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The Metamorphosis of the Retailing Sector**

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By: CNN Expansión.com

Editor's note: This is a translated transcript from an interview between Bryan Gildenberg and CNN Expansión.com, with excerpts from a conference held in Mexico City in November, 2007.

The inhabitants of Jocotepec, in Jalisco, and Altotonga, in Veracruz, have a brand new Bodega Aurrerá (Aurrerá Warehouse). Wal-Mart de México (Walmex) has already approved the openings of additional Bodegas in Terán, Chiapas, and Ciudad del Carmen, Campeche.

For its part, Oxxo opened 755 stores last year for a total of 5,237 locations. The convenience store chain has helped FEMSA's, its parent company, income increase 15.2%. And Comercial Mexicana, the biggest supermarket chain, opened two specialized formats in 2006: City Market, which offers *gourmet* products geared toward high income consumers, and Alprecio, which focuses on offering better prices and is located in lower income areas.

“They work very well for specific population segments and in well-selected locations. They are good formats that still have ample growth potential,” says María Maillard, Comercial Mexicana's Manager for Investor Relationships.

The retailing sector's panorama is changing. Supermarkets are expanding to new geographies—such as in cities with less than 60,000 inhabitants—convenience stores are multiplying at rates never seen before, and specialized stores are emerging and occupying new spaces.

The retailing sector in Mexico is undergoing an evolutionary process and is passing from a concentration phase to a penetration phase, explained MVI's Chief Knowledge Officer, Bryan Gildenberg, one of the worldwide leading consultants in the *retail* sector, to some 250 members of WPP's communications group during a conference in Mexico City in November, 2007.

MVI, which is headquartered in Massachusetts, has identified five phases of evolution in the retail market and explains that Mexico, due to its characteristics, is entering a phase called “penetration.”

In this phase, the big players, as well as some of the new ones, try to access new geographical areas in which to open their novel formats. Mexico is firmly advancing toward this third phase, which will favor changes in the retail companies' structures.

“It is probable that, in the long term, we will see a market that is more restricted for hypermarkets and more open for smaller sized supermarkets, like Alprecio,” says Comercial Mexicana’s Maillard.

“New formats, new geographies, and increased specialization are the time’s new rhythm; providers and retailers can’t forget these three tendencies,” says Gildenberg in an interview with *Expansión*.

“What you’re going to see is a growth consolidation for the big players; marketing strategies will become more sophisticated; they are going to think carefully about how to attack new opportunities (...), and there will be more specialized stores,” predicts Gildenberg.

A Market in Evolution

“The developing (retail) markets move within a predictable continuous evolution,” states Gildenberg, “And Mexico is moving from one phase to another.”

The big formats, like the hypermarkets, prevail in the concentration phase, and there are several competitors in the same site or city. “It’s an example of a consumer driving over 80 kilometers and not seeing a thing. Suddenly, and without any notice, there are seven supermarkets all together,” says Gildenberg.

In the penetration phase, retail stores promote multiple or secondary formats, such as warehouses, and begin with niche marketing. The emergence of more sophisticated specialty stores and increased pressure on retailers and providers in areas such as inventory and net distribution also characterize this phase.

“Our most important area of influence remains the country’s central region, however, we have opened new sites like Playa del Carmen and Campeche, and we are trying to strengthen the country’s northwest region, the second area where we will concentrate more stores,” says Maillard.

Raúl Argüelles, Wal-Mart de Mexico’s Vice President for Corporate Affairs, says that the supermarket’s biggest strength is being a multiformat company. “This variety is what distinguishes us in the sector,” he said in an interview via e-mail.

Walmex is #1 among the 10 biggest retailers in Mexico. Its billing is more than the combined sales of Soriana, Oxxo, and Comercial Mexicana, which hold the next three positions, according to an MVI ranking.

Gildenberg points out that Walmex contributes a significant part of Wal-Mart Corporation's sales and profits, which is the reason why the company wants to keep growing in Mexico. And it’s precisely the Bodega Aurrerá format that will allow it to continue expanding to new locations.

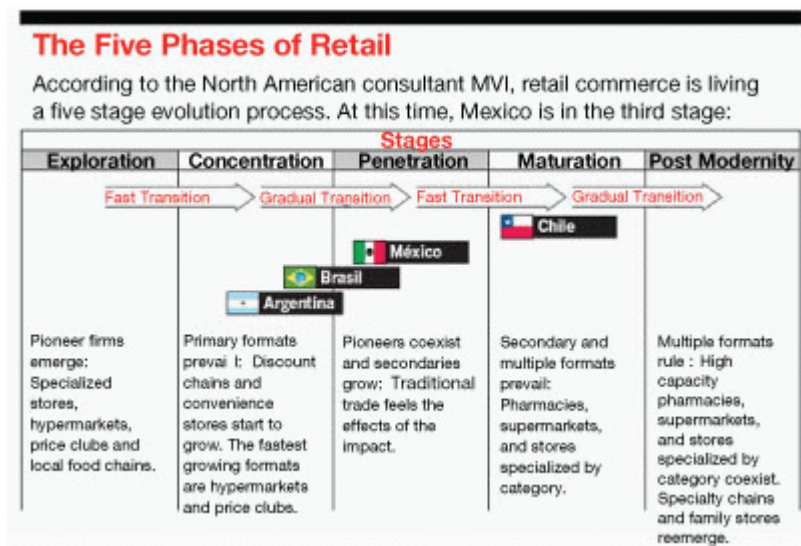
This type of stores represents 32% of Walmex’s total sales and works for communities with less than 60,000 people. “Bodega Aurrerá is the business format that has allowed us to take our value offer (...) to cities in the country where we still don’t have a presence,” explains Walmex’s Argüelles.

MVI predicts that three demographic factors will drive the retail segment’s presence growth in Mexico: the population increase estimated for 2010, a larger number of women in the workforce, and growing urbanization.

It also anticipates that five states—Sonora, Sinaloa, Michoacán, Yucatán, and Aguascalientes—have the potential to become *hubs* or key destinations of the retail chains and their new formats.

Gildenberg warns that the retailers’ and the providers’ strategies will have to adapt to this new phase.

Figure 1: The Five Phases of Retail



Source: MVI research

Currently, low price offers are no longer the favorite or only strategy. Price comparing between the various supermarkets will be one weapon in a more ample arsenal.

Competition will be determined by other elements, such as knowledge of the consumers’ behavior to understand which format type is more convenient, attractive promotions, and differentiated product offer.

“Wal-Mart Supercenters have developed merchandise distribution by the ‘purchase worlds’ concept to a bigger depth: we look for differentiated merchandise and we place it to make shopping for things of the same theme easier, like the world of sports, health center, beauty circle, among others,” mentions Argüelles.

“Comercial Mexicana, aside from price, focuses on providing better quality for perishable products, client services, attractive and different promotions, and points of sale (location and design),” comments Maillard.

“We think that tendency (new formats) is a reality. It’s important to diversify services in a supermarket, without losing the most important focus for the business, that at this moment is Mega,” adds Maillard.

The Mega format has the highest margin of the seven types of stores that Comercial Mexicana manages and is, according to data of its financial reports, the one that opens more doors per year—but the company has also planned to open several City Market and Alprecio units.

Another tendency that will characterize the penetration phase, predicts Gildenberg, will be the growth in the number of people that do their shopping online—which he estimates will grow 20.3% to 2010—and the constant replacement of the small family stores by convenience stores, like Oxxo, Extra, and Go. Mexican consumers have shown that they are very receptive to this type of American format and have proven that they want variety and specialization.

For Gildenberg, the Mexican market is moving forward, which “is exciting” because “Mexican retailers will encounter Walmex.” However, he warns that providers have to establish a map to be able to develop their capacities and keep up with the curve. “Segmentation, optimization, demand creation, and integration. Be sure to work on one or more of these,” says Gildenberg.

In 2002, the five biggest retailers—Walmex, Soriana, Oxxo, Comercial Mexicana, and Liverpool—controlled 14.4% of the market; MVI estimates that in 2007 they will increase their participation to 19.6%, and by 2010, they will control 21.3%.

Besides Wal-Mart, three of these companies are in the Top 10 of Latin America’s retailers: Soriana (5th place), FEMSA (8th), and Comercial Mexicana (10th).