

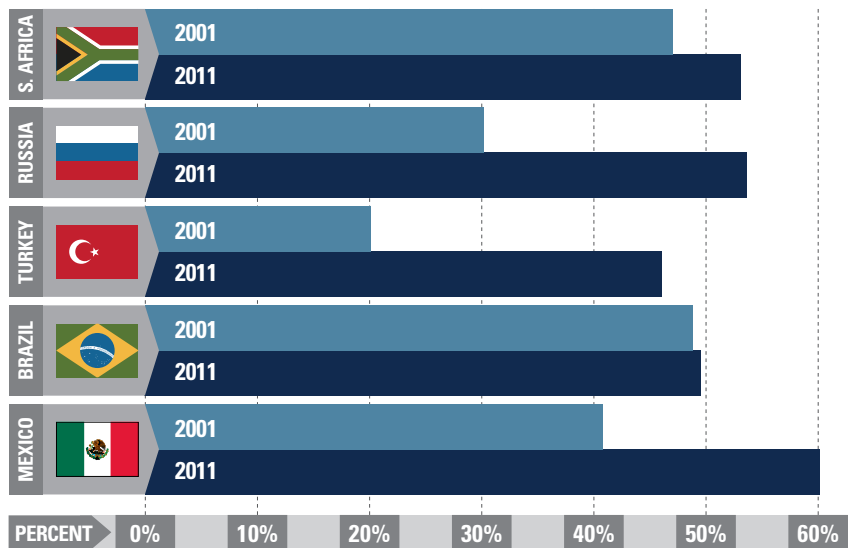
EMERGING MARKET REPORT: FOOD RETAIL



Dietary habits are one of the major aspects in everyday life that is directly impacted by rising wealth. More and more consumers are substituting basic staples such as rice, maize, milk and pork for more expensive products such as cereal, beef, juice and yogurt. Fresh produce, baked goods and prepared foods are also increasing in importance. While such change in dietary habits can fuel growth in the overall food retail industry, we find formal food retail as the most attractive among all segments.

Food retail in many emerging markets consists predominantly of “traditional” channels, which include informal markets and independent mom and pop stores. In the traditional channels, prices of goods are often high as these retailers have little bargaining power with suppliers. Also, product quality may be inconsistent given the lack of controls, while product selection is often limited or intermittent.

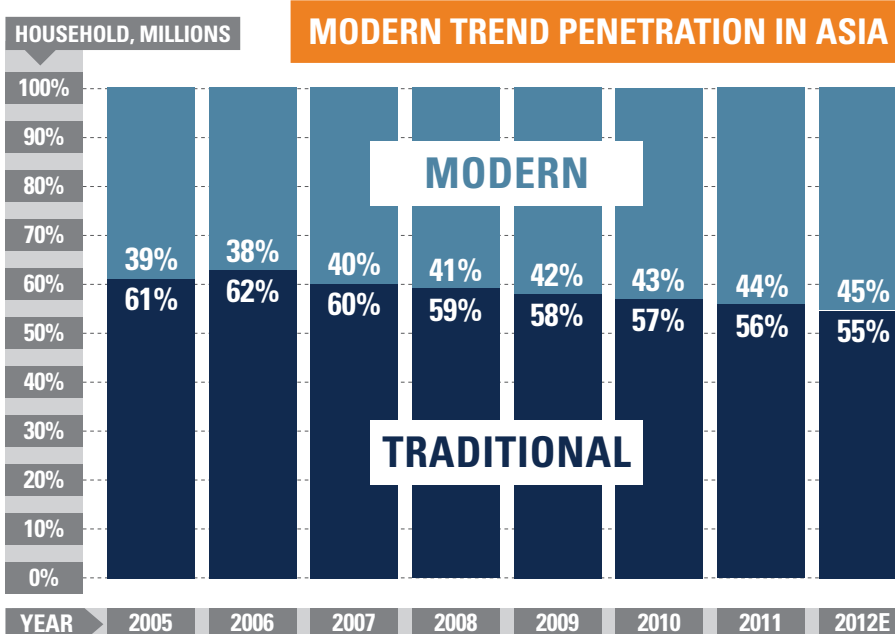
FORMAL FOOD RETAIL IN SELECT EMERGING MARKET COUNTRIES



Source: Bank of America Merrill Lynch, Mirae Asset Global Investments

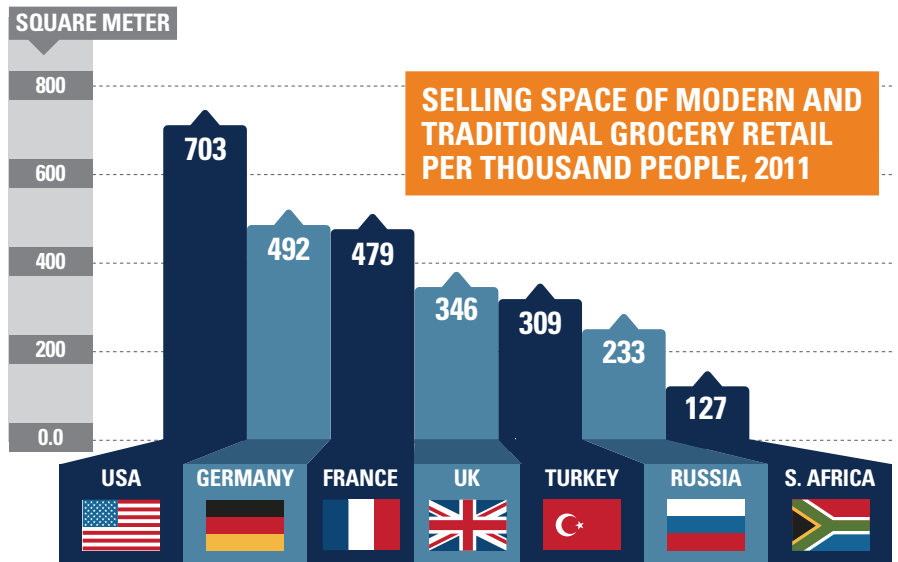
Meanwhile, as emerging market consumers become wealthier, they spend less time shopping for food, become more conscious of quality consumed and buy more packaged produced food. Thus, the traditional channel no longer corresponds to their changing lifestyles. Rather, formal food retailers are ideally positioned to benefit. They offer convenience through a one-stop shopping experience, a variety of products, reliability of supply and quality and, most importantly, more competitive pricing.

Accordingly, to meet increased demand from consumers, formal food retailers have been expanding their footprint, formats, and product selection to reach wide swaths of the population. Improvements to infrastructure, bottlenecks and logistical constraints have helped formal retail stores develop a more efficient operations model.



Source: Euromonitor, E=Euromonitor Estimate

Despite the growth of formal food retail in emerging markets over the past decade, the level of formalization in emerging markets still remains below the developed markets. For example, only half of packaged grocery products are sold through modern retail in Asia. Companies with the most developed distribution networks in Indonesia sell roughly 20% or less of their products through modern channels, and in India the numbers are less than 10%. Even in Korea, some Multi-national Corporations (MNCs) still have difficulties in product distribution as mom and pop stores still account for 30% of the market. But consumer spending habits are rising too rapidly for these stats to remain intact for long.



Source : Euromonitor, UBS, Mirae Asset Global Investments