



# Retail Structure Dynamics

The Impact of Macroeconomic drivers and  
implications for Multinational Suppliers

August 2010

# Picking and winning battles on discrete fronts – the Go-to-Market Battlefield

***Working together with Bernard & Cie and other Associates, TLE are using the power of their Global and regional income demographic models to support a series of hypotheses about how retail structures evolve - and hence develop coherent Business responses.***

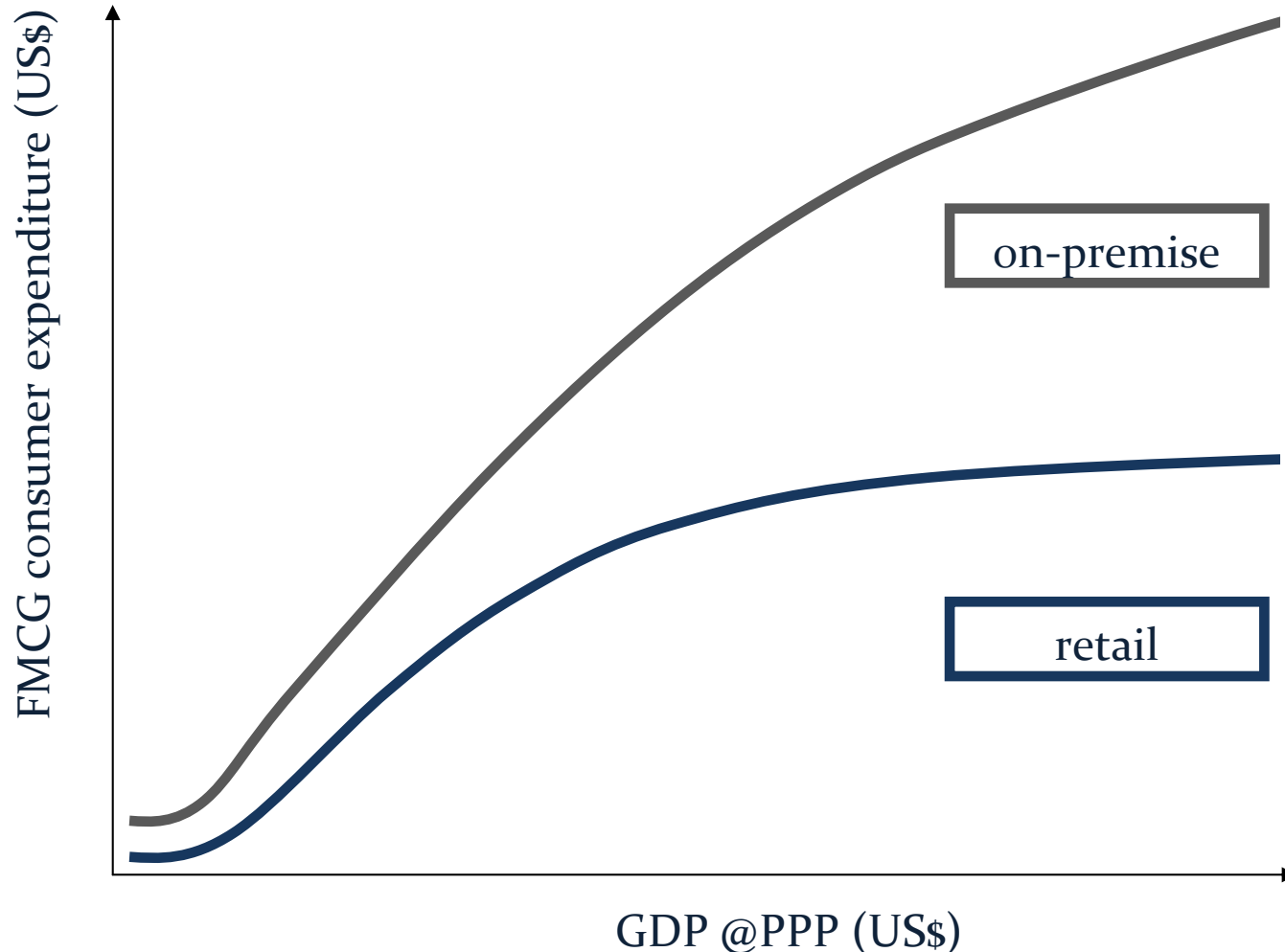
- ★ Many global players are consolidating because they must, in order to reduce their (fixed) cost base and maximise economies of scale
- ★ At the same time, markets are fragmenting because they can, as people can afford more variety, as data availability and – processing speed accelerates, and manufacturers' Minimum Efficient Scale\* is reducing over time
- ★ The consequence of this combination of facts is more granular competition
  - ★ Channel-specific, e.g. 3 to 4-tiered Private Label in Hypermarkets
  - ★ Geography-specific, e.g. regional brands in Siberia and Guangzhou
  - ★ Consumer-specific, e.g. needstate-specific umbrella brands

# The trading dynamics in developing markets are changing rapidly



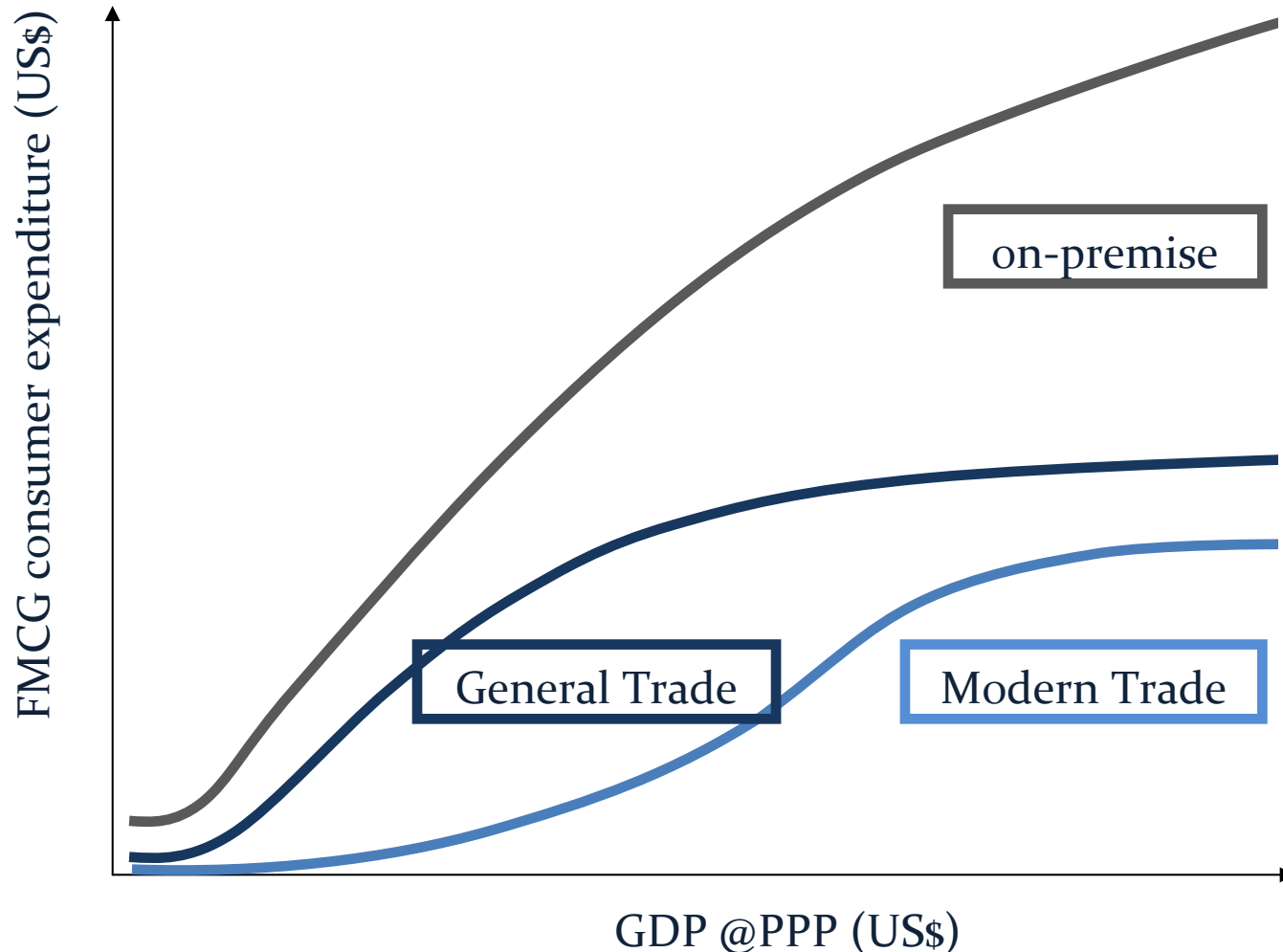
- ★ **Changes in market & channel dynamics are governed by macro-economic realities, which can be observed on a global scale, yet can be applied pocket by pocket**
- ★ **This has consequences for business at multiple levels, across four dimensions:**
  - ★ **By consumer/shopper group**
  - ★ **By category/brand/SKU**
  - ★ **By channel/customer/banner/store**
  - ★ **By country/region/province/catchment**

Globally, as incomes increase, FMCG consumption expenditure increases in On-Premise, while levelling off in In-Home:



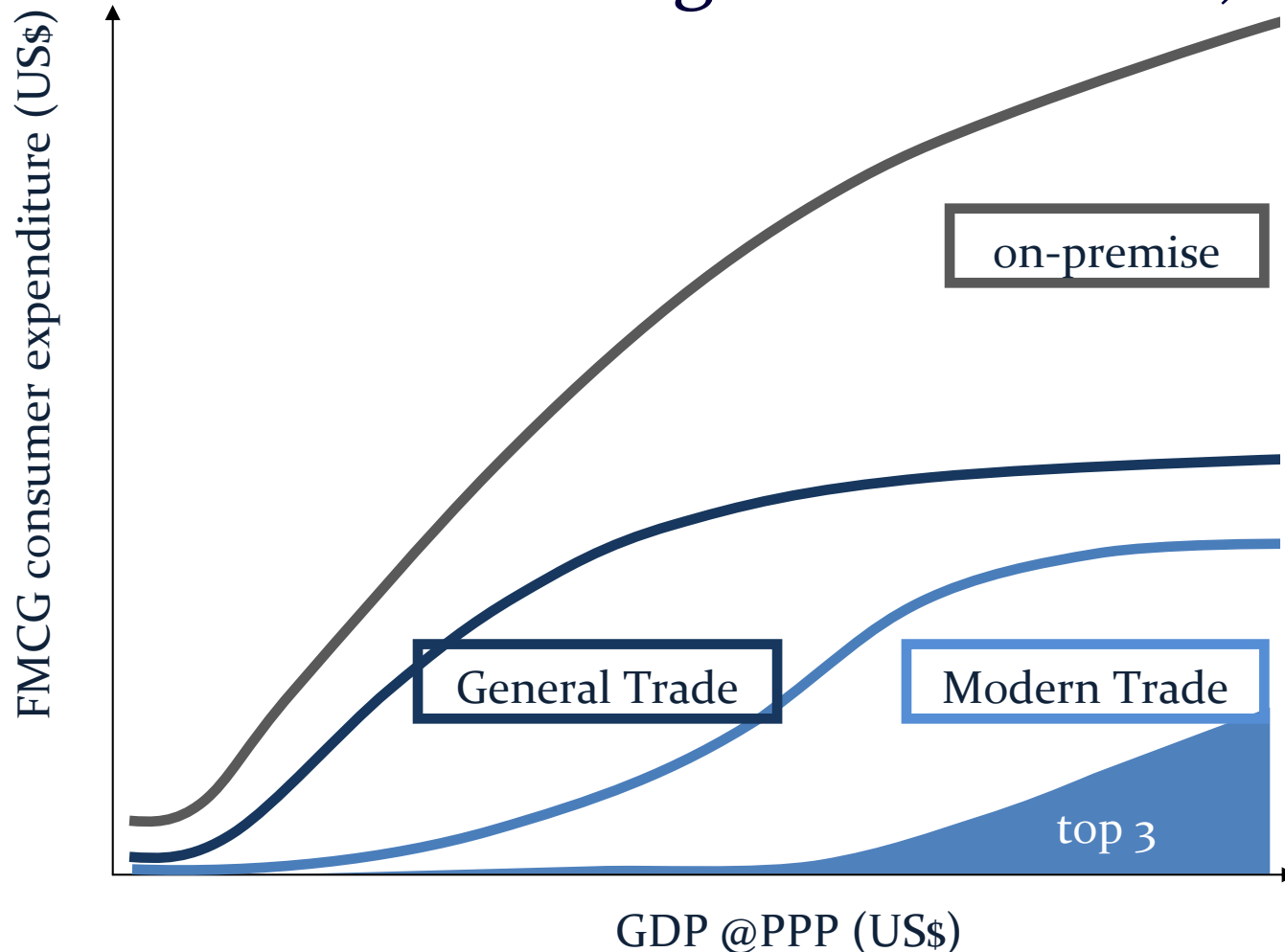
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# Modern Trade investment lags Retail growth as MT operators will only put fixed assets in when there is a return .....



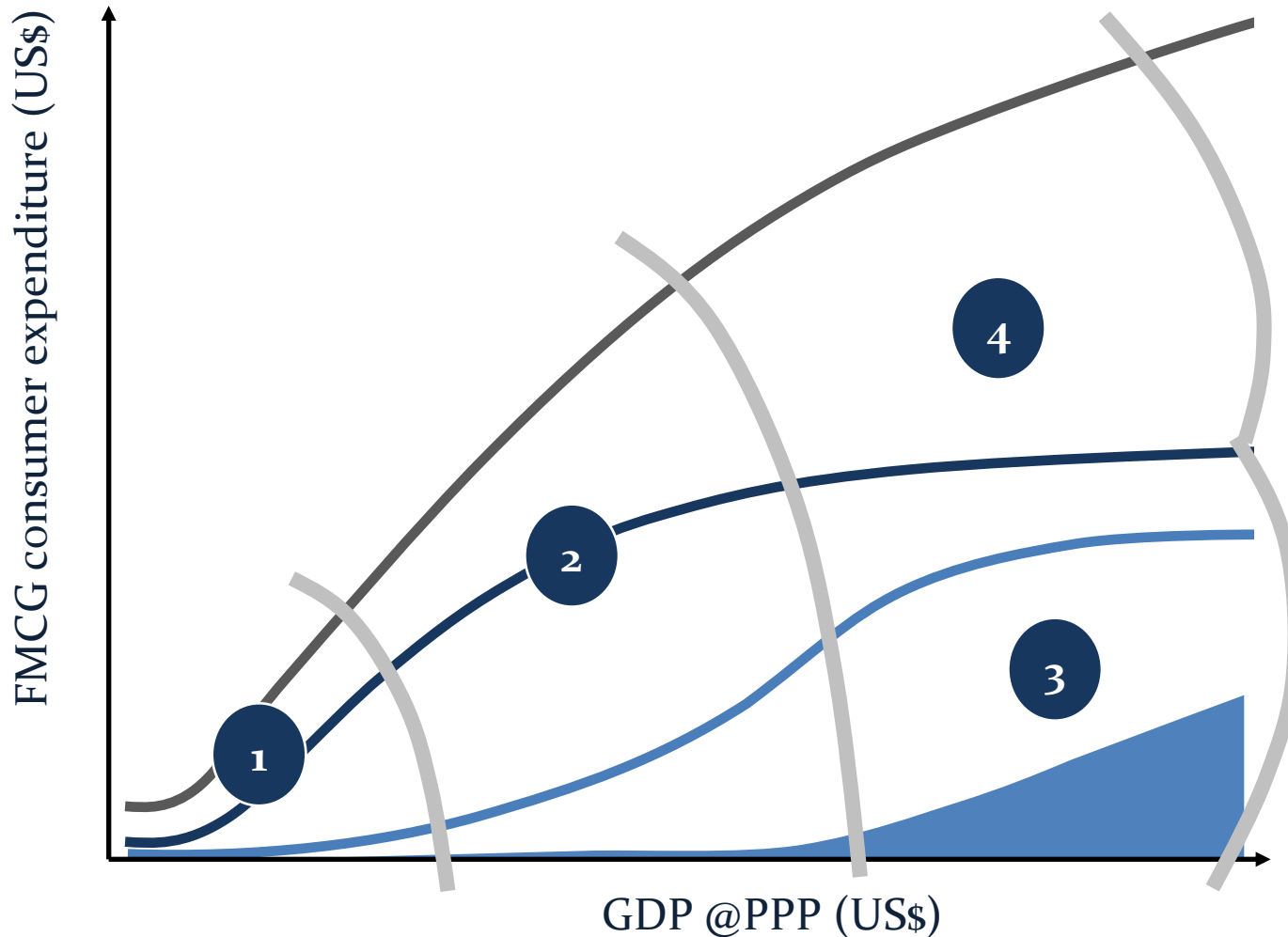
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..... with Retail becoming a zero-sum game once Modern Trade reaches a threshold, accelerating consolidation,

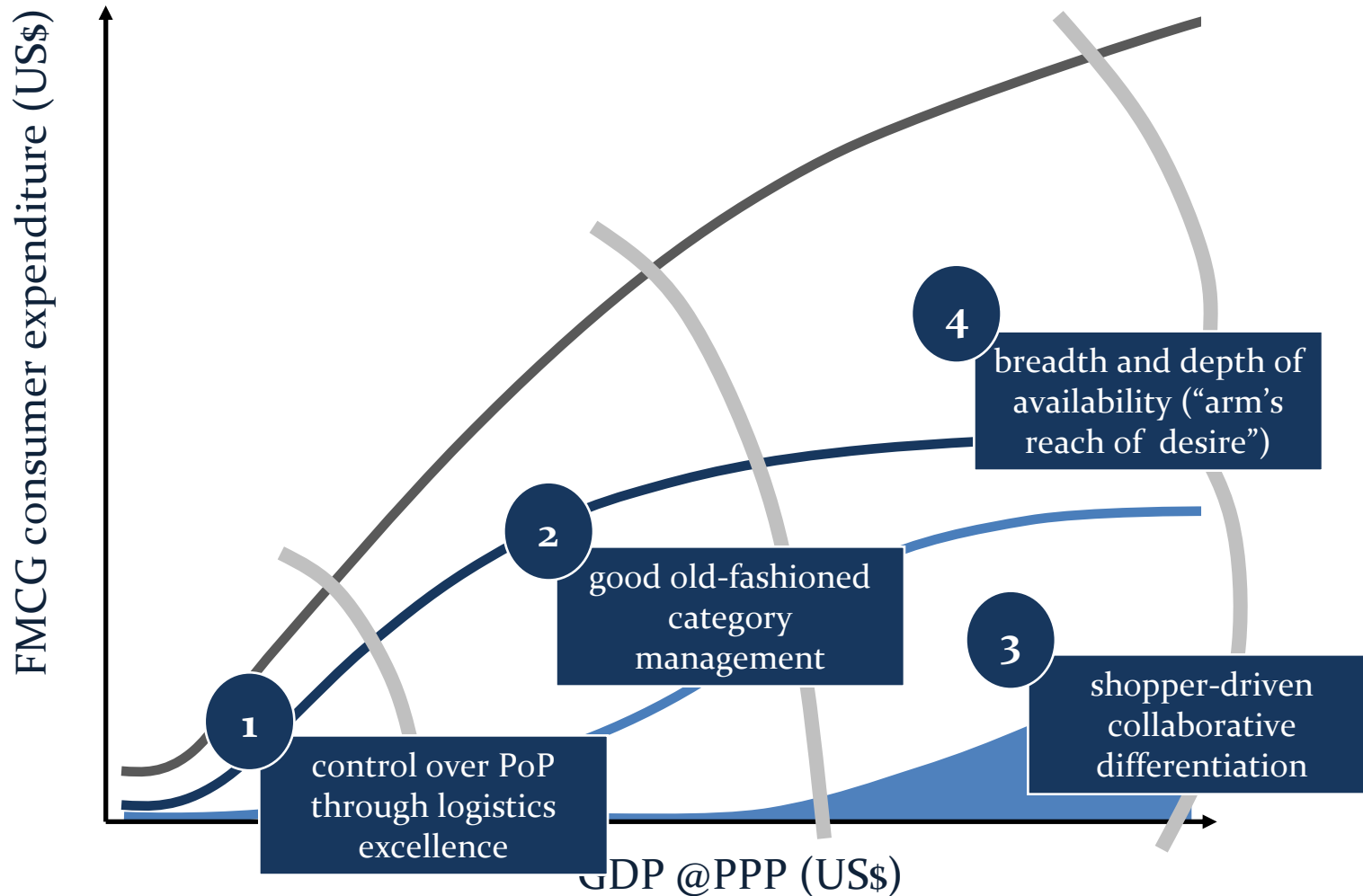


Sources: BERNARD & Cie, TLE Strategy, MVI, Corstjens et al  
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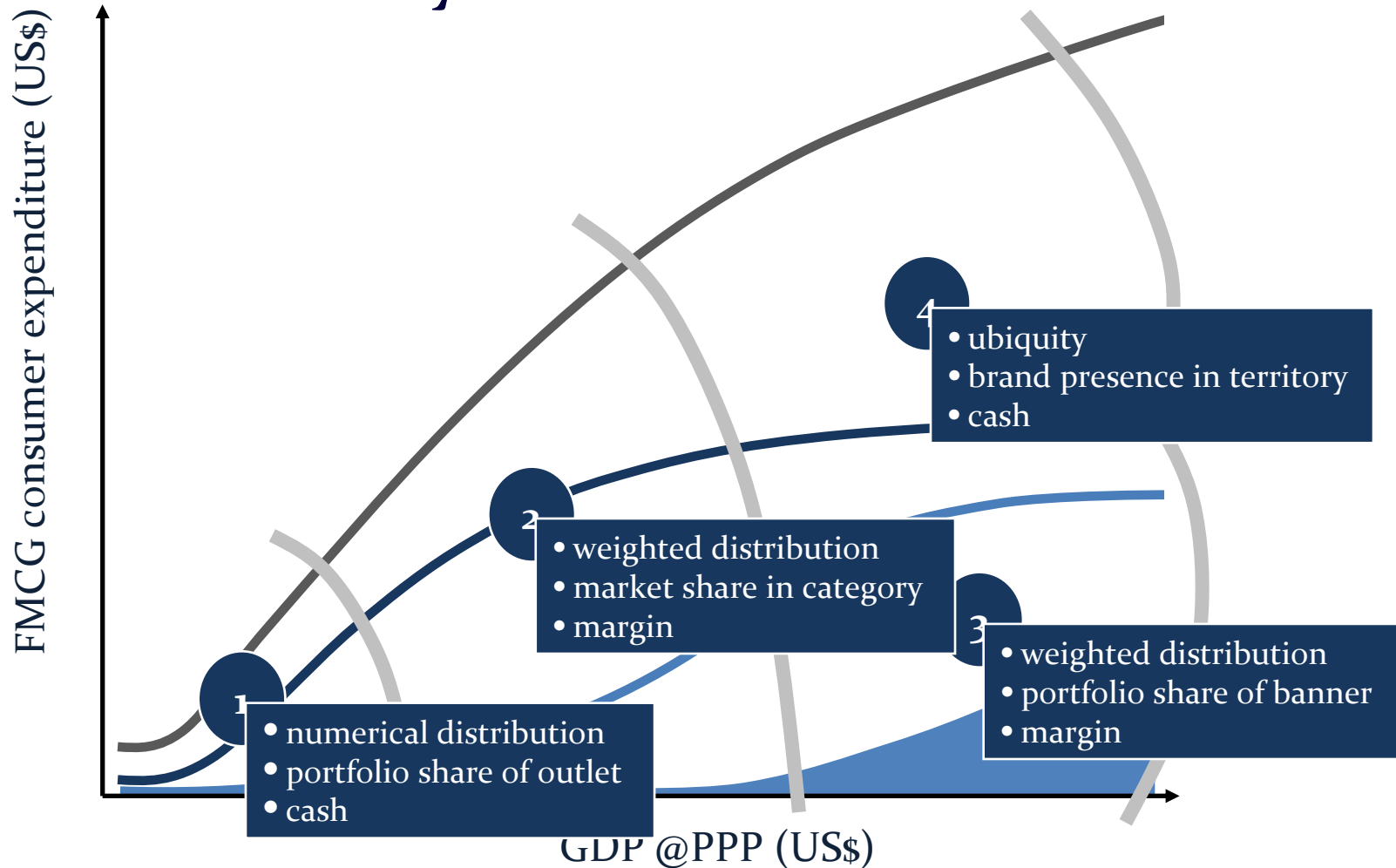
.... thus resulting in the FMCG “4 business models” go-to-market model.



# Each business model has radically different value drivers .....

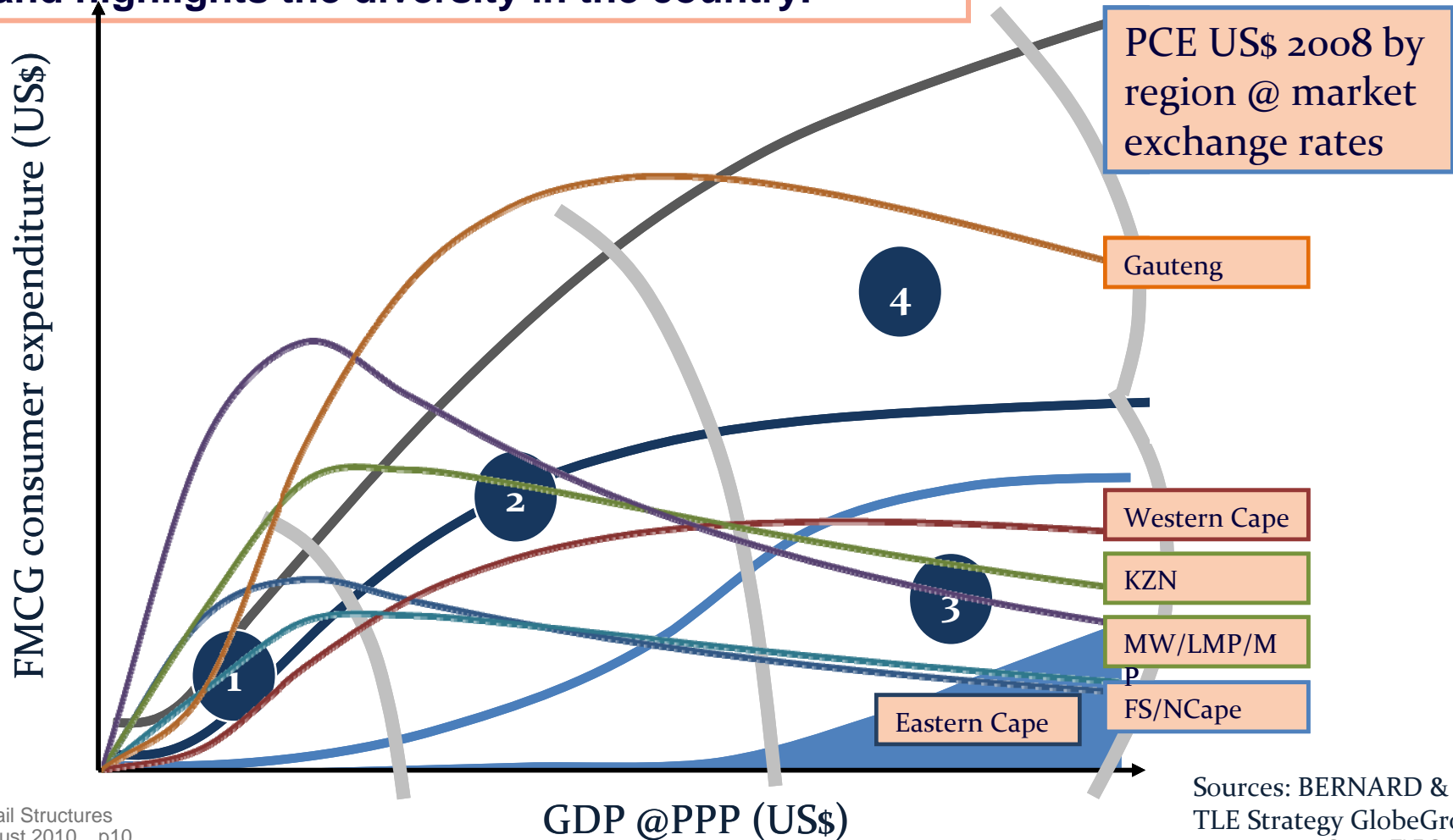


... requiring a different balance of activity, and discrete market- and financial targets, by business model.

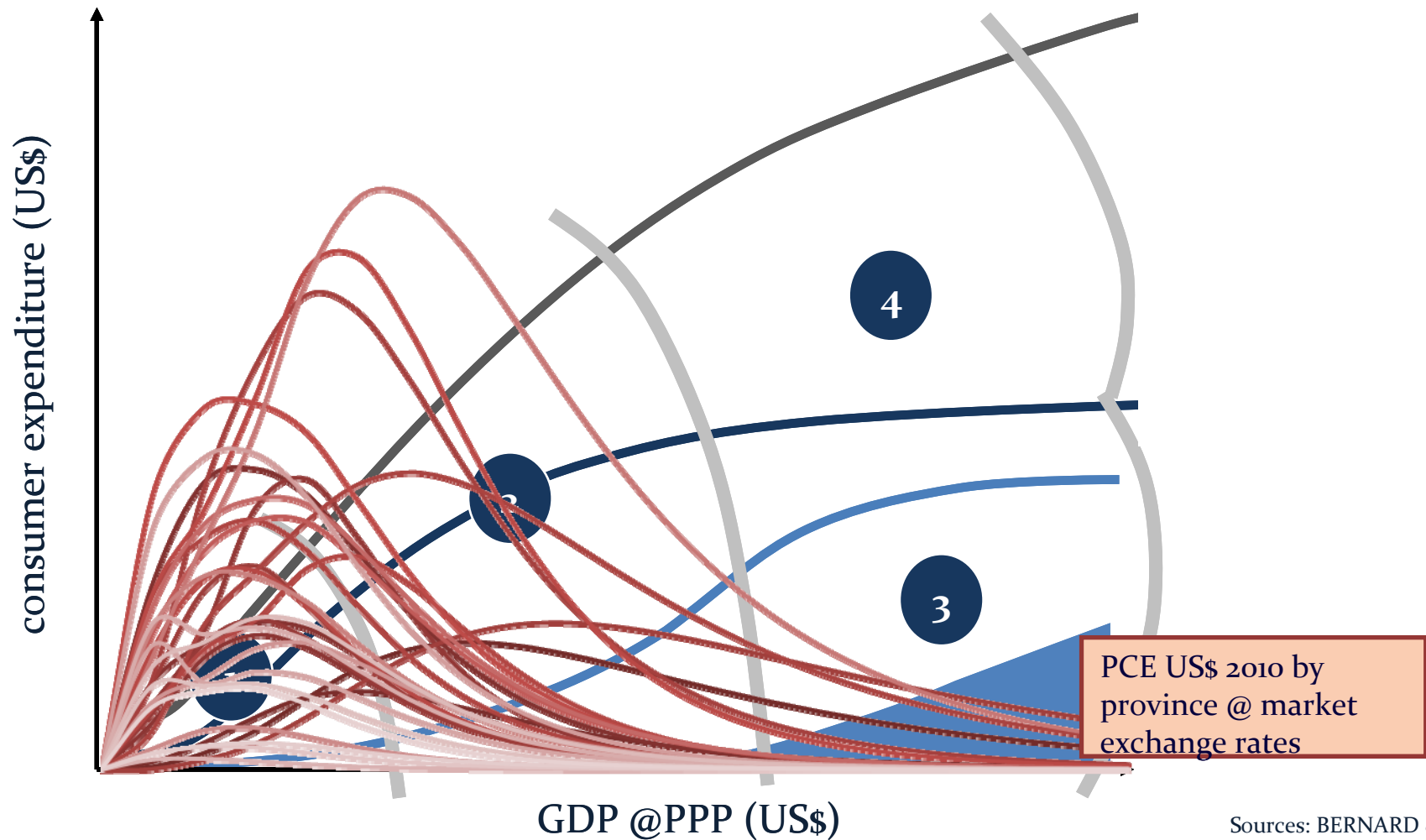


# Where there is high income dispersion, it is possible for all four retail types to occur in a single country, for example South Africa

TLE's SAfricagro© model identifies regional differences in Private Consumption Expenditure and highlights the diversity in the country.



This is not a unique phenomenon. Analysis of China's Private Consumption Expenditure shows China is a tale of 32 countries, requiring at least 2 of the 4 business models running side by side.



Sources: BERNARD & Cie, TLE Strategy Chinagro 2008

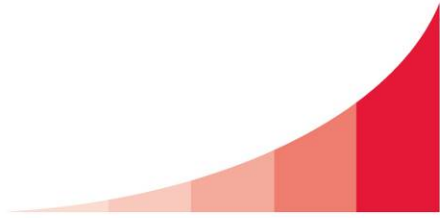
# In conclusion: battles should be picked and won in discrete cells, as opposed to in an average market

- ✦ De-averaging of strategy and execution might be correct in principle, but is usually too complex in everyday practice
- ✦ The game in multinational FMCG has focused on achieving *economies of scale*, optimizing the value chain by working down it, focusing on cost consolidation
- ✦ Realising *economies of scope* by working back up the value chain, controlling fragmentation complexity from the end back to the start, will be game-changing and will generate competitive advantage
- ✦ The new wave of Private Label suppliers is already realising scope benefits for retailers
- ✦ Branded FMCG is still well-placed to do this as well, and do it at scale...
- ✦ ... yet, will have to crack the de-averaging nut across 4 dimensions, in strategy and in execution.

# What we offer



- ★ **TLE Strategy, along with our Associates Bernard & Cie and PMSI, have extensive experience in**
  - ★ Future-based modelling and Operations Research
  - ★ Strategic database construction and management
  - ★ Sales strategy formulation and executional capability building
  - ★ Frontline effectiveness
- ★ **We have proven track records around the globe, and notably in complex D&E markets**
- ★ **We have applied knowledge across industries, with an FMCG bias**
- ★ **We can de-average down to SKU by outlet by week, where required, and can do this within 90 days**



TLE STRATEGY

# About TLE Strategy

TLE Strategy is a Business Growth consultancy, helping companies identify and quantify growth opportunities, and effectively exploit the changing economics of consumer markets; locally, nationally and globally.

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