective – by far not exclusive – list for shifting from a fragmented to a more integrated supply system through reciprocal relationships among stakeholders in the upstream value chain serving as a backbone for retail networks over a national, regional or global range (e.g., Dawson, 1994, 2003; Burt et al., 2007, Coe & Wrigley, 2007):

- an improved transportation network and infrastructure.
- procurement system modernization (e.g., for an efficient consumer response)
- local commodity supply chain development
- cooperation and trust between stakeholders (e.g., farmers, distributors, middle-men)
- innovation and learning capacity

These supply side drivers enable increased quality and product variety, and simultaneously, efficiency gains, economies of scale as well as transaction cost reductions fuelling further diffusion and foreign investment. Finally, yet another stream of literature has concentrated on enabling conditions from the **policy side.** Hereby, most observers underline (see Wrigley, 2000; Reardon & Berdegué, 2002, 2006; Reardon et al., 2003; Reardon & Hopkins 2006; Coe, 2004, Dawson & Lee 2004; Reardon et al., 2007; Kulke, 2011, 2013).

- institutional and regulatory reforms
- incentives (e.g. tax reliefs, subsidies, free trade zones)
- consulting and information for foreign retailers
- provision of green- and/or brownfield areas

These drivers led subsequently to massive retail foreign direct investments (FDI) in emerging markets and were considered as crucial incentives for retail modernization and competitiveness.

In order to derive an initial, current, and comparable assessment of favorable markets for grocery retail internationalization from these general drivers, we have identified, ranked, standardized, and aggregated selected relevant indicators from the World Bank Database (World Bank Database, 2013). These indicators were used as unweighted and equivalent proxies (roughly representing the conditions of the demand, supply, and policy side) to form a two-dimensional index along the lines of what we call 'attractiveness' and 'accessibility' of the respective markets.

attractiveness (four demand indicators) of emerging markets:

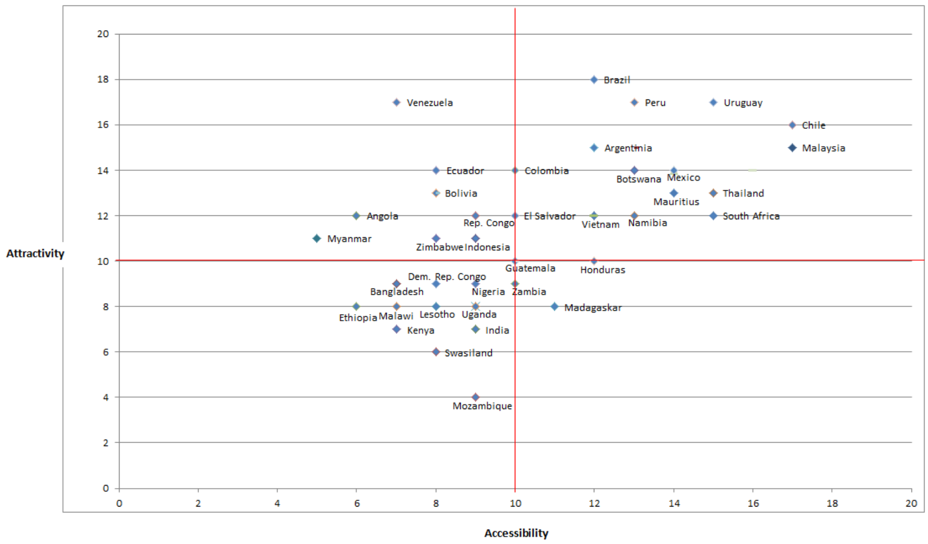
1. Urban population in 2012 (% of total) – as an indicator for the potential amount of customers
2. Income (GNI per capita in 2012, based on purchasing power parity; current international $) – as an indicator for the potential purchasing power
3. Female labor participation rate (% of female population ages 15+ in 2012) – as an additional indicator for customer potential and the demand for processed food
4. Electricity (% of population in 2010) – as an indicator for the possibility to store perishable goods

accessibility (roughly two supply and policy indicators) of emerging markets:

1. Motorization rate (motor vehicles per 1000 people in 2007) – as an indicator for mobility to visit modern retail formats and to transport larger volumes
2. Logistics Performance Index – as it reflects perceptions of a country's logistics based on efficiency of the customs clearance process, the quality of trade- and transport-related infrastructure, the ease of arranging competitively priced shipments, the quality of logistics services, the ability to track and trace consignments, and the frequency by which shipments reach the consignee within the scheduled time
3. Average of the foreign direct investments (FDI) between 2002-2012 (net inflows, % of GDP) – as an indicator for the openness of a country for international activities
4. Ease of doing business Index - which ranks economies along the lines of a regulatory environment that is the most conducive to business operation

This simple framework ranks 38 emerging markets in a matrix (on a double 0-to-20-point scale) – the higher the location in the upper right, the better the preconditions to enter a country.

Figure. 1: Results of the **attractiveness** and **accessibility** analysis (selected countries in South America, Africa, and Asia) Source: own compilation based on World Bank Data Base, 2013



The results reveal that most of the countries in South America are characterized by both, a high attractiveness and a high accessibility. Africa shows a diversified picture with less attractive and accessible countries (e.g. Kenya, Malawi, Uganda) as well as countries like South Africa, Namibia or Botswana which seem to be current interesting targets for future internationalization. The same differences can be observed in Asia with some interesting emerging or developed markets like Malaysia, Thailand, or Vietnam and several problematic countries for foreign ventures like Bangladesh, India or Myanmar. Our simple index conveys roughly the same message as other much more complex, and accredited standard indices for the industry (cf. AT Kearney, 2013).

Current figures

Reviewing the list of the 250 largest retailers (food-retailing and non-food-retailing in 2011), we observed a total of 88 originating from Europe, 86 are based in North America, and 58 are located in Asia. Only 11 companies stemmed from South America and 7 from Africa (Deloitte 2013, p. G16). At the same time, nine of the 10 biggest global retailers (as measured by retail revenue in millions of US dollars) indicated having their major business area in food retailing (see Table 1). Solely, the US-based *The Home Depot*, a retailer for home improvement, ranked 8th and broke the phalanx. The top 15 in grocery retailing were headquartered in core economies such as the USA, Germany, United Kingdom, France, and Japan – all of them early industrialized countries (Deloitte, 2014).

Not surprisingly, the classical north-south expansion process of global retail chains has dominated internationalization figures over the last two decades, and the largest food-retailers headquarters are located in the advanced economies, especially those in France, Germany, the United Kingdom, and the USA. These chains are strong in their home markets but also have high levels of international sales. Additionally, they possess a long time experience in entering foreign markets and how to handle specific local conditions.

Name/Year	**1996**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**201**
Walmart (US)	1	1	10(1)	11(1)	10(1)	10(1)	11(1)	14(1)	14(1)	15(1)	16(1)	16(1)	28(1)	28(
Carrefour (F)	8	2	23(2)	31(2)	31(2)	35(2)	31(2)	31(2)	33(2)	36(2)	36(2)	33(2)	33(2)	31(
Tesco (UK)	18	13	12(13)	10(8)	12(6)	13(5)	13(5)	12(4)	13(3)	13(4)	13(4)	13(3)	13(3)	13(
Metro (D)	4	5	28(6)	26(5)	28(4)	29(4)	30(4)	31(5)	32(4)	32(3)	33(3)	33(4)	33(4)	33(
Kroger (US)	13	3	1(5)	1(4)	1(5)	1(6)	1(6)	1(6)	1(6)	1(6)	1(6)	1(5)	1(5)	1(5
Costco (US)	23	14	8(12)	8(9)	8(9)	8(7)	8(8)	8(8)	8(9)	8(8)	9(7)	9(7)	9(6)	9(3
Schwarz (D)	33	29	x	16(28)	x	19(11)	21(10)	24(10)	24(7)	24(5)	25(5)	26(6)	26(7)	26(
Aldi (D)	x	x	12(15)	12(12)	12(10)	12(10)	14(11)	15(11)	15(10)	18(9)	18(8)	18(10)	17(8)	17(
Target (US)	x	x	1(7)	1(6)	1(7)	1(8)	1(7)	1(7)	1(8)	1(10)	1(10)	1(11)	1(11)	1(1
Auchan (F)	x	x	x	15(23)	x	12(16)	11(15)	12(16)	11(14)	12(13)	14(15)	15(13)	12(12)	12(
Aeon (J)	x	x	x	8(26)	x	11(18)	10(20)	11(21)	10(21)	10(17)	9(18)	8(17)	9(13)	10(
Edeka (D)	x	x	x	6(19)	x	5(22)	5(17)	5(17)	3(19)	1(19)	1(14)	1(16)	1 (15)	1 (1
SevenEleven (J)	x	x	x	18(22)	x	4(23)	4(24)	4(15)	4(16)	4(14)	18(16)	18(14)	18(16)	18(
Rewe (D)	x	x	x	12(16)	13(11)	14(12)	14(12)	14(14)	14(12)	14(10)	13(12)	12(13)	19(11)	22(
Casino (F)	x	x	x	21(29)	x	19(26)	28(32)	11(29)	11(28)	11(24)	25(26)	27(26)	22(26)	20(

Table 1. Number of countries in operation and worldwide rank (in brackets) by the Top 15 Grocery Retailers (2011) among the Top 250 general global retailers between 1996-2012 (own calculations based on Deloitte 2002-2014)

*due to minor interest of this study, the two biggest Australian Grocery Retailers have been omitted (Woolwoths & Westfarmes, 2011, rank 19th & 20th excluded) as well as Dutch Ahold ranked 3rd in 2001, 26th in 2011 (balance account scandal) and Albertsons ranked 8th in 2001, 239th in 2011 (merger& acquisition and split)

Although the degree of internationalization of those multinationals (as measured in the number of countries in operation) on average does neither have a fundamental positive effect on their revenue growth rates nor on their profit margin (Corstjens & Lal, 2012, p.105), grocery retailing represents a low-margin business and is, therefore, forced to enter global markets for a number of reasons like internalization (i.e., exploitation of economies of scale and scope), ownership (e.g., diversification of risks) or locational advantages (e.g., preventing trade or market entry barriers) (Burt et al., 2003; Ailawadi & Harlam, 2004).

Albeit sales of the world's top 10 grocery retailers tripled and their global sales even quintupled (the latter originating from a lower base) between 2000 and 2011, none of them is operating in all five key markets (France, Germany, Japan, US, UK). During the same decade, some regional players in Southern Africa (e.g., Shoprite, South Africa) and South America (e.g., Cencosud, Chile) experienced a steady growth and have entered the Top 200 biggest grocery retailer worldwide. In summary, however, the global grocery retail pattern of internationalization is quite puzzling (Deloitte 2002-14).

Region/country profiles, 2011

	# companies	Average retail revenue (US$mil)	% retail revenue from foreign operations	Average # countries	% single-country operators
Top 250*	250	17,085	23.8%	9.0	38.0%
Africa/Middle East	7	6,474	26.9%	10.3	0.0%
Asia/Pacific	58	11,009	11.6%	5.0	51.7%
Japan	40	9,608	6.6%	3.4	60.0%
Other Asia/Pacific	18	14,124	19.2%	8.5	33.3%
Europe	88	18,685	38.2%	15.0	19.3%
France	13	30,555	43.2%	30.0	0.0%
Germany	18	24,977	42.9%	14.6	11.1%
U.K.	15	18,320	23.0%	17.1	20.0%
Latin America	11	8,518	17.8%	2.0	54.5%
North America*	86	21,504	15.3%	6.2	48.8%
U.S.*	76	22,713	15.3%	6.8	44.7%

Table 2. Aggregated Characteristics of the Top 250 retailers worldwide, 2011 (Deloitte 2013, p.G16)

Considering the top 250 retailers worldwide (non-grocery also included), the following internationalisation paradigm is apparent (see Table 2): While an averaged company is presented in 9 countries and generates nearly one-fourth of its retail revenue from foreign ventures, still almost every second out of five companies operates only in a single-country. However, regional facts tell another story. The companies' pure origin reveals the biggest share in so-called early-industrialized countries (85.6%) and manifests the continuous hegemony of the former triad economic regions (EU, USA, Japan) in relative terms heavily outperforming emerging markets (overall 13.6%, two Australian companies excluded) in remaining Asia (6.4%), South America (4.4%) and Africa/Middle East (2.8%). A closer look at the average retail revenue allows statements about the market consolidation and a potential maturity of markets in the economic regions where North America (US$21.5 billion average revenue per company) takes the lead ahead of Europe (US$18.7 billion), Asia/Pacific (US$11.0 billion), Latin America (US$8.5 billion) and Africa/Middle East (US$6.5 billion). However, the latter tendency neither correlates with international average retail revenues from foreign operations (highest in Europe at 38.2%, unforeseeably followed by Africa/Middle East at 26.9%) nor with the share of single country operators (leading positions Latin America 54.5% and Asia 51.7% with its heavyweight in Japan's traditionally isolated market), where it could have been expected that the sheer size of retailers heightens the probability to expand abroad (Table 2).

A simple explanation offers the geography and the respective market size of these economic regions. While the US, Chinese, and Japanese markets are sufficiently large for retailers to successfully operate in many cases solely on a national basis as exemplified by US grocery retailers *Kroger* and *Target,* Europe and Africa are strongly fragmented by sovereign national states and an imperative persists to internationalize. Concurrently, there is no relationship between degree of internationalization (measured by market presence in foreign countries) and the position in the ranking for grocery retailers in the last decade either. On the contrary, while most companies have not significantly changed the number of operations in foreign countries, some grocers like *Auchan* (F) and *Edeka* (D) reduced or even terminated their presence abroad without losing their competitiveness (as indicated by their global rank) (see Table 1).

The above mentioned figures for retailer internationalization would be slightly lower for average retail revenues from foreign operations and higher for single country operators in the economic regions if we simply consider grocery retailers. Many retailers in the non-grocery sectors like electronics (RadioShack in 31 countries; Dixons in 28 countries), furniture (IKEA Group in 39 countries), appareal/footwear (Inditex in 87 countries; Esprit in 72 countries; Next in 68 countries; Limited Brands in 50 countries; H&M in 43 countries; Gap in 41 countries) pharmaceutical products (As Watson & Company in 36 countires), luxury articles (Kering in 90 countries; LVMH in 87 countries; Richemont in 55 countries) or mixed specialities (Marks & Spencer in 40 countries; Debenhams in 28 countries) are by far more internationalized than their grocery retail counterparts.

Institutional frameworks and market entries

Substantial breakthroughs in market harmonization (e.g., standards) and liberalization (e.g., trade issues) have been realized since the 1990s by reformulating, establishing, and adjusting regulatory frameworks between nations. Those agreements simplified the internationalisation process and facilitated international expansion for food-retailers. Focusing on market liberalization, particular multi- (e.g., the worldwide WTO GATT/ GATS framework in 1995), poly- (e.g., the establishment of supranational trading blocs like the MERCOSUR (1991), the SADC (1992), the AFTA (1992)) and bilateral agreements with different stages of commitment (dyadic Foreign Trade Agreements or FTAs foremost of the USA; partly also of the EU/Japan with transition and development countries, but also of certain BRIC countries with manifold Central and South American/ Africa/ Asian countries in the last 20 years) paved the way for an enduring and long-term engagement of US/EU/Japanese and international grocery retailers in emerging markets (see Table 3 for the EU). Since the WTO Doha round (beginning in 2001) ceases, manifold FTA constellations substitute and outperform multilateral GATS and polylateral conditions (with the exception of the EU) with preferable agreements with regard to food-import/export and a variety of activities in the service sector that bother activities of grocery retailers. By itself, the sheer number of worldwide FTA grew from 22 to 263 over the time period from 1993 to 2013, particularly in emerging markets (ADB, 2014). Moreover, more FTAs are in negotiations and it is expected that these frameworks are about to fully enter into force in the near future (EC, 2012, 2014; ADB, 2014, USTR 2014).

Multi-lateral	Poly-lateral	Bi-lateral
GATS 1995 (in force)	EU-Central America regional Association Agreement and EU-Andean Community regional Association Agreement (2012) (in force) *EU-ASEAN - Free Trade Agreement, EU-Mercosur regional Association Agreement (in negotiation)*	EU-Chile 2005, EU-South Africa, EU-Mexico 2007 (in force) *EU-India, EU-Malaysia, EU-Singapore (in negotiation)*

Table. 3: Important trade agreements concluded or currently negotiated (*italic*) from the perspective of the EU with emerging markets (own compilation from EC 2014)
*similar trends can be observed in the US and Japan

Despite the contemporary great success of bilateral FTAs, the GATS (General Agreement on Trade in Services) initiated by the WTO is still a milestone and the most important agreement with far-flung consequences on the liberalization of international service transfers especially for grocery retailers (e.g., agriculture, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property). In contrast to conventional trade of goods, the prominence of customs plays only a minor role in cross-border trade of services. Here, principles of transparency, of non-discrimination (the 'most-favored-nation' principle), treating all stakeholders regardless of their share in world trade or their level of development equally are at stake and tackle non-tariff trade barriers (WTO, 2013).

Although service markets of WTO members are not entirely open to foreign investors and each country can protect or even exclude sensitive sub-sectors (e.g., important public services) (GATS Art. 1, para. 3), GATS covers four modes of supply that ease the delivery of cross-border services: Mode 1 ('cross-border suppl') enables service delivery within the territory of the member, from the territory of another member; Mode 2 ('consumption abroad') opens the possibility for service delivery outside the territory of the member towards the territory of another member in order to serve a consumer of the member; both modes are of lower relevance for the food-retailing sector because foreign service suppliers from other members are not present within the territory of the member; Mode 3 ('commercial presence') allows for service delivery within the territory of the member, through the commercial presence of suppliers from other members (e.g. permits the establishment of subsidiaries in a foreign member country); and Mode 4 ('presence of a natural person') facilitates service delivery within the territory of the member by foreign suppliers present as a natural persons (e.g., possibility to employ home country experts in a foreign member country). The latter modes are of high importance for the internationalization of food-retailing because they permit foreign service suppliers to obtain legal commercial presence and legal foreign employment in emerging markets (e.g. setting up a network of subsidiaries run by home country workers) (Le Monde Diplomatique, 2006, S. 92; Neumair et al., 2012, p. 131, Kulke, 2013, p. 251).

Whereas market liberalization in Western Europe and North America has already been realized for a longer time, developing and transitions economies have opened their markets especially in the last decade (e.g., US-Chile FTA (2004), EU-Chile FTA (2007), Japan-Chile FTA (2007)) propelling strong growth and internationalization of grocery-retailers (ADB 2014, EC 2014, USTR 2014). This is reflected by the continuous global reach and the number of market entries of the top 250 retailers (non-grocery also included) in 2011. Albeit a sheer yearly snapshot, the figures illustrate important trends quite accurate (Table 4). Almost two-thirds of the population operated beyond their domestic market and 16% (40 companies) even established novel subsidiaries in 72 countries via 117 market entries during that year. Four-fifths of those retailers (32 of 40 companies) originated from established, saturated markets: the United States

(15), the big three European economies (Germany, UK, France) (12) and Japan (5). Although, no single country stood out in the crowd as the destination hot spot for retail expansion, retailers from Europe and Africa/Middle East welcomed the highest levels of new foreign venture activity. It must be pointed out, however, that almost half of the new market entries were conducted by fashion retailers predominately pursuing a rapid, convenient, and low-risk franchise strategy. Turning the spotlight back on grocery retailers, the big picture is quite different as only long-term investments with far-flung supplier networks and build-up commodity chains are able to secure the desired market success. Market entry strategies of this cohort depend mostly on the destination – given that a dominant north-south expansion pattern (from industrialized to industrialized countries) is still setting the scene. Whereas grocery retailers that entered mature markets (e.g. European countries) for the first time in 2011 chose organic growth as their favorable strategy, expansion to distant countries was carried out mostly by dint of acquisitions (e.g. *Wal-Mart's* acquisition of South African *Massmart*, giving the world's largest retailer market access to overall 12 African nations). Joint ventures are only of importance, in BRIC states with protectionist regulative laws against foreign investor due to attractive domestic markets.

	Organic Growth	Franchise	Acquisition	Joint venture
Europe	32	10	8	-
Central/South America	5	6	-	1
Asia/Oceania	9	10	2	2
Africa/Middle East	2	17	12	-
North America	-	-	1	-

Table. 4 New market entries of the top 250 retailers in 2011, by sub-region (absolute number) (own calculations based on Deloitte 2013, p. G17)

In a nutshell, however, member countries de facto still influence the level of liberalization and the balancing act is to find an adequate ratio between restructuring national grocery markets through liberalization and protecting domestic retailers for maximizing people's welfare. From the foreign company's perspective, general conditions from the demand and supply side play also a crucial role.

Phases and Formats of grocery retail internationalization

In spite of the depicted current worldwide multi-faceted, highly-contextual and environment-based mosaic of grocery retail internationalization, some analysts formulated a general model of four broad waves of transformation that hold true for most of global development and expansion patterns (Table 5). These anomalies and cycles have to be seen in connection with a variety of multi-scalar liberalisation measures (GATS, regional trade-blocs, bilateral FTAs) in cross-border service activities, with a prevalent north-south expansion pattern originating in North America and Western Europe and, in particular, with a triumph of modern retail formats (esp. supermarkets) (Reardon & Berdegué, 2002; Reardon et al., 2003, 2004a, 2004b).

The model's 'first wave' is considered of having influenced selected countries in South America (Brazil, Argentina), Northern Europe, and East Asia (with the exceptions of Japan and China) during the early 1990s or before and typically involved the evolution of initial small-scale indigenous ventures into 'modern' retailing by local firms who used domestic capital to follow retail formats and undertakings they had observed in North America and Western Europe. A minority of these emerging markets also experienced entries, involving relatively modest levels of retail FDI, by 'first mover' international retailers such as Dutch *Ahold*, French *Carrefour* and Dutch *SHV Makro* who were rewarded by above-average returns on their investments (Bell et al., 2004).

The adjacent 'second' and 'third waves' transformed 'traditional' retail structures in Mexico, parts of Central and Latin America (e.g. Chile, Colombia), much of South-East Asia and South-Central Europe during the late 1990s, followed by China, Eastern Europe, and peculiar regions in lagging tigers of South-East Asia (e.g. Vietnam) in the early 2000s. Again, these waves were driven by a considerable influx in FDI and embraced many of the 'new-born' retail MNCs in a 'gold rush' and merger & acquisition period of entry into emerging markets particularly during the late 1990s before the burst of the dot-com bubble (Pütz 1998, Wrigley & Lowe 2010, Basker & Noel 2012).

Finally, a 'fourth wave' which is viewed as having begun in the late 2000s and involves the transformation of retail structures in remaining countries in South Asia (outside India), South East Asia (e.g. Cambodia, Laos), sub-Saharan and parts of Southern Africa where regional (e.g. Massmart) and domestic grocery retailers paved the way for global cooperation trough emulation of modern formats and market consolidation. The waves can be differentiated by the diverging shares of 'modern' retail market with the highest penetration in pioneering countries (Reardon & Gulati 2008; Reardon et al. 2009, Deloitte 2010-2014).

Wave	1st	2nd	3rd	4th
	Early 1990s or before	Mid-late 1990s	Early 2000s	Late 2000s
Countries	East Asia (outside China and Japan), parts of South East Asia (e.g Thailand, Philippines). Northern-Central Europe (e.g. Poland & Baltic countries) South Africa South America (Chile, Argentina, Brazil)	much of Southeast Asia (e.g. Indonesia) South -Central Europe South Africa Mexico & Central America	latecomers S.E. Asia (Vietnam), India, China Eastern Europe Russia other parts of Central America (Nicaragua, Peru, Bolivia)	South Asia (outside India), remaining countries in South East Asia (e.g. Cambodia) Sub-Saharan Africa outside countries impacted in 2nd and 3rd waves. South America (e.g. Bolivia).
'modern' retail market share mid 2000s	50-60%	30-50%	1-20%	below 10%

Table 5: Waves of retail transformation in emerging markets (modified based on Wrigley /Lowe 2010, p.9)

According to overall retail banner sales (in bn US$), 'modern' grocery retail channels in general, supermarkets and hypermarkets in particular have dominated, are dominating, and will dominated the big picture in global sales, albeit certain niche channels like discount markets or wholesales recorded higher growth rates (as measured by the compound annual growth rate (CAGR)), however from a lower initial base (Figure 2).

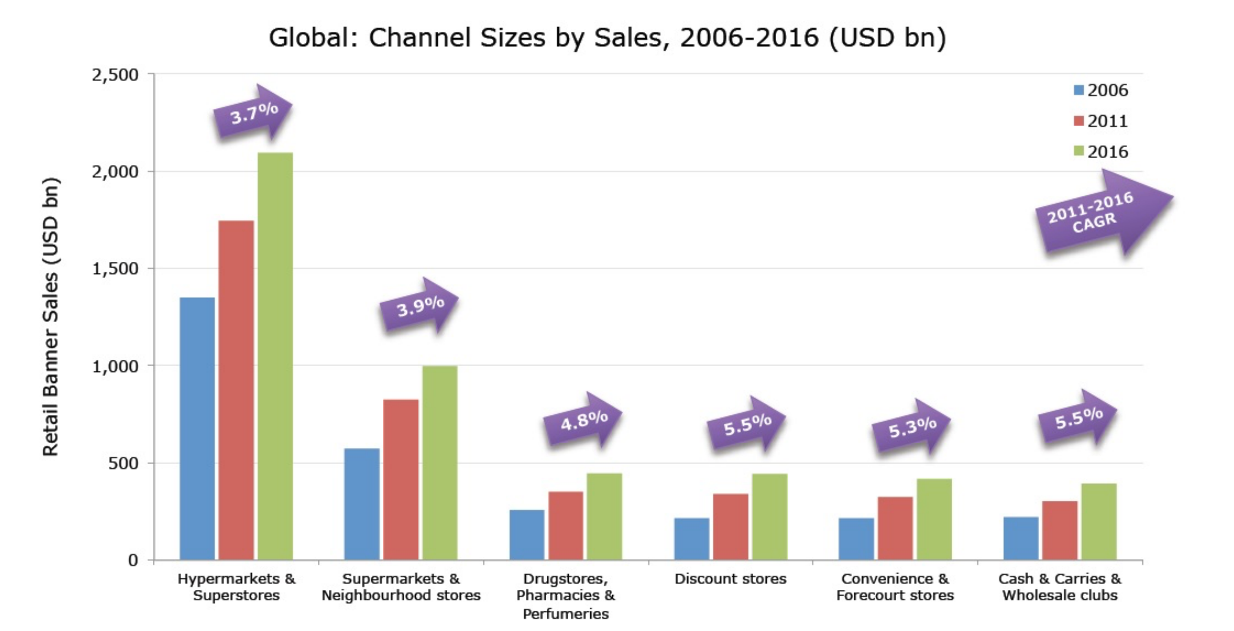


Figure 2. Global sales and growth rates of sales by retail formats (2006 – 2016 in US$ bn)
Source: PlanetRetail (2012)

Taking global business opportunities with regard to modern retail formats and regional markets into account, in particular, emerging countries (Eastern Europe, Latin America, Middle East / Africa, and Asia/ Oceania) attract with higher prospective growth rates in the near future than saturated markets (North America, Western Europe) (Figure 3).

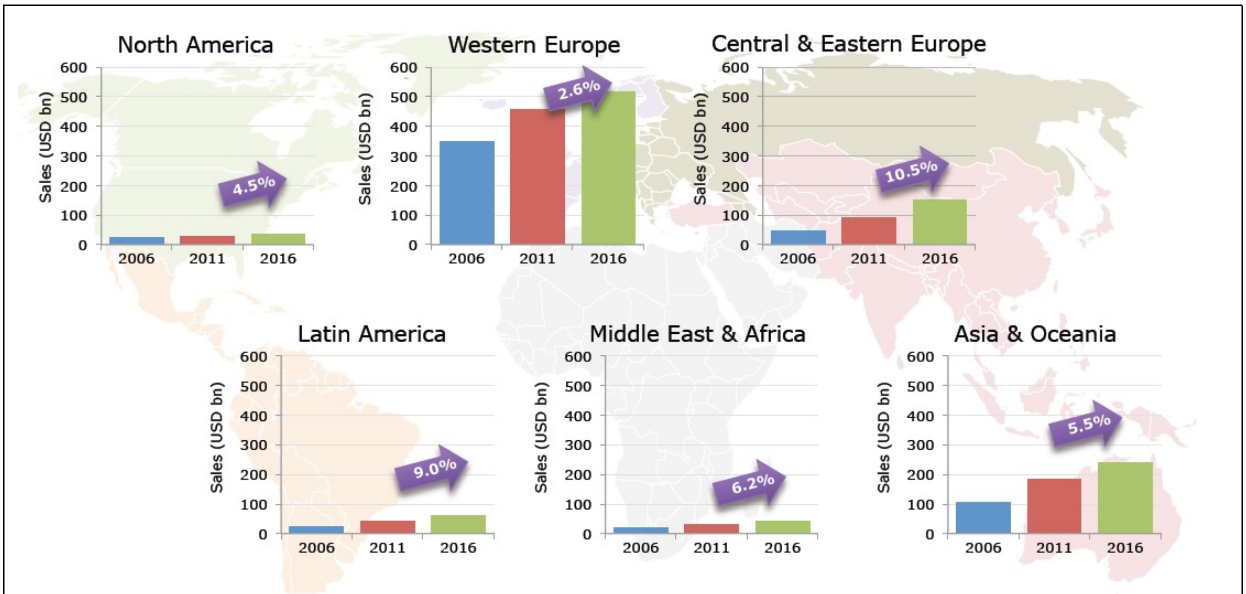


Figure 3. Sales and growth rates of sales of supermarkets by regions (2006-2016 US$ bn)
Source: PlanetRetail 2012

Despite the transition from traditional to 'modern' grocery retailing and the triumph of the super-/hypermarkets (e.g. Reardon et al. 2003), the top 15 retailers worldwide (see table 1) pursue quite different strategies with regard to retail formats that can be summarized as follows: (1) A mixed portfolio strategy with a broad spectrum of different formats dominated by hypermarkets and supermarkets as flagship stores under own brands (*Walmart, Carrefour*, partly *Casino*), (2) a cash & carry/ warehouse club strategy (*Metro, Costco*), (3) a predominantly supermarket strategy with quality and private label products (*Kroger, Edeka, Rewe*) and (4) a discount store strategy with price leadership (*Schwarz, Aldi*). Whilst grocery retailers tracing the first two strategies possess far-flung foreign activities in emerging markets, the remaining companies provide their business service primarily in home or developed markets. The only three real global players besides world market leader *Walmart* are German-based *Metro* and the French companies *Carrefour* and *Casino*. They took advantage of the gradual acceptance of supermarkets and other large-format food sellers who initiated this transformation within the different waves of expansion. In some developing countries the evolution has leapfrogged the typical phase model as described in table 5 by skipping the supermarket phase and moving directly into hypermarkets (Basker & Noel 2012).

Spatial patterns of grocery retail internationalization

Although animated by similar push- and pull factors for internationalization as general retailers, the geographic distribution of foreign ventures and spatial expansion patterns of grocery retailers are far from being comprehensible. Four universal trends, however, hold true for most activities. These patterns will be illustrated on an international, national and local level.

First, a classical north-north and north-south internationalization were and currently are a general, dominant and persistent pattern of spatial expansion since the beginning of cross-border retailing. This can be evidenced by a recent snapshot of the direction of market entries by the largest retailers (non-food included) (PlanetRetail 2013) (see table 6).

North-north expansion:	from developed to developed countries	27 entries
North-south expansion:	from developed to emerging countries	49 entries
South-north expansion:	from emerging to developed countries	2 entries
South-south expansion:	from emerging to emerging countries	7 entries

Table 6. Total number and direction of market entries for the top 500 food- and non-food retailers (Q3/2012, Q4/2012 and Q1/2013)
Source: PlanetRetail 2013

Motives and drivers for north-north internationalization (which lies beyond the initial scope of the chapter, but needs to be explained in order to understand recent trends) as well as north-south internationalization can be illustrated by the well documented 'experimental learning perspective' as discussed in the so-called UPPSALA-model (Johanson/Vahlne 2009). The rationale of this approach tells us that firms traverse a learning process during the steps of their international expansion. In the beginning, when international experience of the firm is limited, expansion abroad is oriented towards countries in spatial (e.g., neighbouring countries) and cultural-institutional proximity (e.g., former colonies, same language, trading blocks). Spatial proximity reduces transportation costs, cultural proximity transaction costs; this is especially relevant for modern food-retailers because these stakeholders have to develop, organize and establish procurement systems for the on-going delivery of items to the stores. Fresh food supply chains are, in particular, a logistical challenge; either efficient cross-border international delivery systems or laborious contacts to local producers or wholesalers have to be established. A cultural-institutional fit between home and host market simplifies market entry for a variety of reasons; for example, it is easier for the management to estimate the market volume, to offer adequate and demanded items, prices, quantities and formats as well as to handle institutional conditions. Both conditions (spatial & cultural proximity), however, are far from being a guarantee that protects firms from market failures and divestment (e.g., French Carrefour in Germany, German Edeka in Poland). North-south internationalization occurs primarily, after a firm successfully conquered other proximate foreign markets, gained international experience, or set up ties towards distant markets. This strategy can be either accompanied with 'flag planting' in the infancy stage in order to diminish risks of greater spatial and cultural-institutional distance and keep sunk-costs low (processes that occurred in the 1970s till end of the 1990s, the Uppsala-argument) or by a massive acquisition of local grocers (e.g. acquisition of Massmart by Walmart in the Southern-African region).

Second, there is a new trend by grocery retailers originating from emerging markets with a developing middle class that clearly indicates a growing south-south internationalization. Decades of imitation and learning associated with distinct innovations, venture capital and long-termed visions of enthusiastic entrepreneurs in certain emerging countries proofed sustainable on home markets and even entered neighbouring countries (e.g., Spar from South-Africa; see Box 1. for the case study Cencosud from Chile);

Box 1: South-south internationalization – The Case of Cencosud S.A. (Chile)

Cencosud, a Chilean firm, represents the largest retailer in Chile, the third-largest retailer in South America and an illustrative instance for a south-south expansion in grocery retailing, operating supermarkets in Argentina, Brazil, Chile, Colombia and Peru (Cencosud 2014). Although the retailer pursues a multi-format strategy (supermarkets, department stores, home improvement stores and shopping centers) throughout the mentioned countries providing work opportunities for more than 100,000 employers, three-fourth of its almost 19bn US-$ in revenues is generated by supermarkets in the food sector (Banco Penta 2012).

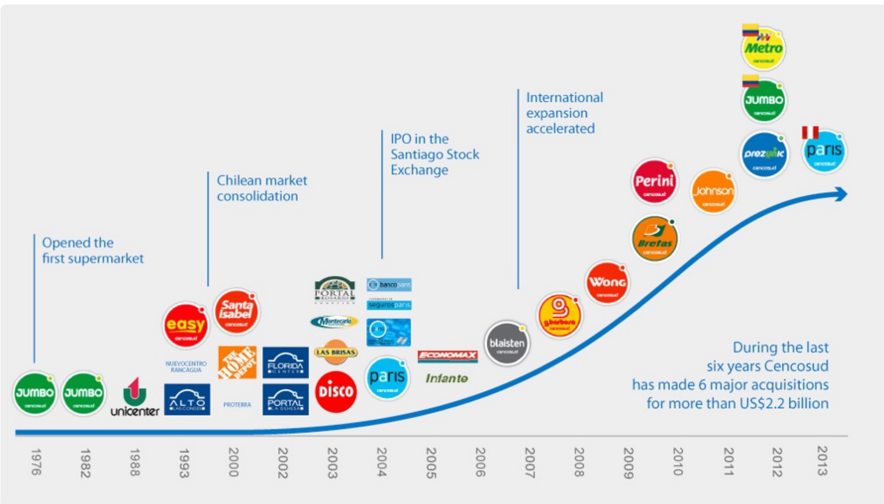


Figure 4: Expansion trajectory and brands incorporated by Chilean retailer Cencosud, 1976-2013
Source: Cencosud 2014

Year	Rank #	Name	Retail Revenue (US$ million)	Group revenue (US$ million)	Parent net income (US$ million)	Countries
2012	51	Cencosud	17,896	18,874	621	Ar, Br, Ch, Co, Pe
2011	63	Cencosud	14,967	15,744	621	Ar, Br, Ch, Co, Pe
2010	78	Cencosud	11,791	12,389	613	Ar, Br, Ch, Co, Pe
2009	90	Cencosud	9,143	9,748	181	Ar, Br, Ch, Co, Pe
2008	80	Cencosud	11,226	11,956	325	Ar, Br, Ch, Co, Pe
2007	112	Cencosud	7,112	7,257	246	Ar, Br, Ch
2006	119	Cencosud	5,984	5,894	246	Ar, Ch
2005	153	Cencosud	4,532	4,422	183	Ar, Ch

Table 6: Expansion and ranking of Chilean retailer Cencosud in the global top 250, 2005-2012
Source: own compilation based on Deloitte 2007-2014

After the launch of its first supermarket in Chile in 1976 and retail market consolidation between 1993 and 2000, Cencosud ventured an initial public offering at the Santiago Stock Exchange in 2004. This event accelerated the company's international expansion beyond Chile (see Fig. 16) and quadrupled its total retail revenue between 2005 and 2012 (Deloitte 2007-14, Herrera, 2009, 2012) in the wake of six major acquisitions totalling US$2.2 billion in neighbouring countries (Cencosud 2014). This made Cencosud one of the top three players on all operating markets (Banco Penta 2012). Despite a take-over of the biggest Latin American grocer, Grupo Pão de Açúcar in Brazil, by the French-based Casino in 2012 (Deloitte 2014), the acquisition of Cencosud is highly unlikely due to its unique ownership (60.8 per cent of all shares are held by the German-Chilean Paulmann family and 17.8 per cent by the Chilean Pension Funds, with the remaining 21.4 per cent in public float; Banco Penta 2012).

Moreover, there are delicate signs and attempts of first entries of food retailers from developing economies to developed economies (e.g. South African Pick n' Pay in Australia, the Mexican Chedraui in the US). These developments are, however, neither a general trend nor substantial ventures to compete with national retail chains, but rather experiment to exert modest influence in niche markets (e.g. Chedraui's idea to service the Mexican community on the West Coast of the US).

Third, there are no regularities in single company expansion trajectories. Although, a gradual expansion process from proximate to distant countries in the sense of spatial and cultural-institutional proximity is documented in the international expansion of several grocery-retailing enterprises, country-based expansion itself reminds more of trail-and error process; The German Metro Group, for example, started their international expansion in the 1970s in Central and Western Europe, continued to Northern Africa in the beginning of the 1990s, entered Eastern Europe and China in the mid 1990s and is now expanding in South and Southeast Asia (Franz 2011). The US Wal-Mart group was present solely in North and South America (e.g. Mexico, Argentina, Brasilia, Puerto Rico) until the mid 1990s, expanded in the mid 2000s to Western Europe (Germany, UK), Central America and East Asia (Japan, South Korea) and took over numerous subsidiaries in Southern African countries during recent years (see Figures 5, 6).

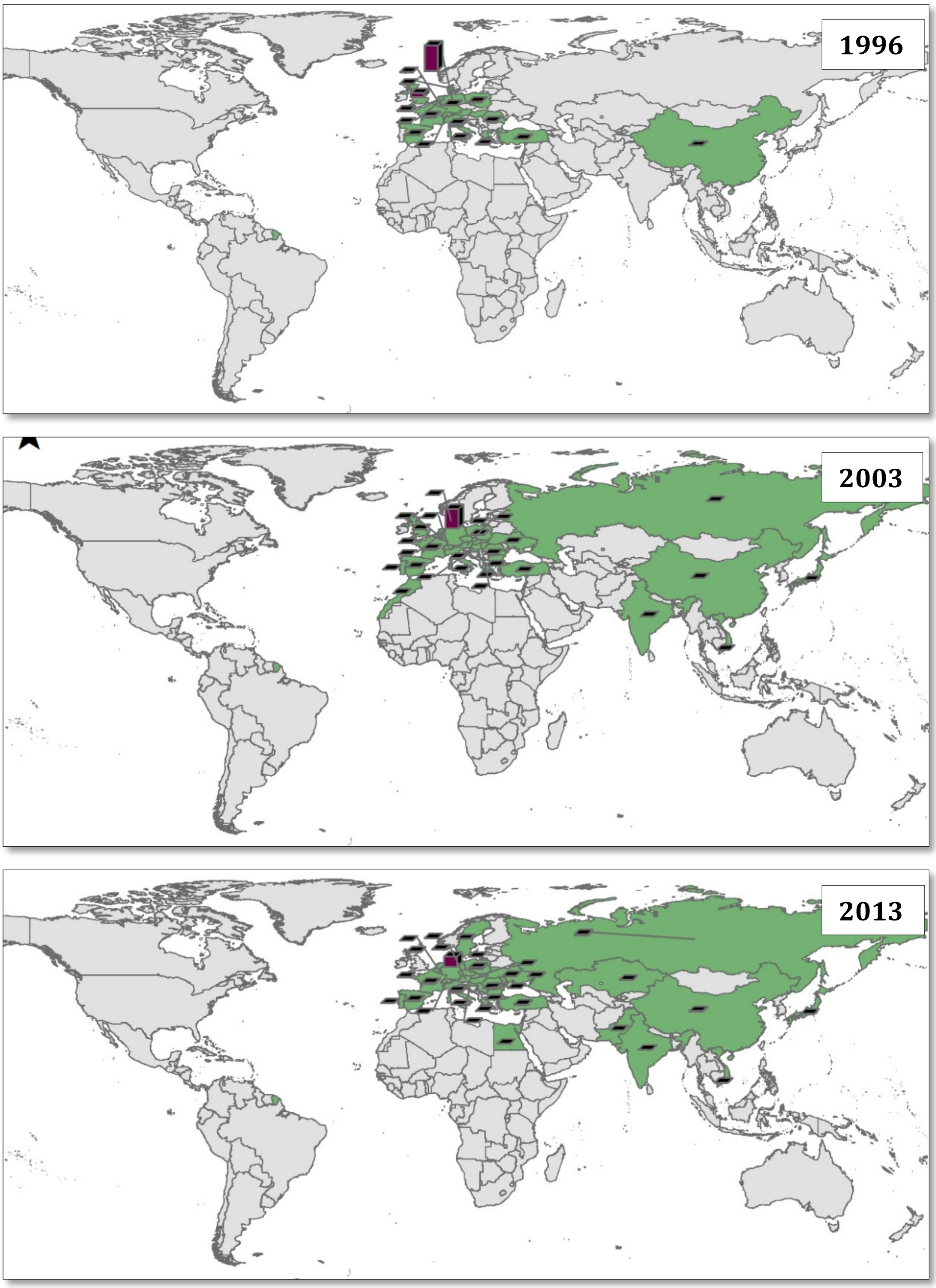


Figure. 5 Spatial Expansion of Metro (Germany)
Source: Own analysis based of firm documentations

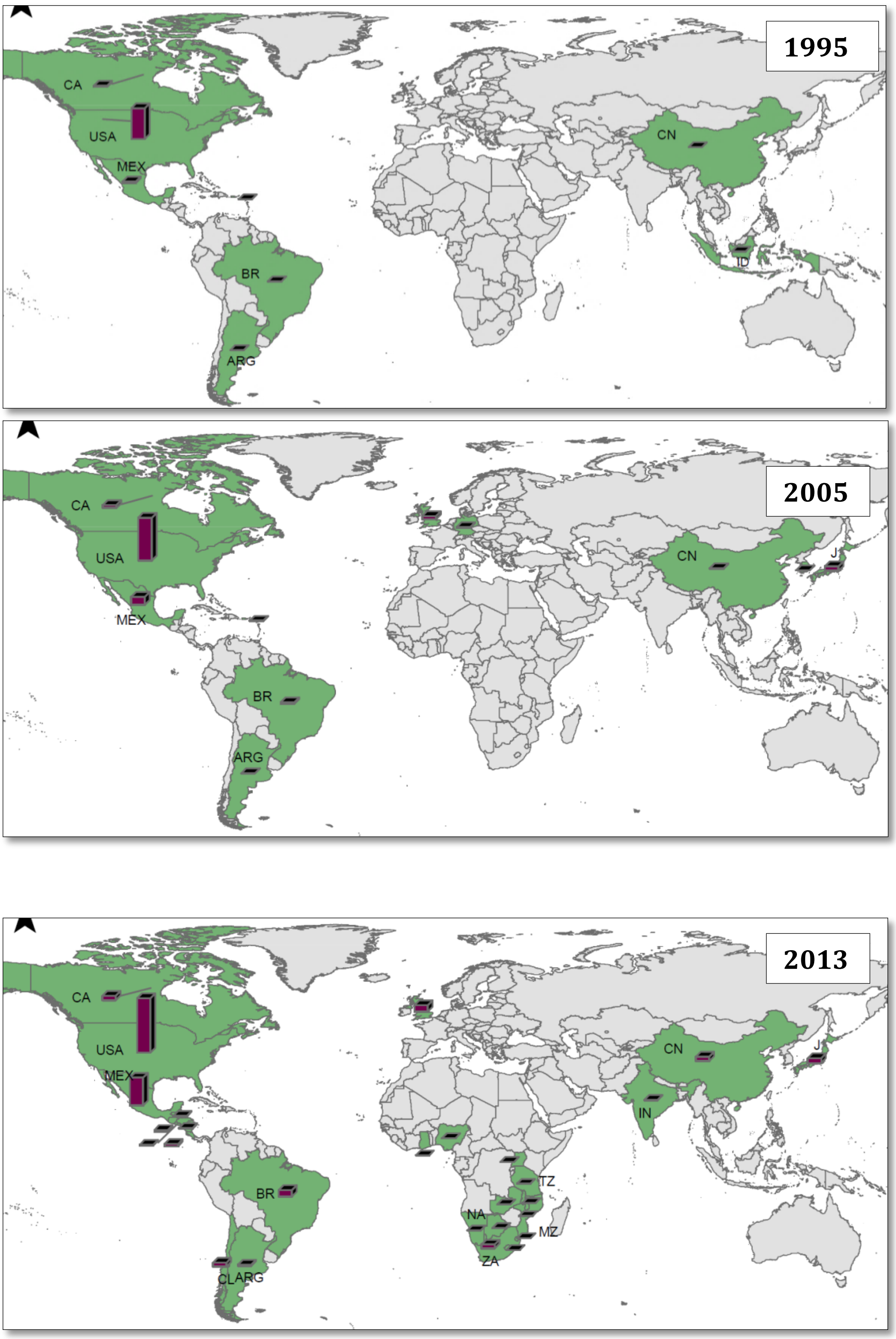


Figure 6: Spatial Expansion of Wal-Mart (US)
Source: Own analysis based of firm documentations

Fourth, a typical spatial diffusion pattern can be observed at a national level in emerging markets as well (Reardon 2005, Dannenberg 2013b). Pioneering activities of mainstream modern retailing formats (super-/ hypermarkets) usually start their operation in upper- and middle-class areas of capital cities for the following reason: expectation of sufficient demand due to above-average income and modern shopping behaviour of the residents. In this stance, super-/hypermarkets are location wise often attached to and addressed as luxury shopping types serving a market niche for the local elite. The auxiliary expansion process, however, diffuses hierarchically towards other parts of capital cities and later second-tier cities, to intermediate towns and finally even to towns in rural areas. Finally, they enter urban areas' informal settlements with lower income (f.e. in Keyna/Nairobi or Bolivia/ El Alto). This spatial expansion is driven by the ongoing competition in the higher-income market segment – because of other chains entering the market – and by internal cost reduction possibilities based on the development of commodity chains by the companies (Reardon 2005, p. 4). The expansion can have positive effects for the consumers in the informal settlements. Case studies show that prices for daily articles like cooking fat, sugar and maize flour are usually lower in supermarkets than in small kiosks of the informal settlements (between 67 % and 300 % higher prices there;). In these kiosks the larger packets of daily articles are repacked into smaller quantities, which are affordable for slum dwellers that dispose over low daily incomes only (Dihel 2011, p. 7).

Finally, a difference within the spatial distribution between local and international chains can be observed on the national level. The example of Brazil (Table 7) shows that international grocery-retailers prefer densely populated areas within large agglomerations in the first stance, but mostly also maintain a nation wide network for the realisation of economies of scale at the same time. Local chains are predominantly developing spatially limited chain-systems to reduce internal transportation costs and to realize significant market shares through their publicity at the local and regional level.

Name	Origin	Total revenue in M-US$	Market-share in %	Federal states
Grupo Pao de Acucar	France/ Brazil	52 680	23.5	AL BA CE DF GO MG MS PB PE PI PR RJ RN SE SP
Carrefour	France	28 766	12.8	AM CE DF ES GO MS MG PB PR PE RJ RN RS SP
Wal-Mart	US	23 468	10.5	AL BA CE ES GO MG PB PE PI PR RJ RN RS SC SE SP
Cencosud	Chile	6 237	2.8	AL BA SE
Zaffari	Brazil	2 910	1.3	RS SP
Prezunic	Brazil	2 653	1.2	RJ
Irmaos Muffato	Brazil	2 308	1.0	PR
A. Angeloni	Brazil	2 165	1.0	PR SC
Condor	Brazil	2 137	1.0	PR
DMA	Brazil	2 009	0.9	MG

Table 7: Location of supermarket chains in Brazil, 2012
Source: Fonseca, 2012, 2013;

In a nutshell, we can observe a cycle starting from a well-documented originally north-north expansion (e.g. Coe & Lee, 2006), and a currently emergent north-south expansion (e.g. Reardon et al., 2003). Moreover, we expect an uprising south-south expansion in the near future (see Box 1 Cencosud), while south-north expansion is a rather rare and uncommon phenomenon that mostly services migrant communities. However, international expansion biographies of individual companies are puzzling and show no regularities.

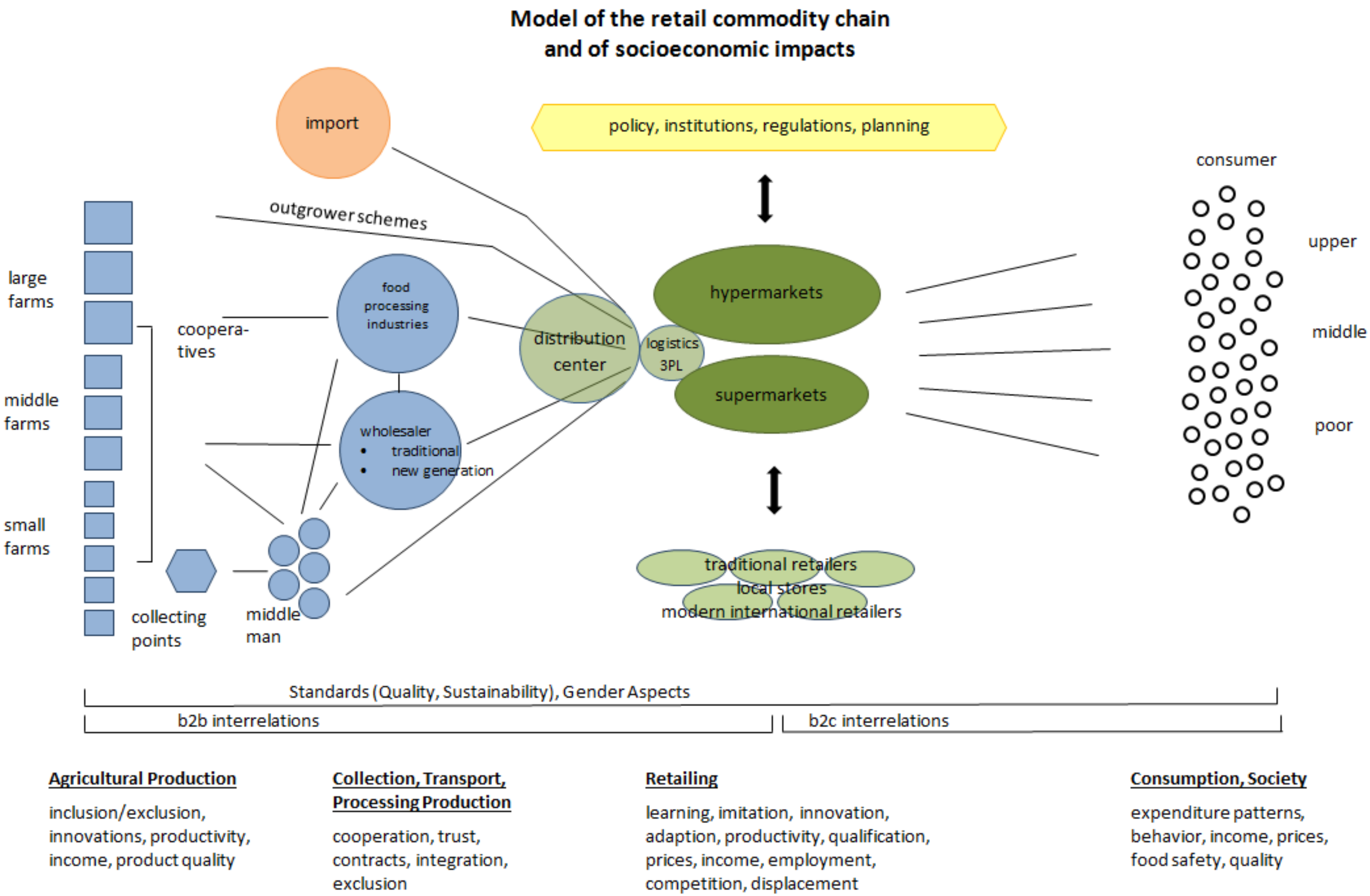
Economic impacts of grocery retail internationalization

Our idea to reveal economic effects and the resulting business opportunities of grocery retail internationalization in emerging markets is based on an impact analysis, which focuses on the various actor groups associated with or affected by the establishment of new retail formats. Hence the first step is to identify these groups and develop a model of their relations with new retail formats (esp. the establishment of hypermarkets and supermarkets) (Figure 7). In a second step, it will be discussed how these actors identified in the model are affected by the development of the new hypermarket/supermarket retail system. The effects of expansion are located within the dimensions of integration/cooperation, learning/innovation and competition/ displacement/exclusion.

The model is based on the consideration of commodity chains and describes the agricultural product from the farm through collection and transportation to retailing and, finally, to the end consumer (Coe/Wrigley 2007, p. 348; Dannenberg 2012, p. 51, Kulke 2013, p. 74f and p. 263). Most actors are either involved in the agricultural production process (e.g., on farms of various sizes, in out-grower schemes or cooperatives), collection/transportation/processing (e.g., importers, food-processing industries, wholesalers or middlemen), retailing (e.g., international chain stores, national chain stores, local retailers or wet markets) or consumption (e.g., consumers and restaurants). They interact directly with one another, i.e., interrelate in the course of activities such as article deliveries, money transfers, information flows, contract agreements, mutual control or development of trust. Indirect effects occur when competitors are affected by the expansion of hyper-/supermarkets or when new retail formats are imitated by others. This is particularly the case when a multitude of actors are involved at various points of the commodity chain, referred to as new forms of vertical coordination.

Another major actor group is found in policy/planning (e.g., politicians, parties, civil society, institutions and planners); on the one hand, this group has a strong influence on hyper-/supermarket expansion as a result of its policies/regulations; on the other hand, the regulatory system is influenced by the introduction of new retail formats, since expansion and how investors position themselves on the market frequently affects the context. Important regulatory elements are, for example, changes to investment regulations, land-use zoning, opening hours, store formats and labour market regulations (Coe/Wrigley 2007, p. 362f). This topic, however, would be the subject of much deeper analysis beyond sheer economic effects and business opportunities and will thus not be discussed in detail at this point. The same is true for general influencing factors like standards (e.g. for product-quality, sustainability or social-standards) or gender inequality issues beyond conventional b2b- and b2c-relationsships.

Figure 7: Model of the grocery retail commodity chain and economic impacts



Economic Effects on agricultural production

The agricultural production system (i.e., subsistence production and/or market production alternatives, and orientation towards certain agricultural products) is heavily influenced by product selling opportunities (e.g., product type, price and volume). Three major selling systems can be identified for agricultural products (Rao et al., 2012, p. 896f,):

- The traditional method of marketing farm products consists of direct sales to consumers either on the farm site or via transportation to local markets. This channel represents a high level of insecurity for farmers and – in the case of market delivery – considerable transportation and transaction costs. Sales volumes and product prices vary constantly due to insecurities in product supply and demand (e.g., during the harvest season). The vast fluctuation in sales and consequently in farm incomes is a stumbling block to long-term strategic farm policies; farms frequently fail to exploit sufficient surplus to allow for improvement of the production process and product quality.

- Another conventional method of marketing is to sell the products to intermediaries. Middleman or wholesalers travel to the farms or to local collecting points; they buy local products at market prices without having long-term agreements with farmers on volumes and prices. This distribution channel has, on the one hand, the advantage of reduced transportation and transaction costs for farmers, especially those without means of transport. On the other hand, dealing with intermediaries is accompanied by insecurities of volume and price, and ultimately of farm incomes. Long-term improvement strategies (e.g., upgrading of production) are only possible if reliable relations exist between farmers and intermediaries; information flows between the two parties concerning products and production standards (Dannenberg 2012, p. 177f) can contribute to production system enhancement.

- The newly evolving commodity delivery system to hypermarket/supermarket chains is defined by long-term agreements between farmers and the retail chain on product prices, physical quality, hygiene and consistency of supplies (Rao et al., 2012, p. 896). Two questions arise in the context of the new hyper-/supermarket marketing system with long-term agreements: firstly, which farms are integrated in or excluded from the system and, secondly, how are farms affected by integration in the super-/hypermarket delivery chain?

In most cases farms which try to be integrated in the new hyper-/supermarket marketing system have to fulfil certain standards which are established and controlled by the super-/hypermarkets or external supervisors. For supermarket/hypermarket chains, the reliable delivery of fresh products in defined qualities is crucial. The introduction of standards (e.g., product quality and sustainability or social standards) is of systemic importance; they are often established and controlled by external certification agencies, which are in turn in contact with the actors.

Although in most cases agreements between farmers and retail chains are based on oral arrangements rather than written contracts, they guarantee a certain amount of reliability for both partners. In some cases buyers from hypermarket/supermarket chains make direct contact with farmers and in others, special traders establish relations with the farmers and supply the hyper-/supermarkets. These interrelationships are characterised by information/knowledge exchange and control. The highest level of retail chain control is carried out in out-grower schemes (here retail chains have immediate influence on farm production or establish their own production units); these agricultural production units are closely inspected by the retail chain for compliance with production standards (e.g., environmental, social, production and quality standards; this points to the growing importance of standards in agricultural production) and standards for post-harvest handling. Even farms less affected by the retail chain system are the subject of control, either by representatives of the retail chain or external supervisors.

The question of farm integration in or of exclusion from the chain is analysed in most empirical studies along three dimensions (Maertens/Swinnen 2009;; Schipmann/Quaim 2010, p. 363f, Rao et al., 2012, p. 897f). The likelihood of integration appears to depend, first of all, on the person who runs the farm (e.g., age, education, gender), secondly, on the features of the farm (e.g., size, land title, off-farm occupation) and, thirdly, on farm accessibility (e.g., distance, road connection, availability of transport). These dimensions are of the essence when it comes to farm compliance with the respective retail chain standards (quantity and quality) (Figure 8).

(mean)	Supermarket	Traditional
Total area owned (acres)	2.69	1.87
Total vegetable area cultivated (acres)	1.17	0.70
Use of advanced irrigation technology (%)	52.6	35.3
Age of operator (years)	47	49
Education of operator (years schooling)	10.3	8.7
Own means of transportation (%)	24.1	8.9
Total farm income (Ksh)	283.9	156.0
Non-farm income (Ksh)	151.6	76.8
Household income per capita (Ksh)	167.1	76.8
Sales revenue for vegetables (Ksh/acre)	499.0	370.9
Chemical fertilizer use (kg/acre)	362.6	494.3
Pesticide use (kg/acre)	2.251	2.745

Figure 8 Characteristics of integrated (supermarket N = 133) and non-integrated (traditional N = 269) farms in Kenya
Source: Rao et al. 2012

Empirical evidence shows that the farmers most likely to supply hyper-|supermarkets are more educated and, in some cases, younger. Farmers open to innovation (in the sense of being prepared to fulfil the production and quality standards) are also more likely to be integrated in the retail chain system.

Large farms have an advantage when it comes to integration. Larger agricultural units find it easier to adopt the relevant standards and to deliver the quality/quantity demanded by the retail chains. They are also in a better position to invest (by own capital or by receiving external finance) in the additional equipment required to fulfil the conditions laid down in the agreements (e.g., irrigation, post-harvest storage). Retail chains likewise prefer to cooperate with larger units; a limited number of reliable partners is easier to handle than several units with a fluctuating production volume. One solution for smaller units threatened with exclusion is to form cooperatives. Cooperatives share the necessary equipment and jointly pay the cost of implementation and certification of standards (Dannenberg 2012, p. 203f). This notwithstanding, it is more difficult for very small units to fulfil the requirements of retail chains or special traders. Some studies argue that the poorest farmers may well be excluded or exploited by large, often multinational companies that dominate the chains (Maertens/Swinnen 2008, p. 3;), ultimately leading to the aggravation of income inequalities in the rural areas.

Accessibility is of vital importance, particularly in the case of perishable products or crops that require careful treatment. If farm locations cannot be accessed easily with modern modes of transport (e.g., pick-ups, trucks), their exclusion is often unavoidable. If, on the other hand, farms posses their own means of transportation, they can circumvent the issue of exclusion, albeit as a rule only larger units can afford this.

In conclusion this means that the advantages to be gained by integration in modern food-retailing systems is exceptionally difficult for small units run by less innovative farmers in remote areas.

The issue of exclusion is also of great importance. Box 2 analyses those circumstances along farm characteristics and regional differences (Africa, South America and Asia).

Box 2: Evidence for the problem of exclusion

An example of the exclusion of small farmers was observed in South Africa by Sautier et al. (2006, pp. 6-11): almost all fresh produce is now marketed outside the easily accessible spot markets. For quality and safety reasons, most agri-businesses source from selected contract farmers only. The smallholder supply is therefore extremely limited. As a result of high entry barriers and sophisticated contracts, small farmers lack the capacity to qualify for contract farming.

Substantial exclusion of small farmers was also observed in Central America. Lack of capital and of technical assistance, insufficient assets and the long payment periods of local supermarkets are factors that prevent small farmers from meeting supermarket standards and ultimately lead to exclusion (Berdegué et al. 2005, p. 267). Farina/Reardon (2000, p. 11) gathered further evidence from the extended MERCOSUR area: case studies have illustrated that the implementation of standards is "one of the key reasons for concentration of the subsectors and exit of substantial numbers of small firms and farms."

The contrary is the case in South-east Asia: It is necessary for supermarkets to include smallholders in their supply chains because of the latter's agricultural predominance in the region. For example, in Indonesia 88% of the farms are smaller than 2 hectares, in Vietnam and Bangladesh farms of less than 1 hectare in size account for more than 75% of all farms (Gulati et al. 2007, p. 104f).

Empirical studies on the advantages and disadvantages of integration in super-/hypermarket or export commodity chains show that the key motives for farm cooperation are income stability and price. They concluded that prices paid for farm produce by retail chains diverge from those paid by special traders. Some found that prices tend to be higher than traditional market prices (Rao et al. 2012, p. 896 for Kenya), while others state that supermarkets were not obliged to pay higher prices than those in traditional channels (Michelson et al. 2012, p. 345 for Nicaragua). In general, however, the decisive advantage of retail chain integration does not appear to be price levels; what really counts for farmers is price stability, long-term income prospects and the resources to improve their production. Questionnaire surveys with contract farmers (in this case vegetable products for export in Madagascar; Minten et al 2007, p. 269, Figure 9) documented that a stable income throughout the year (66 per cent of farmers responded with "very important"), access to inputs (60 per cent of farmers responded with "very important") and learning new technologies (55 per cent of farmers responded with "very important") were the key advantages in their eyes. Long-term agreements, reliable incomes and the flow of information would give farms the opportunity to invest in and enhance their production.

Importance	**not**	**a bit**	**quite**	**very**
Reasons for signing a contract				
Stable income throughout the year	0%	2%	32%	66%
Higher income	10%	42%	31%	17%
Price stability	10%	22%	49%	19%
Access to input on credit	0%	7%	33%	60%
Learning new technologies	0%	8%	37%	55%
No income alternative	8%	61%	19%	12%
Access to source of income during lean period	1%	2%	25%	72%

Disadvantages of contract farming				
Workload to schedule	56%	25%	17%	2%
Interruption of other agricultural activities	66%	26%	6%	2%
End of off-farm activities	80%	16%	3%	1%
Problem with social calendar	83%	14%	2%	1%

Figure 9 Benefits and disadvantages of contract farming
Source: Minten/Randrianarison/Swinnen 2007; based on 200 interviews in 2004 with farmers who produce vegetables for export

In comparison with non-integrated farms, farms with retail chain agreements show evidence of change. Long-term income security allows farmers to invest in production system enhancement (Fig. 9). In addition, they are integrated in information flows, since retail chains, special traders and external supervisors (responsible for certifications) transfer knowledge on the improvement of the production process and product quality.

In the economic sense, therefore, farms are in a position to improve technical and scale efficiency, which in turn leads to increased income (Rao et al. 2012). Empirical case studies show that farms with agreements are better equipped to specialise in superior quality products and high-value crops (e.g., Schipmann/Qaim 2010 for Thailand), thereby increasing the general productivity of the units. At the same time, a number of technical elements in the production process can be refined (based on the case study of Kenya by Rao et al., 2012 and of Madagascar by Minten et al., 2007). Contract farms have the means to buy better/certified seeds from formal sources. The seeds are cleaned, treated and stored under controlled conditions by the suppliers and their use results in higher farm yields. Contract farms improve their fertilizing methods in an effort to reduce the use of chemical fertilizers in the production process (Figure 9); in some cases they produce their own compost to improve soil fertility. Both elements lead to cost reduction and a more ecologically sound production process. In addition, greater efficiency in applying pesticides reduces the amount used. Contract farms are likewise in a position to use more advanced irrigation technology, such as drip irrigation and sprinklers, to upgrade the efficiency of the production process.

All of these factors promote learning and processes of refinement in agricultural production. They not only boost cost structures but also increase the sales volume. This in turn contributes to higher farm incomes and poverty reduction in the rural areas. As discussed earlier, however, these positive effects refer primarily to larger and more innovative agricultural units. Some studies have therefore drawn the conclusion that hyper-/supermarket expansion and the development of new supply networks produces a "complex map of winners and losers" (Coe/Hess 2005, p 469).

Economic Effects of new retail-formats on procurement and the processing of fresh produce

In the following we describe key changes in the procurement of fresh produce for supermarkets in developing regions with reference to the institutional (contracts and private production standards) and organizational infrastructure (physical facilities, procurement agents and sourcing levels), and discuss their development impacts.

As mentioned earlier, growing market power, financial means and geographic presence enable transnational corporations and leading domestic retailers to use 'proactive fast-tracking strategies' to improve their market position. The degree of procurement system modernisation in developing regions differs according to the respective firm, country or product concerned (Reardon et al. 2009). The following general trends were nonetheless identified:

- Consolidation and rising vertical coordination of procurement chains: Instead of the spot market relations of traditional wholesale markets, modern retailers increasingly use coordination mechanisms that tighten hierarchical linkages along the procurement chain. It is common for retailers or specialised wholesalers to 'list' 'preferred' local suppliers in order to ensure year-round consistency and on-time delivery. Based on this practice, which is also described as concluding "de facto but informal" contracts (Hueth et al. 1999; Boselie et al. 2003, p. 1157; Coe and Hess 2005; Reardon et al. 2007, p. 419), buying agents are willing to make occasional investments, e.g., to send trained staff to local suppliers in order to monitor the production process and guarantee the highly standardised product specifications required by the supermarkets. Medium-term business relations are at least in the interests of investors, since de-listing would generate costs (Reardon et al. 2004a).

- Centralisation of procurement: Contrary to the old fragmented marketing systems based on sourcing products from traditional wholesalers and markets, supermarket procurement chains are shorter (Boselie et al. 2003). Local per-store procurement systems are unattractive to modern retailers and either bypassed or converted into centre-based distribution systems that serve several stores and manage higher product flows. Where intermediaries fail to create added value they are cut out by modern retailers in order to ensure substantial coordination and transaction cost savings, and control over products, specifications and subsequent product innovations.

- Specialisation and differentiation of procurement agents: As supermarkets tend to source indirectly from small farmers, they develop relationships with the specialised intermediaries (Coe/Hess 2005; Reardon/Gulati 2008). Most notable is the emergence of specialised and dedicated "new-generation wholesalers" and "third-party logistics (3PL) providers" that concentrate on value-adding activities and use specific logistic equipment (Boselie et al. 2003; Reardon et al. 2007, p. 421;). Overall, "new-generation wholesalers" are larger and financially in a better position than traditional brokers. Before selling to supermarkets these intermediaries procure, select, sort, pack and deliver the goods to chain distribution centers (Balsevich et al. 2006). To some extent they also deal with inventory management and marketing aspects, and undertake supply chain investments to finance deficits in traditional procurement services. To comply with the needs of supermarket chains, modern wholesalers must be specialised in product categories and services with quality attributes, and more or less dedicated to specific retail and wholesale segments (Reardon et al. 2007).

Independent third-party logistics (3PL) providers[1] manage, control and deliver logistic activities for multinational customers without buying the products they handle. Services commonly outsourced from retail transnational corporations to these new intermediaries are for the most part transport, warehousing and inventory. This is also typically the case with value-adding services, information services, design, and the reengineering of the chain. Hence these 3PL firms must be able to adapt to individual clients, and at the same time guarantee the business coordination of several other customers (Hertz/Alfredsson 2003). In accordance with their problem-solving and customer adaptation skills, Hertz and Alfredsson distinguish different types of 3PL providers.[2] Relationships with transnational retailers are often symbiotic, with the number of outsourced activities increasing in the long term (Reardon et al. 2007; Hertz/Alfredsson 2003). 3PL is a growing industry but so far research is mainly focused on manufacturing.

- Broadening of procurement catchment areas: Beyond shortened and centralised procurement chains and specialised wholesale agents, the top global retailers and leading domestic retailers in developing regions have gradually undergone a shift from local and national towards regional and even global sourcing systems (multi-network sourcing). Despite a possible increase in transport costs due to the extra movement of goods, supermarkets are still in a position to achieve year-round availability of products, a broad assortment, the desired quality and lower retail prices, thus enhancing their competitiveness (Reardon et al. 2004a). Consequently intra-South and inter-South trade is gaining significance in the procurement of

[1] The first party is the shipper/ supplier, the second party, the buyer and the third party, the logistic firm as an external intermediary provider.

[2] The so-called *Standard 3PL provider* and the 3PL as *service developer, customer adapter* or *customer developer*.

fresh produce for supermarkets in developing regions. The extent of this trade and its impact on local wholesale agents and suppliers has not yet been documented and calls for further research. On the one hand, "the greater complexity and variety of paths" brings new economic opportunities and marketing channels (Reardon et al 2007, p. 414). On the other hand, dealing with increased requirements regarding quality, quantity and technological facilities, a growing amount of imported fresh produce and new professional procurement agents poses a huge challenge and can mean the exclusion of local, notably small, suppliers and wholesalers (see Reardon et al. 2009).

An important aspect of the international competition for procurement of fresh fruit and vegetables is the "follow sourcing" strategy, which has so far mostly been documented for the automobile manufacturing sector (Reardon et al. 2007, p. 422). The shift of modern retailers to regional and global sourcing systems is, of necessity, accompanied by a multi-nationalisation of logistic companies. Transnational corporations and leading domestic retailers prefer to stick to transnational logistic and wholesale firms with which they have cooperated successfully in the past. Furthermore they suspect that unexploited locations in developing regions lack adequate procurement systems. As a result, transnational logistic and wholesale firms are requested to co-locate with these modern retailers to new market destinations.

Coe and Hess (2005, p. 467ff.) conclude that competitiveness in the procurement sector will in future generally "depend on the volumes required …, the consistency of demand, local regulatory conditions, and the extent to which… [procurement agents] can provide knowledge and value-adding activity."

Having looked at the procurement sector, this section now describes transformations in the processing of fresh produce. Subsequent to the liberalisation and privatisation of the 1980s and 1990s, the processing sector, which was in many developing countries previously dominated by large-scale parastatal enterprises, saw a phase of deconcentration and the emergence of small- and medium-sized private companies (Reardon et al. 2009). More recently, however, there has been a trend towards reconcentration, with mergers and acquisitions of small- and medium-sized processing companies and a growing predominance of large private sector players, including multinationals. All in all, similar trends can be seen as in the procurement sector: rapid consolidation, increased product differentiation, "specialization among the surviving smaller niche processors" and the multinationalisation of large private sector players (see Reardon et al. 2009, p. 1718).

Economic Effects of new retail formats on the retail system

Looking at the expansion process of modern retailing calls for consideration of at least two aspects: first of all, the impact of changes brought about by the internal organisation of hyper-/supermarkets on the hyper-/supermarkets themselves; secondly, the effects of hyper-/supermarket expansion on competitors/ other formats (e.g., traditional and local stores).

Modern retailing saw the launch of large store formats and a more diverse product assortment. While in economic terms this development has mostly impacted on labour and efficiency/ productivity, in economic terms it has influenced wages and job security.

In general, the establishment of wet markets and small traditional stores requires only minor investment volumes and market entry barriers are low. The work at these stores and markets can be performed after a short period of "learning by doing" combined with the experience of "trial and error". In most cases people who run these units or are employed in this sector have neither the necessary education nor the retail training in order to run modern e-commerce or shopping-cart systems or to effectively organize a division of labour. Moreover, often common principal-agent dilemma like hidden action (e.g. taking money) or moral hazard prevent trustful relationships between employees and shop owners (e.g. family members have to be employed) (Darpian / Hogarth-Scott 2003).

Modern formats, in contrast, call for a wide range of qualifications, since division of labour and task specialisation are rising steadily (see for Taiwan in the 1990s, Trappey/ Lai 1996). The establishment, organisation and maintenance of a store network, appropriate locational decision-making and operation of a smooth supply chain necessitates highly qualified personnel, either from chain stores in advanced economies or with experience of having worked there (Dawson et al. 2003, p. 197f). This knowledge is transferred to developing economies and – through the spillover effect – stimulates learning processes that contribute to increased efficiency (see I-1 learning in internationalisation). This is evidenced by figures from India in 2005, which showed that 97% of all retail operations were run by unorganised retailers. These arrangements undoubtedly lack operational efficiency due to manual inventory, ordering and in some instances a non-existent consumer data base. The remaining three per cent of retailers were organised but, unlike international modern formats, did not use scanner data. Evidence of a transformation to available and affordable technologies in an attempt to capture information on consumer behaviour has, however, been observed (Sinha/Kar 2007, p.19).

The availability of qualified supervisors is frequently a limiting factor when it comes to super-/hypermarket chain expansion to developing economies; expanding chains stores tend to set up their own training courses to qualify their supervisors. At the same time, people who work as cashiers or are responsible for sales likewise require training. Short-term training courses suffice here. On the whole, qualified store personnel have higher incomes and enjoy greater job security.

A segmented training approach is required. This can be delivered, sponsored or accelerated by (a) international suppliers, (b) government or non-government organizations and associations, and (c) FDI through trade fair visits and overseas training (Hagen 2002). A good example is the supermarket management training programme sponsored by the US Department of Agriculture (USDA Cochran Program) and conducted in Ithaca, New York, by Cornell University between 1997 and 2001. Forty food industry managers from Vietnam participated. Its evaluation showed that efficiency gains came from

- enhanced store layout and product placement (e.g., high profit items located at eye level and price displays)
- introduction of fresh food sections (appropriate location in store, removal of unattractive items, colour coordination and assortment maintenance)
- establishment of “prepared food corners” offering ready-to-eat meals prepared on-site.
- promotion techniques (media and print advertising, discounting, raffles and more advantageous sign placement)
- improved inventory records and security
- loyalty programmes to reward frequent and high-volume customers
- adjusted customer service via feedback and store layout measures (Porter 2001).

Apart from efficiency/ productivity gains through qualification of staff from developing countries and the socio-economic benefit of increased wages and job security, international or indigenous retail formats benefit and learn from their own investigations (Box 3). On the other hand, internationalisation has also shown the ambiguous impact of profitability on modern retailers. Situational factors such as time, type and intensity of market entry, existing competitors and regulatory policies are some of the aspects that influence financial performance. While Ahold’s expansion in the early 2000s, for example, showed high returns on investment in Central America, their experience in China in the same period fell far below expectations (Bell et al. 2004, Dawson 2004).

Box 3: International investigations and their benefits for modern retailers themselves

Retail internationalisation generates effects associated with learning, qualification and innovation for the modern retailers themselves (e.g., Palmer 2005, Palmer /Quinn 2005). This is exemplified by new market and merchandising methods (e.g., the expansion of Aldi to Central Europe in the mid-1990s), improved information and communication management systems (transfer of 7-Eleven Japan information policy in the acquisition of US 7-Eleven stores, Sparks 1995), managerial knowledge acquired through cross-border activities and brought back into the domestic markets (Sternquist 1997), greater human resource management opportunities through broader labour market coverage (Dawson 2003), and best-/worst practices that stem from successful or failed internationalisation attempts (Dawson 2003, Etgar/Rachman-Moore 2008). For example, a professional marketing and recruiting campaign may uncover unexpected talents and promote otherwise excluded parts of the working force (Dawson 2003).

The above account allows for the assumption that modern retail formats need external consultancy services such as tax consultants, lawyers, locational/logistics consultants and financial banks. The availability of these services facilitates market entry, while the expansion of hyper-/supermarkets fosters their development.

Higher qualifications, new formats and efficient supply-chain management all contribute to enhanced efficiency. Modern formats tend to have higher levels of productivity and trigger innovation in existing systems. In this sense they are a factor in national economic growth (Sunanto 2013, p. 29) and the development of new distribution systems.

With reference to the impact of modern retailing (super-/hypermarkets) on competitors and vice versa, we distinguish three types of competitors: 1) traditional retailers (small-scale retailers, mom 'n pop stores, wet markets) and occasionally farmers and small processors who might pursue their own direct sales strategies, where all operations (production, harvest, transport, sales) are carried out by a limited number of people lacking labour productivity due to the absence of division of labour and economies of scale 2) local/ national chain stores, and 3) other modern international retailers. The main objective here is to show their response strategies to modern international retail market entry. Crucial impacts centre on the dimensions of adaption/integration/cooperation, emulation/learning/innovations and competition/displacement/exclusion.

On the whole, it can be said that modern international retail market entries, either as first or second movers or late-comers with major investments, have radically changed the rules of the game in developing markets (Dawson 1994, 2003, 2007; Goldman 2001; Coe/Wrigley 2007; Suryadarma et al. 2007, Kaliappan et al. 2008, Sunanto 2013). However, despite market leadership by international grocery retailers in some emerging markets (Corstjens/Lal 2012), still both traditional and/or national retailers show remarkable resilience to these stakeholders and transcends as strongholds in certain regions (Coe/Wrigley 2007).

- Impacts on traditional retailers (small-scale retailers, mom 'n pop stores, wet markets): Despite the major shift from traditional to 'modern' grocery retailing in emerging markets and the triumph of super-/hypermarkets that led to heavy losses and severe market share declines (especially for processed food) followed by exclusion and displacement (e.g., for Argentina see Gutman 1997; for Chile, Faigenbaum et al. 2002, for Vietnam, Maruyama/ Trung 2012) as evidenced by Reardon and his colleagues (Reardon /Berdegue 2002, Reardon et al. 2003, 2004a), empirical evidence also shows that traditional retailers have managed to retain market shares in niches (for India, see the case of Delhi, Box 4). Different factors may play a role: failures of or bad experiences with modern retailers, strong traditional communities impacted by certain religious constraints, limited motorisation rates, dispersed population and a lacking critical mass for break-evens and/ or simply limited market access (Corstjens/Lal 2012).

Box 4: Resilience of traditional retailers – the Delhi case

Although modern retail, which offers more branded and labelled products than traditional retailers, is seen as a key driver of change in emerging markets, the sheer numbers of traditional vendors of both fresh and processed foods cement their dominance in certain local markets.
In the retailing of fresh food, in particular, traditional bazaars, wet markets and street markets may well retain their popularity as a result of their wealth of experience, the custom of negotiating and the inability of international and local chains to set up reliable supply networks with comparable prices and quality (Rodriguez et al. 2002, Goldman et al. 2002, Booz Allen Hamilton 2003, Humphrey 2007, Maruyama/ Trung 2012).

Table 4. *Importance of different food outlets in New Delhi*

	Unit	Wetmarkets push	Carts	Cooperative modern retail	Private modern retail	Total
Vegetables						
Tomato	% number of vendors	37.6	56.0	3.4	3.1	100.0
Tomato	% quantity	74.6	20.5	1.9	3.0	100.0
Potato	% number of vendors	38.7	56.0	2.6	2.7	100.0
Potato	% quantity	73.0	21.3	2.3	3.3	100.0
Onion	% number of vendors	37.0	57.3	2.8	2.9	100.0
Onion	% quantity	68.4	25.1	2.3	4.2	100.0
Fruits						
Apple	% number of vendors	32.7	59.0	4.1	4.1	100.0
Apple	% quantity	43.3	47.7	4.9	4.1	100.0
Banana	% number of vendors	29.7	63.8	3.3	3.2	100.0
Banana	% quantity	42.7	48.1	5.8	3.4	100.0
Processed foods		Kirana shops	Closed FPS[a]	Open FPS[a]	Modern retail	Total
Rice	% number of vendors	87.8	9.7	4.4	2.5	100.0
Rice	% quantity	83.2	–	10.3	6.5	100.0
Atta	% number of vendors	97.2	–	–	2.8	100.0
Atta	% quantity	93.5	–	–	6.5	100.0
Mustard oil	% number of vendors	97.2	–	–	2.8	100.0
Mustard oil	% quantity	95.7	–	–	4.3	100.0

[a] FPS: Fair-Price Shops where they sell rice at subsidized prices for the poor.

Figure 10: Importance of different food outlets (fresh and processed) in Delhi (India)
Source: Minten et al 2010 S.1779

Recent studies have observed new mixed formats, such as the 'supermarket-cum-wet market' (referring to supermarkets with a fresh food section as a wet market look-alike), that put further pressure on traditional retailers (e.g., for Hongkong see Ho 2005) and have confirmed that modern retailers outperform wet markets and street vendors in some categories (e.g., for Indonesia see Sunanto 2013). Figures from Delhi (India) indicate that modern retail formats offer a wider variety, including certain fresh foods (vegetables and fruits). These findings, however, are not an endorsement of the necessarily best quality within the supplied products.

	Number varieties on offer		% Best quality indicator			% Branded/labeled	
	Traditional	Modern	Indicator	Traditional	Modern	Traditional	Modern
Vegetables							
Tomato	1.20	1.42	% no rotten spots	56.1	24.7	-	-
Potato	1.34	1.42	% without cutmarks	54.7	29.8	-	-
Onion	1.16	1.36	% without spots	77.3	45.6	-	-
Fruits							
Apple	1.73	2.70	% no rotten spots	53.2	35.9	-	-
			% local apple	84.3	58.9	8.1	41.9
			% imported apple	15.7	41.1	44.6	79.9
			% total	100.0	100.0	13.8	57.2
Banana	1.39	1.27	% no rotten spots	54.7	20.0	0.2	18.6
Processed food							
Rice	4.12	9.15					
			% basmati	48.4	92.6	68.1	91.6
			% non-parmal	32.6	4.7	1.1	42.3
			% parmal	18.9	2.7	0.0	33.3
			% total	100.0	100.0	31.2	87.6
Atta	2.72	3.92		-	-	70.1	100.0
Mustard oil	2.12	3.15		-	-	78.2	100.0

Fig. 11: Food quality and variety on offer in traditional and modern retail in Delhi (India)
Source: Minten et al. 2010 S.1781

Few promising strategies remain for traditional retailers and – as favoured by traditional trader associations – consist of cooperation and networking agreements among traditional retailers to improve their market structures, the organisation of street vendors, and enhanced management practices to supply at least long-lasting or occasional customers by convenience issues (proximity, friendship, trust) (Suryadarma et al., 2007).

- Impacts on local/national chain stores: The expectation of prospective international retailer market entries led to a 'first wave', which was considered to have influenced indigenous local and national chains stores in several countries in South America (Brazil, Argentina), Eastern Europe, and – with the exception of Japan and China – East Asia during the early 1990s. The process typically involved the evolution of small-scale ventures into 'modern' retailing by local firms using domestic capital to pursue the retail formats and operations they had observed in North America and Western Europe (Bell et al.; 2004). This early stage of market consolidation and a similar pattern a decade later characterised by an immense influx of retail FDIs into emerging markets can be seen as a preventive and/or competitive response from national retail chains, which was accompanied by emulation, learning and innovation (Goldman 2001, Coe/Wrigley 2007).

Moreover, whereas some domestic retail chains pursue cooperation strategies (e.g., joint ventures, partnerships with international grocers) (Coe/Lee 2006) for educational purposes concerning (e.g., knowledge transfer), the international grocers see this approach as a vibrant mechanism for location adaption with regard to consumers' needs and embeddedness (e.g. smooth and integrated sales appearances along cultural behavioural patterns or public point of views). Such strategies can be either opportunistic and short-term (e.g., Tesco w/ CP Group in Thailand, w/Sime Darby in Malaysia or w/Ting Hsin in China where potential rents or learning effects are only skimmed before leaving the market, Coe/Wrigley 2007) or consistent and long-term (e.g., Casino w/ GDA in Brazil; w/ Exito in Colombia with real lasting interest of providing markets, Deloitte 2004-14).

This exceptional 'local retailer resilience' (Booz Allen Hamilton 2003), occasionally referred to as 'resistance' (Coe/Wrigley 2007), also stemmed from fierce defense strategies is pursued by both traditional formats and national retail chains (for Chile, see Bianchi/Ostale 2006), frequently with government support in the form of low cost capital (for China, see Reardon 2005) or lobbyism and/or protective regulations.

- Impacts on other modern international retailers: While early market entry attempts in the 1990s consisted of little more than portfolio investments, 'flag planting' or other short-term engagements, this infancy stage was typically accompanied by substantial follow-up investments (Wrigley/Lowe 2010, Basker/Noel 2012). Significant market shares – sometimes merely market leadership – promised international grocery retailers sufficient returns on investment in the form of economies of scale and scope. Hence many emerging countries witnessed a competitive 'shake out'. This consolidation began when numerous international competitors initially made their entry into specific domestic markets (e.g., Poland, Thailand), which was followed by selective/ strategic reinvestment or even divestment, market exits and asset trade-offs among stakeholders (Burt et al. 2003, 2005). As a result, a number of international grocery retailers concentrated their activities in certain markets to divide the pie (Dawson 2007, Corstjens/Lal 2012). For social welfare reasons, however, anti-trust agencies in some countries prevented this tendency to monopolise the market (e.g., Slovakia, Coe/Wrigley 2007).

Economic Effects of new retail formats on consumption and society

This section explores the economic impacts of new retail formats on consumers in general and examines selected grocery product prices, diets and local participation. Its main objective is to illustrate the ambivalent effects (positive and negative) on different consumers cohorts of the society. Whereas on the one hand a differentiated penetration of grocery segments by modern retailers prevails, especially with negative impacts (e.g. price and alimentation traps for the poorest), modern retail format have the capacity to activate lifestyle changes accompanied by a growing awareness for quality and organic products through consumer literacy on the other hand.

In general, emerging markets are witness to cut-throat battles between traditional and modern retailers, national and international retailers, and among the international retailers themselves on the subject of price, convenience, product quality, employment and work safety. All of these topics have a significant impact on consumers and vice versa (Reardon / Hopkins 2006, Minten/Reardon 2008).

- Differentiated penetration of grocery segments by modern retailers: Overall, it can be stated that poor consumers still seem to benefit less than fully from the potential advantages of modern food retail. The latter can be said despite the fact that, the traditional food retail sector also continues to play a major role for otherwise excluded parts of the population with limited mobility, income, knowledge or limited needs towards imported products, particularly in the early stages of modern food retail expansion (Figuié/Moustier 2009; Minten et al. 2010). First of all, food at modern retail formats, particularly fresh food, is often more expensive than at traditional markets (e.g., Goldman et al. 1999 for Hong Kong; Neven et al. 2006 for Nairobi; Schipman/Qaim 2011 for Bangkok). Generally speaking, modern food retailers initially gain ground with "processed foods", i.e., main staples such as wheat bread, rice or maize flour, and packaged or canned items such as edible oil, snacks and noodles. Significant economies of scale in procurement and direct relations with processed food manufacturers may provide modern food retailers with competitive advantages over traditional food retailers in this product category (Reardon et al. 2007). In contrast, given the high perishability of fresh items, setting up reliable procurement systems, particularly for (domestically grown) fresh produce, is far more complicated than for dry goods, which have a long shelf life and do not require cold chains. Hence making a profit with fresh food items requires modern food retailers to invest heavily in their procurement systems, especially if quality and safety standards are to be assured (Reardon et al. 2003; Reardon & Berdegué 2006). This may result in substantially higher prices for fresh products at modern retail formats, making them affordable for middle- and upper-income consumers only. Also, modern food retail initially tends to focus on labelled or branded products, or imports that are vastly expensive and less sought by poorer consumers (Goldman et al. 1999; Minten et al. 2010).

- Price 'traps' for the poorest consumer cohorts of the population: Secondly, poor consumers in particular, who earn daily wages or lack refrigeration show a high shopping frequency that involves only small amounts of food and money (Neven et al. 2006; Tessier et al. 2008; Dholakia et al. 2012). Traditional food retailers are often more suited to this practice as a result of their convenient neighbourhood location (Neven et al. 2006; Dholakia et al. 2012) and the offer of loose products, low-priced value packs and single-use sachets (Goldman et al. 1999; Minten et al. 2010; Dholakia et al. 2012). The latter indirectly leads to an exclusion of lower-income class customers from the potential benefits modern food retail provides (Hawkes 2008; Timmer 2009). Drawing on survey-based evidence from ten developing countries and primary data from Madagascar, Minten/Reardon (2008) conclude that modern food retailers may at an early stage take advantage of procurement systems and respective economies of scale in order to achieve competitive advantages over traditional retailers by charging lower prices for processed, dried and packaged foods. Studies in Delhi and Nairobi show that consumers from the lower income classes may indeed benefit from these lower prices when purchasing processed and key staple products (see Neven et al. 2006, Minten et al. 2010). The knowledge of and trust in traditional food retailers (Isaacs et al. 2010; Dholakia et al. 2012), the opportunity to bargain or even be supplied with informal credit (Goldman et al. 1999; Tessier et al. 2008; Minten et al. 2010; Dholakia et al. 2012) are aspects that seem to enhance shoppers´ loyalty.

For consumers in informal settlements the spatial expansion of super-/hypermarkets to the low income areas can have positive effects. Case studies show that prices for daily items such as cooking fat, sugar and maize flour are usually lower in supermarkets than at small kiosks in informal settlements (prices range from 67 to 300 per cent higher; Dihel 2011, p. 7). Kiosks repack large packets of daily items into smaller quantities that are affordable for slum dwellers with extremely low incomes. Comparing these unit prices with items in supermarkets shows that prices at kiosks are higher. The paradox result therefore is that the poorest often pay the highest price for certain items as their lack of mobility and financial power prevents them to buy at supermarkets that can realise economies of scale.

- Growing awareness for quality and organic products: Interestingly, rising household incomes, enhanced general education, and elucidation and information policies have also pushed consumer preferences in developing countries towards high quality and organic products. The key attributes (freshness, no pesticides) justify the higher prices of modern retailers (Minten/Reardon 2008). Moreover, modern retailers have a greater share of labelled food products and more intra-product diversity than traditional markets (Minten et al. 2010). Consumers are therefore willing and able to pay more at modern retail formats for the same perishable product categories offered by traditional vendors. This is reflected by higher income elasticities of demand for fresh vegetables in supermarkets (e.g., for Vietnam see Mergenthaler et al. 2009; for Thailand, Lippe et al. 2010).

- Lifestyle changes and nutritional transition: With economic progress, rising incomes and urbanisation, households are experiencing changes in diet, and work and leisure patterns – also referred to as "nutrition transition": traditional diets based on complex carbohydrates, dietary fibre, fruit and vegetable intakes are replaced by high-calorie, nutrient-poor foods (Drewnowski/Popkin 1997; Schmidhuber/Shetty 2005; Kelly et al. 2010). Along with lifestyle changes such as reduced physical activity at work and during leisure time, these dietary changes contribute to the causal factors underlying non-communicable diseases such as obesity, cardiovascular disease, diabetes and cancer. While the pace of these changes is gaining momentum primarily in low- to middle-income countries, it is precisely the latter that continue to face food shortages and nutrient inadequacies. Consequently, these societies suffer progressively from a "double burden", i.e., substantial degrees of hunger, on the one hand, and growing nutritional problems arising from affluence, on the other (Boutayeb 2006; Timmer 2009). With modern food retail formats becoming "ever more important gatekeepers of the food supply" (Hawkes 2008, p. 658), modern food retailers no longer simply fulfil their traditional responsibility for food distribution, but also impact heavily on patterns of production and consumption (Lawrence/Burch 2007; Hawkes 2008). Thus the entry of supermarkets into the retail sector of developing countries not only has the potential to increase the quality and safety of foods by implementing the respective production and distribution standards, but also to either improve or diminish diet quality (Tessier et al. 2008; Timmer 2009; Kelly et al. 2010). Hereby, the capacity of modern food retailers to market a larger variety of goods can mean the introduction of new nutritious products (e.g., exotic fruits or conveniently packed vegetable snacks). With modern food retailers expanding into fresh food and reducing prices in this food category (Neven et al. 2006; Minten/Reardon 2008), consumers could be encouraged to diversify their diet and at the same time improve its quality by consuming more nutritious foods (Hawkes 2008; Kelly et al. 2010). Nevertheless, these benefits may apply initially only to the higher socio-economic groups, who not only demand more healthy food over time, but can also afford it (Kelly et al. 2010). Tessier et al. (2008), for instance, found that frequent users of supermarkets in the Greater Tunis area improved the quality of their diets slightly when they shifted from a limited number of staple products to a more diverse diet of new foods offered by modern food retailers. This result, however, was only true for customers from the higher social classes, as these new products (e.g., avocados, kiwis, salmon) were physically or economically inaccessible to most customers from the lower-income classes.

-Increased consumer literacy: Finally, modern food retailers present consumers with new products sold in new ways (Hawkes 2008). On the one hand, this can lead to increased "consumer literacy" (Dawson et al. 2003, p. 196) of retailer activity, i.e., a wider awareness and knowledge of products, marketing and retail methods. On the other hand, it may pose an obstacle to people who are illiterate or simply not used to choosing products based on label information or advertising (Tessier et al. 2008). In their pursuit of greater sales, Humphrey (2007) sees retail investment in formats that address the specific needs of low-income consumers as an important measure of modern food retailers. Indeed, it has been observed that confronted with increasing competition, modern food retailers tend to spread out to mass-market consumer locations via format modification e.g., with smaller retail formats in residential areas (see, for example, Weatherspoon/Reardon 2003 for South Africa; Neven et al. 2006 for Nairobi; Feeny et al. 1996 for Thailand; Suryadarma et al. 2010 for Indonesia). Furthermore, with the maturing of modern food retail, modern retailers are also able to exploit economies of scale in the fresh food segment, allowing them to reduce prices and attract more low-income customers. In the long run, this may see the lower income classes enjoying the benefits (more) of modern food retail, such as product safety, quality and variety, and lower prices.

To sum up these ambivalent effects, while supermarket "light users" (Goldman et al. 1999, p. 126) may also be found among the higher income classes, it is therefore customers from the lower income classes who primarily buy fresh food at traditional retailers and non-perishable food at modern food retail outlets (e.g., Minten/Reardon 2008; Neven et al. 2006 for Nairobi; Maruyama/Trung 2007 for Vietnam; Tessier et al. 2008 for the Greater Tunis area). Interestingly, these developments may provide an additional breeding ground for further living conditions inequality next to the mentioned positive spill-overs among different cohorts of the population.

Conclusion

Grocery retail internationalization in developing economies is a dynamic process that just started to two decades ago and that bears manifold global business opportunities. It was initially dominated by the North-South expansion of big grocery chains from Western Europe and North America. However, increasingly newcomers from the Global South have recently begun to expand to neighbouring countries. Up until now only a small number of food retail chains have controlled international expansion to markets abroad, typically by means new formats such as hyper-/supermarkets. In the initial stages of grocery internationalization, the expansion process was heavily influenced by spatial and socio-cultural proximity; typical patterns of expansion to South America, Africa and Asia by various retail chains were identified. Later, however, regionally and culturally more distant markets were explored. These ventures were also accompanied by manifold divestments and business traps that led to mixed results (successes and failures). At national level, high-income areas of large urban agglomerations are initially the prime locations for new retail formats; they are also the starting points for the national expansion process which typically spreads to other large cities and to the housing areas of lower income groups.

The economic effects and resulting business opportunities of these expanding new formats and retail chains can be observed along the entire commodity chain, from agricultural production to the end consumer; for the actor groups these effects revolve around the dimensions of integration/ cooperation, learning/ innovations and competition/ displacement/ exclusion. For agricultural units integrated in the supply chain, the long-term prospect of reliable incomes facilitates investment in production, allowing them to improve their technical efficiency and generate more income. Problems can arise for small agricultural units in remote areas that are not in a position to fulfil the standards and volumes required and are thus excluded. Newly introduced systems of procurement lead to new responsibilities for middlemen and wholesalers; new logistical systems – such as third-party logistics with value-adding services – are established. The competitors of new retail chains that still operate in traditional retailing gain the opportunity to specialise in market niches and adapt with innovations. For less competitive units, on the other hand, problems of displacement can occur. Consumers enjoy the advantage of better quality food at lower prices, although this in turn may impact negatively in the form of price traps for the poorest. Despite the above-mentioned positive outcomes, there are disadvantages along the lines of competition/displacement/exclusion. The latter calls for a systemic approach towards business operations that takes into account the above mentioned dimensions. These should be carefully implemented at the micro-level, taking into account local contexts, path dependencies, and the specific configuration and interdependencies of the vulnerable participants (notably small farmers, traditional retailers) involved.

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