Expanding Through Uncertainty, the Carrefour Way

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Any good strategy is based on a risk-reward analysis but what happens when the environment is particularly uncertain and the threats difficult to understand?

When Western retailers expanded in Asia, managing uncertainty was a key element in their ultimate success or failure. This growth was initiated by Carrefour in the mid-80’s followed by companies such as WalMart, Tesco, Auchan and the Casino Group in the 90’s as Asian countries progressively opened up to direct Foreign Direct Investment.

Throughout this period the regulatory and economic environment was very fluid and Asian consumer behaviour alien to Western companies. With consultants unable to provide their usual crisp market studies, retailers had to figure out the new environment on their own. Three lessons learned in this process are still very relevant today.

Identify specific objectives

First, reducing uncertainty regarding objectives is crucial to reducing the uncertainty of the outcomes. For example, when Carrefour entered Taiwan, it had a very clear objective: offer a unique value proposition by becoming the place of reference for a specific type of product. Naturally, this objective did not come cheap. In contrast, The Casino Group did not have this clarity from the onset, hesitating between becoming a product leader and protecting its profitability. Unable to resolve this ambiguity, it pulled out of the country in 2006 while Carrefour still remains a major player in Taiwan.

The lesson being, in an uncertain and far-flung environment, strategy should not be executed through a “command-and-control” approach. Rather the execution should be delegated to people closer to the action. If the objectives are not clear to all, the uncertainty will be compounded by the distance.

Become intimate with your market

Second, establishing context immensely reduces strategic uncertainty. As the traditional means of market intelligence were not an option, Carrefour decided to become directly intimate with the local market and culture. Its key executive spent the first 6 months taking public transportation, sampling food on the street and visiting people in their homes. This very hands-on approach allowed him to observe what local consumers stocked in their fridges and what cooking methods they used. With a few freezers and no microwave oven, Taiwanese shoppers much preferred freshness. Going to the local street markets brought home a point that had previously escaped the company. The very careful way women shopped, their delicate picking of items one by one, their utmost attention to product quality became very salient in the mind of Carrefour executives.

Those lengthy observations proved to be invaluable to defining Carrefour’s overall strategy: freshness and quality would be more important than price. Hence, anything that would jeopardise product freshness would be a threat to the strategy execution and would exacerbate strategic uncertainty.

Keep flexible

Third, creativity in implementation is central to address operational threats in an uncertain environment. For example, Carrefour developed a very innovative approach based on the “fuzzy integration” of its supply chain. Traditionally, retailers either directly control their suppliers or maintain an arm’s length relationship. Carrefour took a different approach as operations were both neither fully integrated nor fully independent. The idea was to find the optimal tradeoff between information acquisition and control.

For example, it organised a special programme of cooperation with the Farmer’s Association of Malaysia. Traditionally, the vegetable distribution system was an opaque network riddled with intermediaries. A “collector” would buy fresh produce from local farmers, then resell it to a bigger collector until they finally reach a wholesale market. Each layer would charge a 20% premium and increase inefficiencies. The Malaysian state gave Carrefour tracks of land to grow fruits and vegetables and encouraged some farmers to join the project. In return, the company agreed to make an agronomist available to farmers and to guarantee a transparent pricing system. Carrefour would offer a purchase price which would be higher than the price paid by collectors to farmers but lower than the wholesale market price. The company also provided trucks and drivers, advised on packaging and built washing stations for farmers. Vegetables would be washed and packed at the farm in plastic crates which would be displayed in stores.

This cut the traditional handling process by more than half. It also led to fresher products, increased shelf life and, importantly for Carrefour, provided a better control over the value chain without integrating suppliers.

Fuzzy integration

“Fuzzy integration” became a competitive advantage in dealing with the vagaries of production. It solidified the collaboration with the Malaysian state. When Carrefour founder Jacques Defforey visited the head of the Malaysian Farmer’s Association, he found a programme that offered his company a platform to grow in Malaysia and elsewhere in the region. Today, the company realises some €1.5bn sales in Asia. Naturally, as the model became successful, it inspired many other retailers, from Walmart in China to Tesco Lotus in Thailand. It is now deployed by retailers in countries where it could have a huge social impact such as Sri Lanka.

Today, 30 percent of Indian crops are rotting on the field. “Fuzzy integration” could alleviate this problem.

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