The Globalization of Trade in Retail Services

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Aims and Background

In this retail sector study commissioned by OECD to inform the expert meeting on distribution services to be held on November 17 2010, the aims are to:

- explain how and why the retail sector has internationalised its operations over the past two decades and the characteristics of that process;
- highlight current and potential future trends in the internationalisation of the sector;
- consider how trade, investment and regulatory policy have shaped and continue to shape the international activities of retailers;
- assess the importance of e-commerce in international retailing and any potential restrictions on its development;
- assess policy areas and measures which might be included in the retail part of a services trade restrictiveness index (STRI).

The study is written from the perspective of academic social scientists who have contributed (Coe & Wrigley, 2009; Wrigley & Lowe, 2002, 2007) to research and scholarship on the retail sector and multinational retailers in the global economy, but who are *not* trade policy analysts. An important aim of the study is to 'add value' to the OECD debates from that wider perspective.

Sector background

In all OECD economies, the distribution sector provides a crucial and dynamically evolving link between producers and consumers. At the simplest level the sector typically offers a substantial contribution to economy-wide employment – frequently being the second largest sector in a national economy whilst simultaneously providing a significant contribution to both business activity and GDP. Studies in the 1990s - e.g. Pilat (1997) for OECD – placed its contribution to employment at typically around 13-17%, to business activity (defined in terms of the share of total enterprises in the economy which are in the distribution sector) at around 25-30%, and to GDP in 8-17% range.

Within the distribution sector (which includes both retail and wholesale trade) the large majority of these contributions to national economies are provided by retailing – an industry which over the past three decades has increasingly been viewed as dynamic and innovative. During the 1980s and 1990s, it was an industry transformed by three interrelated forces. First, by remorseless processes of concentration which moved it - albeit at markedly different rates across OECD member states - from an industry whose market structure had typically consisted of small enterprises to one which, in

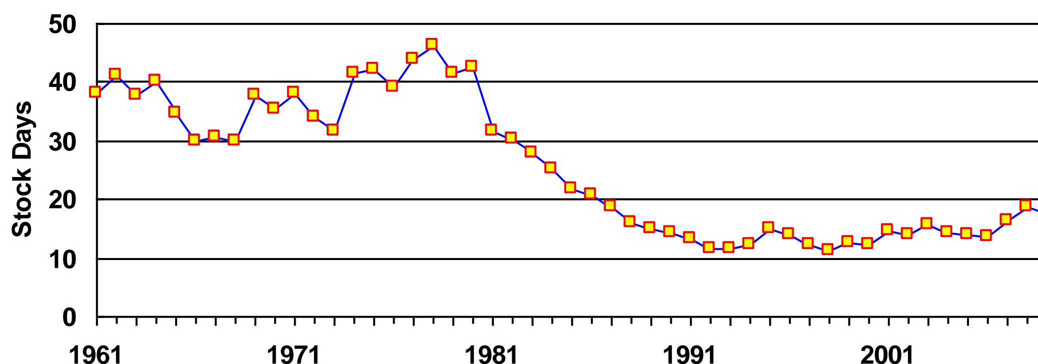
many countries, now accounted for some of the largest firms in the national economy. In response, and for the reasons discussed by Wrigley and Lowe (2002, 52-4) - including the development and progressive expansion of retailer own-label products to challenge existing manufacturer brands, and retailers' ability to induce competition between and counteract the market power of their manufacturing suppliers - the ever larger retail chains created by that concentration began to exercise progressively increasing buying and bargaining power relative to those suppliers Indeed, as early as the mid 1980s in some OECD countries, Grant (1987) was able to describe

> 'a fundamental shift in the balance of power in consumer goods distribution … [characterized by] the replacement of manufacturers' dominance of distribution channels by that of the retail chains'

Secondly, reflecting that shift in the balance of power in favour of the retailers and facilitated by an ICT-enabled revolution in distribution and systems, retailers emerged as the lead firms in 'buyer-driven' supply chains. In other words retailers increasingly assumed the role of 'channel captains' within supply chains which progressively shifted from 'supply push' to 'demand pull' in character (Wrigley, 1998, 116).

Thirdly, and intertwined with both of the previous developments, the industry was transformed by the adoption of processes of 'lean retailing' (Abernathy et al, 2000). That is to say, by integrated logistics and supply chain management methods which underpinned 'just-in-time' demand-pull supply systems – systems which essentially linked reordering to real-time electronic point-of-sale (EPOS)-recorded consumer demand, allowed tracking of orders from manufacturer to retailer, and underpinned substantial reductions in both retailer inventory holdings and the amount of capital tied up in those holdings. Figure 1 illustrates that reduction and shows that it largely occurred during the 1980s and early 1990s in the case of the major UK retailers

Figure 1: The emergence of 'lean retailing' - reductions in retailer inventory holdings in the 1980s/early 1990s by the UK's leading retailer (Tesco)
Source: adapted from Burt et al (2010)



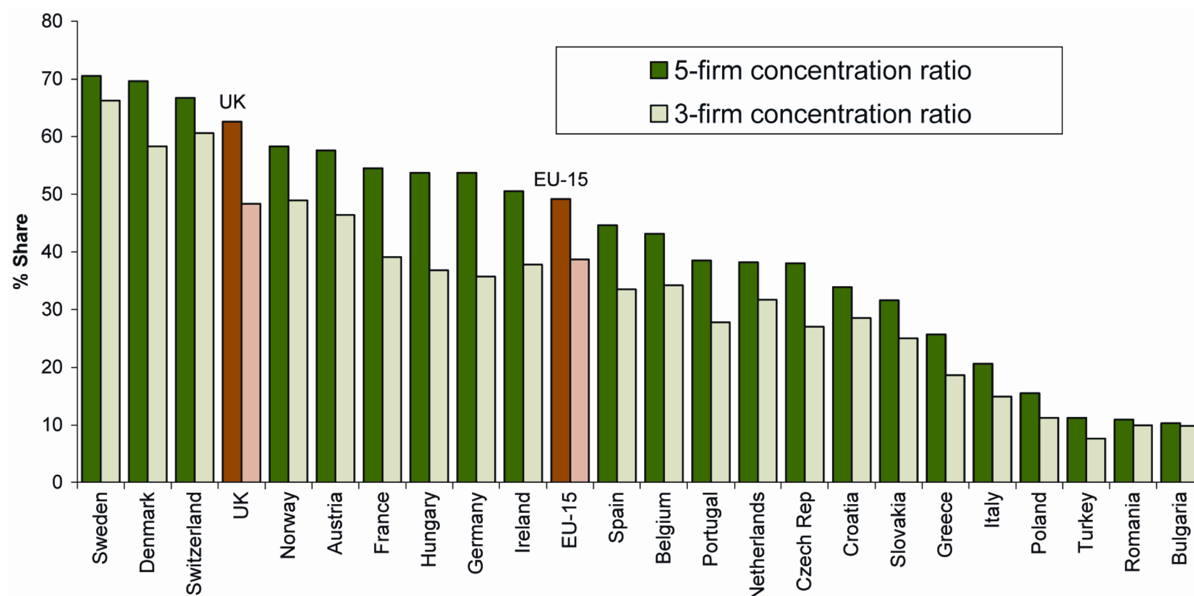
From the mid 1990s onwards, the transformed retail industries of a small number of OECD countries which had been at the forefront of these three interrelated transformations began a period of sustained engagement with the global economy – essentially as exporters of retail capital and expertise. Conversely, other OECD countries, whose retail systems remained essentially 'traditional' in the mid 1990s, experienced that engagement in an importer mode. The late 1990s saw a rapid acceleration of retail FDI, largely by European and US retailers and primarily into the emerging markets of East Asia, Central/Eastern Europe and Latin America. It was accompanied by the emergence of an embryonic group of retail transnational corporations (TNCs) – firms which, simultaneously, rapidly expanded the scope and scale of their store networks in emerging markets whilst also putting into place extensive and closely managed regional and global sourcing networks. Several factors facilitated these developments including: opportunities provided by the opening of emerging markets to retail FDI via policies of full or partial market access liberalization; 'push' factors relating to 'mature' and increasingly tightly regulated home markets of the proto-retail TNCs; the availability of 'free cash flow' and debt finance for expansionary investment; and attempts to emulate the 'first mover' benefits seen to have been enjoyed by some of the initial major retailers to internationalise their operations. Additionally, ICT technologies provided essential tools for 'effective management of large networked retail firms' (Dawson, 2007, 373). In combination, the result was the emergence of retailing as one of the driving forces of economic globalization.

The lead role of the 'grocery' retailers

It is important to note, however, that within the retailing industry it is food and related 'fast moving consumer goods' (fmcgs) sold through 'grocery' outlets which provide the largest element of total sales. Precise definitions differ across OECD countries, but in the UK for example, retail sales through 'grocery outlets' include *food and drink, non-food groceries* (e.g. health and beauty products) and *non-groceries* (e.g electrical goods and housewares), and accounted in 2005 for almost half (48.8%) of total UK retail sales and 13.1% of total household expenditure (Defra, 2006, 4). Moreover, it is the food-retail/grocery-retail industry which has led the way in relation to the interlinked transformations discussed above. For example, in terms of concentration processes, European grocery market 5-firm concentration levels had risen by the mid 2000s (see Figure 2) to an average of more than 50% across the EU-15 and to an average 3-firm level of more than 40% (Defra, 2006, 9). Moreover, because of the existence of large retailer buyer groups in several of these countries, it is likely that these figures are underestimates and need adjusting upwards by several percentage points closer to the 60%- plus UK level (Dobson et al, 2003)

Figure 2: Concentration levels in European 'grocery' markets – 2004/5

Source: redrawn from Defra (2006, 9)



Likewise, it was essentially the major grocery/fmcg-retailers who powered the emergence of retailing as one of the driving forces of economic globalization in the late 1990s. Indeed, if leading retailers are ranked on the basis of their annual international sales rather than on a total annual sales basis (the commonly available ranking), then it can be seen from Table 1 that by the end of 2008 all but one of the world's ten largest retail TNCs were 'grocery'-retailers – the exception being IKEA the Swedish-based global furniture retailer. Moreover, of the fifteen retail TNCs with international sales above $10 billion in 2008, thirteen were 'grocery' retailers – although it must be noted that these firms typically, and sometimes to a major degree, also sold slower-moving (general merchandise) consumer goods

Table 1: Leading transnational retailers, ranked by sales outside home market, 2008.

Rank	Name of company	Country of origin	International sales (US$m)	International sales (% of total)	No. of countries of operation
1	Wal-Mart	US	113,020	26	16
2	Carrefour	France	91,763	57	33
3	Metro	Germany	70,724	61	32
4	Ahold	Netherland	49,440	76	9
5	Schwarz Grp	Germany	43,931	51	24
6	Auchan	France	38,924	53	11
7	Aldi	Germany	35,269	48	15
8	Tesco	UK	32,717	30	13
9	IKEA	Sweden	29,763	94	37
10	Rewe	Germany	25,955	33	14
11	Seven & I	Japan	25,490	30	4
12	Delhaize	Belgium	21,545	77	6
13	Costco	US	18,900	24	8
14	PPR	France	17,365	61	48
15	Tengelmann	Germany	13,036	47	15
16	Casino	France	9,287	23	11
17	Amazon	US	9,777	51	7
18	Kingfisher	UK	9,055	55	9
19	Best Buy	US	8,103	18	4
20	Home Depot	US	7,843	11	7

Source: Neil Coe (Univ of Manchester) -derived from Annual Reports of the companies, Deloitte 2009 Global Powers of Retailing and Planet Retail. Revenue figures for the financial year that corresponds most closely to calendar year 2008. Updates a series of such tables (e.g. see Coe & Wrigley, 2007 for earlier version and discussion of issues to be considered in constructing such tables)

In terms of the four modes of services supply defined in the *General Agreement on Trade in Services* (GATS), the leading retail TNCs listed in Table 1 primarily contribute to international trade in distribution services via *GATS Mode 3* (the establishment of a commercial/territorial presence in another market) - that is to say via FDI in foreign affiliates. However, several (e.g Carrefour and IKEA) also contribute through *GATS Mode 1* – specifically through franchising their brand(s) or groups of stores in other markets. In that case, the fees paid to the retail TNCs fall under *GATS Mode* 1. In addition, it is important to stress the wider trade impacts of the retail TNCs through their role in the development, coordination and governance of what, over the past 15 years or so, have become increasingly retailer-driven regional and global supply chains. Not least in this regard, is the role several of the retail TNCs have played in creating 'export gateways' for their preferred suppliers in the host countries they have entered - an issue examined in the OECD study by Nordas et al (2008) and found to have a sizeable impact on imports from the host to the home economies of retail TNCs.

Having positioned retail internationalization and the emergence of the retail TNCs in a broader sectoral context, the paper now turns to an analysis of the scale, scope, phases and driving forces behind the globalization of retail. That analysis is complemented by discussion of the extent and nature of resistance which the process has generated, and of its impacts on sourcing and trade. Consideration of the barriers - cultural, institutional and regulatory – which shape trade in retailing then follows, and an assessment of the potential role of e-commerce in the process is offered. Finally, in the context of a summary of trends in retail globalization and the research priorities which those trends suggest, the paper draws on its earlier discussion of regulatory barriers to comment on policy areas which might be considered for inclusion in the retail part of a trade restrictiveness index for distribution services. Although the discussion in several of these sections inevitably considers related material to that contained in the recent OECD study of the effects of retail sector developments on trade in consumer services (Nordas et al, 2008), the paper offers different perspectives. As such, it attempts both to 'add value' to the discussion contained in that earlier study and also to inform debate at the OECD expert meeting on distribution services.

Globalization of Retailing – Characteristics and Driving Forces

Scale and scope

By the late 2000s, as Table 1 shows, the scale and scope of multinational retailing had become substantial. Virtually all the leading transnational retailers had experienced a rise in their international sales as a percentage of total sales since the late 1990s (one exception being Ahold following its financial scandal of 2003 – Wrigley & Currah 2003). Indeed, eight of the top fifteen now obtained over 50% of their sales outside their home countries (compared to just 3 in 1999). In terms of *scale* twelve retailers derived over $25 billion per annum from their operations in international markets, and in terms of *scope* the average number of countries those twelve retailers operated in was 18, with several of the leading firms operating store networks in 20 to 30 different countries. Whilst this is somewhat short of the degree of internationalization of certain manufacturing sectors, it nevertheless refutes the long standing argument that retailing is essentially a domestic activity, inherently resistant to transnational expansion.

Dawson's (2007) analysis allows the conclusions drawn from Table 1 to be expanded to the world's hundred largest retailers – bearing in mind the caveat that these firms do not equate to the largest

transnational retailers on which Table 1 is based. Dawson's analysis shows that the average number of countries in which those hundred largest retailers operated increased from 2.8 in 1986 to 5.5 in 1996, and 10.0 in 2004, and that the number of retailers operating in 20 countries or more rose from 1 to 12 between 1986 and 2004. Moreover, if the analysis is extended to the world's largest 250 retailers using Deloitte's annual *Global Powers of Retailing* surveys (again with the same caveat), then a continuation of these globalization trends can be observed. Whereas, in 2005, international sales accounted for only 14.4% of the total sales of Deloitte's top 250 retailers, by 2007 that had increased to 21.3% and by 2008 to 22.9%. Additionally, the average number of countries of operation of these firms had increased from 5.9 to 6.9.

Just as 'grocery' retailers dominate the listing of the world's leading retail-TNCs in Table 1, so likewise they dominate Deloitte's top 250 retailers - indeed, providing 134 of the top 250 in 2008. What Deloitte term 'hardline and leisure' retailers (companies such as IKEA, PPR, Best Buy, Home Depot, Amazon.com and Kingfisher which provide 30% of the top 20 retail-TNCs in Table 1, together with US- and Japan-based home improvement, office, toys and electronics retailers Lowe's, Staples, Toys 'R' Us and Yamanda Denki) provide the next largest group - 56 of the top 250 in 2008. On average as Table 2 shows, retailers in this sector operated in more countries than the 'grocery' retailers - an average of 9.1 countries per retailer in 2008 compared to 4.5 countries. However, the difference in the percentage of the companies' total sales which are derived from international operations is much narrower 24.8% as compared to 21.7%. The third largest grouping in Deloitte's top 250 are the 'fashion goods' retailers, which contributed 38 companies (15% of the total) in 2008. Despite being the group with the highest number of both international market operations (frequently via franchising and *GATS Mode 1* contributions) and international sales per company - an average of 12.6 countries of operation and 26.2% of sales, none of these retailers has sufficiently large annual international sales to appear in Table 1. Nevertheless, this group includes some significantly globalized and iconic international retailers such as LVMH, Inditex (parent of the Zara chain), H&M, and Gap

Table 2: Characteristics of the three largest groupings of companies within Deloitte's world largest 250 retailers 2008

	Number of companies	Average 2008 retail sales ($ mill)	Average number of countries of operation 2008	Percentage of retail sales from international operations 2008
Top 250	250	15,275	6.9	22.9
Fashion retailers	38	8,027	12.6	26.2
Grocery retailers	134	19,283	4.5	21.7
Hardline & leisure retailers	56	10,300	9.1	24.8

Finally, there is evidence to suggest (Dawson, 2007, 377-78) that, since the end of the 1990s, the very largest retailers appear to have concentrated less on extending the number of markets they operate in, and more on building market scale in a smaller number of markets in which they potentially can achieve market leadership or co-leadership. In contrast, it is the firms in the lower half of Dawson's top 100 retailers who have continued to 'collect countries' during the 2000s and which have more rapidly increased the proportion of their sales made through foreign operations.

The driving forces, phases and resistance to transnational retail expansion

As noted above, the acceleration of retail FDI in the late 1990s primarily involved European and US retailers (mostly grocery/general merchandise operators) exporting capital, formats and expertise to, and developing store networks in, the emerging economies of East Asia, Latin America and Central/Eastern Europe. (Although there were also some significant flows of retail FDI between 'mature' economies during the same period - e.g. Wal-Mart's acquisition-led entry into the UK and Germany). The FDI acceleration was driven by a number of forces:

(a) by the longer-term growth opportunities perceived to be offered by emerging economies with previously largely 'traditional' retail systems;

(b) by the consolidating, and often increasingly tightly regulated, home markets of these firms;

(c) by the capacity of the largest of these firms 'to leverage their increasing core-market scale and free cash flow for expansionary investment ... in order to secure the longer-term higher growth opportunities offered by the emerging markets' (Wrigley, 2000a, 306).

In turn the process was facilitated by the factors outlined above – that is to say:

(a) by full or partial liberalisation of trade and market access in many of the emerging economies;

(b by the availability of low-cost capital;

(c) by emulation of the 'first mover' benefits seen to have accrued to the early retail internationalisers;

(d) by the emergence and adoption of ICT technologies which provided essential management tools to assist the control of, and knowledge transfer processes within, large dispersed operations (Currah & Wrigley, 2004);

(e) by exogenous macro-economic derived opportunities – e.g. the attractive investment and market entry possibilities provided by the Asian economic crisis of 1997.

Within the context of the emerging economies which became the focus of *GATS Modes 1 and 3* activity, Reardon (2003, 2005, 2007) and his collaborators have set out the demand and supply side forces (e.g. urbanization, income growth etc on the demand side, and retail FDI, retailer-driven procurement system restructuring etc on the supply side) which underlay the transformation of their previously 'traditional' retail structures, and have suggested that four broad waves of transformation can be identified (see Table 3).

Reardon's 'first wave' is seen as having impacted countries in South America, northern-Central Europe, and East Asia outside of Japan and China, during the early 1990s and typically involved initial small-scale forays into 'modern' retailing by local firms who used domestic capital to emulate retail formats and practices they had observed in North America and Western Europe. Some of these markets also experienced entry, involving relatively modest levels of retail FDI, by 'first mover' international retailers such as Carrefour and Makro who were rewarded by 'super-normal' returns on their investments. His 'second' and 'third waves' then saw the beginnings of the transformation of 'traditional' retail structures in Mexico, parts of Central America,, much of South-East Asia and south-Central Europe during the late 1990s, followed by China, Eastern Europe, other parts of Central America and South-East Asia (e.g. Vietnam) in the early 2000s. These waves were powered by the acceleration in retail FDI and, particularly during the late 1990s, involved many of the fledgling retail TNCs in a 'gold rush' period of entry into emerging markets. Occasionally this consisted of little more than 'flag planting' but more typically was followed by substantial ongoing capital investment. However, some of the markets listed in Table 3 (e.g. South Africa) were either neglected by the retail TNCs, or effectively closed to retail FDI by regulatory policy (e.g. India) and, as

a result, began to be transformed during these waves largely by indigenous firms and domestic capital. Finally, Reardon has recognized a 'fourth wave' which is viewed as having begun in the late 2000s and involves the transformation of retail structures in poorer countries in South Asia (outside India), South East Asia, and sub-Saharan Africa

Table 3: Reardon's waves of retail transformation in emerging markets

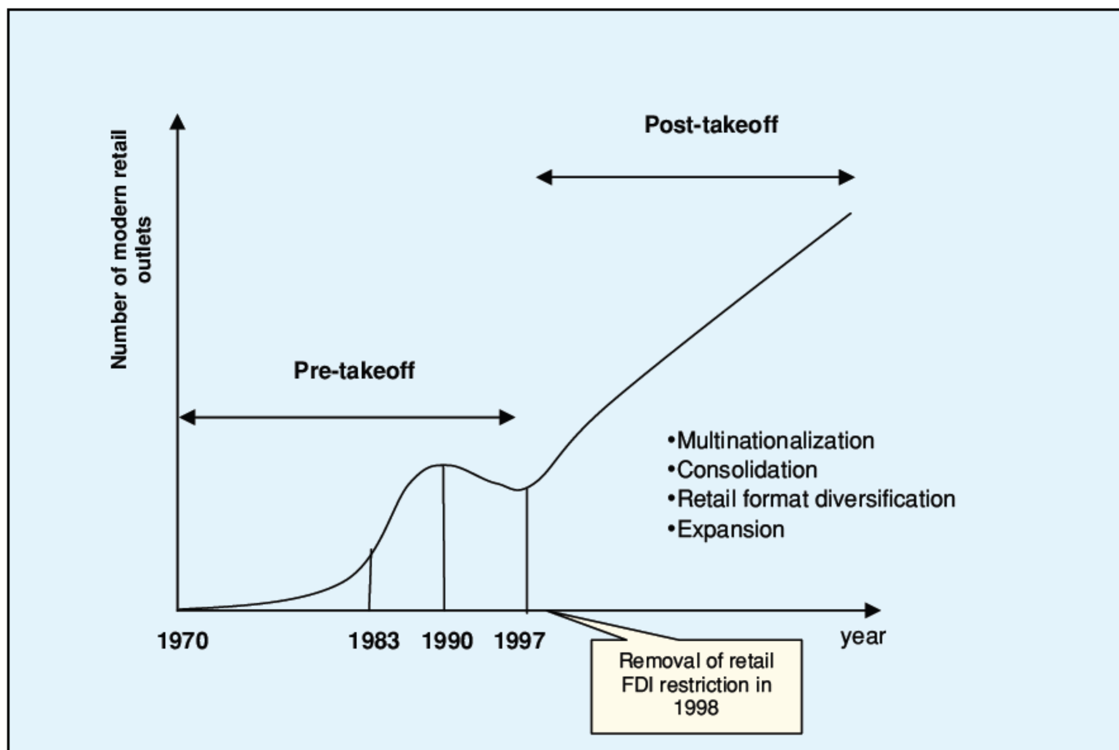
Wave	1st	2nd	3rd	4th
	Early 1990s	Mid-late 1990s	Early 2000s	Late 2000s
Countries	South America East Asia (outside China and Japan). Parts of South East Asia (e.g Thailand, Philippines). northern-Central Europe (e.g. Poland & Baltic countries) South Africa	Mexico & Central America Much of Southeast Asia (e.g. Indonesia) south -Central Europe South Africa	China Eastern Europe Russia Other parts of Central America & S.E.Asia India	South Asia (outside India) Sub-Saharan Africa outside countries impacted in 2nd and 3rd waves. Poorer countries in South East Asia (e.g. Cambodia) South America (eg. Bolivia).
'Modern' retail market share mid 2000s	50-60%	30-50%	1-20%	

Within the individual countries impacted by these waves, diffusion trends of both 'modern' retail in general, and the store networks of the retail TNCs in particular, have been well documented. The general tendency was for both to spread progressively from their original niches in major cities serving predominantly the rich and middle class, to smaller cities and rural towns, and to serving the lower middle class and working poor. Additionally, Reardon (2005) has argued that paralleling these geographic and socio-economic strata diffusions a related progressive expansion of product offer from processed food and non-food, through semi-processed products, to increasing proportions of fresh produce, occurred. In summary, within individual emerging markets (as Figure 3 attempts to convey in the context of South East Asia), retail FDI in the late 1990s – often facilitated by liberalisation of market access - typically rapidly accelerated any existing retail 'modernization' trends which existed. It also changed the existing 'rules of the game' as a result of the import of practices and organizational innovations (new formats, supply chain/distribution-logistic system

reorganization, enhanced customer service and quality assurance standards, etc). In consequence, via both the direct operations of the retail TNCs and the imitative competitive responses of indigenous retail chains, this led to expansion, consolidation and multinationalisation of the 'modern' retail sector in those countries, together with a progressive squeezing of traditional/informal retail channels

Figure 3: The experience of retail FDI and expansion of 'modern' retail in South East Asia

Source: Adapted from Natawidjaja et al, 2007, 126)



However, as several commentators (e.g. Humphrey, 2007) have argued, 'the overall image of waves of diffusion rolling along' which Reardon et al (2003, 1142) use to convey the transformation of retail structures in emerging markets, and related concepts of 'takeoff' as in Figure 3, are simply far too suggestive of the inevitability of domination of emerging market retailing by the retail TNCs. In particular, they fail to deal with the resistance shown by two parts of the existing retail structures of those markets.

First, by indigenous retailers who rapidly and successfully emulated the organizational innovations and best practices of the retail TNCs that had entered their home markets and who, because of their local institutional knowledge and social/political-networks, were able to anticipate and respond to the retail TNCs' sources of competitive advantage. Indeed, prior to the main 'waves' of entry of

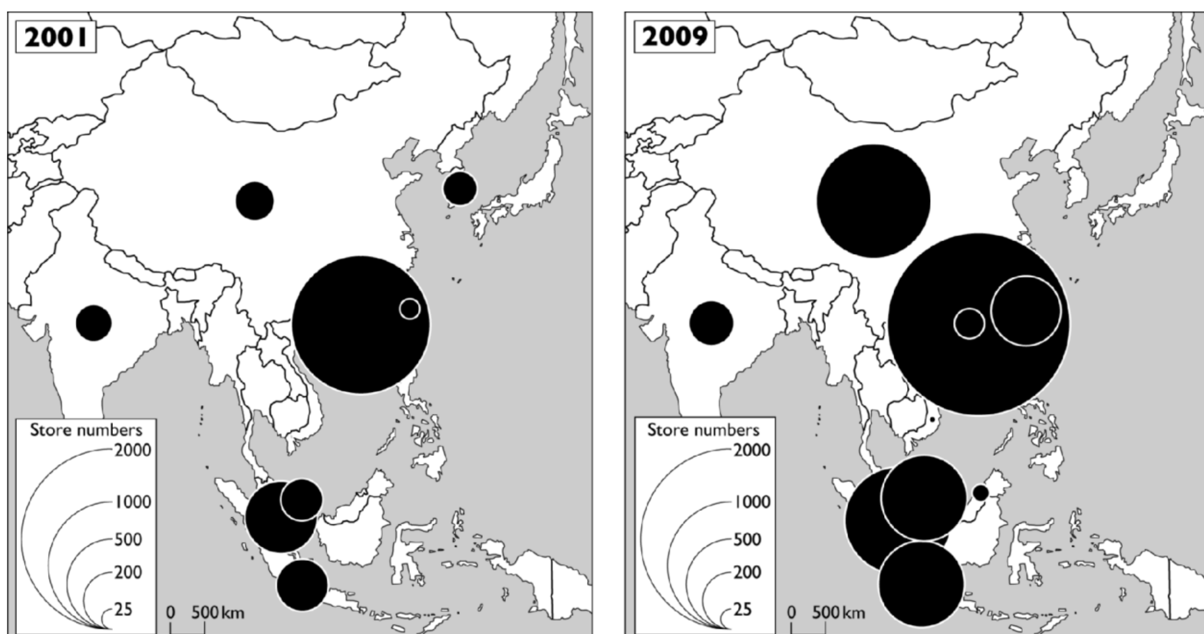
TNCs into their home markets some of these indigenous ‘modern’ retail chains had already developed the basis of a protectable market scale – i.e. sufficient to ensure that they were well positioned to resist that entry. Several examples of this type of resistance have been documented, including the case of Chile (Bianchi & Mena 2004 and Bianchi and Ostale 2006) in the late 1990s/early 2000s, where Ahold, Carrefour and Home Depot all failed to establish themselves against sustained defence by the largest indigenous chains at the time (D&S and Cencosud in grocery retailing, and Sodimac in home improvement retailing). Moreover, the *continuing* extent of this resistance is illustrated in Table 4 in the market positions Tesco currently holds, and the competition it faces, in the nine emerging economies of East Asia and Central Europe in which it operates - i.e. not including its subsidiaries in Japan, the USA, and the Irish Republic. As Table 4 shows, in five of those markets - across which it operates 1500 stores ranging from large format hypermarkets to small convenience stores - Tesco is close to market leadership, holding the No 2 position. However, in each case, despite determined efforts and significant and continued capital expenditure by Tesco, a local retailer retains that leadership. Given that Tesco has invested for market leadership more systematically than many of its rivals, this demonstrates the fallacy of any easy or inevitable route to domination of emerging markets by multinational retailing.

Table 4: The competitive structure 2009/10 of the 9 emerging markets Tesco operates in
Source: adapted from Bank of America/Merrill Lynch, 10 Sept 2010

	Turnover £bill	Market Share %	Number of Stores		Turnover £bill	Market Share %	Number of Stores
Asia				**Central Europe**			
South Korea				**Hungary**			
Shinsegae	4.9	5.6	208	CBA	1.6	12.2	3,435
Tesco	4.3	4.9	363	Tesco	1.6	12.2	209
Lotte	4.1	4.7	338	COOP EURO	1.2	9.1	5,255
GS Retail	2.5	2.8	4,780	Spar (Austria)	1.1	8.2	428
Seven & l	1.4	1.6	3,664	Reál Hungária	0.9	6.6	2,125
Thailand				**Slovakia**			
CP Group (All)	2.6	10.4	6,550	COOP EURO	0.9	14.1	2,280
Tesco	2.3	9.1	773	Tesco	0.8	12.6	100
SHV Makro	1.3	4.9	48	Schwarz Group	0.8	12.2	190
Casino	1.2	4.9	100	CBA	0.4	6.9	578
Central Retail	0.6	2.2	411	Rewe Group	0.4	5.6	106
Malaysia				**Czech Republic**			
Dairy Farm	0.8	4.5	476	Schwarz Group	1.7	10.8	321
Tesco	0.6	3.7	41	Rewe Group	1.7	10.8	536
AEON	0.5	3.2	44	Ahold	1.2	7.6	279
AS Watson	0.3	2.1	209	Tesco	1.2	7.5	166
Carrefour	0.3	1.9	108	Metro	0.9	5.8	13
China				**Poland**			
China Res Enterpise	6.3	1.0	4,440	Jerónimo Martins	3.7	6.8	1,570
Lianhua	5.4	0.9	5,398	Metro	2.3	4.2	142
Auchan	3.6	0.6	197	Tesco	2.0	3.8	389
Wal-Mart	2.8	0.5	317	Schwarz Group	1.8	3.4	497
Carrefour	2.7	1.9	108	Carrefour	1.5	2.8	361
				Turkey			
				Migros Ticaret	2.9	6	1,818
				BIM	2.6	5.4	2,930
				Carrefour	1.4	3	1,160
				Metro	0.9	1.8	55
				Tesco	0.7	1.3	149

Additionally, Table 4 also illustrates (e.g. in the case of Malaysia) the rise of and potentially potent challenge offered to the 'first tier' retail TNCs by what Coe and Wrigley (2007) term the 'second tier' *regional* retail TNCs, typified by Hong Kong-based Diary Farm, Aeon of Japan, or South Africa-based Shoprite (see Okeahalam & Wood. 2009) – a challenge rooted in the competitive advantages these regional TNCs derive from deeper and frequently long-standing 'territorial embeddedness' in local institutions, cultures of consumption, real-estate and land-use planning systems, and supply-chains. As Figure 4 shows, between 2001 and 2009, Dairy Farm leveraged those advantages into a store base across Asia which increased by 140% (from 2081 to 5071 outlets). It also entered new markets - Macau, Vietnam and Brunei - finishing the decade with operations in 10 countries across the region

Figure 4: The rise of the regional retail-TNC - Dairy Farm's expanding operations in Asia 2001-2009



Secondly, strong resistance has also been shown by the 'informal' retail channels. Indeed, it is widely acknowledged that the retail-TNCs have faced persistent difficulties in fresh food retailing where 'wet' and/or 'street' market formats retain their popularity and market share in emerging markets. Humphrey (2007) suggests that significant question marks exist over the capacity of multinational retailing to mount a sustained challenge in this area. As a result, he believes that more research is needed urgently on the needs and preferences of low-income consumers who use these 'informal' channels, the 'outside-regulation' operating cost advantages frequently enjoyed by informal channels, mutations in the nature of competition resulting from interdependencies being

created between retail-TNCs and informal channel vendors (e.g. as vendors increasingly use the hypermarkets of the TNCs as wholesalers) – in short 'the complex ways in which global retailing will [need to] adapt to the specificities of low-income environments' in emerging markets.

Competitive 'shake out'

An additional feature of the globalization of retailing captured by Table 4, relates to the level of competition *between* retail TNCs themselves which was created by the influx of retail FDI into the most attractive/strategic of the emerging markets. For example, in Poland by the early 2000s seven of the sixteen food and general merchandise retail TNCs listed in Table 1 (Carrefour, Ahold, Metro, Tesco, Schwarz, Tengelmann, Casino) had a market presence (Dawson, 2007, Table 9). As initial retail FDI in those markets began to mature, market scale and sustainable advantage became increasingly vital issues. In particular, the critical nature of market leadership to profitability became an increasingly important criteria for retail TNCs and their home country financial markets. 'Flag planting' investment via start-up expansion or via minority share acquisition, tolerated in the buoyant financial market conditions of the late 1990s, began to have increasingly limited credibility during the 2000s. As a result, the inability to achieve or have a realistic prospect of achieving sufficient market scale in a country against better placed TNC rivals and/or leading local retail chains, resulted in a growing number of cases of strategic divestment and market exit by retail TNCS. For example, Wal-Mart and Carrefour both divested their South Korean stores in 2006 leaving Tesco as the only retail TNC in that market. Additionally Carrefour also divested its Japanese stores to local operator Aeon in 2005.

As an alternative to divestment, asset swaps have also increasingly been arranged between the retail TNCs in order to secure market scale. One well-known example of this was the swap of Tesco and Carrefour retail assets in Taiwan, Czech Republic and Slovakia in 2005, which aimed to rationalise and strengthen the market positions of both firms. The swap involved the transfer of six Tesco stores and two developments sites in Taiwan to Carrefour, in exchange for the transfer of eleven Czech and four Slovakian Carrefour stores to Tesco in Central Europe.

One immediate consequence of the rationalization of the retail TNCs' positions within and between individual markets was to further strengthen consolidation trends within those markets. For example, the Mexican market significantly consolidated around Wal-Mart following the exit of Carrrefour and Auchan from that market (Durand, 2007). Despite this, as Table 4 illustrates, there remains considerable between-retail-TNC competition within certain markets. For example in

Poland, despite the competitive shake out of Ahold, Casino and Tenglemann during 2006/7, five retail TNCs continued to struggle for market share by the end of decade, and continuing processes of strategic divestment and asset redeployment are likely to remain critical issues in such markets.

Global and regional sourcing and trade

The retail-FDI-accelerated transformation of previously 'traditional' retail systems in emerging markets has produced an extensive academic literature focused on the local supply chain impacts of the retail logistics technologies and supply chain management methods imported by the retail TNCs. These methods - including the adoption of centralised distribution centres and systems, and the use of preferred supplier networks to permit greater control over delivery and quality - are viewed as having radically transformed supply chains in emerging markets both directly and via emulation of the practices by local retailers. Additionally, 'private standards' of quality and safety imposed on local suppliers by the retail TNCs to compensate for the inadequacies of existing public standards infrastructures, are seen as differentiating the retail-TNC offer from what informal/traditional channels can provide. Overall, these transformations are seen to have resulted in: (a) the emergence of new intermediaries, side-stepping and transforming traditional wholesale systems; (b) the rise of quasi-formal and formal contracts in previously informal markets; (c) important dimensions of inclusion and exclusion within the transformed supply systems.

However, in contrast to these extensive debates concerning the local supply chain impacts of their host economy sourcing activities, the impacts which arise as a result of retail TNCs linking their emerging market operations into rapidly expanding *global sourcing* networks and also into more embryonic *regional sourcing* systems have, until recently, attracted much less attention. Nevertheless, two issues demand consideration.

The first relates to the extent to which retail TNCs use their global sourcing capabilities and purchasing scale as a competitive advantage against indigenous retailers and ramp-up imports into the emerging markets they have entered? That is to say, to what extent do they act as the highly efficient '*Trojan horses'* of imported goods feared by governments in many developing countries (Reardon et al, 2007). Alternatively, to what extent is the converse the case? That is to say global sourcing and importing reducing over time as retail-TNC-induced transformation of local supply networks builds supply capacity/quality standards in the host economy, leading ultimately to a

position where the retail TNCs act as an 'export gateway' for products to both the home markets of the TNCs and to other countries in which they operate.

In this context, Durand (2007) has provided evidence of a dramatic increase in the share of imported products within Wal-Mart's Mexican sales since the late 1990s – an increase from a 20% imports share of Wal-Mart sales in 1997 to more than 55% by 2003, during a period in which Wal-Mart's total sales and market share in Mexico rose sharply, and linked to Wal-Mart's global sourcing, particularly from China. Durand argues that this substantial increase in imports related to retail FDI in Mexico is a highly significant development. However, the issue must be to what extent is this result unique to Wal-Mart with its particular mix of general merchandise (conducive to global sourcing) vis-à-vis food, and also to Mexico, being facilitated by Wal-Mart's increasingly dominant position in that market? To what extent are other retail TNCs ramping up their imports in the emerging markets they have entered, and what are the consequences for those economies?

In contrast to Durand's findings in Mexico, Coe and Hess (2005) drawing on analysis of Tesco's operations in Central/Eastern Europe, suggest a declining share of imports by retail TNCs over time – from an initial heavy reliance on imports at the time of market entry to a much smaller import share as local supply capacity increases often as a result of proactive efforts by the retail TNCs to upgrade local supply networks. The OECD study by Nordas et al (2008), noted above, usefully extends the Coe and Hess position – lending support to an ultimate creation of 'export gateways' by such local supply capacity building. In particular, the OECD study demonstrates that the international operations of the retail TNCs are likely to stimulate imports into the home markets of the TNCs from the emerging economies those retailers have entered, and that the extent of the stimulation might be substantial - a 20% increase in the case of food and beverages and 17% in other consumer goods. Nordas et al (2008, 14) also suggest that the trade across the other countries in which the retail TNCs operate is 'probably stimulated' but 'that is more difficult to test empirically'.

The pattern of import evolution outlined by Coe and Hess is also confirmed in studies from South and Central America summarised by Reardon et al (2007). However, Reardon et al (2007) suggest that, in practice, what is likely is the *simultaneous* existence of a much wider and more complex set of potential paths of '*sourcing evolution'*. These include a possible return over time from the position outlined by Coe and Hess to higher levels of foreign sourcing and imports by the retail TNCs, essentially to facilitate the incorporation of greater variety and higher quality into their product mixes. Additional complexity derives from the fact that much of this extra foreign sourcing is likely

to be ‘regional’ rather than global, reflecting the growth of *regional sourcing* (particularly ‘South-South’) *networks*, and that simultaneously retail TNCs may also be acting as ‘export gateways’ for local suppliers. Reardon argues that the current stage of Brazilian retail illustrates the latter, with Carrefour and Wal-Mart having export platforms to other countries, but also sourcing substantially from their operations elsewhere in MERCOSUR. China, of course, is a unique and vitally important case in this respect, with its role as a global sourcing export gateway currently far exceeding its role as a potential market for goods sourced from elsewhere: Wal-Mart, for example, sourced some $18bn worth of goods for sale in the US from China in 2004 (Bonacich and Wilson, 2006; Wang and Zhang, 2006).

As yet there has been little systematic research on the possible evolutionary patterns of sourcing outlined by Reardon et al (2007). That is to say, how they differ across regions, retail TNCs, and regulatory environments, and whether more recent ‘third or fourth wave’ retail-FDI countries might follow somewhat different trajectories. Similarly, the processes by which preferred suppliers in host economies emerge to become regional or global suppliers for the retail TNCs remain under researched. Are they required to meet even more stringent standards and contractual conditions than are necessary to supply the same retailer within the host economy? What capacity-building technical or credit assistance do retail TNCs typically provide to local suppliers in making the step into export markets, and what does insertion into global sourcing networks imply in terms of an international diffusion process of private standards? As Reardon et al (2007) argue, the picture emerging is one of substantial new *intra*-regional sourcing driven by the retail TNCs, and the development of these regional sourcing systems (particularly the ‘South’-‘South’ trade involved) offers a crucial theme within any analysis of the driving forces of retail globalization, not least because regional market integration is often a key policy objective of governments in the global South.

Clearly emerging regional sourcing networks potentially mediate between global and national sourcing regimes. However, the possibilities and problems created for suppliers in host economies by the development of such networks, and by the interrelation of the various scales of sourcing, remains, as yet, under-explored and under-conceptualized. Reardon et al (2007) ask, for example, whether the trade created in this way is displacing trade in traditional channels or is additive, and also whether there is a ‘trade standards effect’ at work. That is to say, and as noted above, whether retail TNCs who require adherence with stringent private standards when acting as an export gateway to their ‘home’ markets apply the same standards within South-South sourcing networks?

However, other issues, with important implications for policy and the direction of future research remain largely unconsidered. For example, as with global sourcing, are there certain kinds of products that are more amenable to regional sourcing than others? In what ways are regional sourcing systems shaped by the nature of regional trading regimes in which they operate (e.g. the EU, ASEAN)? Do retail TNCs pursue similar regional sourcing strategies in all the regions in which they operate, or is their practice more differentiated? What types of organisational structures - in terms of buying teams, sourcing hubs etc. - have been established by the retail TNCs to facilitate regional sourcing, and to what extent do these intersect with global sourcing operations? Tesco, for example, established a Central European Regional Sourcing team whose role was to act as an interface between the International Sourcing team and the national sourcing teams in Tesco's Central European markets of operation (IGD, 2004). Finally, to what extent do moves towards regional sourcing overlap with the strategies of the retail TNCs to increase progressively their levels of own-label goods sales in the international markets they have entered?

Barriers to Trade Shaping the International Activities of Retailers

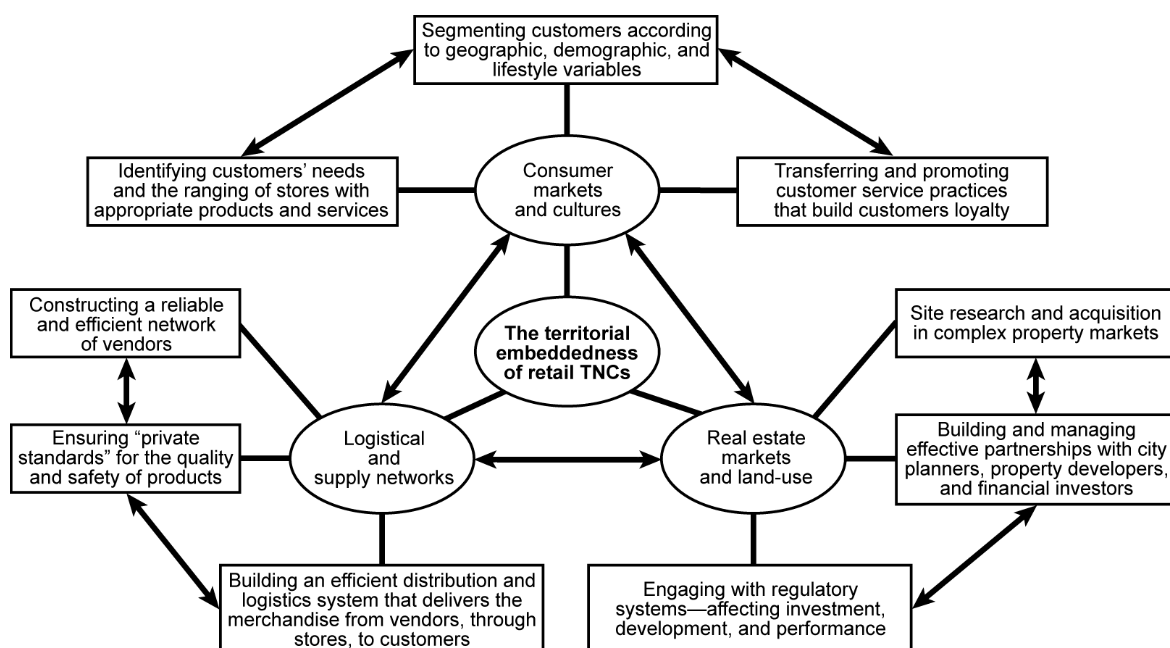
Two broad types of barrier have important affects on the development of trade in retailing. First, the institutional, cultural, and organizational barriers which must be overcome by retailers in order to achieve market competitiveness in the economies (both emerging and 'mature') which they enter. Second, a wide range of regulatory barriers covering a spectrum from inward retail-FDI, market competition, land/property and zoning, shareholder-equity and minimum capital requirements, to store opening hours, 'below cost' selling and so on. Each of these will now be considered in turn.

Institutional, cultural and organizational barriers

Social scientists have recently argued that of critical importance to the market competitiveness of retail TNCs in the international markets they enter is their ability to achieve high levels of what is described as *territorial embeddedness* in the local cultures of consumption, business practices, real estate and land-use planning systems, supply networks, etc of those markets (Wrigley et al, 2005; Hess, 2004). That is to say, their capacity to adapt in organizational terms to the institutional and cultural characteristics of those markets. Figure 5 illustrates some of these key dimensions of territorial embeddedness in the case of emerging markets. Each dimension offers its own set of potential barriers to the development of trade in retailing. Some of those - e.g. constraints imposed

by local supply capacity/quality standards and the need perceived by several of the retail-TNCs to provide capacity-building technical or credit assistance to local suppliers - have been touched on above. Others include barriers to entry which derive from complex land ownership systems and property markets (notably some of the Chinese systems confronted by retail-TNCs in Asian markets), and cultural/institutional subtleties expressed through local business practices.

Figure 5: Dimensions of the territorial embeddedness of retail TNCs *Source: redrawn from Tacconelli and Wrigley (2009, 54)*



It is also accepted that retail TNCs with different organizational capabilities and cultures (Durand and Wrigley, 2009) differ considerably in the extent to which they are prepared to invest in and/or can achieve locally responsive strategies. In this context, we note that the organizational culture of some retail TNCs implies that they enter markets using predominantly processes of *transference* – that is to say, by replication of their existing capabilities essentially without local modification. In contrast, other retail TNCs enter markets placing less stress on *transference* and greater reliance on two other processes which Lowe and Wrigley (2010) and Lowe and George (2011) refer to as *splicing* and *enhanced imitation*. *Splicing* refers to the creation of novel capabilities attuned to the new markets via a 'recombination' of the retail TNC's existing competencies drawn from other parts of its operations – both from its home market and from its other international subsidiaries. *Enhanced*

imitation relates to the creation of new capabilities in the markets entered via emulation and active adaptation of the best practices of industry rivals. Contrasts in the depth of 'territorial embeddedness' which flow from differing usage of these three processes by the retail TNCs help us, in part, understand the barrier of organizational adaptability. However, interrelated and of equal importance, are the retail TNCs' contrasting approaches to, and capacity to manage, knowledge transfer and knowledge capture across their large dispersed store networks – not least by use of ICT technologies that facilitate the management of large networked retail firms.

More generally, it is important to note that potential barriers to trade associated with achieving territorial embeddedness must be overcome in contexts which offer three particular challenges to retail TNCs. First, where the protection of knowledge by such firms is acknowledged to be extremely difficult (Dawson, 1994), given that imitation/emulation by local retailers of key parts (particularly what Currah and Wrigley (2004) refer to as the 'front-region dimensions) of the competitive advantages retail TNCs seek to transfer to their international subsidiaries is endemic. Secondly, where the sheer visibility of the embedded investment of the retail TNCs frequently exposes them to intense and localized regulatory challenges - challenges which in emerging markets usually derive from a volatile mixture of perceived multinational-retail-induced shifts in local consumption cultures and geographies and from the political influence of incumbent groups. Thirdly, where the intrinsically uncertain process of retail internationalization is inevitably highly contested - not just in terms of the competition which must be faced in the markets entered but, additionally and often more decisively in terms of the tensions it creates between the retail TNCs and their suppliers of finance (Wrigley and Currah, 2003)

Finally, in the case of entry into 'mature' markets, it is has been argued that not only must retail TNCs overcome the types of institutional/cultural/business-practice barriers discussed above, but also some significant additional challenges. Those essentially relate to the difference between attempting, as in emerging markets, to embed what will often be the relatively novel 'modern retail product', compared to trying, in the case of 'mature' markets, to establish a niche for what can be viewed as merely an alternative 'brand' of a long established product. Overcoming these additional barriers associated with retail FDI into mature highly competitive markets characterised by entrenched consumer relationships with similarly positioned domestic retailers has frequently proved difficult for retail TNCs - the market exits of Wal-Mart from Germany and Carrefour from Japan illustrate. At the very least, as Lowe and Wrigley (2010) have argued in the case of Tesco's entry into the USA, it places greater emphasis on brand differentiation and innovative reconfiguration of the retail TNC's capabilities within the process.

Regulatory barriers

A wide range of regulatory barriers can be, and have been, employed by countries facing inward retail FDI and/or rapid multinational-retail-induced transformation of their existing retail systems following retail FDI. At one end of the spectrum, whilst those countries will legitimately and necessarily have land, property and competition laws - laws which will inevitably reflect cultural and institutional variations between countries - they can be written and/or interpreted in such a way that they are restrictive of particular forms of ownership and levels of control by foreign firms. For example, registration of land ownership may be restricted for companies with a significant percentage of foreign ownership, such companies may also be proscribed from purchasing particular types of commercial property, and competition laws which seek to control unfair trade practices can be interpreted in a way that produces an anti-competitive assessment of multinational retail expansion on business competition in the host economy. More explicitly, anti-FDI laws can be employed to impose restrictions on the share of a firm's capital that can be owned by foreign nationals, and equity requirements can be imposed on foreign investors who wish to hold majority stakes. At the other end of the spectrum, both the market entry costs and ongoing operational costs of retail TNCS can be raised *differentially* by a wide range of what, on the one hand, can be seen as merely legitimate and necessary regulatory responses to the need to protect culturally-valued aspects of the urban and/or rural environment, or to maintain competitive markets in the host economy in the context of multinational-retailer driven concentration of the retail sector. That is to say by regulations covering land-use zoning, building and outlet size codes, hours of operation restrictions, environmental impact assessment requirement, and so on. On the other hand, however, those regulations can be designed in such a way that they differentially impact on the operational costs of the multinational retailers and therefore become restrictive in terms of trade and investment

Academic research on this wide spectrum of host economy regulatory barriers to the development of international trade in retailing is surprisingly limited. Table 5, however, adapted from one of the few academic papers to explore the issue (Mutebi, 2007) provides a useful summary of the range of regulatory measures which have been used by governments in South East Asia to slow retail-FDI and multinational-retail-induced concentration and transformation of the sector – a summary which clearly has wider applicability. Mutebi divides the measures into two groups: those (FDI restrictions, land/property and competition laws) which are applicable generally (but sometimes at varying levels) to all inward FDI; and those (equity thresholds, capital requirements, environmental and community/business impact study requirements, zoning restrictions, building and outlet-size codes,

store opening hours restrictions, minimum serviced population sizes) are seen as having been more specifically targeted at multinational retailers - and, in particular, at the large-format stores which have been their preferred market entry vehicle - in terms of having a potentially differential impact on their ongoing operating costs.

Table 5: Regulatory measures in South East Asia whose design/implementation has been used to constrain retail FDI and multinational-retail-induced concentration and transformation of the retail sector. *Source: adapted from Mutebi (2007, 368)*

Measures applying to all foreign investors		***Large format TNC targeted measures***	
Land & property laws	Laws governing the various forms of ownership in real property	Advance socioeconomic impact studies	Rules requiring assessment of likely social/econ impact a retail project may have on existing businesses and local community
Competition laws	Laws promoting competition and prohibiting unfair trade practices, and generally encompassing anti-trust and consumer protection laws	Environment and/or historic preservation impact studies	Rules requiring assessment of the likely human environmental health impact, risk to ecological health and environmental changes that a project may have on a given area or community
FDI laws & policies	Laws governing movement of capital across national frontiers in manner that grants investors control over acquired assets -covers both greenfield investments and acquisitions	Zoning	Rules designating the permitted uses of land based on mapped zones, which separate one part of the community from another
Large format TNC targeted measures		***Large format TNC targeted measures***	
Shareholder equity requirements	Rules on specific equity thresholds for TNCs to participate in the host country's retail sector	Serviced population requirements	Rules requiring minimum population thresholds for permit to site a large-format retail outlet in a given community
Minimum capital requirements	Rules on specific capital requirements of a firm to participate in the retail sector	Building & outlet size codes	Rules specifying form and size of construction for large-format retail outlets and shopping centres, usually prohibiting specific formats and/or sizes
Advance applications for new outlets	Rules on specific equity and related requirements for any firms to participate in the retail sector	Hours of operation	Restrictions on operating hours of large format outlets, usually specifying opening and/or closing hours
		Others	Rules relating to warehousing, management and marketing, ancillary service provisions, etc.

We are not aware of any research to this point which has provided empirical evidence of the differential costs imposed by each of these regulatory measures on the entry and market expansion of the retail TNCs. That is clearly a significant gap in respect of assessment of possible areas of policy leverage. Instead, academic concern has centred more broadly on emerging *re-regulation* trends in countries which had liberalised market access in the 1990s and it is to this issue the discussion now turns

From liberalisation of market access to re-regulation - During the mid to late 1990s the transformation of the previously 'traditional' retail systems of many emerging economies was facilitated to a significant extent by what Reardon and Hopkins (2006, 537) describe as the '*immense shock of FDI liberalisation'* which, in turn, 'was part of structural adjustment programmes, multi- and bi-lateral trade agreements, and WTO accession requirements'. Reardon dates this liberalisation in large parts of Latin America (Mexico, Brazil, Argentina) and Central/Eastern Europe to the mid 1990s, whilst In Asia - spurred by the exigencies of the Asian economic crisis of 1997 - equivalent liberalisation in Indonesia, Thailand, the Philippines, etc took place at the end of the 1990s and was accompanied In other parts of the region (e.g. China, Vietnam, India) by initial/partial liberalisation.

Although some of the 'third wave' partial-liberalisation countries subsequently moved to full liberalisation of retail trade - e.g. China in 2004 and Vietnam in 2006 as part of WTO accession - important trends during the 2000s can be summarised as being:

(a) intense controversy in many of the countries which had liberalised market access in the 1990s, surrounding the desirability of multinational-driven retail change, the adverse impacts of large-format retail development on traditional small-outlet retailers, and heightened retailer-supplier tensions associated with the inclusionary/exclusionary dimensions of radically transformed supply systems post retail-FDI ;

(b) consistent pressure towards *re-regulation* – that is to say, attempts to re-impose restrictions on inward retail-FDI, ownership and control, and market competition; to protect existing retail structures via land-use zoning restrictions, regulation of store opening hours, and permitted retail formats; and to impose codes of conduct on retailer-supplier relations;

(c) policy conflict caused by tensions in balancing the conflicting goals of 'seeking to promote trade competiveness with defending the interests of local firms, interest-groups and consumers' (Mutebi. 2007, 366).

These trends have been particularly strong in South East Asia. In particular, the intense campaigns in Thailand in the mid 2000s, aimed at tightening legislation and limiting further expansion of the retail TNCs which had entered the market, attracted international attention. More widely across the region, Mutebi (2007) has charted the rise of re-regulation and specifically, as shown in Table 6, the regulatory barriers re-imposed in Indonesia, Malaysia and Thailand by the mid 2000s in an attempt to limit further inroads of multinational retail and, in particular, large-format outlets. Outside Asia, increasing regulatory sensitivity has also been noted. For example, in response to the strategic divestment and asset redeployment methods increasingly used by retail-TNCs to build market share and sustainable advantage, regulatory authorities in several emerging markets have become concerned with the creation of retail sectors increasingly dominated by just one or two retail chains with the potential to extract monopolistic/oligopolistic excess profits. In this context we note, for example, the December 2006 decision of the Slovakian Antimonopoly Office to block the proposed ownership switch of Carrefour stores to Tesco in that country under the terms of the Tesco/Carrefour asset swap discussed above.

Table 6: Regulatory measures used in Indonesia, Malaysia and Thailand during the mid-2000s whose design/implementation was used to constrain further in-roads of multinational and large-format retail. *Source: adapted from Mutebi (2007, 369)*

	Indonesia	Malaysia	Thailand
Measures specific to all foreign investors			
Land and property law		X	X
Competition law	X		X
FDI policies		X	X
Large-format TNC-specific measures			
Shareholder equity requirements	X	X	X
Minimum capital requirements	X	X	X
Advance applications for new outlets		X	
Zoning		X	
Advance socioeconomic impact studies		X	X
Serviced population requirements		X	
Building and outlet size codes		X	
Ancillary services provision requirements		X	
Warehousing requirements	X		
Management and marketing requirements	X		

In this context of re-regulatory pressures, there is growing academic interest in the nature of the retail TNCs' adaptive responses. In particular, what types of responses (e.g. format adaptation, pre-emptive development site acquisition, deepening of the process of and investment in 'territorial embeddedness, etc) characterize particular kinds of regulatory tightening? Additionally, what insights do the differential agilities of the retail TNCs in the face of regulatory pressures provide into their organizational capabilities and their future trajectories of growth? And to what extent do the retail TNCs emulate the most successful practices of their rivals in this regard?

Finally, and more generally, we note Reardon's conclusion that the re-regulatory trends of the past decade are unlikely to be a long-term major constraint on the processes of retail globalization, and that 'the same kinds of external pressures (sticks and carrots) that led to trade and investment liberalization in the first place continue to act to slowly pry open the markets' (Reardon and Hopkins, 2006, 540). In a context in which Reardon and Hopkins also suggest (albeit with a degree of hyperbole) that in many emerging markets 'retail policy is now tantamount to foreign policy', this is a thesis which clearly needs very careful examination.

Globalizing Retail and B2C E-Commerce

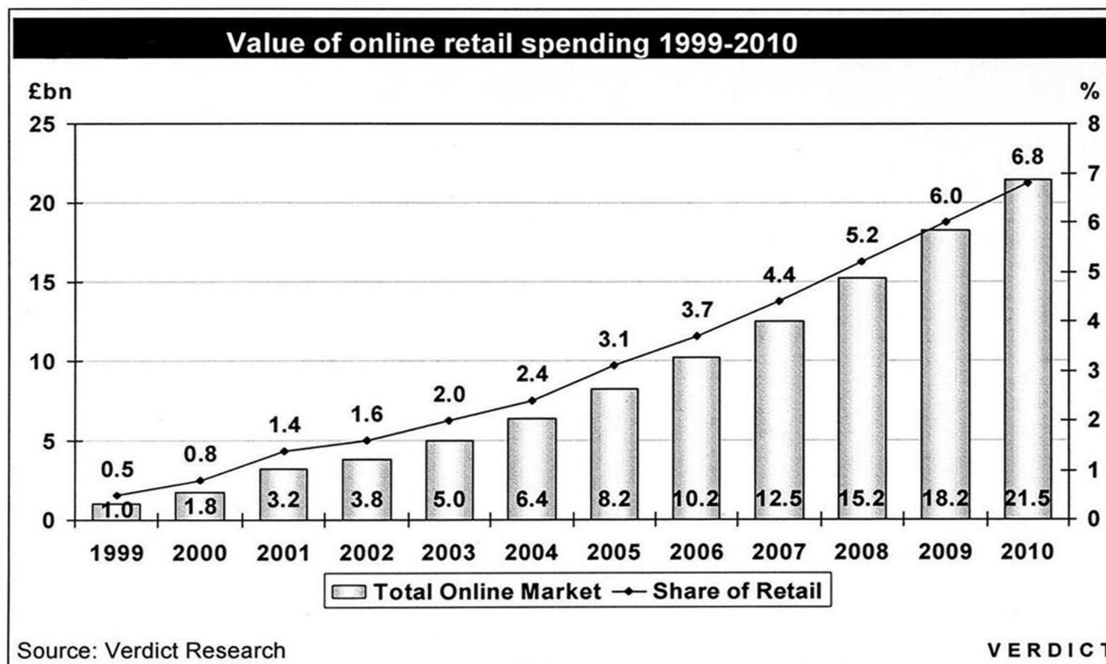
One recent entrant to the list in Table 1 of the world's largest retail TNCs is the online retailer Amazon. The launch of Amazon in 1995 arguably marked the birth of (B2C, business-to-consumer) e-commerce in the retail industry. Amazon helped to popularize online retailing ('e-tailing') and provided the commercial spark for the 'dot.com boom' of the late 1990s, part of a broader investment bubble involving telecommunications, media and technology. During that boom, excitement surrounding the potential of e-tailing led to a wide array of 'start up' firms (in retail sectors ranging from groceries to pets to toys). In a majority of cases, those start ups were 'pure plays' – that is, they were purely reliant on a 'web store' to penetrate markets, and lacked any kind of physical store base. The 'pure plays' were able to generate spectacular market valuations, essentially on the argument that e-tailing was a potentially 'disruptive' force in the retail industry which would radically reduce barriers to entry and lead to the 'disintermediation' of existing retail supply chains (Christensen,1997). They were also regarded as being innovative, and nimble, and crucially, far more committed to the Internet than traditional retailers. However, as financial market conditions changed in the early 2000s, the thesis on which the 'dot com boom' was premised began to unravel. There was limited evidence of either disruption or disintermediation and, lacking the

extensive store networks of traditional 'bricks and mortar' retailers, e-tailers were forced to sink large amounts of capital into both distribution centres and building 'brand identity'. Eventually, those front-loaded capital demands and the 'killer costs' of fulfilment (Ring and Tigert, 2001, Wrigley et al, 2002), forced the majority of them into bankruptcy.

In the wake of the dot.com crash, it quickly became evident that a multi-channel 'bricks and clicks' model offered a more robust formula for creating and sustaining competitive advantage. Traditional retailers could draw upon their established brand identities and customer franchises to reinforce the authenticity of their web stores – that is to say, they could migrate established consumer trust in their store-based brand into their online channel. They could also leverage their existing investments in warehousing, supply chain management systems, customer support centres, and product return networks to facilitate the process of e-tailing fulfilment. There were also important opportunities for multi-channel retailers to harness the geography of their store and logistics networks to minimize the exposure of e-tailing revenues to taxation and other regulatory mechanisms (e.g. locating warehousing and fulfilment in particular tax havens). That is to say, they learned 'to use the Internet to avoid taxation by redefining the point of sale and moving it towards the jurisdiction that offered the most appealing regulatory environment' (Li et al, 2001, 712). Even the small number of surviving pure players began to forge alliances and partnerships with traditional retailers to strengthen their competitive position, with Amazon once again leading the way by licensing its proven e-commerce platform to both book retailers (e.g. Borders and Waterstones), and general merchandise retailers (e.g. Sears and Target).

Having taken much longer for consumer acceptance of e-tailing to take root than was assumed in the late 1990s, the past decade has seen that acceptance increase year on year. In the UK, for example, the e-tailing market (defined as online spending on goods by consumers but excluding spending on services such as flights, insurance, sport/leisure tickets, etc and B2B expenditure) increased as shown in Figure 6, from under 1% of total UK retail spending to over 3% by mid decade, and to an estimate of almost 7% in 2010. During that period the penetration of e-tailing, measured by the percentage of the adult population shopping on-line, is estimated to have risen from under 5% to 62%, accompanied by a progressive closing of the gender, age and social class gaps in the on-line shopper population. In the process e-tailing has penetrated retail sectors differentially – with the highest on-line market shares being in music & video, books, and electrical goods, but with the fastest growing and largest on-line sector being food & grocery

Figure 6: The size of the UK e-tailing market 1999-2010 (est) in terms of online sales and percent of total retail sales – *Source Verdict Research* with permission



Not surprisingly, as global grocery and general merchandise retailers such as Carrefour, Tesco and Wal-Mart have progressively incorporated multi-channel operations into their organizational structures and increasingly driven the penetration of on-line retailing in their home markets, they have also begun to migrate e-tailing into their international subsidiaries. Tesco, for example, by adopting a low capital intensity, store-based fulfilment model as the basis of its on-line operations, and by building on the competitive advantages it is acknowledged to obtain from Dunn Humby analysis of its loyalty card (Clubcard) data - specifically from a unique combination of Clubcard and web traffic data - achieved profitability in e-tailing sooner than any of its global rivals. Indeed, by 2009/10 had on-line sales of £2.1 billion and profits of £136 million in its UK dot.com division. It had also migrated e-tailing into three of its thirteen international subsidiaries – South Korea, Republic of Ireland and the Czech Republic - the latter being an initial-stage start-up operation. In this context, although some commentators have take the view that B2C e-commerce is now routine and should be viewed as merely an infrastructural technology which should sink into the background of marketing and business development, this relatively slow and cautious migration by the most profitable on-line grocer suggests that barriers restricting the growth of retail-TNC driven growth of international e-commerce remain real.

Some of the barriers relate to the market potential of the emerging economies entered by the retail TNCs in terms of supporting and facilitating e-tailing. For example, to what extent are those markets 'wired' as measured in terms of the broadband Internet penetration levels in those countries? Is the population density and available retail spending power per household sufficient to support profitable e-tailing based on what is known from other markets? Is the basic transport infrastructure sufficiently adequate not to impose unacceptable fulfilment costs? And, importantly, what is the extent and population coverage of the retailer's existing store networks in those markets to support the collection, exchange and return of on-line orders. There are also cultural barriers. For example, to what extent is the 'sociality' and 'tactility' of the shopping process valued more highly in some societies than others - perhaps as a function of the more recent experience of the consumption experiences associated with 'modern retail' formats and/or the differing position of women in the workforce – and how does that translate in relation to the acknowledged 'time poor consumers' driver of e-tailing. However, many of those barriers, as throughout the history of e-tailing, are essentially organizational. That is to say, they relate to converting market potential into profitable operation of the online channel to market - a channel which, despite its image of 'virtual' operation, remains strongly grounded by the challenges of fulfilment and the 'last mile' costs of order delivery. Also, and significantly, they relate to the differential organizational adaptability displayed by the leading retail TNCs, as the robustness of their multi-channel models is tested by the extra challenges of attempting to embed those models in markets with contrasting institutional, cultural and business practice characteristics (Wrigley and Currah, 2006) - with some retail-TNCs preferring the route of out-sourcing the supply chain management and fulfilment/delivery of orders required by e-tailing to specialist intermediaries such as UPS, DHL and Fed Ex.

Despite initial hype about the capacity of e-tailers to serve global markets without bearing the 'set up' or 'accumulated' sunk costs (Clark and Wrigley, 1997) of embedded store networks, there is little evidence to indicate that B2C e-commerce involving conventional physical products has been viewed strategically by the retail TNCs as a low cost or 'virtual' form of international market entry. However, the progressive rise of *virtual products* – defined as 'goods and services that are digital in nature … and which can be sought out, transacted, transported and consumed all within electronic space' (Li et al 2001, 711) via digital delivery from a remote server to the customer's computer potentially alters that conclusion. An increasing range of virtual products – music, books, video-games, film – have become available over the past decade. Growth rates of the markets for such products have been spectacular with a parallel decline in conventional store-based sales. Although

it is unlikely that such store-based sales of physical versions of these products will disappear given the appeal of books, dvds, video games, etc as 'material collectibles', the opportunity for pure-play e-tailers is theoretically significant. Set against that, however, is both the buying power of the global retailers and their existing investment in building online identities, and also the electronic piracy through 'peer-to-peer' file sharing which has become a huge problem for content producers in the 'cultural products/copyright' industries. In this context, the development of legal download services by the retail TNCs has been complicated by the highly complex asset ownership and distribution structures in these industries – ownership and structures which also vary considerably between products. As a result, the development of retailer-driven international trade in these services, which is limited by the endemic electronic piracy characterising the 'regulatory frontier' of the Internet, must be understood to be more generally constrained by the regulatory barriers of ensuring that the existing geographical and temporal boundaries of the 'cultural economy' of copyright are protected.

Concluding Discussion: Trends, Research Priorities and Implications for a STRI

Trends and research priorities

A decade which began in the mid 1990s with a surge of retail FDI, with the progressive emergence of a group of retail TNCs with substantial international sales as significant players in the global economy, and with the rapid transformation of the retail and supply systems of emerging economies by the market entry of those retail TNCs, was accompanied by the rise of academic research and scholarship focused on these issues across a wide range of disciplines. Academics from disciplines ranging from business and management science, through agricultural economics, development studies, and economic geography, to law, sociology and policy studies have provided conceptual and empirical knowledge on the strategies employed by multinational retailers, on the host economy and society impacts of retail FDI, and on the broader supply-chain, regulatory, knowledge-transfer, consumption and labour-market dimensions of retail globalization. Additionally, they have helped enrich understanding of the challenges and barriers retailers face in operating and managing large and dispersed store and supply networks across economies/societies with often widely differing cultural, institutional and business practice characteristics.

In that context, although regulatory barriers have been seen as vital, and the liberalisation of retail FDI and market access as critical facilitating drivers of retail globalization, cultural, institutional and organizational barriers have been viewed as of equal importance. In particular, retailers who commit themselves to international growth are seen as facing some distinctive and difficult

challenges in relation to market entry and expansion. Not least the need to embed themselves and adapt in organizational terms to the cultural and institutional characteristics of the markets they enter whilst, simultaneously, attempting to protecting key 'back-region' dimensions of their competitive advantages, dealing with host-economy hostility provoked by the sheer visibility of the investment required to 'embed' themselves in those markets, and managing tensions in relations with their home market suppliers of finance.

Although the proportion of international sales continues to rise within the broader group of the world's largest 250 retailers, as Dawson (2007) has demonstrated, the increase in the average number of international markets in which retailers operate has been driven from the early 2000s by the relatively smaller firms in those rankings. Additionally, it is those relatively smaller retailers who have grown their proportion of international sales most rapidly. In that context, academic opinion has increasingly begun to query whether retail globalization, since the mid-2000s, has entered a new phase, the characteristic features of which are.

(a) First - and based on appreciation of the critical relationship of market leadership/co-leadership to profitability - ***a drive for market scale and sustainable advantage***, and the asset redeployment necessary to achieve that goal. In other words greater priority attributed by the leading retail-TNCs to expansion *within* markets, and to the strategies (including strategic divestment, in-market add-on acquisitions, etc) required to achieve that.

(b) Second, and closely related, ***multi-format/channel adaptation*** by the retail-TNCs (e.g. developing networks of small convenience and/or hard discount stores, e-tailing, etc) to supplement and in-fill existing (usually larger format) store networks. That is to say, a trend towards increased capital intensity to drive cost savings in international subsidiaries (perhaps from under-utilized capacity in centralized distribution centres and logistic systems), to increase the return on capital employed in those subsidiaries, to provide consumers in those markets with multiple points of access to the retailer, and to offer protection against format/store-size specific regulatory pressures.

(c) Third, ***re-regulatory pressures*** – which have been stronger in some regions (e.g. South East Asia) than others, and which extend to include slower than anticipated processes of retail-FDI/market access liberalisation in some countries, most significantly India.

(d) Fourth, ***continuing and stronger than anticipated domestic-retailer resistance*** to multinational retail incursion, and closely linked to that ***the rise of the second-tier regional retail-TNCs***

In this context, the focus of academic research on retail globalization has shifted in subtle ways.

1. From a concentration on market entry processes to greater consideration of in-market growth strategies (see Wrigley, 2000b for an early example).

2. Towards interrogation of the organizational and institutional reasons for the market failures and exits experienced by some of the leading retail-TNCs (Burt et al, 2004, Jackson, et al, 2004, Christopherson, 2007).

3. Towards a greater concern with the *regional trajectories of expansion* of the emerging-market based second-tier retail TNCs - not just the most prominent examples Shoprite, Diary Farm, Aeon, etc, but also Malaysia-based Parkson Corporation, Chile-based Falabella, and so on. What level of advantage does their integration into local/regional business practices, institutions, and cultures of consumption offer relative to the first-tier multinational retailers? And do they have any differential experience of regulatory barriers as a result of discriminatory measures favouring local companies.

4. Towards a far more realistic view of the strength of the competitive challenges which first-tier European and American retail-TNCs face in building market scale in emerging markets, and detailed research on the adaptation strategies (successful or unsuccessful) which individual retail-TNCs have adopted to confront those challenges.

5. Towards (and closely linked to the previous) a greater concern with the dynamically evolving organizational capabilities of the retail TNCs – in particular their *differential* capacities to develop novel capabilities attuned to new markets,, and to accommodate continuous transnational-operation-induced organizational transformations – together with an associated focus on the nature of their organizational learning and innovation capacity.

6. From a concentration on local supply chain impacts of retail-TNC market entry and on integration mechanisms into global ('North-South' oriented) sourcing networks, to greater consideration of emerging regional sourcing (particularly 'South-South') networks.

Implications for a STRI

It is in this context of potential new phases of retail globalization and related shifts in research priorities that this study concludes by assessing the broad policy areas and measures which might

best be considered for inclusion in the retail part of a services trade restrictiveness index (STRI). Here the study draws on the OECD Working Party of the Trade Committee's (March 2010) list of potential measures for inclusion in a STRI – a list which is organized into five main categories: (1) *Restrictions on foreign ownership and other market entry conditions*; (2) *Restrictions on movement of people*; (3) *Other discriminatory measures and international standards;* (4) *Barriers to competition;* (5) *Regulatory transparency & administrative requirements*.

Of these, and based on the sector overview presented above, international trade in retail services, since the surge of retail FDI into emerging markets in the late 1990s, can be seen to have been particularly sensitive to some of the measures in categories 1 and 4 of the Working Party's list.

In *category 1 (restrictions on foreign ownership and market entry conditions)* - as discussed above, *foreign equity restrictions* which impose controls on multinational retailers taking majority/controlling share ownership positions in leading domestic retailers in the markets they have sought to enter have been particularly significant in some regions. Moreover, they continue to be a major issue in the slow and ongoing process of opening the Indian market to retail FDI. Additionally, as noted in Table 5, *minimum capital requirements* have also been an issue in some emerging markets.

It is *category 4 (barriers to competition),* however, which is potentially the most critical but also the most problematic dimension. Competition policy offers a crucial tool which host-economy governments can use to prevent abuses of market power by retailers (e.g predatory pricing to drive out smaller retailers, the imposition of anti-competitive supply-chain practices, etc) and to maintain competitive markets. However, as discussed in the context of Table 5, there is evidence that multinational retailers have been subject to regulations which though, on the face of it, are necessary and legitimate responses to the need to protect cultural-valued aspects of the host-economy environment, and/or to maintain competitive markets and consumer welfare in the face of strong forces of concentration in the sector, nevertheless may have been designed, or may be interpreted, in such a way that they differentially impact the operating costs of multinational compared to domestic retailers. A fine line exists therefore between regulations that aim to ensure competitive markets and/or to mitigate adverse impacts on communities and environment, and trade restricting measures. And it is in that context that the land-use zoning, hours of store operation, and building code restrictions etc noted in Table 5 should be assessed and incorporated appropriately into the Working Party's potential list of measures for inclusion in a STRI. However, we accept that is not a straightforward task and, in the context of the intense controversy which

multinational-retailer driven market transformation and concentration often produces in host economies, we acknowledge the point made by Nordas (2008, 450) that,

> 'enforcement of competition policy in the retail sector may be necessary for trade liberalization to yield the expected improvement in market access for foreign suppliers of consumer goods and predicted gains to consumers'

Additionally, we suggest that the Working Party's list might be clarified to include circumstances where a host-economy national or provincial government provides support for a domestic retailer but does not control that firm. In that context, Reardon (2005), for example, draws attention to the case of the Chinese government making loans available to its 'dragon head' retail chains to help match the low cost capital available to the retail TNCs who entered the country.

Anecdotally, there are also suggestions of less favourable treatment of multinational retailers in respect of elements of the Working Party's categories 3 and 5 (*other discriminatory measures & international standards*; *regulatory transparency & administrative requirements)* which may potentially have been restrictive to international trade in retailing. However, there is little documentation (especially in the academic literature) which provides examples of such restrictions.

Concluding observations

Finally, we conclude our study, by observing as Nordas (2008, 449) has previously done that

> 'despite the growing role of retailers as intermediaries in international trade, trade economists and trade policy analysts have largely ignored the sector'

Conversely, we note that the disciplines which have made significant contributions to the recent rise of academic research and scholarship on multinational retailing and the global economy have had their own rather different agendas – ranging across firm strategies, organizational learning and adaptation, global value-chain governance, consumption and consumer society issues, to the developmental consequences of multinational-retailer-driven transformation of existing retail and supply chain systems. As noted in the introduction to the study a supplementary but important aim of the paper has been to inject some of those wider perspectives into the OECD's ongoing work on services trade restrictiveness - in the process, attempting to contribute to trade policy debate at a time when, as Nordas (2008, 450) has noted, the retail sector to an unprecedented level has come 'under increased scrutiny under the implementation of international trade and investment agreements'.

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