Global Trends in Retailing Services

APEC Group on Services Workshop
Retailing Services: Potential for, and Challenges to, Enhancing SME Participation in Supply Chains in APEC
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## Defining retailing services

GATS defines it as a sub-sector under Distribution Services i.e. CPC Section 4

### World Trade Organization

#### SERVICES SECTORAL CLASSIFICATION LIST

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<td>Franchising</td>
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But there may be strong linkages with other services so in policy terms it may be important to take a holistic view...

1. BUSINESS SERVICES

F. Other Business Services
   a. Advertising services
   b. Market research and public opinion polling services
   c. Management consulting service
   k. Placement and supply services of Personnel
   q. Packaging services
   r. Printing, publishing

11. TRANSPORT SERVICES

F. Road Transport Services
   a. Passenger transportation
   b. Freight transportation
   c. Rental of commercial vehicles with operator
   d. Maintenance and repair of road transport equipment
   e. Supporting services for road transport services

H. Services auxiliary to all modes of transport
   b. Storage and warehouse services
   c. Freight transport agency services
   d. Other
Reasons to focus on Retailing Services

- The sector makes a huge contribution, everywhere, to both formal and informal employment.
- For OECD countries, studies in the 1990s suggest the sector accounts typically for around 13-17% of employment, 25-30% of business activity and 8-17% of GDP.
- Within distribution, the bulk of these contributions comes from retail rather than wholesale.
- The distribution sector is the crucial link between producers and consumers and is consequently a very dynamic high value-add activity.
  - Though jobs in retail are often mis-characterised as low value, low productivity low wage female jobs.
Transformation of retailing

➢ Once a sector comprised typically only of small enterprises, dependent on their suppliers, the retailing sector has seen, since the 1990s, a rapid process of market concentration, resulting in retailers now figuring among the largest national firms (Wallmart, Carrefour, Tesco, Aldi etc).

➢ This concentration, plus a progressive expansion of retailers’ own-label products, has significantly shifted the balance of power in consumer goods distribution from the supplier to the retail chain.

➢ Add to this the innovation associated with IT-enabled retail systems, and retailers have emerged as the lead firms in “buyer-driven” supply chains.
Transformation of Retailing

- Integrated logistics and supply chain management methods also enabled “just-in-time” demand-pull supply systems - systems which linked reordering with real-time purchases.
- This enabled the adoption of “lean retailing” practices, allowing big reductions in inventory holdings and in the capital tied up in those holdings.
- These developments led to what we now call Modern Retailing or Organised Retailing, in which order acquisition, order execution, promotions and launches, transport and payment processes are all done very differently from the way they are handled by the traditional mom and pop stores.
Globalisation of Retailing

- From the mid-1990s, the transformed retail firms of a small number of OECD countries began a period of sustained international activity – as exporters of retail expertise, chiefly via mode 3 but also via mode 1 franchising.

- The late 1990s saw a rapid increase in retail FDI, largely by European and US retailers and primarily into East Asia, Latin America and Central and Eastern Europe.

- By the late 2000s, multinational retailing had become substantial; 8 of the world’s top 15 retailers derived over 50% of their sales outside their home country and on average they traded in 18 different host markets, with several of the leading firms operating in as many as 30 markets.
Lead Role of the “Grocery” Retailers

- Within retail, it is food and fast moving consumer goods that account for the biggest sales.
- And it is the retailers of these items, loosely described as “grocery” that are also leading the globalisation push.
- If leading global retailers are ranked on the basis of their annual international sales (rather than on total annual sales), then by 2008, all but one of the top 10 largest retailers were “grocery” retailers – the exception being Ikea.
- After the “grocers” come the specialty “hardline and leisure” retailers (1/3 of the top 20) and then the home improvement, office, toys and electronics retailers (56 of the top 250 retailers).
- Next come the ”fashion goods” retailers; despite being the group with the highest percentage earnings from global activity, none of these, not even LVMH, H&M etc, have sufficiently large international sales to put them in the top 20 group.
Emergence of Global Sourcing

- As with many services, while typically slower to globalise than manufacturing, it can no longer be claimed that retailing is essentially a domestic activity. And the process is ongoing.
- One study (Dawson 2007) which looked at the top global 100 retailers, showed the average number of countries in which they operate has increased from 2.8 in 1986 to 5.5 in 1996 and 10 in 2004.
- A study of Deloitte’s largest 250 retailers, showed that in 2005, international sales accounted for less than 15% of total sales; by 2008 this had increased to 23%.
- The globalisation process has also seen the emergence of some large transnationals which in addition to expanding their network of stores in emerging markets, have also put into place extensive networks of regional and global sourcing.
- These networks have led to concerns about increased imports of goods from foreign suppliers into the local retail supply chains.
- But they have evidently acted also as very important “export gateways” for local SME suppliers in the host countries. China provides abundant evidence on this front; in 2004, Wallmart for example sourced US$18 billion worth of Chinese goods for sale in the US market alone.
Survival of local and regional firms

- Despite the penetration from global retailers, including their success in progressing from urban niches of predominantly relatively wealthy consumers to smaller cities and rural towns and to serving the relatively poorer consumer also, and also their success in adapting and broadening their product range even into fresh food, the reality is that while the traditional/informal sector has been squeezed, the process of opening up to modernisation of the sector has not meant loss of all national retailers.

- On the contrary, global firms rarely dominate the local market in any of the emerging markets. This is only partly the result of regulatory intervention.

- Indigenous retailers have been successful in emulating imported innovations and best practices

- Strong resistance has been shown by the informal retail channels which retain their popularity, including wet markets and street markets
New competitive pressures, often at a regional level

- The global giants are also under pressure from the next tier of globalised retailers which perhaps have greater cultural “embeddedness” and institutional familiarity or deeper experience with local real estate and land-use zoning practices, enabling them to expand their regional footprint; eg firms like Shoprite or DairyFarm.
A quick word about B2C “e-tailing”

- In 2012, Business to Consumer (B2C) e-commerce sales grew over 20% to reach US$1 trillion for the first time.
- On-line web-based retail and payments platforms such as eBay and Paypal have opened up major new export opportunities for SME retailers, who benefit from the removal of the “middleman”
  - Of the firms doing business on eBay – many with fewer than five employees – 97% of those with more than US$10,000 in annual sales sell their goods internationally
  - Ebay has estimated that if the logistics costs associated with order fulfilment were reduced, SMEs could experience a 60-80% increase in cross-border e-commerce sales, equivalent to a US$4.8 to US$6.4 billion in trade.
- Larger retailers have their own websites, but also use platforms such as ebay. Multi-channel retailing (“Bricks AND Clicks”) seems to be the route that even the largest global retailers now prefer to take
  - This makes sense, as consumers clearly prefer choice!
  - BUT business also claims that multi-channel retailing is partly a business response to barriers to trade imposed on retailers, a way of hedging against different forms of protection.
  - The business pressure for further market opening is strong.
Trade Barriers in Retail and Distribution Services

Barriers to trade in retail and distribution services are significant in many markets. These include:

• restrictions on investment in certain sectors or with respect to certain goods;
• foreign ownership caps;
• limitations on ownership, location, and store size;
• limitations related to special sales, prices, and operating hours;
• burdensome authorization/licensing procedures, discriminatory inspections, and
• lack of transparency with regard to rule of law; and economic needs tests.
ISA & Distribution Services

The International Services Agreement should establish full market access for retail and distribution services as well as national and most-favored nation treatment for all forms of distribution, including e-commerce platforms. It should protect retail and distribution rights in both single and multi-brand formats, with no limits on size, geographic location, or merchandise assortment. In addition, the Agreement should:

• Prohibit equity caps or restrictions on foreign direct investment in retail as well as performance requirements.
• Require parties to implement clear, predictable, and transparent licensing regimes for new stores.
• Bar restrictions on particular kinds of merchandise (e.g., audiovisual, tobacco, food, pharmaceuticals, cosmetics).
• Require that capital requirements be proportional and consistent among all retailers based on size and scope of operations.
• Discourage economic needs tests, allowing them only if the requirements are transparent and based on objective criteria.
• Require that land ownership and leasing arrangements be based on objective, transparent criteria.