



ERS *Report Summary*

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The Expansion of Modern Grocery Retailing and Trade in Developing Countries

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This is a summary
of an ERS report.

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Domestic and multinational modern grocery retailers are accounting for an expanding share of food sales in many developing countries, with potentially significant implications for food demand and trade. This report examines two mechanisms that are potentially important in driving the growth in modern food retailing. First, modern retailers may be meeting rising demands for dietary diversity, shopping and preparation convenience, and food safety that are commonly associated with rising incomes among some groups of consumers. Second, modern grocery retailers may be investing to improve supply chains and reduce food prices, which can lead to a stream of efficiency gains to be shared between producers and consumers. Such efficiency gains are likely to be more significant in a developing country context than in more developed countries because lower income consumers tend to be more responsive to income and price changes, and because agriculture and food account for large shares of both income and expenditures in developing country households.

What Is the Issue?

Although the expansion of modern food retailing may boost food demand and trade, actual gains may be influenced by the extent to which retailers focus on accommodating consumer demand for food quality and convenience by investing in modern retail formats, versus improving the efficiency of the food supply chain. If modern retailers introduce significant supply chain efficiencies, both farmers and consumers stand to benefit from the additional income they can devote to both food and all other goods. If, on the other hand, the expansion of modern food retailing is not accompanied by supply chain efficiencies, then the economy-wide benefits might be muted. Although consumers will still benefit, farmers' income and overall consumption may not significantly change. The impacts of modern grocery retailing in developing countries are potentially important to U.S. agricultural markets. Growth in developing country imports of U.S. agricultural products has outpaced imports by developed countries in the 1990s and 2000s, with developing countries accounting for 64 percent of U.S. agricultural exports during 2007-09.

What Did the Study Find?

- The share of total grocery expenditures captured by modern retailers is correlated with the income level in developing and transition countries. Penetration of modern grocery formats

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is higher in countries where GDP per capita is higher. However, countries with the highest growth in modern grocery formats tend to be much poorer on average, suggesting a relationship between the rate of penetration and base income level.

- Growth of modern grocery retailing across developing and transition countries between 1999 and 2009 is correlated with the share of the working-age population, suggesting demand factors, such as increased convenience, are important to the recent growth.
- Countries with high growth in modern retailing also observed higher growth in the sale of packaged and ready-made foods, indicating that modern outlets are growing fastest where demand for increased convenience is growing fastest.
- Growth in modern retailing is uncorrelated with a number of supply-side factors, such as conducive business environments and infrastructure (share of paved roads), that would likely be important if efficiency gains in the supply chain were aiding the growth in modern grocery retailing. Case studies of Brazil, China, India, and Russia further suggest that the growth of modern grocery retailing is not accompanied by immediate efficiency gains in the supply chain.
- Exports of U.S. processed foods are growing fastest in countries where modern grocery retailing is growing the fastest, suggesting that modern grocery formats in developing countries are an important outlet to promote U.S. agricultural products.

How Was the Study Conducted?

This study uses a newly constructed data set from Euromonitor, International describing the spread of modern grocery retailing. The data set covers a larger sample of developing countries (103) than previously available and allows disaggregated analysis by type of modern format and type of food item. Analysis using this data set finds that variation in demographic characteristics, such as share of the population most likely to benefit from the convenience offered by modern formats, is associated with the widely varying rates of retail penetration across developing countries over 1999-2009. On the other hand, growth in modern food retailing appears uncorrelated with variation in efficiency growth variables like ranking for business environments and growth in foreign direct investment, as derived from the World Bank Development Indicators database. This basic pattern is corroborated by a number of case studies of transition countries: Brazil, India, China, and Russia.