
Distribution Issues Analysis Team Research Report

Strategies of Retailers that Undertake Regional Development in the ASEAN Market

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1. Characteristics of the ASEAN retail market

Since 2000, GDP per capita in ASEAN countries has been increasing. GDP per capita exceeded \$50,000 in 2011 in Singapore and \$10,000 in 2012 in Malaysia. On the World Bank list of economies, the former is classified as a high-income economy, while the latter is classified as an upper middle income economy. With these developments as a backdrop, the ASEAN region is now positioned as not only a production base, but also as a consumer area.

At the end of 2015, the ASEAN Economic Community (AEC) came into being, calling for the liberalization of goods, people and services. As a result, developments such as integration toward a single market, the consolidation of production bases, the expansion and balancing of intra-regional disparities and integration into the global market are expected to progress in the ASEAN region. In the distribution sector, country-specific local regulations on the phases of the entry, investment and store opening of retailers are expected to remain for the time being. However, it can be said that the ASEAN region is heading toward market integration in the long run and as an underlying trend. Accordingly, retailers that are aggressive in terms of opening stores overseas are making forays overseas one after another, regarding the ASEAN region as a single consumer market, and the ASEAN market has also become increasingly important for Japanese retailers.

In this paper, we will look at the retail market in the food and daily commodity category in the ASEAN region. The characteristics of the ASEAN retail market can be summarized as follows.

In the ASEAN region, there is specificity unique to each country that varies in terms of race, language, religion, lifestyle and food culture, etc. There is a wide range of consumers in each country, and income levels and diversification also differ from country to country. For this reason, even though a free-trade zone will be formed in the region, we must regard ASEAN as a fragmented market because each country has its own specificity and diverse consumers. In particular, the retail market for food and daily commodities is considered to reflect local specificity more strongly than other product categories such as home electric appliances and clothing, given that food and daily commodities are more closely linked with food culture and lifestyle, which are traditionally handed down locally.

Accordingly, we might say that for foreign-affiliated retailers that will enter this market, adaptation to specificity will affect the outcome of their international development. In addition,

given that some ASEAN countries have come to be positioned as not only a production base but also a consumer area, as mentioned above, positioning and significance are becoming increasingly important for Japanese retailers as well.

In this paper, we will first categorize the existing classifications of standardization and localization discussed in the area of the study of the internationalization strategy of the retail industry and regionalization, which is a different way of thinking from the existing methods. We will then examine a regional strategic model based on the discussions of regionalization and the headquarters function in a region where retailers are expanding their business internationally. Next, we will position foreign-affiliated retailers that are expanding their business internationally mainly in the ASEAN region as “ASEAN regional retailers” and discuss the characteristics of the business expansion of the representative retail groups in the ASEAN market.

2. Strategic model for retail internationalization

First, we will take a brief look at earlier studies regarding the international expansion of foreign-affiliated retailers by focusing on regionalization, which is proposed for retail internationalization, and a strategic model called the headquarters function in a region where retailers are expanding their business internationally.

In the area of the study of international marketing, there was a tendency in the past to discuss internationalization strategies of companies by dividing them into two types: a standardization strategy and a localization strategy. Oishi (1997), who organized the history of such discussions of standardization and localization, shows that these two strategies are defined unambiguously as localization unless they are standardized on a global scale, and as standardization unless they are localized, and points out that such a framework is insufficient.

In addition, in the area of study related to the internationalization of the retail industry, many studies based on the dualistic classification of standardization and localization have been accumulated. A pioneering study was carried out by Salmon and Tordjman (1989), in which they divide the internationalization strategies of retailers into two types: a global strategy where retailers apply their strategy globally using the same operation method as in the home country, and a multinational strategy where they adapt their strategy to the country they have entered. Yahagi (2007) points out that these two kinds of strategies can be summarized as contrasting strategic patterns: the one is a standardization strategy where retailers make a copy of standardized retail business on a global scale and expand it, and the other is a local adaptation strategy where retailers seek to adapt the retail business locally through decentralized operation and promote the management know-how obtained from this effort internationally.

In the area of study related to the internationalization of the retail industry, while Shiraishi/Toba (2003) and Yahagi (2007) can be described as studies that deal with the international development of global retailers, their discussions of standardization and localization are called into question, as in the research area of international marketing. For example, Kawabata (2005) criticizes the fact that because those who affirm the standardization strategy are taking on a larger interpretation of

its meaning as if the capability of adapting to any market conditions is standardization in the truest sense, their discussions have become complex.

In addition, as Rugman (2000), Rugman and Girod (2003) and Rugman and Verbeke (2004) do, some studies heavily criticize the fact that a strategic model called a global strategy that promotes standardization on a global scale is a myth that never exists, based on their case study of companies that are actually expanding their business globally across borders. They also point out the importance of a regional strategy that balances integration and local adaptation, taking note of the fact that real multinational companies are operating business based on “regions” such as the Americas, Europe and Asia. Chung (2009) classifies Chinese-affiliated distribution capital that operate business mainly in Asia and compares the background of capital groups such as Hutchison Whampoa, Ruentex and Sintat/Grace upon entering the Chinese market and the characteristics of their business development. The business development of these Chinese-affiliated distribution capital groups in Asia is considered to be an example of regionalization.

In this paper, we will regard a strategy of making a copy of standardized retail business and developing it in a region of a certain size and promoting local adaptation through decentralized operation at the same time as a regional strategy. So, in a region where retailers are expanding their business internationally, how is the retail industry actually operating business? In the research area of the internationalization process of the retail industry, the importance of the role played by the headquarters function in the region for international expansion is discussed. The headquarters function works as a development base in the region.

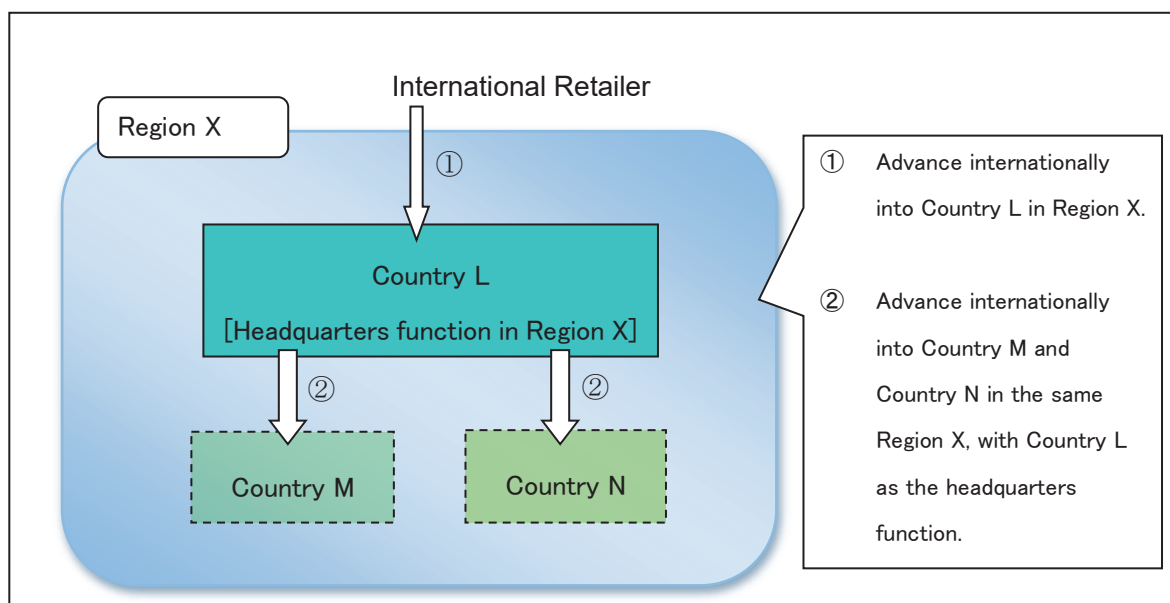
Yahagi (2007), who examined the business development of Tesco in Asia, points out that Thailand, which was the first country into which Tesco advanced in Asia, plays a coordinating role for the other subsidiaries in Asia and has a function as the headquarters for business development in Asia that provides the best practice, and positions Thailand as a substantive international center in Asia. Maruya (2014), who examined the advancement of Wal-Mart into Latin America, presents the business category of the warehouse-type discount store, which he says Wal-Mart developed in Mexico and which has driven growth in Mexico, and cites an example where Wal-Mart introduced the warehouse-type discount store business in Argentina by adapting it to the local market. He then argues that Mexico can be positioned as an international center that will become a base for business development in Latin America for Wal-Mart.

AEON also positions the “Asian Shift,” which aims for dramatic growth in the ASEAN region and China, as a common strategy for the entire Group in its three-year medium-term management plan starting from 2011, and the fact that the company positions Malaysia as an important base to promote business development in the ASEAN region is attracting attention. In other words, it seems possible to think that Malaysia is attempting to play the role of an international center in AEON.

Given the above, we understand that the international headquarters function that coordinates local subsidiaries in the region for international expansion and can provide the best practice plays an important role in the internationalization process of the retail industry. Accordingly, in this paper, we will examine the international expansion of retailers that operate business mainly in the

ASEAN region based on the “regional strategic model” (Figure 1) that we have compiled based on the discussions above, using three company groups as the subjects.

Figure 1: Regional Strategic Model in the Internationalization of Retailers



3. Retail groups that are developing business mainly in the ASEAN region

3-1 ASEAN regional retailers

In the ASEAN region, there are global retailers that operate business on a global scale with a unified store name (Wal-Mart, Carrefour, Tesco, etc.) as well as domestic-affiliated retailers that operate business in a limited way in each ASEAN country. However, what we will discuss here are foreign-affiliated retail groups that develop business internationally, mainly in the ASEAN region, or ASEAN regional retailers.

They can be roughly divided into two groups: ASEAN companies such as Dairy Farm, CP and Parkson and European companies such as Casino. Of these, Parkson is characterized by its operation of only department stores and differs from the other three groups, which operate multiple business categories.

Mukoyama (2009, 2014) notes the following: “The reality of retail internationalization, which began with the advancement of retailers into neighboring countries, has expanded to advancement into emerging countries, and existing studies have been discussing it on the assumption that a retailer will advance into a foreign market with a single business category. In reality, however, a retailer advances into a foreign market by combining multiple business categories in many cases.” It is therefore important to examine retail internationalization with the international transfer of the retail business category to host countries as the subject based on the reality that the internationalization of the retail industry has transformed into advancement with multiple business categories, instead of a single business category, and advancement from neighboring countries to emerging countries, as described above.

Let us now look at how Dairy Farm, CP and Casino, which are ASEAN regional retail groups that operate multiple business categories in multiple countries, do business in ASEAN.

3-2 Development of the Dairy Farm Group in ASEAN

Dairy Farm International Holdings Limited (“Dairy Farm”) is a member of the Jardine Matheson Group in the United Kingdom. Dairy Farm was incorporated in the Bermuda Islands and listed on the London Stock Exchange. As shown in Figure 2, the Dairy Farm Group operates supermarkets, hypermarkets and convenience stores, etc. mainly in the Asia-Pacific region. Dairy Farm Management Service Limited, a Hong Kong-based company in the Dairy Farm Group, presides over the local offices in the region, and the business strategies of the Dairy Farm Group are managed through this company.

Figure 2: Changes in the Number of Retail Stores of the Dairy Farm Group in the ASEAN Region by Business Category from 2008 to 2014

	Business category	2008	2009	2010	2011	2012	2013	2014
Singapore	HM	7	7	7	7	8	8	8
	SM	91	95	105	111	115	116	115
	CVS	435	484	549	561	570	537	493
Malaysia	HM	44	51	67	71	75	78	78
	SM	65	69	75	73	73	72	78
	CVS	-	-	-	-	-	-	-
Indonesia	HM	26	35	38	39	46	51	55
	SM	108	113	120	131	142	158	165
	CVS	116	124	125	132	151	157	134
Vietnam	HM	-	-	-	1	1	1	1
	SM	3	3	3	2	-	-	-
	CVS	-	-	-	-	-	-	-
The Philippines	HM	-	-	-	-	10	12	13
	SM	-	-	-	-	23	32	38
	CVS	-	-	-	-	-	-	-
Brunei	HM	1	1	1	1	1	1	1
	SM	-	-	2	2	2	2	1
	CVS	-	-	-	-	-	-	-
Cambodia	HM	-	-	-	-	-	-	-
	SM	-	-	-	-	7	12	11
	CVS	-	-	-	-	-	-	-

Note: HM stands for Hypermarket, SM stands for Supermarket and CVS stands for Convenience Store.

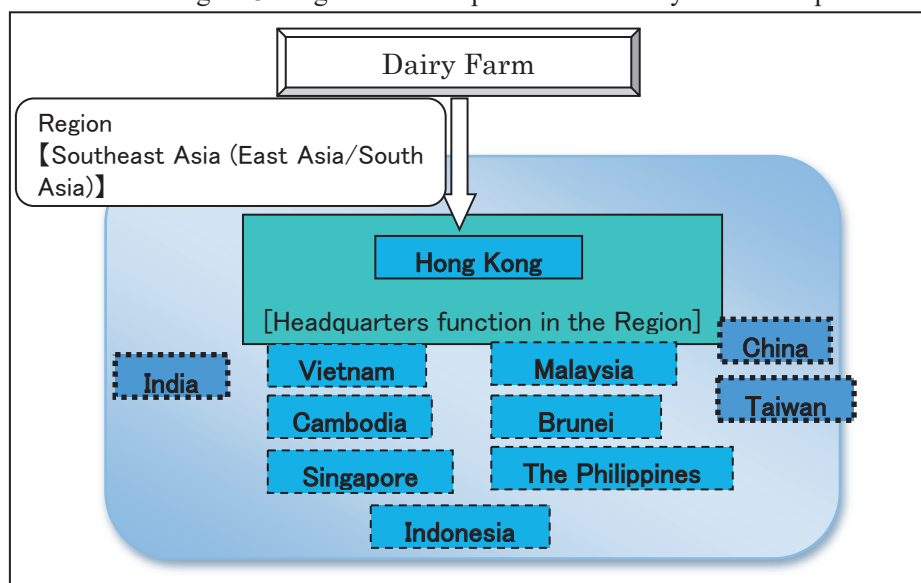
Source: Prepared based on the 2012 – 2014 annual reports of Dairy Farm International Holdings Limited.

One of the characteristics of the business development of the Dairy Farm Group in the ASEAN Region is that it has been expanding its business through acquisition. It has been expanding its business in the ASEAN region by acquiring shares of Cold Storage in Singapore in 1993, Giant in Malaysia in 1999 and IKEA in 2002 to acquire its business in Hong Kong and Taiwan. According to the 2014 annual report of Dairy Farm International Holdings Limited, the net sales of the entire Group including its affiliates were approximately 13.1 billion dollars, and the Group operates 6,101 stores, including restaurants.

Figure 2 shows changes in the number of retail stores of the Dairy Farm Group in Asia by business category from 2010 to 2014. This reveals in which business category the Dairy Farm Group is active or inactive in store development in each country and region. For example, while the number of convenience stores is on a downward trend from the peak in 2012 in Singapore, it increased from 116 in 2008 to 157 in 2013 in Indonesia, although it declined in 2014. Looking at the changes in the number of retail stores by business category in Malaysia, the pace of store openings of hypermarkets exceeds that of supermarkets, and the number of hypermarkets exceeded the number of supermarkets in 2012.

Based on the above findings, the characteristics of the regional development of the Dairy Farm Group based on the frame in Figure 1 can be summarized as shown in Figure 3.

Figure 3: Regional Development of the Dairy Farm Group



3-3 Development of the CP Group in the ASEAN region

The Charoen Pokphand (CP) Group is a major Thai conglomerate (Chinese-affiliated). The CP Group operates a range of businesses including food, retail and telecommunications, not only in Thailand, but also internationally, mainly in Asian countries. The CP Group formed a capital and business alliance with ITOCHU Corporation in July 2014 and acquired about 4.9% of ITOCHU's shares for approximately 102 billion yen. As a result of the stronger relationship between the two

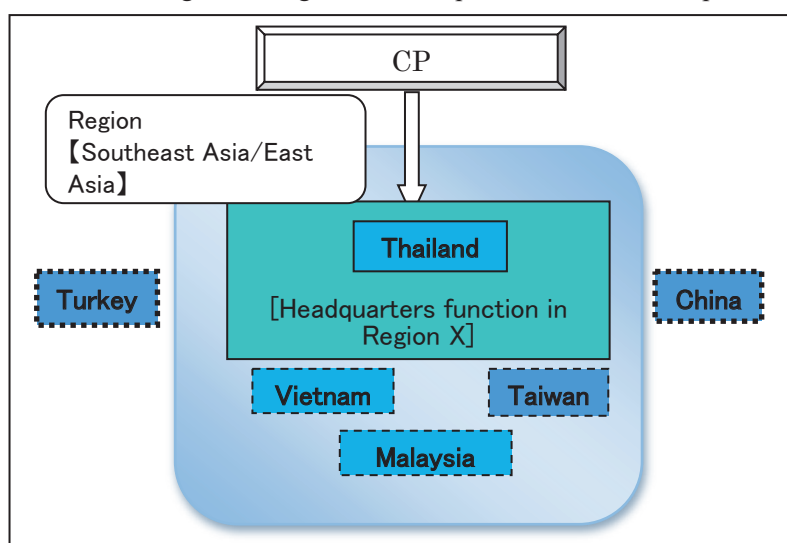
companies due to this alliance, they aim to further expand earnings and promote the internationalization of their businesses in areas other than resources in Asia (according to the new release from ITOCHU Corporation dated July 24, 2014).

The CP Group was founded as a seed store in 1921 in Bangkok. It subsequently diversified into the manufacture and sale of livestock feed, poultry production, and the fishery business, and the retail business is now one of its core businesses. In other words, it can be said that expanding business from the upstream to the downstream is one of the characteristics of the CP Group. In 1988, CP ALL (then CP Convenience Store), a Group company, acquired a license from Southland Corporation in the United States and launched the convenience store business in Thailand. Starting with its first store in the Patpong district of Bangkok in 1990, CP ALL has been increasing the number of 7-Eleven stores in Thailand. In 1998, CP ALL (then C.P. Seven Eleven) was listed on the Stock Exchange of Thailand and reached the milestone of 1,000 stores at the same time.

In the retail business other than the convenience store business, Lotus, a hypermarket division of the CP Group, was launched in 1994. Lotus was established for the purpose of commercializing a US-style large general merchandise store based on management guidance received from a US consulting firm that was established by a former executive manager of Wal-Mart (Yahagi, 2007). However, Lotus was acquired by Tesco in 1998 in the middle of the Asian Financial Crisis (13 stores at the time of acquisition), and the store name was changed to Tesco Lotus.

Subsequently, in 2006, Charoen Pokphand Foods (CPF), which operated the livestock business and the food processing business in the CP Group, began selling a range of foods of CP brand. CPF launched the retail business and the restaurant business to provide these foods through various channels. In the retail business, the two store brands of CP Fresh Mart and CP Fresh Mart Plus were launched.

Figure 4: Regional Development of the CP Group



A concept established by CP Fresh Mart is that of fulfilling the function of a “regional refrigerator.” In its stores, fresh, clean, safe, high-quality foods that can be eaten right after purchase are lined up. It grew to operate 500 stores as of 2009, and its total floor area reached

27,000 m² (54 m² per store on average) (according to the “Basic Survey of the Service Industry in Thailand” (2011) by the Japan External Trade Organization (JETRO)). CPF operated a total of 623 CP Fresh Mart stores as of the end of 2012, but its operation was still limited to Thailand at that time. However, as of the end of 2013, CPF operated 21 stores in Malaysia and 18 stores in Vietnam in the ASEAN region and 3 stores in Taiwan in East Asia, in addition to 625 stores in Thailand (page 31 of the 2012 annual report and page 41 of the 2013 annual report of CPF).

Meanwhile, CP Fresh Mart Plus operated 2 CP Fresh Mart Plus stores in Thailand as of the end of 2014. Based on the super convenience store concept, CP Fresh Mart Plus offers a variety of foods and daily commodities and provides consumers with a convenient lifestyle by establishing an eat-in space inside the store.

Based on the above findings, the characteristics of the regional development of the CP Group based on the frame in Figure 1 can be summarized as shown in Figure 4.

3–4 Development of Groupe Casino in the ASEAN region

Groupe Casino holds a place among highly ranked distributors and retailers in France in terms of sales, and the net sales of the entire Group in 2014 were 48,493 million euro. Groupe Casino operates business under the store brand of Big C mainly for its hypermarkets, supermarkets and convenience stores in Thailand and Vietnam.

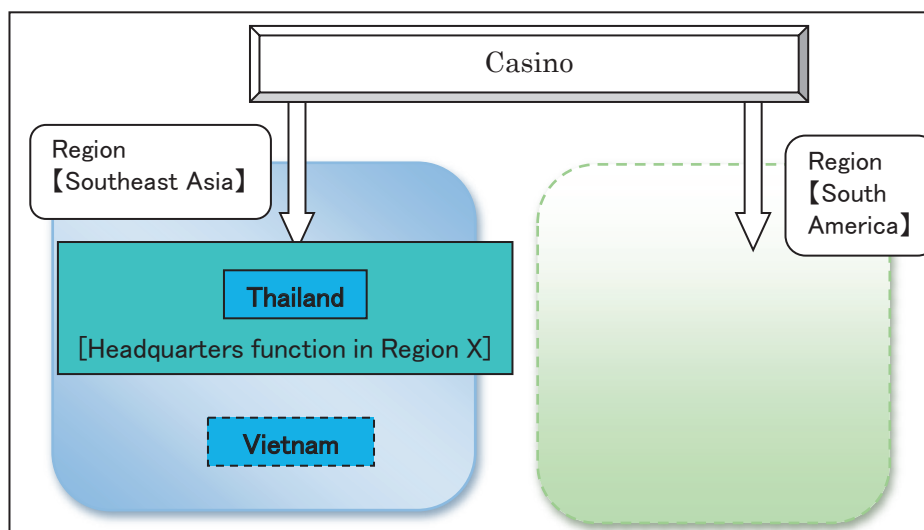
According to the 2014 annual report of Groupe Casino, the Thai business of Big C has around 26,700 employees in 636 stores (348 stores in 2012 and 559 stores in 2013) in Thailand, and the Vietnamese business of Big C has around 8,700 employees in 40 stores (33 stores in 2012 and 35 stores in 2013). Sales in 2014 combining the Thai business and the Vietnamese business were approximately 3.5 billion euro. The number of stores has been increasing every year in the retail market in both countries, and growth is continuing. As of December 31, 2014, the number of stores operated by Casino outside France was 4,158, of which the percentage made up by the number of stores in Thailand and Vietnam was 16.3%.

Advancement into Asia by Groupe Casino commenced in Thailand. In 1999, in the middle of the Asian Financial Crisis, Groupe Casino became the largest shareholder of Big C Supercenter Public Company Limited, which founded and operated Big C in Thailand, by acquiring 530 million shares of Big C Supercenter Public Company Limited, and entered into the retail market in Thailand (confirmed by <http://www.bigc.co.th/ir/investor.html> (July 3, 2013)). As of March 2, 2015, Groupe Casino is still the largest shareholder of Big C Supercenter Public Company Limited, which holds a 32.1% stake through Geant International B.V., a Group company. When it acquired the shares of Big C Supercenter Public Company Limited, Groupe Casino decided to sell the apparel business it had previously operated to concentrate its management resources on the retail business. In 2011, Groupe Casino also acquired the Thai business of Carrefour, which operated 42 hypermarket stores.

Based on the above findings, the characteristics of the regional development of Groupe Casino based on the frame in Figure 1 can be summarized as shown in Figure 5. However, Groupe Casino

announced that it had sold the Thai business of Big C to the TCC Group, a leading conglomerate in Thailand, for 3.1 billion euro on February 7, 2016. The Nihon Keizai Shimbun (February 9, 2016) reports that Casino, whose debt increased due to the deceleration of the European economy, decided to sell the Thai business of Big C, and that Casino is also planning to sell the Vietnamese business of Big C, with TCC's name also being floated as a potential buyer. This suggests that Groupe Casino is attempting to rebuild its regional development strategy.

Figure 5: Regional Development of Groupe Casino



4. Concluding remarks

In this paper, we have categorized the existing classifications of standardization and localization discussed in the area of the study of the internationalization strategy of the retail industry and regionalization, which is a different way of thinking from the existing methods. On this basis, we examined a regional strategic model based on the discussions of regionalization and the headquarters function in a region where a retailer develops its business internationally. We then positioned foreign-affiliated retailers that develop business mainly in the ASEAN region as “ASEAN regional retailers” and discussed the development of Dairy Farm, CP and Casino in the ASEAN region as a retail group that represents ASEAN regional retailers.

Each country has its own specificity, even in the ASEAN region. Accordingly, we must regard ASEAN as an uneven fragmented market. The refinement of the regional strategic model, which has been formulated as a hypothesis for the international development of retailers in a certain region, and the deepening of case studies of the three companies that we briefly touched on will be the future challenges.

This report was compiled based on discussions in “A Study of Retail Format Strategy Deployed by Southeast Asia Regional Retailers Focusing on Cases in Vietnam” by Taichiro Sahara and Tatsuro Watanabe (2016) on pages 59 through 77 of *Journal of Marketing & Distribution*, Vol. 18, No. 2.

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