Question Paper
Integrated Case Studies - I (MB3J1): October 2008

Case Study* (100 Marks)

- **This section consists of questions with serial number 1 - 5.**
- **Answer all questions.**
- **Marks are indicated against each question.**

Read the case carefully and answer the following questions:

1. "The Chinese market is a lucrative destination for international players because of its huge population base, but stringent regulatory norms hold them back from entering China". In this context, <Answer>

a. Analyze the major business environmental factors in China that have attracted retailers such as Carrefour. **(15 marks)**

b. Discuss the challenges faced by Carrefour while expanding in China. **(10 marks)**

2. "Entry strategy plays an important role in the international expansion of a company". Explain why companies enter into foreign markets and the entry modes available to retailing companies. Why do you think Carrefour adopted the joint venture mode of entry in China? <Answer> **(25 marks)**

3. "As Carrefour and Wal-Mart were quickly moving toward a frontal clash, questions arose in observers' minds regarding which chain was better prepared to win in an increasingly global marketplace". In the light of the strategies adopted by foreign companies like Carrefour and Wal-Mart in China, do you think Carrefour has a competitive edge over Wal-Mart? Discuss. <Answer> **(18 marks)**

4. "Retailers are no longer just concerned about cost control, instead they view supply chain as a key element of their business strategy". In this context, explain the significance of efficient Supply Chain Management (SCM) in retailing. Also discuss the SCM related challenges that retailers need to deal with when operating in countries such as China. Elucidate the factors that contributed to Carrefour having an efficient SCM in China. <Answer> **(20 marks)**

5. "Carrefour had decentralized its operations, giving full freedom to store managers to operate their stores to differentiate themselves from the competition while satisfying and delighting their customers". Analyze the role and responsibilities of store managers at Carrefour. Is Carrefour right in giving the store managers complete freedom in choosing the products according to the local demands? <Answer> **(12 marks)**

Carrefour's Strategies in China

"*Carrefour has gotten it right in China – and, in fact, they're doing mass retailing globally much more successfully than the iconic Wal-Mart, earning twice Wal-Mart's revenue. What Carrefour is doing right (in additional to grabbing and building as many retail outlets as it can in the big cities) is simple: They're selling in a Chinese way to Chinese consumers. You can pull your own seafood from tanks. You can select from bins of fresh produce. It's more like a Shanghai outdoor market than a Paris indoor one. That's the customer experience the Chinese consumer wants.*"[1]

– Paul K. Ward[2], CRM Consultant, in 2005.

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* The case is prepared only for the purpose of examination and not to illustrate effective or ineffective performance of the company. The case contains factual information adapted to and combined with other information to enable analysis of the given topics.

[1] Paul K. Ward, "Goofing up Global CRM," www.crm2day.com, September 06, 2005.

"China represents a huge market when it has acquired its WTO membership. But it's no easy way to stand out a winner here. China is nearly as big as Europe and each area differs from any other. We have to keep on learning something new. We must know customers' wishes and expectations, therefore offering them more added values."[3]

– Jean-Luc Chéreau, Chairman, Carrefour China, in 2004.

THE 'GREAT MALL' OF CHINA

In 2006, France-based Carrefour Group (Carrefour), the second largest retailer in the world, successfully completed eleven years of its operations in China (Refer to Exhibit I for the top 25 food retailers in the world in 2005). As of September 2006, Carrefour operated in China through its 80 hypermarkets[4] and around 250 hard discount stores[5]. China was Carrefour's sixth largest market, with sales of over €[6] 2.06 billion in 2005 (Refer to Table I for the top six markets of Carrefour).

Being one of the first foreign companies to enter the Chinese retail industry, Carrefour played a major role in

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2 Paul K. Ward is known for his work in the area of CRM, Perceived Customer Value, branding and strategy in China.

3 "No Easy Way to Win in China: Carrefour," People's Daily Online, March 31, 2004.

4 Carrefour's hypermarkets occupied floor space between 5,000 sq meters and 20,000 sq meters. They offered more than 70,000 food and non-food products like household products, medicines, and clothes.

5 Hard discount stores occupied area between 200 and 800 sq meters and sold a range of 800 food products. Carrefour's hard discount stores were named Dia, Ed, and Minipreco.

6 As of October 24, 2006, 1 Euro = US$ 1.254.

bringing about a retail revolution in the country. It leveraged on its experience in the international markets and introduced a few of its global best practices into the Chinese market. Carrefour had adopted a decentralized management structure, where all store managers in China operated stores with complete freedom. Carrefour sold private label products and designed the stores according to the convenience of Chinese customers. By procuring the majority of its products locally, Carrefour was able to ensure their freshness, an attribute considered important by Chinese consumers. In China, where vast economic, social, and cultural differences existed among different provinces, Carrefour was able to cater to the needs of different customers successfully.

Table I
Carrefour – Top Six Markets (2005)

Country	Revenue (In € million)
France	44,468
Spain	13,619
Italy	7,320
Belgium	5,285
Brazil	3,944
China	2,064

Source: Carrefour Annual Report, 2005.

Till the 1980s, the retail industry in China was fully controlled by the Government. The department stores run by the Government provided little in the way of convenience. According to Wang Zhirong, General Manager of Tian Bai department store in Dalian, concepts like customer service and choice were unheard of. She said, "It didn't matter how you did your job, when customers came they had to wait until the shop assistants were in a good mood before begging them for help."[7]

Carrefour entered China in 1995, when the Chinese Government had partially opened the retail sector. The country's economy was in the growth phase and the urban consumers were shifting their preferences from the wet markets[8] and state-owned stores, to foreign retailers like Carrefour which provided convenience along

[7] Rebecca MacKinnon, "China's Reforms Produce Winners, but More Losers," www.cnn.com, October 1999.

[8] In China, wet markets can be found all across the country. These markets sell fresh fish, chicken, and live mammals and reptiles, generally in an open environment.

with a wide range of products in hygienic surroundings (Refer to Exhibit II for retail industry in China). Carrefour went on to strengthen its position in the country and by 2005, it had emerged as the sixth largest retailer in China. It was also the largest foreign retailer in the country (Refer to Table II for the leading retailers in China in 2005).

Table II
China's Leading Retailers (December 2005)

Retailer	Sales (RMB Billion)	No. of Stores
Bailian Group	72.1	6,345
Gome	49.8	537
Suning	39.7	363
Vanguard	32.0	2,133
Wumart	19.1	659
Carrefour	17.4	70
China Paradise	15.2	225
Trust-Mart	13.2	96
Parkson China	11.0	36
Lotus	10.1	61
Wal-Mart China	9.9	60
B&Q China	5.2	48

Source: China Chain Store & Franchise Association and www.carrefour.com.

According to Beijing-based CTR Market Research[9], Carrefour was the major retailer in 15 of the largest cities across China, with a market share of more than 5%. Between 2006 and 2010, Carrefour projected revenue growth of above 20% per annum in China and planned to open about 80 more hypermarkets in the country by 2009. Commenting on Carrefour's success in China, *Los Angeles Times* reported, "By joining with Chinese partners, adapting to local culture, and employing a supply chain that includes 18-wheel trucks and three-wheel bicycles, Carrefour has become the biggest foreign retailer operating in China."[10]

BACKGROUND NOTE

In the early 1950s, the grocery industry in France consisted mostly of family-owned stores. Though there were some big department stores, these charged exorbitant prices. At that time, the concept of free service[11] was

[9] Founded in 1995, CTR Market Research is the leading market research company in China. CTR provides different services that include interpretation of information, market segmentation, advertising, media research, and business research.

[10] Don Lee, "A Chinese Lesson for Big Retailers," Los Angeles Times, July 02, 2006.

[11] Prior to the advent of free service, the sales clerks picked up the necessary items for consumers from the shelves. Under free service, the customers were given shopping carts or baskets, which they used to collect the individually priced items placed on the shelves.

gaining popularity and there were very few stores in France that were providing such services. In 1959, two entrepreneurs, Marcel Fournier (Fournier) and Louis Defforey (Defforey) from Annecy in Eastern France decided to establish a large discount supermarket. Initially, they offered 7,000 shares to 10 stockholders and purchased a facility that was under construction.

On the ground floor of the building, the duo started constructing a supermarket. They sold the upper floors, thereby obtaining the required capital to run the business. Fournier was the President of the venture and Defforey's son Denis was the General Director. Fournier decided to name the venture Carrefour (Crossroads), as the store was located at the convergence of five roads in Annecy. At that time, another businessman announced his intentions of opening a similar store in Annecy. Fournier and Defforey decided to open a store at other premises as their facility was still under construction. Fournier used the basement of his office to open a store in January 1960. As the threat of competition was looming large, the duo offered products at the lowest prices. Soon, the store became very popular among customers.

Before the new store at Annecy was opened in June 1960, a campaign was launched to familiarize customers with the concept of supermarkets. The campaign was highly successful and in the first two days, Carrefour attracted more than 15,000 customers. To accommodate the vehicles of the customers, Carrefour expanded the parking lot, but this was not enough to cater to the growing number of visitors. Several traffic jams were reported in the store's vicinity and the founders concluded that locating supermarkets in the congested urban areas was not practical and decided to move to the suburbs. The next supermarket that was opened was also in the Annecy region in Cran-Gevrier. It had a large parking lot and a discount service station that sold petrol on a no-profit, no-loss basis.

In 1962, Carrefour decided to open a store at Sainte-Genevieve des Bois, a Paris suburb 30 km away from the main city where land was easily available at low price. Before the store was constructed, Defforey and his brother went to the US to observe the retail practices prevalent there. After observing the huge stores, the discounts offered, the low prices and services that the customers were provided with, they decided to adopt

similar practices in France. In 1963, they opened a new store. It occupied an area of 2,500 square meters and had enough space to park more than 400 cars. The store provided a wide range of items, including grocery at discounted price, stocked items like clothing, sporting equipment, electronic goods, and auto accessories. The store was inaugurated in June 1963 and its huge size earned it the name 'hypermarket' in the media. Carrefour offered products at the lowest prices as compared to its competitors by negotiating with wholesalers and suppliers. The concept of a hypermarket found instant acceptance among the younger people, suburban dwellers, and price conscious consumers.

In 1965, Carrefour formed two divisions – Carrefour Supermarché led by Fournier and Denis and Grands Magasins Carrefour, headed by Defforey and Fournier's son. Carrefour continued its expansion, opening huge stores in France. In 1966, a 10,000 sq. meters hypermarket was opened in Lyon and a 20,000 sq. meters hypermarket was opened in Vitrolles. In 1967, Carrefour opened an office in Paris to coordinate the activities of its different stores. In 1970, the company's shares were listed on the Paris stock exchange. By 1971,

Carrefour operated 16 wholly owned stores in France, had an equity interest in five stores, and also operated seven stores through its franchises.

GOING GLOBAL

Carrefour started making efforts to enter international markets after a law was passed in France in 1963 to restrict the development of large stores. For international expansion, Carrefour adopted the route of forming alliances with local partners. Its first international venture was in Belgium, where it opened an outlet in association with Delhaize Fréres-Le-Lion[12], in 1969. Carrefour expanded its operations outside Europe by opening a hypermarket in Brazil in 1975.

In 1978, Carrefour developed a hard discount store format, under the banner Ed in France (Refer to Exhibit III for different banners of Carrefour). The store offered a limited range of products at very low prices. By 1985, Carrefour was operating in ten countries and had introduced private label products that were priced 10-20% lower than the branded products and were of superior quality. In 1988, Carrefour entered the US market by opening a 330,000 sq. feet hypermarket in Philadelphia. Another hypermarket in the country was set up in 1991[13]. In 1992, Carrefour reported sales of €17.86 billion and a net income of €271 million.

In the early 1990s, Carrefour concentrated on establishing larger stores (area greater than 2,500 sq. meters) and sold off the smaller stores. In 1996, a law was passed in France under which food wholesalers were not allowed to give any extra discount to supermarkets[14] and hypermarkets. They were to charge an equal price

[12] Delhaize Fréres-Le-Lion is a part of The Delhaize Group, a food retailer headquartered in Belgium. Founded in 1867, the group operates food supermarkets in North America, Europe, and Southeast Asia. As of December 2005, the group operated 2,636 stores. It recorded sales of € 364.9 million and profit of € 18.6 million.

[13] Subsequently, Carrefour suspended the US operations in 1993, as the stores were not profitable.

[14] The supermarkets were between 1,000 and 2,000 sq. meters in area and offered mostly food products and household merchandise at competitive prices. Carrefour's supermarkets were called Champion, GS Norte, Gb, and Marinopoulos.

from all retailers. Due to this, the advantage the bigger stores had in terms of cost was lost and the price of the products was uniform across different types of stores.

The legislation was passed with the aim of protecting the small retailers from the onslaught of supermarkets and hypermarkets, which got a higher discount from the wholesalers and offered products at a lower price. The legislation led to the growth of discount chains that stocked private label brands. The chains started providing products at prices much lower than those at Carrefour.

By then, Carrefour's European operations were spread across Austria, Britain, Switzerland, The Netherlands, Germany, Italy, Belgium, and Spain. Ed was operating in Britain and Italy. Carrefour's South American operations were doing well and the company was aggressively expanding into those markets. In 1996, Carrefour opened 30 hypermarkets across the world, of which 15 were in Argentina, Brazil, and Mexico. By 1997, the number of stores in South America had increased to 60.

Some of the acquisitions made in the late 1990s helped Carrefour in becoming the top retailer in Europe. In 1998, Carrefour acquired Comptoirs Modernes SA, which brought 790 supermarkets into Carrefour's fold. In 1999, Carrefour acquired Promodès SA[15], which owned several hypermarkets, supermarkets, convenience

[15] Established in 1950, Promodès SA played a major role in promoting supermarkets in France. During the 1960s and 1970s, Promodès expanded its operations into other countries in Europe and South America.

stores, and discount stores in France and other European countries. This acquisition made Carrefour the second largest retailer in the world.

By December 2005, Carrefour was operating in 29 countries with 12,028 stores (including franchisees and partners) and employed 436,000 people (Refer to Exhibit IV for Carrefour's consolidated store network excluding partners as of December 2005 and to Exhibit V for sales per store format and region). For the financial year ending December 2005, Carrefour generated revenues of €74.49 billion and net income of €1.58 billion (Refer to Table III for financial summary of Carrefour for the financial years 2004 and 2005).

Table III

Financial Summary of Carrefour

(In € million)

Particulars	2005	2004
Net Sales	74496.8	72668.0
Other Income	1011.3	1038.6
Total Revenue	75508.1	73706.6
Cost of Sales	(58626.5)	(57052.8)
Margin of current activities	16881.6	16653.8
SG&A	(12232.7)	(11888.2)
Activity contribution before depreciation & provisions	4648.9	4765.6
Depreciation & Provisions	1474.2	1494.7
Activity contribution	3174.7	3270.9
Non-current income & expenses	(20.4)	(76.0)
EBIT	3154.3	3194.9
Net debt and other expenses	(454.6)	(484.5)
Income before tax	2699.6	2710.4
Income tax	(793.9)	(805.9)
Net income from recurring operations	1905.7	1904.5
Total net income	1582.1	1859.6

Source: www.carrefour.com.

CARREFOUR IN ASIA

During the late 1980s, the economy of several Asian countries like Taiwan, Singapore, South Korea, Thailand etc. was rapidly growing. In order to reap the benefits of this growth, Carrefour started its Asian operations by entering Taiwan in 1989. It established a joint venture with Uni President Enterprises Corporation[16]. Initially, Carrefour aimed at building a hypermarket of 10,000 square meters, similar to its hypermarkets in France. On studying the Taiwanese market, Carrefour realized that the store format which had been successful in other parts of the world would not be successful in Asia as the Asian retail markets were different from the other markets, in terms of the layout of the stores, the products offered, the frequency of shopping, and highly price sensitive customers. Carrefour decided to adapt the stores, the products, and management culture to suit the local environment.

Carrefour changed its strategy of building the hypermarkets in large open urban lands and began operating in high density urban areas in pre-existing buildings, when it found that the consumers in Asia did not wish to travel long distances to purchase groceries and other items as they shopped frequently and in small quantities. The first store in Taiwan was located in Kaohsiung and occupied an area of around 3,500 sq. meters. The number of products offered was limited and Carrefour concentrated on selling high volumes at competitive prices. Tapping the Taiwanese market was a big challenge for Carrefour as the tastes of the people in the country changed rapidly. The best selling products in a typical Taiwanese store changed within a span of just six months. In order to assess the trends, Carrefour opened pilot departments in the stores, where new products were tested. These departments interviewed some of the customers and studied their purchasing habits to monitor the changing customer preferences. The information was later communicated to all their other stores in the country.

Local store managers and department heads were given more autonomy. The department heads were made

16 Uni President Enterprises Corporation is one of the leading business conglomerates in Taiwan and the largest food retailer.

17 Hayet Sellami, "Carrefour China: A Local Market," www.cityweekend.com, April 28, 2005.

18 Each store employed about 500 people at different levels including the store manager, department heads, and store management staff.

19 According to China's WTO commitments in 2001, foreign retailers were allowed to establish joint ventures in five economic zones and six Chinese cities. In the next year, all provincial capitals were to be opened up to foreign investors and in the third year, the limitations regarding investments were to be lifted.

20 Retail Forward Inc. is a Columbus, Ohio, based firm that focuses on management consultancy services, market research, and executive development.

21 Jenny Summerour, "The China Connection," Progressive Grocer, January 01, 2002.

22 "No Easy Way to Win in China: Carrefour," People's Daily Online, March 31, 2004.

23 Owned by the Bailian Group and controlled by the Shanghai City Government, Shanghai Lianhua supermarket is the largest retailer in China. Established in 1991, it operated through different store formats including hypermarkets, supermarkets, convenience stores, chain drug stores, and e-business stores. In 2003, Shanghai Lianhua and Shanghai Hualian merged to form the Bailian Group.

24 RMB (Renminbi) is the Chinese currency; it means people's money. The unit of Renminbi is a yuan & with smaller denomination called jiao and fen. The conversion among the three is 1 yuan = 10 jiao = 100 fen. The currency exchange rate as on

Suggested Answers
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Section A

1. a. The Chinese market has attracted foreign investors because of its huge size and market potential. Some predict that China will become in few years the world's largest economy. The following are the environment that contributed to the booming Chinese retail business: < TOP >

Economic: China is an emerging economy but a dual economy too, with a wealthy urban professional and a poor country people. The gap between rich and poor has grown almost as fast as overall income, meaning that inequality is increasing nearly with the country's development. There are huge income discrepancies that are emerging within social groups and between regions.

October 24, 2006 was 1 US$ = 7.89 RMB

[25] The Beijing Shoulian Group is an enterprise group with more than 10 retailers. It is a state owned company engaged in logistics and department store operations.

[26] "French Firm Opens First Asian Store in Beijing," People's Daily Online, June 25, 2004.

[27] Hayet Sellami, "Carrefour China: A Local Market," www.cityweekend.com, April 28, 2005.

[28] The Chinese meal consisted of carbohydrate rich products like rice, noodles, and steamed buns accompanied by dishes made of vegetables, meat, or fish. The meal usually ended with fresh fruits or a sweet.

[29] "Carrefour Focuses Growth on Mall-based Retail Outlets," Shanghai Daily News, January 20, 2006.

[30] Don Lee, "A Chinese Lesson for Big Retailers," Los Angeles Times, July 02, 2006.

[31] Maria Trombly and Betta Plebani, "In China, Complex Supply Chains Yield to Simple Systems," www.ciocentral.com, November 07, 2005.

[32] Carol Matlack, Wendy Zellner, Frederik Balfour, "Carrefour in a Corner," BusinessWeek Online, October 11, 2004.

[33] Uighur, also known as Xinjiang Uyghur Autonomous Region, is located in the west of China bordering Tibet, Mongolia, Russia, Russia, Kazakhsthan, Pakistan, and India. Uighur is populated by Uyghurs (45.21% of the population according to 2000 census) and Kazakhs (6.74% of the population) who are the Muslim Turkic groups. The number of Han Chinese in the region stood at 40.58% as of 2000.

[34] As per Islamic law, the Muslims are forbidden to consume pork.

[35] The Arabic word Halal refers to food that is permissible according to the Islamic dietary laws, which specify the type of food Muslims can consume. The laws also specify the method of slaughtering animals, and sea food that is permissible to consume.

[36] "Foreign Businesses Cash on Chinese Holiday Economy," www.peopledaily.com.cn, January 20, 2004.

[37] RNCOS is a market research consulting services company that specializes in the pharma, IT, telecom, retail, and services industries.

[38] M+M Planet conducts research on grocery retailers and retail markets. The company maintains a database of leading grocery retailers along with details of trends and happenings in the industry. The firm functions from London, Frankfurt, Brussels, and Tokyo.

[39] "Chinese Rule Change to Spark Retail Growth," www.foodanddrinkeurope.com, March 19, 2004.

[40] "Carrefour Admits Selling Fake Louis Vuitton Handbags in China Store," www.finanznachrichten.de, April 20, 2004.

[41] Wu-Mart is one of largest retail chain store operators in China and is a non state-owned enterprise. It operates hypermarkets, supermarkets, and convenience stores in several major cities across China.

[42] MerryMart Chainstore Development Co. Ltd. is the fourth largest supermarket in Beijing.

[43] GOME opened its first retail outlet in China in 1987 and adopted the name GOME in 1993. The company began its expansion in China in 1999. In 2004, it was recognized as one of the 'Key and Strategically important enterprises' by the Ministry of Commerce, China.

[44] China Paradise Electronics Retail Ltd., established in 1996, is the leading retailer of household appliances and consumer electronics products.

[45] "Carrefour Focuses Growth on Mall-Based Retail Outlets," Shanghai Daily News, January 20, 2006.

[46] Hayet Sellami, "Carrefour China: A Local Market," www.cityweekend.com, April 28, 2005.

Political: The political environment in China is undergoing a transformation. The Old China defended the working class against the capital class. China has just begun its transition to become a democratic country. China's new leadership has come to power facing enormous economic, environmental, political and social challenges at home.

Socio-cultural: The Chinese population is 1.3 billion of people. The past decade has seen a phenomenal rate of growth in China. It represents an important potential of customers for the retailers. The consumer buying process is consistent across cultures.

The level of consumer involvement: The Chinese are seen as having a low level of involvement when purchases are for private consumption but a high level of involvement when they are buying products for their social or symbolic value. Since the Chinese greatly value social harmony and smoothness of relationships within the extended family, the social significance of products are highly important be it to express status, gratitude, approval or even disapproval.

The level of risk consumer's associate with a purchase varies enormously across cultures and as such it is an important variable in consumer behavior. It will determine whether a consumer will go for the comfortable purchase or is willing to try new products and services.

The Chinese are sensitive to social risk and the loss of social status if a wrong buying decision is made. The level of brand loyalty found in a market is also closely related to the perception of risk. There are huge variations in attitudes to brand loyalty across different cultures.

In China, consumers are loyal, not really brand conscious and not really used to cross product comparisons, except the urban consumers, who have a wide recognition of foreign brand names. Indeed, there are sharp differences between rural and urban attitudes. On a national level, Chinese consumers prefer to buy domestically manufactured products rather than comparable foreign-made goods. But, consumers in big cities are less likely to favor domestic products than are consumers nationally.

And, typical Chinese consumers do not want to be amongst the first to try a new product. They are reluctant to be pioneers, especially for an expensive, unrecognized (in terms of brand), foreign product.

Opportunities for retailers: China remains a huge opportunity with many untapped sectors and a large population and growing middle class demanding new products and serves. The key factors lie in adopting sound business practices and taking a long term view to developing a local business. With the opening of the Chinese markets, Chinese customers have been offered an increasing array in the products and services they can choose to consume. As a result, distinctly different customer segments have emerged based on age, income, experiences and evolving value systems. Retailers, whether local or foreign, must not only recognize these differences but also cater for the diverse needs of consumers if they plan to have a lasting and profitable presence in China.

Legal: Government policies are barriers in international markets. In China, policies and regulations are often applied inconsistently and can vary between regions. Both foreign nationals and Chinese officials themselves lack a solid understanding of China's policies. The key policies which act as barriers to entry relate to foreign exchange control policies and foreign investment policy. Concerning foreign exchange control policies, the state is responsible for formulating and promulgating the principles, degrees and regulations for foreign exchange control.

The acquisition of foreign exchange is a significant non-tariff barrier to doing business in China. Concerning foreign investment policies, China encourages joint ventures. The barriers to access China's distribution system make this system unstable: wholesalers at the local and central levels, new collective and private enterprises and factories, as well as some foreign companies compete to distribute consumer products. Local ministry of commerce wholesalers traditionally served

as intermediaries between the producer and retail outlets.

Foreign companies are not permitted to engage in wholesale trade. A strict isolationist policy kept foreign goods and trends out of reach of the average Chinese person, because Chinese consumers have less abundant information and purchasing experience with foreign products, they may rely more heavily on information such as the producing country's image in product evaluation.

Rules and Regulation regarding the entry of foreign players: The retail industry in China was protected till the year 1991 as no foreign retailer was allowed an entry into the country. The industry till this time was dominated by local retailers. The retail sector was opened on a trial basis in 1992, where foreign companies were allowed to operate in six cities – Beijing, Shanghai, Tianjin, Guangzhou, Dalian and Qingdao and five special economic zones – Shenzhen, Zhuhai, Xiamen, Shantou and Hainan Island. The foreign investments allowed in the retail sector could be in the form of joint ventures or contractual cooperative ventures with Chinese partner holding a stake of more than 51%. They were not allowed to conduct wholesale business and the total imported commodities could not be greater than 30%.

At this time, the authority to approve these foreign joint ventures laid with the respective provincial and state governments which competed for approving more and more such ventures in their states with the result that a huge number of approvals were granted. During this time, many foreign retailers like Carrefour obtained many approvals from competing provincial governments and expanded very quickly.

Opposition from Central government: Until 1997, the Central Government allowed over 20 foreign retail joint ventures. Limited investments could not meet the growing demand for retail services across China. By 1997, several retail enterprises with foreign investment were established in China, with approval from the local government. The foreign companies also established logistics infrastructure and offered warehouse services in the country. Though the Central Government was keen on restricting these operations, they were met with opposition from the provincial governments, which were concerned about generating employment and taxes. In 1998, the Central Government ordered closure of about 36 retail joint ventures.

Relaxing the norms according to WTO: By June 1999, the Central Government decided upon more liberalized rules on foreign investment in retailing and wholesaling industry, in preparation of China's entry to the WTO. As per the new rules, foreign parties can hold upto 65% equity stake in the joint ventures. The foreign partners were required to possess strong financial strength, advanced commercial and operational experience, merchandising technology, sales network and strong operational results. The foreign companies were required to have sales turnover of more than US$ 2 billion during the past three years and assets of more than US$ 200 million. The Chinese joint venture partner was also required to have assets of RMB 50 million or RMB 30 million depending on the location and average turnover of RMB 300 million or RMB 200 million as the case may be.

The retail companies were allowed to operate in the cities of Beijing, Shanghai, Tianjin, Guangzhou, Dalian, Qingdao, Zhengzhou and Wuhan and special economic zones of Zhuhai, Shantou, Xiamen and Hainan. In Beijing and Shanghai, no more than four joint ventures were permitted and in other cities only two joint ventures were allowed.

Wholly owned foreign enterprises were permitted in retailing:

After 2004, wholly owned foreign enterprises were permitted in retailing, wholesaling and trading sectors. The geographical restrictions were done away with and the ventures could be established anywhere in the country. The capital requirement was also reduced and the retail companies were required to have assets of RMB 300,000 as against RMB 50 million stipulated earlier.

These changes in the regulations governing the retail sector enabled Carrefour to

expand its operations further. Carrefour expanded rapidly and by 2006, the number of hypermarkets increased to 80.

As the geographical restrictions were done away with, analysts projected that there would be rapid expansion in markets where the respective retailers have had no presence and including new markets in rural areas beyond the metropolitan areas which are becoming saturated. The overall impact of the competition between the foreign retailers and the local retailers would be that the overall efficiencies and profitability would go up.

In spite of the new reforms that were announced in 2004, analysts felt that retailers would continue facing difficulties in the market as the new rules have increased the complexity of doing business in China. Instead of permission from one central authority, the retailer now needs to obtain 40 to 50 approvals from local and central authorities to open new stores. As the restrictions on the minimum capital were lifted, several small and mid-sized retailers from Hong Kong have also entered the Chinese retail market, increasing the overall level of competition in the industry.

b. **Challenges faced by Carrefour while expanding in China:**

Chinese Government had opened up its retail sector to foreign retailers, still foreign retailers continued to face regulatory problems in China. The Chinese Government was drafting new rules to restrict the expansion of large foreign retailers to encourage State –owned Enterprises (SOE), and were likely to impede Carrefour's growth plans.

The price of commercial property was increasing rapidly, especially in the urban areas where Carrefour had a significant presence. Even the rent and lease costs were growing along with the other marketing and advertising expenses of the company.

Carrefour's global archrival Wal-Mart, announced the acquisition of Taiwan-based Trust-Mart for US$ 1 billion. With this acquisition, Wal-Mart would be able to lay its hands on a wide spread, well-developed network of stores. The acquisition would also help Wal-Mart to improve its supply chain. And, Wal-Mart could give a tough competition to Carrefour in China.

Carrefour was strong only in some regions in China and the competitors were gaining ground in several other regions.

The Chinese authorities seem intent on protecting the local retailers and it is likely that they will continue to give the locals more favorable treatment in the future – maybe preferential treatment when it comes to store locations.

In China, the market was highly fragmented; the supply chain and logistics infrastructure was not well developed and prevalent cultural differences which prevented the growth of Carrefour.

Conclusion:

Though China is going through an unprecedented economic boom, people's pockets are getting deeper and they are ready to embrace new lifestyle concepts and habits. The trick lies in understanding China's billion-plus population, what they buy, their spending power and what determines their purchasing pattern. In order words, the mind and the wallet of the Chinese consumer.

2. Retailers go global for a number of reasons. Some retailers invest globally to tap fast growing consumer markets, especially when their home markets are stagnant. Retailers expand globally in order to leverage their existing assets; global purchasing relationships, a global supply chain, a unique product, a unique format, or a well known brand. In doing so, they blow away the competition or at least that is their hope wanting to maximize shareholders' wealth generally tries and increase their foreign business to become more internationalized. < TOP >

i. **Some of the important reasons why firms decide to go global are:**

1. **New sources of demand**: In many situations growth is limited in the home country. This may either be due to intense competition or saturation in the

share of the market. Thus, an alternative solution is to penetrate foreign markets where a potential demand exists.

2. **Existence of various market imperfections**: Various empirical theories have emphasized various market imperfections that is imperfections in product, factor and capital markets as the key motivating forces drawing FDI. Countries differ with respect to resources available for the production of goods. However, if all resources could be easily transferred among countries, the volume of international business would be limited. If markets were perfect, all factors of production (except land) would be mobile and freely transferable. In the real world, markets are imperfect and factors of production are somewhat immobile. Thus, it is worthwhile for MNCs to survey markets - to determine whether they can benefit from cheaper costs by producing in those markets.
3. **Economies of scale:** MNCs may want to enter new markets to increase their earnings and to realize the full benefits of economics of scale. Companies in industries where the fixed costs are relatively large need to engage in. volume selling to break even and these high volumes can only be realized if firms expand overseas.
4. **Use foreign raw material and foreign technology:** Some corporations are increasingly establishing or acquiring existing overseas plants to learn about the technology of foreign countries. This technology can then be used by corporations to improve their production process at their various subsidiaries allover the world. In some cases when a corporation plans to sell a finished product in a foreign country, it may decide to develop the product in the country where the new materials are located. This will help the corporation in saving the transportation costs which it would have incurred in transporting the raw materials from a given country
5. **Exploit monopolistic advantage**: In many situations, firms become internationalized when they possess an advantage not available to competitive firms. Even within a given country some firms may possess an advantage over other firms in these markets. For example, if a firm possesses advanced technology and has exploited this advantage successfully in local markets it may attempt to exploit it internationally as well. The advanced technology is not restricted to developing a new product - it could also represent a more efficient production, marketing or financing process.
6. **Diversify internationally**: When investors cannot effectively diversify their portfolio holdings internationally because of barriers to cross border capital. Flows, firm_ may help their shareholders with indirect diversification services by making direct investment in foreign countries. The firm's cash flows are internationally diversified when it holds assets in many countries. Thus, shareholders of the firm Can indirectly benefit from international diversification even when they do not hold foreign shares. Capital market imperfections may thus motivate firms to undertake FD I.
7. **Political safety seekers**: Some MNCs attempt. to expand their operations in countries that are unlikely to interfere with private enterprises and are considered politically stable. Also, MNCs based in politically unstable countries try to establish new operations and pursue other markets in which they may have greater flexibility to make business decisions.
8. **Knowledge seeking**: Another important reason why firms decide to enter foreign markets is for the purpose of gaining information and experience that will be useful to them elsewhere. For example, industries characterized by fast technological and product innovation it is important to collect information on foreign innovation and research and development systematically over a period of time. This information collected can then be used by the organization in its own research and development, marketing

and other areas.

ii. All retail is local. Hence, the mail-order/e-commerce segment maybe aside, retailing is special in the sense that exports are not a viable option in order to expand one's business across national borders. Consequently, other entry modes strategies have to be pursued are as follows:

Organic growth: This involves setting up of businesses in an international market from scratch. When a company grows, the growth may be either organic or inorganic. Organic growth means that the company itself has grown from its own business activity and its own resources, while inorganic growth means that the company has grown by merger or take-over.

Joint ventures: In a foreign joint venture, a domestic small business forms an alliance with a company in the target nation. The host partner brings to the joint venture valuable knowledge of the local market and its method of operation as well as the customs and the tastes of local customers. Sometimes foreign countries place certain limitations on joint ventures. Some nations, for example, require host companies to own at least 51 percent of the venture.

Strategic alliances: A Strategic Alliance is a formal relationship formed between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations.

Franchising: Over the past decade, a growing number of franchises have been attracted to international markets to boost sales and profits as the domestic market has become increasingly saturated with outlets and much tougher to wring growth from. International franchisers sell virtually every kind of product or service imaginable — from fast food to child day care — in international markets. In some cases, the products and services sold in international markets are identical to those sold in the United States. However, most franchisers have learned that they must modify their products and services to suit local tastes and customs.

Mergers and acquisitions: A merger is a tool used by companies for the purpose of expanding their operations often aiming at an increase of their long term profitability. Acquisition may be friendly or hostile. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer. Acquisition usually refers to a purchase of a smaller firm by a larger one.

Foreign Licensing : Rather than sell their products or services directly to customers overseas, some small companies enter foreign markets by licensing businesses in other nations to use their patents, trademarks, copyrights, technology, processes, or products. In return for licensing such assets, the small company collects royalties from the sales of its foreign licenses. Licensing is a relatively simple way for even the most inexperienced business owner to extend his reach into global markets.

iii. **Entry mode adopted by Carrefour:**

Joint venture as an entry mode: In China, a joint venture was the only way for a foreign company to set up operations. As per the guidelines issued by the State Council, in the retail industry, Sino-foreign joint ventures were allowed to operate only at a few locations.

Carrefour entered China in 1995 by forming a joint venture with the Chinese management consulting firm Zhong Chuang, and established a firm called 'Jia Chuang', in which it held the majority of shares.

Carrefour decided to creatively circumvent central government regulations prohibiting foreign ownership, because they believed it was strategically imperative to enter the market quickly. Their operations were illegal, but their relations with local officials gave them the opportunity to proceed without informing the central government. However, in 2001 Carrefour was cited for its failure to secure the central government's approval for opening all of the stores it operates, relying instead on the goodwill of local authorities. Due to this citation by the State Economic and Trade Commission (SETC), Carrefour's expansion

plans have been derailed.

Local partner: As Joint ventures help a firm benefits from the local partner's knowledge of the host country's culture, language and political systems and in addition, a firm can share the costs and risks of opening and running a new business with its local partner. This is particularly important in China as it is culturally very different and had complex negotiations, prevalent bureaucracy and corruption.

Expansion: Carrefour partnered with 27 holding companies, one for each store, but later after reached an agreement with SETC, Carrefour has reduced 27 holding companies to 13.

It has entered into associations with various local partners in various cities like Hanshang Group in Wuhan , Lian Hua in shanghai, Kunmig department store in Kunmig, Jin Hua group in Xi'an, Guangzhou dept store in Guangzhou, etc. In 2003, Carrefour opened its first hard discount store, Dia, in China by entering into a joint venture agreement with Shanghai Lianhua Supermarket.

Carrefour opened its 28th Chinese store in Hangzhou, Capital of Zhejiang province, in June 2002 and by the end of 2002, its sales in the country had increased to €1.19 billion as compared to €1.18 billion in 2001.

By 2003, Carrefour had a presence in 15 cities and its sales had reached to €1.32 billion.

They planned to open 300 discount stores in different residential areas in Shanghai by the year 2007. The joint venture was set up with total capital investment of RMB 90 million.

In 2004, Carrefour introduced the Champion Supermarket format in China, in association with a local partner The Beijing Shoulian Group.

Carrefour believes that its entry strategy was correct; after all, it is profitable in China. Carrefour's new strategy was to pursue both local and central approval simultaneously. In order to generate goodwill with the central government, Carrefour has shifted its expansion plans to the west of China and has expanded its retail export business beyond its current needs. These moves are intended to demonstrate to the central government that Carrefour intends to invest in China long-term.

3. Strategies followed by Carrefour in China:

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Flexible approach: Carrefour adopted a different approach in China. While many of the retailers and consumer product companies considered China to be a single huge market. It considered the country to be comprised of several small markets and approached these markets with flexible procurement, store management, marketing, and service strategies.

Consumer conscious: Carrefour always tried to keep their prices low by keeping in mind the fact that for Chinese consumers, price was the main consideration. This has bought Carrefour a huge popularity for its hypermarkets. By keeping the consumers' convenience in mind, Carrefour sold a different variety of goods by attracting the consumers to the stores. A Chinese consumer, instead of visiting several places for various items, he/she can obtain all the items under one roof that is in a Carrefour store. As Chinese consumers prefer buying in smaller quantities, Carrefour provided them with different small size baskets than compared to European stores.

Expansion of operations in China: Carrefour planned the expansion of its operations in China in a systematic manner by establishing regional offices. The headquarters of the East China region in Shanghai took care of expansion activities in that region. Similarly, headquarters of the Northwestern region was located in Xinjiang and it was responsible for expanding business in that region.

Choosing appropriate store locations: Carrefour was careful in selecting its store location. Before opening new stores, it sent a team to conduct a detailed study of the store location, available space, purchasing power of people, their habits followed by a study on the culture, customs, and traditions of that region. Carrefour stores were located at the

center of the city, as many of the consumers went either on their bicycles or by public transport. Carrefour did not follow a particular store format and encouraged the local store managers to come out with the best format for the store and sales plans to ensure that the store broke even within two to three years.

Exploring the potential: Carrefour explored the potential markets in Shanghai and opened three hypermarkets at Nanfang Shopping Center in Minhang district, the Lianyang Thumb Square in Pudong New area and in the Dragon City shopping mall in Minhang district's Qibao area. These shopping malls had many resources including stores, counters, and restaurants that attracted more and more customers from various parts of the China.

Decentralization: Decentralization was one of the important factors for Carrefour's success in international markets, with store managers being given the authority to take decisions according to their local traditions and customs. Every store of Carrefour was managed by a store manager and department heads. The store manager allotted a particular portion of the store to each department head, who was responsible for managing that portion, including the products stocked, promotions to be carried out, etc. He along with the department head decided on the product mix for that portion of the store and also decided on the products to be sold in the stores according to the needs and preferences of the customers. The performance of the store managers was judged by their ability to meet the forecasts and profit targets. The monthly performance of individual stores was communicated to all other store managers in China. Good performance was rewarded with higher incentives and an increase in salary.

Efficient supply chain management: Carrefour adopted a quite flexible supply chain system in China. As it has procured most of the goods from within China to cater to its local operations, it helped Carrefour to maintain lower prices compared to other foreign retailers, who sold imported products. Buying and stocking local products was part of Carrefour's strategy to cater to the needs of the local customers. Stores that were located in places that had a large expatriate population had more imported goods, different kinds of European and American food items, and the prices charged were also higher. In order to differentiate the imported products from the Chinese products, the flag of the country from which the product had been obtained was displayed on its label.

Localization: Most of Carrefour's stores in China were spread across several floors and ramp escalators were provided to move shopping carts between the floors. The sides of the escalators were stacked with snacks and eatables. The department selling fresh food and groceries was designed to resemble the local outdoor markets. Carrefour catered different products according to the different tastes of people living in various parts of China. Consumers near the coastline of china, consumers preferred live fish so Carrefour sold live fish. In the middle and western China, consumers preferred frozen fish. It opened a fresh food section that made the products available that were similar to the products available in the other local fresh food markets. It ensured that these food items were available at lower prices and in a clean environment. Carrefour decorated its stores according to traditional practices and stacked the stores with several items like paper lanterns that were used during the festival.

Strategies Adopted by Wal-Mart in China:

Ensure the good quality of the products: For ensuring better quality of products, Wal-Mart has sent many of its managers to suppliers' factories and maintained an extranet site for sharing sales information and the consumers' expectations from the suppliers. Even though, Wal-Mart started its operations in China with American workforce, later on it employed several Chinese as mangers and shop assistants. It also took enough care to train the suppliers and employees and regularly featured on the list of most preferred employers in China.

Ambience of the stores: Wal-Mart tried to create an ambience that gave a Chinese feel for its stores and also by selling Chinese goods and having Chinese employees. The stores had wider aisles and smaller checkout counters to cater to the needs of the Chinese customers who shopped frequently and in small quantities. It also designed the packaging, uniform of the shop assistants, and the décor according to the preferences of the Chinese consumers.

Responsibility to associates: Wal-Mart was the largest private employer where the associates were given recognition and a share of the profits and were expected to be totally committed to the company and its success. The training given to the associates was extensive for giving them an overall perspective of the business.

Everyday-low-prices: Wal-Mart offered brand name products at prices consistently lower —approximately 2–4 percent—than those found at department or specialty stores. The everyday-low-price strategy implied that there were few promotions. Although other major competitors, including Carrefour, typically ran 50 to 100 advertised circulars per year—spending 2.1 percent of discount store sales on advertising—Wal- Mart produced only 12–13 major circulars per year—spending 1.5 percent of sales.

Using superior technology: Technological superiority was seen as a competitive advantage by Wal-Mart. Technology was used not only in setting price and product offerings, but also in areas such as communication, distribution and the control of supplier relations. Wal-Mart's information systems expense was estimated to be 1.5 percent of sales compared with 1.3 percent for its direct US competitors.

Difference in distribution system:

As of January 2006, Wal-Mart operated through 56 stores in China. As the stores were few and widespread, the distribution centers could not be utilized fully. Another obstacle was the absence of nation-wide distribution system, which limited Wal-Mart's economies of scale. In 2006,Wal-Mart has finished the construction of a central distribution center in Kengzian (China). The place is a massive 40000 sq m facility with 70 huge doors designed to handle deliveries from trucks. While Wal-Mart is making a central distribution center in China but Carrefour, the French competitor, has a different strategy.

Carrefour relies more on local distributors to deliver direct to the stores because it believes that flexibility matters more especially when the market is new. In other words, Carrefour is building a network store by store and while it faces the challenges of uniformity in service and quality control, the cost of development is lower.

Competitive edge:

Wal-Mart's limited exposure to international markets also proved to be an impediment to its operations in China. Moreover, China was the first Asian country in which Wal-Mart had started its operations. As the Asian market was quite different from the other markets in world, Wal-Mart took time to expand in the market, which gave a chance to other domestic and foreign retailers to consolidate their position in the market. Well, after nine years of presence in China Wal-Mart is still loss-making but Carrefour is profitable on the other hand. So we can conclude that at least till this stage, Carrefour is having a competitive edge over Wal-Mart in China.

Carrefour has its eye on the customer and Wal-Mart is spending on the back-end. Many believe that this approach will guarantee Carrefour's growth in the future but at the end of the day it will have different products in its stores. So in the future many people may see Carrefour investing in the back-end to benefit from the synergy between its stores.

4. i. **Significance of SCM:** < TOP >

- Excellent retail supply chain management revolves around understanding and balancing three key dimensions of availability, inventory and cost. Managing these trade-offs efficiently can result in supply chains that improve business performance and drive competitive advantage.
- Today's supply chain leaders are working with their business partners to design, develop, move, store, sell and service their products with ever greater speed and economy. Now, more than ever, supply chains are regarded as sources of business value and competitive advantage. Differentiated supply chain models are emerging to address different merchandise characteristics. "One size fits all" no longer applies.
- Short-lifecycle fashion products require a supply chain that can cope with fast lead-times and accelerated time-to-market — tight integration with the supply base is critical. Repeatable continuity products demand integrated and optimized replenishment and forecasting. Regardless of type, all supply chains need to be supported by effective core processes and capabilities.
- Supply chain leaders develop robust basic processes and disciplines, and then add new and differentiating capabilities that drive supply chain excellence. These new capabilities enable leading retailers to transform and differentiate their supply chains. Creating change in an existing supply chain can be daunting. Given the breadth and depth of impact, virtually all areas of a business are affected.

ii. **The SCM challenges that are dealt by the retailers while globalizing:**

1. **Poor infrastructure:** One of the key challenges facing the SCM is the state of the country's transport infrastructure. At present, despite some large-scale projects, companies in the region complain of insufficient integration of transport networks, IT, warehousing and distribution facilities. Outside of the main economic centers, the logistics sector tends to be of low quality, highly inefficient and with little technological competence.
2. **Regulation:** Regulation exists at a number of different tiers, imposed by national, regional and local authorities. Regulations often differ from city to city, hindering the creation of national networks.
3. **Bureaucracy & Culture:** Getting the go-ahead for any logistics project still relies heavily on the strength of contacts within host-country bureaucracy. Many western companies find it difficult to repatriate profits generated in the country.
4. **Poor training:** Training in both the third-party logistics (3PL) sector and the manufacturing and retailing sectors is very weak both at a practical level, such as IT, driving and warehousing, as well as at a higher strategic level. Many do not realize the benefits of best practices in logistics and are not interested in outsourcing or supply chain management techniques. This has been compounded by the failure of the government and other regulatory authorities to promote logistics programs
5. **Information and communications technology:** Outside of the main logistics centers, information and communications technology and infrastructure is unreliable. There is a lack of IT standards and poor systems integration and equipment. At a very basic level, the consistent supply of energy is also problematic leading to interruptions in communications.
6. **Undeveloped domestic industry:** If the host-country's logistics sector is fragmented and dominated by commoditized and low quality transport and warehousing, then it provides little base to build a modern industry. This also makes it difficult to meet the growing supply chain demands for industrial and commercial enterprises.
7. **High transport costs:** Some estimates put the cost of transporting goods in countries like China at up to 50 percent more than in developed regions

such as Japan, Europe and North America. These costs are increased by high tolls on roads. Logistics costs (including warehousing, distribution, inventory holding, order processing, etc.) are estimated to be two to three times the norm and in excess of 20 percent.

8. **Poor warehousing and storage:** Poor facilities and management are to blame for high levels of loss, damage and deterioration of stock, especially in the perishables sector. Part of the problem is insufficient specialist equipment, i.e. proper refrigerated storage and containers, but it is also partly down to lack of training.
9. **Regional imbalance:** If the host-country's economy is characterized by wide variances in levels of economic activity and development then it is problematic in terms of distribution as there is a major imbalance of goods flows from the one part of the country to another part of the country.
10. **Domestic trade barriers:** Although the various countries in accession to the WTO has lowered trade barriers such as tariffs and quotas for international shipments, there are still problems related to moving goods around the country itself. Goods can be subject to unofficial border tolls when moving between provinces. This is particularly evident when shipping from an inland manufacturing location to a port city or vice versa.

iii. **Carrefour's SCM in China:**

- One of the secrets to their success in bringing the new model of SCM to China has been the use of Third-party Logistics (3PLs) to manage the distribution process. Carrefour procured most of the goods from within China to cater to its local operations. This helped Carrefour maintain lower prices compared to other foreign retailers, who sold imported products.
- Carrefour's strategy is to buy and stock local products to cater to the needs of the local customers. The items stacked were also different depending on the location of the store. Stores that were located in places with the large population had more imported goods, different kinds of European and American food items, and the prices charged were also higher. The outlets in other locations were designed to cater to the needs of the local Chinese population and stacked predominantly Chinese products and food items.
- Carrefour set up its global purchasing center in Shanghai, through which goods were sourced across the country.
- Carrefour introduced its own label of products that were of good quality which included food, grocery, daily necessities, and clothes. These products were sold at priced 20-40% below the market price of competing branded products.
- Carrefour taught the suppliers how to do business efficiently and provided them with the required support. Many of the suppliers were provided with computers and software to manage inventory and standardize their products and orders. Carrefour chose to use the services of local distributors who were well versed with the local networks. The company was not in favor of building a national network for distribution or an automated supply chain system in the country.
- The training program, called Agricultural Products Quality and Safety, was launched .The farmers and suppliers were taught about food safety, health, and hygiene and about preserving the freshness of their products. Carrefour had conducted ten training programs at eight different locations within one year. The company was of the view that such training would help it in providing the consumers with products of higher quality and safety.
- By adopting all the above given strategies Carrefour is successful in having efficient supply chain management.

5. The role, responsibilities of store managers along with skills required to carry out these responsibilities in general: < TOP >

The retail store manager should take the responsibility for the conduct of the store personnel and maintenance of service standards of the organization as well as protection of the merchandise in a retail store. The responsibilities of a store manager can be broadly divided into four categories:

Managing the Store Personnel

In order to adapt to the highly competitive conditions, Carrefour had to adapt its human resources and vendor relationship management. Department heads were much more autonomous then their French counterparts. They had the responsibilities of a business-within-the-business for their department— handling everything from supplier relationships to hiring, promoting and firing staff and from price definition to full product selection. All the pressures of sales and margin were on their shoulders. To incentivize performance, department heads and store managers had a bonus linked to store results and a base salary. A typical "Carrefour-man" would start from the bottom of the store level and work his/her way up through dedication and performance. Although this path has changed in recent years, Carrefour promoted managers internally, hiring from the outside only when the skills needed could not be found in-house. On-the-job-training was applied to all the levels in the store. All managers and department heads were trained in existing stores for at least a year. A prospective store manager would move through all the departments of the store, and if they were appointed to a new store, they would be on-site at the beginning of the construction. Each level in Carrefour was responsible for training and developing the level below.

A store manager can increase the productivity of the store by managing the store's human resources effectively and efficiently. To increase the productivity of the store personnel, a store manager should.

Minimizing the Cost of the Retail Store

The payment of salaries and other compensation benefits to employees constitute a major part of the cost of a retail store. Other costs of the store include cost for control and maintenance and inventory loss due to shoplifting and employee theft. The store manager should try to reduce these costs by efficiently managing the store personnel as well as providing security and maintenance to the store. At Carrefour, store managers and department heads were the key people in the stores. The store manager and his/her department heads had nearly total responsibility and control over their store. The store manager allocated the area for each department within the store and was in charge of general advertising and decoration policies for the store. Jointly with department heads, s/he would decide on the product mix and make sure that all departments presented coherent positioning. Each department was a profit center, with its own targets and income statements. The department head had full responsibility over purchasing, promotion, pricing and motivating and training his/her assistants.

Managing the Buying and Selling Activities

A retail store can manage the buying and selling activities through displays and visual merchandising. The retail store manager can work along with buyers and suggest new merchandise plan and manage special events, and, decide on markdowns to increase the sale of merchandise. At Carrefour, department heads decided what they wanted to buy and from where. They would buy centrally through Carrefour's central purchasing only when the advantages of mass purchasing outweighed the advantages of local buying. This meant that the range of products varied from store to store and that a supplier would (at least initially) have to negotiate with all the stores in order to guarantee the presence of its products in a certain region or at a national level. In order to leverage its purchasing power, Carrefour had, over the years, centralized negotiations with some suppliers at the headquarters level. With aggregate agreements covering all stores, these suppliers could be confident of their products' presence in most all stores, both regionally and nationally (depending on the arrangement). Nevertheless, for many products local buying was essential. This was especially the case in areas where regional specialties and highly perishable products were seen as sources of differentiation. Generally, product mix varied from store to store and local products could represent up to 30 percent of an individual store's food sales.

Pricing was the complete responsibility of department heads, both for the products purchased locally and centrally. In order to ensure the veracity of its aggressive pricing policy Carrefour conducted extensive price scanning of all competitors within 5 minutes driving time of any store. These scanning were done 3 to 4 times a week for the top 20 percent of products, which accounted for 80 percent of sales, and once a week for the remaining products. Prices were then set either equal to or below the competitor's level. Invariably because of its decentralized pricing system, customers at four Carrefour stores in a large city could find the same product being offered at four different prices.

Providing Customer Service

To retain customers and increase traffic flow in a retail store, the store manager has to provide customized services, which add value to the merchandise sold. At Carrefour, the western style hypermarket was customized to effectively cater to the needs and preference of Chinese consumers. Carrefour stocked products preferred by the local population, in a manner they demanded.

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