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Super Selectos: Winning the war against multinational retail chains

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ABSTRACT

This case describes how Super Selectos, a local food retail chain from El Salvador, succeeds in competing against Walmart, the number one food retailer in the world. The case's structure facilitates a discussion of competitive strategy and positioning in the food retail industry in emerging markets. The case provides enough information for the reader to understand the differentiation strategy that allowed Super Selectos to increase its market share even after Walmart entered its domestic market. The goal of the case is to illustrate how a well formed and executed strategy allows a firm to succeed even against the most resourceful rivals. Discussing the case provides insights into the development of the food retail industry and consumer segmentation in developing economies. The case provides the basis for discussing the strategic options that Walmart has in the Salvadorian market and illustrating the challenges that large multinational corporations face when they are entering new emerging markets.

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1. Introduction

The morning of March 3, 2011, after listening to a radio announcement promoting the Super Selectos stores, Carlos Calleja, senior vice-president of this Salvadorian supermarket chain, met with his management team to discuss a latent threat: Walmart. Walmart Central America, a division of the world's largest retailer, had just announced plans to implement its global strategy in the region: to brand its stores as Walmart and offer everyday low prices to its clients. By then Walmart was the dominant player in each country of Central America with the exception of El Salvador. It was only a question of time before the largest company in the world leveraged its expertise to capture the Salvadorian market. Despite the fact that Super Selectos owned 84 retail stores, 51% of the market and close to US$600 million in annual income, continuing as El Salvador's number one supermarket would be a very tough challenge. After analyzing the situation, Carlos and his team asked themselves what measures they should take to continue winning the battle in the local market, as they had done up until that point.

2. Economic, political and social situation

In the year 2010 the Central American region grew by 4.4% with Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panamá experiencing growth rates of respectively 2.9%, 3.7%, 1.4%, 3.6%, 4.7% and 7.5% (see Table 1) (International Monetary Fund, 2011).

El Salvador is the fourth largest economy in the Central America (CA) region, after Guatemala, Costa Rica, and Panama. In 2010 its GDP reached US$21.2 billion, approximately US$3400 per inhabitant. According to the Central Bank, one of the country's main sources of income was family remittances from the US that reached US$3.5 billion in 2010, a 2.2% growth over 2009.

America's average inflation rate in 2010 was 6.5%. Most countries faced increased inflation from 2009 due in large part to an increase in food and beverage prices. El Salvador's inflation equaled 2.1%, one of the lowest rates in the region. However, consumers had to deal with an almost 7.9% increase in the price of food (corn and beans) and a 3.4% increase in the cost of transportation, due to higher international fuel prices (Ramírez, 2011).

Improvements in the country's economic and social areas were backed by an anti-crisis plan proposed by President Mauricio Funes in 2009, who announced the creation of 100,000 jobs by 2011 and in 2010 proposed a law to increase public employee lowest salaries and pensions 45% and 44% and the rest 6% and 8% respectively. In addition, he established the National Consumer Protection Policy to be enacted by the National Consumer Protection System, which, among other objectives, enforced warranties for purchased products and the right to be reimbursed in cash when a product was defective.

3. Retail industry

Since the 1990s retail business began to experience rapid change. One such change was an increase in the size of commercial establishments,

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Table 1
Economic context.
Source: International Monetary Fund, 2011.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Latin America and the Caribbean	3.9%	0.4%	0.4%	2.1%	6.0%	4.7%	5.7%	5.8%	4.2%	−1.5%	6.1%	4.6%
Central America	2.2%	1.4%	2.9%	5.7%	4.4%	5.6%	8.1%	7.6%	3.0%	−1.0%	4.4%	4.3%
Costa Rica	1.8%	1.1%	2.9%	6.4%	4.3%	5.9%	8.8%	7.9%	2.7%	−1.0%	4.7%	4.2%
El Salvador	2.2%	1.7%	2.3%	2.3%	1.9%	3.6%	3.9%	3.8%	1.3%	−3.1%	1.4%	2.0%
Guatemala	2.5%	2.4%	3.9%	2.5%	3.2%	3.3%	5.4%	6.3%	3.3%	0.5%	2.9%	4.1%
Honduras	5.7%	2.7%	3.8%	4.5%	6.2%	6.1%	6.6%	6.2%	4.2%	−2.4%	3.7%	3.7%
Nicaragua	4.1%	3.0%	0.8%	2.5%	5.3%	4.3%	4.2%	5.0%	4.0%	−2.2%	3.6%	5.4%
Panamá	2.7%	0.6%	2.2%	4.2%	7.5%	7.2%	8.5%	12.1%	10.1%	3.9%	7.5%	10.8%

which allowed businesses to offer a greater variety of products in larger volumes (Dobson & Waterson, 1997). The adoption of information technology in logistics and operations management allowed retailers to lower their costs and become more efficient, for example by optimizing inventory management. Walmart was at the forefront of these innovations, which allowed retailers to be profitable in spite of lowering their average selling prices (Foster, Haltiwanger, & Krizan, 2002; Holmes, 2001).

New layouts, such as hypermarkets became popular as they offered food and traditional products, and other categories, such as appliances, electronics, books, garden products, clothing, shoes, toys and decorations. These categories represented 35% of the floor space which usually totaled more than 2500 m^2 and included the traditional supermarkets.

Global retail industry sales were US$3.3 trillion by 2005 and US $4.3 trillion in 2009 with an annual growth rate of 6.9%. The industry was characterized by its high concentration of players, since the largest 15 retailers accounted for 30% of sales (USDA, 2009). Globally in 2010, hypermarkets and supermarkets represented 46.4% of the market, followed by convenience stores with 30.7%; specialized food and beverage stores with 15.1%; pharmacies and beauty stores with 1.7%; wholesale stores with membership clubs with 1.6%; other stores represented 4.5% (Datamonitor, 2010). In El Salvador, supermarkets, hypermarkets and convenience stores accounted for 38% of the market, neighborhood stores accounted for 60% and pharmacies 2% (ACNielsen, 2011). Some consumers wanted to reduce the time spent shopping and their costs, being able to buy most items at the same time and place — known as "one-stop shopping" (see Table 2). However, other customers do not always see large supermarkets as the best place to shop, since they only needed some products and shopped quickly — known as "on-the-run".

For customers, switching among supermarkets and other retail outlets does not entail costs. Hence, the industry is characterized by high rivalry, where efficiency and customer service are important tools for competitiveness.

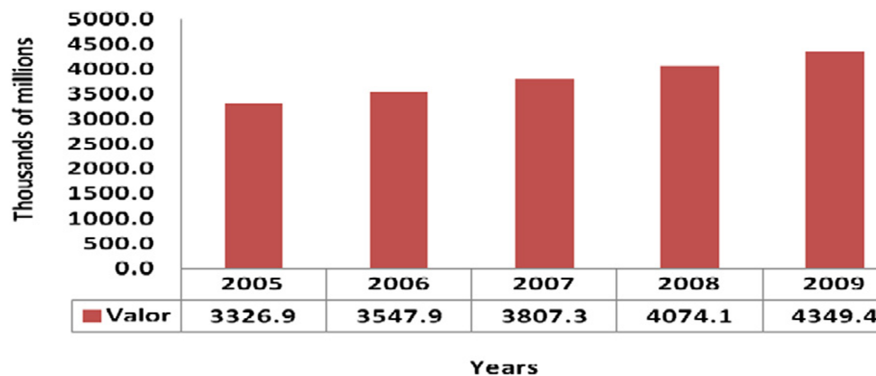
Another characteristic of the industry is that the largest players have acquired dominant positions in different regions. Walmart is the dominant player in North, Central and Latin America while Carrefour and Tesco are, for example, stronger in Europe.

4. Strategies of global retailers

In the year 2010, the average revenue per customer per visit to a store in the US was US$26.80 therefore, volume was important to retailers. To attract consumers, retails deploy different strategies. Walmart, by far the dominant player in the US market, adopted a "low prices everyday" strategy (ELDP), positioning itself as the chain capable to offer prices that were lower than competitors on the vast majority of products, every day. EDLP retailers charge a constant low price every day and do not use promotions with temporary discounts creating price consistency and reducing customers' uncertainty (Hoch, Drèze, & Purk, 1994). Other retailers use a variety of commercial strategies, some offer promotions — known as Hi-Low or promo pricing which emphasizes deep and frequent discounts on a smaller set of goods during a determined period of time (Ellickson & Misra, 2008). The Hi-Low strategy is characterized by average daily prices higher than those offered by firms deploying EDLP, coupled with frequent promotions which reduce temporarily the price of a limited range of product to the same or below that offered by EDLP retailers. Other retailers positioned themselves as niche players, for example Whole Foods, and others focused on providing superior consumer service. Most retailers strengthened their negotiating position by establishing their own brands know as private label (Datamonitor, 2010) (Fig. 1).

4.1. Suppliers

Large global retailers, such as Walmart and Carrefour, have today much more bargaining power with suppliers than the supermarket



Source: Elaborated by the author with data from the Global Food Retail Report, Datamonitor, 2010.

Fig. 1. Value of global food retail industry, period 2005–2009.
Source: Elaborated by the author with data from the Global Food Retail Report (Datamonitor, 2010).

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