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THE SUPERMARKET REVOLUTION IN DEVELOPING COUNTRIES

Policies for "Competitiveness with Inclusiveness"

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A "supermarket revolution" has been underway in developing countries since the early 1990s. Supermarkets (here referring to all modern retail, which includes chain stores of various formats such as supermarkets, hypermarkets, and convenience and neighborhood stores) have now gone well beyond the initial upper- and middle-class clientele in many countries to reach the mass market. Within the food system, the effects of this trend touch not only traditional retailers, but also the wholesale, processing, and farm sectors. The supermarket revolution is a "two-edged sword." On the one hand, it can lower food prices for consumers and create opportunities for farmers and processors to gain access to quality-differentiated food markets and raise incomes. On the other hand, it can create challenges for small retailers, farmers, and processors who are not equipped to meet the new competition and requirements from supermarkets. Developing-country governments can put in place a number of policies to help both traditional retailers and small farmers pursue "competitiveness with inclusiveness" in the era of the supermarket revolution. Some countries are already taking such steps, and their experiences offer lessons for others.

The Rise of Supermarkets in Developing Countries

Supermarkets in the developing regions of Africa, Asia, and Latin America have spread in three established waves (see Table 1). Supermarket sales in the third-wave countries are growing at a spectacular rate, far faster than those countries' rapid growth rates in gross domestic product (GDP). A fourth wave is just barely emerging in the poorest areas, such as Bangladesh, Cambodia, and West Africa. It may take another one or two decades before supermarket diffusion in the fourth wave areas is appreciable.

Although urbanization and increased incomes have been important in the rise of supermarkets, other factors also played important roles. A crucial factor was the liberalization of retail foreign direct investment (FDI), which sparked an avalanche of FDI (and competitive or at times anticipatory domestic investments) through the 1990s and into the 2000s. Intense competition, consolidation, and multinationalization in the supermarket sector have also accelerated the spread of supermarket chains seeking to improve their competitive positioning. In addition, domestic policies have often included tax incentives for supermarkets and hygiene and location regulations for wetmarkets. Finally, the modernization of supermarkets' procurement systems has reduced costs and made supermarkets more competitive with traditional retailers.

Impacts on the Agrifood System

Impacts on Consumers. Supermarkets tend to charge consumers lower prices and offer more diverse products and higher quality than traditional retailers—these competitive advantages allow them to spread quickly, winning consumer market share. In most countries supermarkets offer lower prices first in the processed and semi-processed food segments. Only recently, mainly in the first- and second-wave countries, have supermarket prices for fresh fruits and vegetables been lower than traditional retailers' (except in India). The food price savings accrue first to the middle class, but as supermarkets spread into the food markets of the urban poor and into rural towns, they have positive food security impacts on poor consumers. For example, in Delhi, India, the basic foods of the urban poor are cheaper in supermarkets than in traditional retail shops:

rice and wheat are 15 percent cheaper and vegetables are 33 percent cheaper.

Impacts on Traditional Retailers. As supermarkets spread and their market share grows, the market share of traditional retailers declines. This decline happens at different rates over product categories and locations. The traditional sector is declining fastest in large cities and among small general stores selling processed foods and dairy products; they tend to have trouble competing with supermarket chains that buy in bulk and have economies of scale. Declines are slower among urban traditional retailers who modernize to compete. Given that many traditional retailers are poor, it is important to help them modernize and compete or obtain assets and skills to transition to other employment.

Modern retail can also create jobs. Some of this new employment is a swap with traditional sector employment. Depending on the formats used by modern retailers, however, the expansion of the consumer market facilitated by modern retail plus small-format innovations, such as the "pushcart chains" pioneered by ITC and Acme in India, can expand employment. How well the government and the private sector raise the skills of workers in the distribution sector and enable the transition will determine whether the transition has poverty-creating or poverty-alleviating effects. In India's medium-size supermarkets, for example, the employment ratio (workers per square meter) is similar to that of traditional retail. Employment in the modern sector is better paid, with better conditions, but it also requires more skills and education than employment in the informal retail sector.

Impacts on Processors and Farmers. When supermarkets modernize their procurement systems, they require more from suppliers with respect to volume, consistency, quality, costs, and commercial practices.

Supermarkets' impact on suppliers is biggest and earliest for food-processing and food-manufacturing enterprises, given that some 80 percent of what supermarkets sell consists of processed, staple, or semi-processed products. But by affecting processors, supermarkets indirectly affect farmers, because processors tend to pass on the demands placed on them by their retail clients.

Supermarket chains prefer, if they are able, to source from medium and large processing enterprises, which are usually better positioned than

TABLE 1—THREE WAVES OF SUPERMARKET DIFFUSION

Period	Countries/regions	Growth in supermarkets' average share in retail sales
First wave started in early 1990s	Much of South America, East Asia (outside China), and South Africa.	From about 10 percent around 1990 to about 50–60 percent by the mid-2000s
Second wave started in mid- to late 1990s	Mexico, Central America, and much of Southeast Asia	From 5–10 percent in 1990 to 30–50 percent by the mid-2000s
Third wave started in late 1990s and early 2000s	China, India, and Vietnam	Reached about 2–20 percent by mid-2000s; supermarket sales growing at 30–50 percent a year

small enterprises to meet supermarkets' requirements. The rise of supermarkets thus poses an early challenge to processed food microenterprises in urban areas.

By contrast, as supermarkets modernize the procurement of fresh produce (some 10–15 percent of supermarkets' food sales in developing countries), they increasingly source from farmers through "specialized and dedicated wholesalers" (specialized in product lines and dedicated to modern segments) and occasionally through their own collection centers. Where supermarkets source from small farmers, they tend to buy from farmers who have the most nonland assets (like equipment and irrigation), the greatest access to infrastructure (like roads and cold chain facilities), and the upper size tercile of land (among small farmers). Where supermarkets cannot source from medium- or large-scale farmers, and small farmers lack the needed assets, supermarket chains (or their agents such as the specialized and dedicated wholesalers) sometimes help farmers with training, credit, equipment, and other needs. Such assistance is not likely to become generalized, however, and so over time asset-poor small farmers will face increasing challenges surviving in the market as it modernizes.

When farmers enter supermarket channels, they tend to earn from 20 to 50 percent more in net terms. Among tomato farmers in Indonesia, for example, net profit (including the value of own labor as imputed cost) is 33–39 percent higher among supermarket channel participants than among participants in traditional markets. Farm labor also gains. But supplying supermarket chains requires farmers to make more up-front investments and meet greater demands for quality, consistency, and volume compared with marketing to traditional markets.

Policies for "Competitiveness with Inclusiveness" in the Supermarket Revolution

As the supermarket revolution proceeds in developing countries, governments have several options for helping small farmers participate in supermarket channels (or gain access to viable alternatives) and traditional retailers coexist or compete with the modern retail sector.

Option 1: Regulate Modern Retail? To the extent developing countries have regulated modern retail, their goal has been to reduce the speed and scope of its spread. The regulations have mainly limited the location and hours of modern retail. On balance, these regulations have done little to limit supermarket spread, partly because although regulations tend to target large-format stores (and thus not limit small traditional stores), modern retail comes in a wide variety of formats, including neighborhood stores and convenience stores.

Few developing countries have a pro-traditional or pro-small retail policy. Instead they usually take a laissez-faire approach to small shops and hawkers and make minimum initial public investments in open and covered municipal markets. A number of developing countries even have policies that encourage the development of supermarkets and regulate wetmarkets in order to modernize commerce, lower food prices and congestion, and increase public hygiene and economic competitiveness. Finally, in the early stages of supermarket spread, the supermarket sector is relatively fragmented (weakly concentrated), and farmers and processors thus have a wide range of potential buyers among supermarket chains and between the modern and traditional sectors. In the advanced stage of supermarket spread, however, the sector becomes concentrated—for example, in Latin America four to five chains typically control about 75 percent of a sector that in turn controls an average of 55 percent of food retail. At that stage it is important for governments and the private sector to enforce competition policies.

Option 2: Upgrade Traditional Retail. A number of good examples of programs to upgrade traditional retail exist. Of particular interest are those of East and Southeast Asia, such as in China, Hong Kong,

the Philippines, Singapore, and Taiwan. In most of these countries, the programs in question are municipal, sometimes under a national umbrella policy. The programs have several elements in common:

- Governments involved in these programs have a "broad tent" approach—that is, they allow development of supermarkets as well as traditional retailers.
- They are proactive: the Hong Kong Consumer Council's dictum of "managing and facilitating change" rather than leaving wetmarkets to flounder and collapse, characterizes all the East and Southeast Asian approaches studied.
- They promote traditional retailer modernization and competitiveness. Singapore's approach is to "cherish but upgrade and modernize." Hong Kong's policy is to "retain but modernize."
- They accept the social and market role of wetmarkets, hawkers, and small traditional shops but encourage them to locate in noncongested areas and on fixed sites (to increase hygiene and tax payment) and to improve their physical infrastructure. They also train the operators in business skills, food safety, and hygiene.
- They experiment with privatizing wetmarket management in some cases (such as in China and Hong Kong).

Option 3: Upgrade Wholesale Markets to Serve Retailers and Farmers Better. Small shops and wetmarket stall operators typically source food products from wholesale markets, which typically buy from small farmers. Upgrading wholesale markets' infrastructure and services is thus important to the whole traditional supply chain.

Private-sector actors are helping traditional retailers (and supermarket independents and chains) obtain the services and products they need. Examples are modern cash-and-carry chains that act as wholesalers, like Bharti/Wal-mart in India, Metro in China, and Makro in Pakistan.

But governments and wholesaler associations also need to invest in upgrading wholesale markets in order to maximize access by farmers and retailers. Such programs have been undertaken in China and Mexico.

Option 4: Help Farmers Become Competitive Suppliers to Supermarkets. Private-sector programs are emerging to help small farmers get the assets and services they need to supply supermarket channels. Metro, for example, has direct procurement links to fish and vegetable farmers in China. Agrifood businesses in India, like ITC, Tata, Godrej, Reliance, and DSCL Hariyali, have rural business hubs that offer consumables, farm inputs, and technical assistance and procure output from farmers.

Governments need to supplement private efforts with public investments in improving farmers' access to assets, services, training, and information. Some of these assets are public goods, such as regulations on retailer-supplier relations to promote fair commercial practices, wholesale market upgrading, market information, and physical infrastructure such as cold chains and roads. Other assets are semi-public or private goods, such as assistance with market linkages between small farmer cooperatives and supermarket chains; training in postharvest handling; and credit facilities for making on-farm investments in assets needed to meet quality and volume requirements, such as irrigation and greenhouses.

Conclusion

The supermarket revolution has progressed far and will continue apace for years to come in developing countries. This revolution will present opportunities for small farmers who have access to infrastructure and possess needed nonland assets, but it will present a challenge for asset-poor farmers and traditional retailers. It is important for governments to build policies and make investments that prepare farmers and retailers to face the challenges and meet the requirements of the modernized food markets whose development is spurred by the supermarket revolution.

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