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An international retailer's perspective

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SUPERMARKETS: GOOD, BAD OR UGLY?

An international retailer's perspective

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Abstract



Retailers and wholesalers today are investing the major share of their development funds into the Asian marketplace to bring modern retail and wholesale concepts to the Asian consumer. With a large growth in urbanisation across Asia, the region represents huge opportunities as well as big challenges to international players. At the same time there is a growing demand in Asia for high quality and safe goods, which presents a great opportunity for modern retail and wholesale formats. Many companies have recognised the need to promote sustainable production and consumption models in order to be successful also in the next 20–50 years.

In the fast-developing markets in Asia international companies thus have the opportunity to leapfrog international best practices and to install sustainable concepts right from the start. They are also challenged by population growth and the demand and supply of food to supply their customers into the future.

Modern retailers and wholesalers are working closely with farmers and co-ops to improve food standards and quality, to employ sustainable farming and processing methods and to create savings in the supply chain, which also leads to improvements in the incomes and living standards of the farmers. By doing so they are making opportunities for farming and processing industries to serve the global procurement needs of their chains, which are developing Trading Offices within the region. With rising incomes and a rapid growth of the middle class we see a greater demand for imported goods for home consumption and also for the food-service industry. This creates great opportunities for countries like Australia to become the source of ultra fresh and processed products.

It is important that the mindsets of Australian farmers, exporters and producers change to recognise that brands need to be built in these markets. Brands like Sunkist, Dole, Cape, Anchor, Zespri are well known in Asia and globally recognised. Global retailers are changing the face of retail and wholesale in Asia and developing markets and will invest in the future. The challenges are not just with them but with the willingness of others to change.

As a person that sits and reads *The Australian* every morning from my Singapore office, I am always looking at the price of milk, now at \$1 a litre, and the potential for bread prices to drop incredibly low. Within our market, the Asian market and the Global market, we're talking a pretty dynamic industry: one that I really enjoy being in because never a day goes by that is boring.

The METRO group is growing. METRO Group itself is operating out of 33 countries across the globe. We turn over approximately €65 billion and one of the great things is that the company is totally committed to sustainability, food safety and the environment. These commitments are part of the practices we have to have on a daily basis, no matter where we are, and no matter what level of development the country is in. In Asia, that makes it difficult because the Asian markets are not developed like those in Europe or Eastern Europe, so it puts a lot of pressure on us to bring about change.

Headlines such as these — ‘Surge in food index’, ‘Wheat prices a major worry’, ‘Europe is fishing the oceans dry’, ‘World faces food shortages, price rises’, ‘Inflation highest in a year’, ‘Human tidal wave heads for Asian cities’ — are widely discussed. The one that is the most sensitive is the last one: ‘Human tidal wave heads for Asian cities’.

It is a fact, the rate of urbanisation is huge. We are seeing many people moving off the land into the cities where incomes are double those of the rural communities. This migration creates feed for the retailer because these people move into cities where the growth, the employment, and the income generate the business that the modern-day retailer and supermarket thrive on.

The counterpoint of that is that, while we are spending over a billion euro a year on development of stores throughout the world, we have to be sure into the future that we have the food to put into those stores. It is a critical factor for us and it is one of the areas that I have spent much time on in Asia; looking at how we can maintain the supply chain; how I can feed Eastern Europe, Western Europe, and also our own Asian markets in the longer term, with safe sustainable food.

Modern international retail in Asia

International modern retail — is it good, bad or ugly?

As a retailer, I have to say it is ‘good’. You wouldn’t expect it any other way. What we are doing is taking the Asian people from traditional shopping and giving them modern markets. Asian people love to shop in modern markets; they love the environment. The prices are great, and when they shop in supermarkets the people find that they start to trust them more than the local markets.

Internationally, we see issues of food safety in areas like China and Vietnam. Across the globe, people distrust food production systems, because of the sprays that are used; there is education in the schools about this, so that younger people are growing up distrustful of bad farming practices and the resulting foods. A recent example relates to children and baby milk in the traditional Asian market compared to modern trade outlets. Modern trade outlets probably sell approximately 40% of goods bought in the Asian market, but in baby milk we sell 80%. That is because people do not trust their own traders in that product. They do not trust where the product is coming from. They believe, correctly, that there are counterfeit products. A number of fraudulent products come out of China, and are available around the Asian markets, and customers have learned to be distrustful. In contrast, they trust the

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A modern supermarket in Asia (top photo), compared to traditional markets (lower photos).

Supermarkets: Good, Bad or Ugly?



Modern trade in Asia brings modern growing methods and display practices



Supermarkets introduce and maintain training and food safety standards

supermarket — and it is for us as international retailers to really develop this trust and work on it.

In Asia, METRO currently has stores in India, Pakistan, China, Vietnam, Japan, and recently we announced our move into the Indonesian market where in the next 5 years we'll open approximately 20 stores. That represents around €400–500 million of investment. As we move into these markets we make a great contribution. We invest €10–15 million in each centre that we open. We introduce supply chains, unbroken 'cold' chains, and distribution platforms for fruit and vegetables in remote areas. This is an area I'll touch on a little later because it is one of the things that make the difference. We link producers to the national market and provide them with export opportunities.

We do a lot of training; we work with the farmers and local producers to show them how to employ international quality standards, such as Global-GAP and international food safety. We go into countries like Vietnam, which is a country full of opportunities and people that are willing to grow and want to learn. With donor funding and our own funding we train thousands of farmers to make their farming practices professional, and to use good agricultural practice. These efforts we have put in working with different donor groups have been good for the government.

The Vietnamese Government has developed Viet-GAP (Vietnamese Good Agricultural Practice) which evolved from METRO-GAP. When we go into a country and there are no standards, we set them, but we do not shoot for the sky straight away. We do not go and say everybody has to work to Global-GAP. Instead, we raise standards to a level where we can be sure that the customers are going to get good, safe food. Our next step is to bring about greater traceability and then greater efficiency in the supply chain as we bring the product to the customer.

When we open a store, we create over 500 direct and indirect jobs. For instance, we have recently opened a store in Vietnam in a city of about 300,000 people, and we employ 500 people in that business and within the local industry. The farmers, the growers and the producers in those areas all benefited from the way we went into that business. We establish transparent invoicing and we dry out the black markets and increase the tax flow. The local governments like us; the federal governments love us because we pay tax. In comparison, the wet-markets and the very grey markets there pay zero tax.

METRO supplies produce to small retailers; it is one of our roles that is a little different from that of a supermarket. METRO is a 'cash and carry', and we also supply wholesale. We are a wholesale business, and we also supply the small 'Mum and Pops' traders. It is our job to ensure these people's businesses last into the future, and to help them into a new way of doing business to serve customers.

If we look at the Indonesian market, there has been a great move away from the Indonesian wet-market and wholesale market. In Indonesia, where traffic is horrendous, there are about 6000 mini marts that have evolved because of the actual culture and the demographics. We divide our business into time zones

relating to how far it is to each of our stores. In normal business, we would say time zone 'one' would be 20 minutes away — maybe 3 or 4 kilometres. In Jakarta, time zone 'one' is across the road! Because of this, in numerous different local areas now there are small mini marts, generally with air-conditioning, grocery shelves, and a good range of products, serviced twice a day from central distribution centres. These businesses actually can compete, price-wise, with the hypermarkets. It is an amazing model and it is one that I think will evolve further in different markets.

METRO encourages domestic consumption by upgrading the distribution sector; and we also contribute to the safe supply of food. Our challenge is that we have to have the food to supply the growing population of the next 20–50 years, and we have to ensure it is safe and traceable. We also have to instil sustainable concepts in our farmers. Our goal is not only to supply local markets, but to build our global sourcing opportunities. Therefore, in the next year just in Vietnam alone, we need to see 20,000 tonnes of live catfish farmed to supply our needs for the year. We need to draw on 6000 tonnes of black tiger shrimp, just to supply our global market. In doing so we have to ensure that this product is not full of antibiotics that are carcinogenic. We have to ensure that the processing is not full of phosphates that increase the water consumption in the fish or the shrimp. We have got to ensure that the shrimp and fish that are pond-fed are not being fed animal waste, that they are fed proper food.

The challenges we face are not challenges retailers would normally have to face in most markets. In the Asian markets, however, we have to get involved, get our hands dirty. In the years I have been in Asia I have learnt a great deal about farming. I am no farmer, I am a retailer, but to be successful there you have to start to understand farming. We need our farmers; we need them to supply; we need them to grow; and we need them to reinvest in their business to ensure our future. That is critical. They have to make the money. We have to ensure that they are profitable — and that we are. We have to give a return to our shareholders. Likewise, we have to protect these people so that in the future they can keep supplying us.

We cannot rely on the existing supply chains which really leave the farmer at the bottom end. For every dollar, he probably gets 15 cents. What we do, as modern retailers, is work with the farmers; we have the farmer deliver to us at our centres where the goods are checked. There is no waste because the farm goods come straight into our processing centres. We immediately put them into coolers; everything is in crates; the farmer gets his receipt; he walks around to the front where he collects his money. We have set up a good system that gives them trust in us, and us trust in them. Farmers are encouraged to work with us; we have transparent prices and reliable and regular orders; we contract farmers to grow for us and supply us. It is not just fruit and vegetables, it is the same with our pork industry, and with our beef, and with all locally grown products. We look to better pricing for produce and higher income for small farmers.

The average farmer has a quarter-hectare lot in many cases; others have up to 1 hectare. We have to work with these small farmers to supply us, but part of the training we give them is how to get greater yields off their acreage. We

encourage them to get out early in the morning and do their picking then, not in the middle of the day, so the product is not left on the side of the road, crammed into cane baskets in 40 degrees heat. We have it packed in crates and shipped straight to our platform where it is put on refrigerated trucks. That is a modern day phenomenon in Vietnam and we are also doing it in China, India, and Pakistan, across the Asian market.

In the past, vegetables would be picked in the heat of the day, left packed at the side of the road, then jammed into the open-backed truck when it turned up, and driven for 6 hours from the highlands to the city to the markets. By that time the vegetables would already be 'three-parts cooked', and would have to be eaten within a day. You could see the waste, when the truck was unloaded — the amount of waste lying on the floor of the markets was incredible.

METRO is looking at improving production. We employ an agronomist to work with us, and agronomy companies help us with the right seed to help the farmers. We help finance the farmers with their seeds and sprays. We guarantee the farmers sale of their goods, so we provide support for the farmers to grow a product that can be delivered to our stores in first class condition.

Traceability is another major consideration for us, and we have launched a product called Star Farm. Star Farm is an initiative in China where we work with the local government agencies and farming groups to train government inspectors, and also our own university graduates, in the right farming practices. We then bring farmers into the Star Farm program where they will learn to grow to an acceptable standard using good agricultural practice (GAP) — and they are graded from 1 star to 5 stars. When they reach 5 stars they are at Global-GAP standard. As they reach the different levels, all the products off those farms are given a barcode and the brand 'Star Farm' which, when they reach our centres, clearly communicates to the customers that these products are safe and traceable. For example, we put our lettuce in a bag and give it a small barcode that relates to the farm the product came from; in the store the customer can scan this product and see its record since 'birth', and exactly how it got to the market. We also now do that with grocery products: our rice, coffee, nuts, pork, chicken. We are applying the Star Farm process in outer Mongolia where we are producing lamb and beef. Some of that lamb is as good as you would see anywhere in the world. It is all under the Star Farm guarantee so we know these farmers have produced the goods to the best conditions. You can also use your smart phone app (in Asia everyone has either a Blackberry or an Apple — it is a great trend!) and you can actually scan the barcode with your smart phone and read all about the product you have just bought.

In a new initiative, we are running a program in Vietnam where we have enabled the small shareholders to grow. It is a dollar-for-dollar program where we actually developed a full distribution centre, funded through the Dutch government. It is the first of its type in Vietnam. We created a supply chain that was so opposite to the old way, people did not trust what it was about. This process complies with full HACCP ('hazard analysis and critical control points' for food safety). We source direct off the farm; we have a pricing structure with the farmers so that when the farmer delivers the goods — we bypass the

collectors and the wholesale markets — we have a formula that gives them a least 5% more or 10% more than they would have been paid by a wholesale collector in the system. In other words, we share the gain in the supply chain so that those farmers will expand and will want to continue to supply us.

The Australian challenge

Australia can be the food basket for Asia, for both ultra fresh and processed food. I think everyone expects that, and Australia does a great job with its wheat and other grains. However, with fruits, vegetables, dairy products, I think there is much more that can be done to provide products to Asia.

Australian farmers, exporters and producers in the market do not seem to know enough about the Asian customer. We have approximately 25 million people in Australia, but in Asia there are hundreds of millions of potential consumers. Yet, here in Australia, we have not taken the steps to develop a brand or market in an Asian country where, even if it were Vietnam with 85 million people, there is incredible potential. Australians still seem to work on a 'fair weather' basis: "Good price in Asia today, I'll ship — oops, prices are actually better in the local market, so I'm sorry...", or they send substandard quality to the overseas market. It is pretty disappointing to be an Australian when you walk around and you see some of this Australian product in the Asian markets.

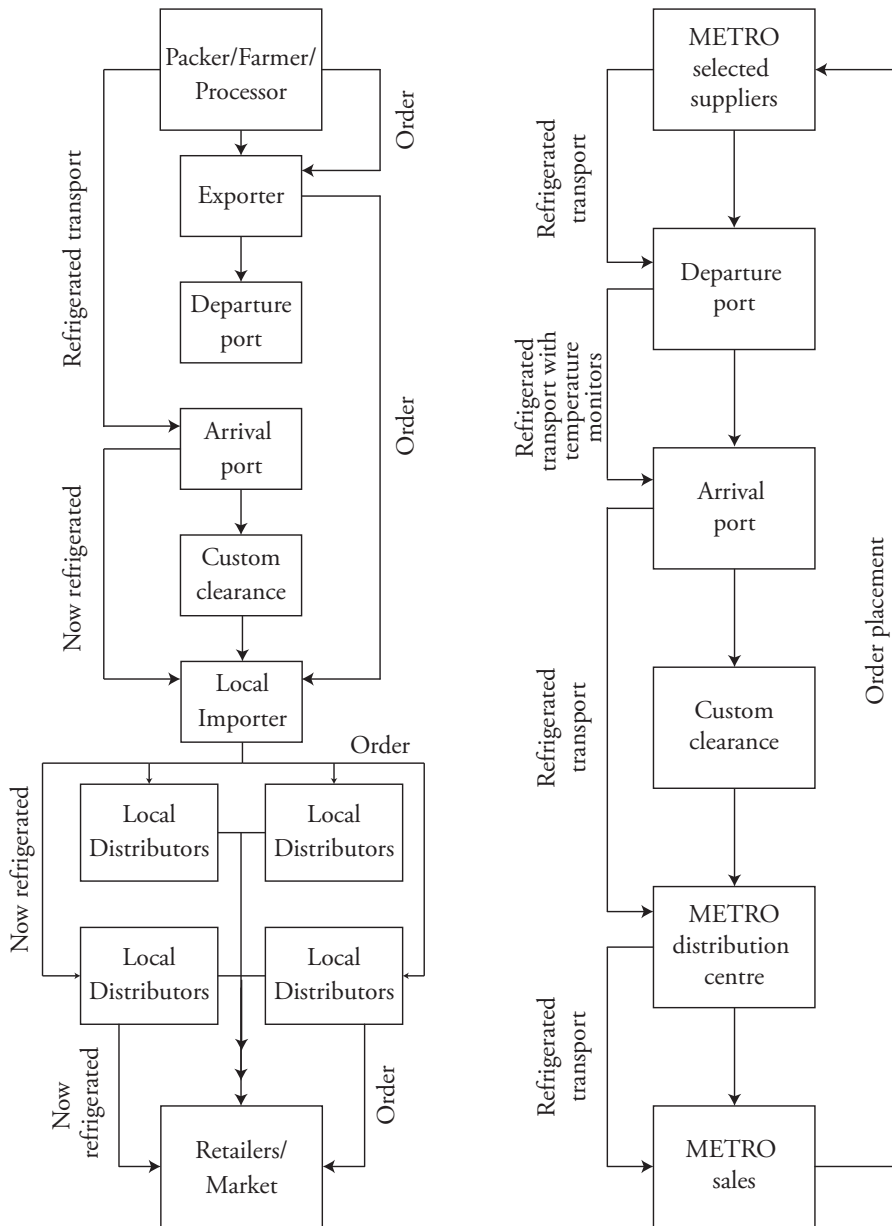
I see Australian product in Asian markets which should never have been exported from this country. It is labelled 'Product of Australia', but packed in boxes that are not export-grade, that are falling apart; fruit that is scarred and misshapen — and it is sitting in a display beside beautiful oranges branded 'Sunkist' or 'Outspan' that look spectacular. It does not say much for our Australian industry when you see our product lying on the floors of supermarkets.

The key is that in Australia we have to understand the Asian consumer. METRO spends millions every year in understanding the market, understanding the customer and their needs, and putting people into the right places to be able to do the business.

I don't see Australian companies in Asia. I see the California Table Grapes Commission, I see the Washington Apple Commission, I see Zespri and others. These people come into our office with marketing plans, to work with us. They align these marketing plans with their media, to match the way they are going to be seen on television, or on street signs, or on buses. I do not see Australian names. The last time I saw Australian names advertised was 28 years ago when I first went to Hong Kong and there were buses and trains with Riverland Oranges advertisements on them. I have not seen anything since then.

When you look at our Australian industries, you see we have a great dairy industry. Is there a name for it? From other countries, everybody knows of Anchor foods; they know of ENZA; they know Sunkist and Zespri; but what names do they know from Australia? There is one great thing that they know — that Australian food products are safe and clean. That is what we are known for.

Figure 1. Diagrams showing typical supply chains for food imported into Asia: a traditional supply chain (left), and a modern ultra fresh produce chain (right)



I believe there is a great opportunity to get together and really start to develop a brand. Marketers, rather than farmers (no offence meant), need to market Australia's produce professionally overseas.

Supply chains are also an issue in Australia. Once again it is related to Australian companies dealing in the market — they are not adapting to change. Compare the two supply chains in Figure 1: the traditional, typical of those used by Australian companies, versus a modern supply chain for ultra fresh produce.

There is an old Darwinian theory: 'it is not the biggest, brightest or best that survive, but those who adapt the quickest'. We in Asia are not seeing that from Australia. We see Australian companies — the big dairy companies and citrus groups for example — they go to Asia and they talk to the local importer's agent. They do not talk to the customer, such as METRO. The agent tells the Australian company the same thing he has been saying for the last 15 years. At METRO we try to buy in wider ranges, to have a greater assortment for our customers, but the local importers are not telling that to Australian companies.

We at METRO have talked to the big Australian dairy companies about dealing direct with us. We would like our account to be treated in the same way as the accounts of modern traders like Woolworths or Coles, but we are told the companies have importers and METRO must deal through them. They will not change, so we go elsewhere. It is unfortunate, but at METRO we work with people that want to grow their business.

Conclusion

In summary, modern trade internationally is definitely not bad or ugly. It is a catalyst for development in the developing countries, bringing in new standards in food safety and improved quality standards. Modern traders improve the incomes of these growing communities, and ensure sustainable programs to support our future growth, and an ability to supply our global business.

John Glover has been in the retail industry for over 38 years. He has spent the past 18 years in the Asian Market, first with the major global retailer Royal Ahold from the Netherlands, and now with METRO Group from Germany. He has been Director of Food for METRO Group Buying, based in Hong Kong, developing international procurement for food globally for the METRO Group. Currently Mr Glover is the Regional Head of Offer Management and Customer Management for METRO Cash and Carry International for Asia. He is a frequent speaker at conferences and at the Produce Marketing Association and the Food Marketing Institute, on Asian retailing, the Fresh Food supply chain and Globalisation in the Retail and Wholesale Markets.

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