

The expansion model of the major Chilean retail chains

Álvaro Calderón Hoffmann

Chilean retail firms have succeeded in developing solid competitive advantages based on a business model that captures synergies from the joint operation of a number of related activities. This integrated retailing formula developed as a direct result of the intense competition in the Chilean market, whose limited size made it very difficult to achieve profitability in just one segment of the retail industry. The key to success has been to combine the best practices of international leaders with local knowledge, diversified provision that includes banking services, and the capacity for survival in a highly competitive market. Given all this, retailers have seen international expansion as the option most likely to set them upon a path of sustainable growth.

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I

Introduction

Chile was a pioneer of economic reform (trade liberalization, deregulation and privatization) in Latin America. Following an initial period of turbulence, the country embarked on a course of vigorous growth that made it one of the best-performing economies in the region. In this renewed environment, local companies were forced to undergo profound restructuring. As a result, by the early 1990s, some of these companies were highly competitive in the local market. A number of sectors, including telecommunications, electricity generation and distribution, some segments of manufacturing, pension fund management companies (AFPs) and retailers, achieved significant competitive advantages.

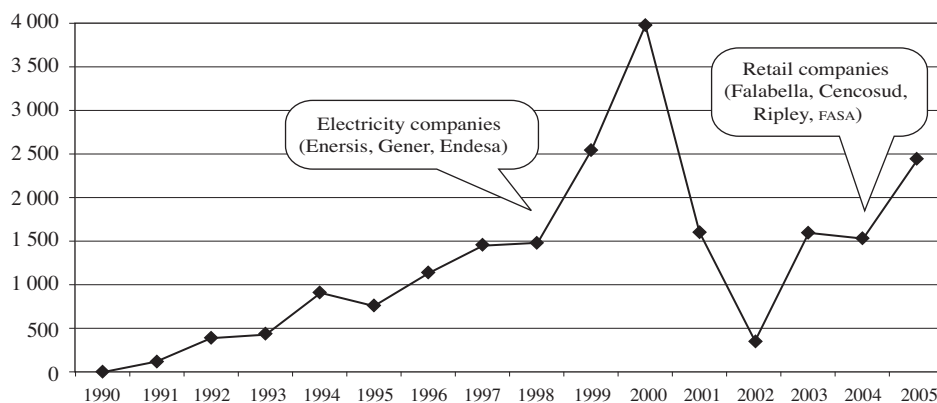
Some Chilean markets were starting to show signs of saturation by this stage, but new investment opportunities were emerging in other Latin American countries as a result of reforms initiated there. Thus, although Chilean companies were not as large as some of their Latin American competitors, their experience enabled them to embark upon ambitious internationalization plans, thereby overcoming the size limitations of their domestic market. Moreover,

this process was boosted by the renewed financing opportunities —both local and foreign— available to the country's largest firms. In fact, Chile became a sort of “recycling centre” for international funds (Calderón and Griffith-Jones, 1995).

In the second half of the 1990s, a good many Chilean companies sought to reproduce abroad the successes they had achieved in the domestic market. More than US\$ 10 billion was invested during this period, most of it in South America and especially Argentina, Peru and, to a lesser extent, Brazil (figure 1). Most of the early investments were made in the electricity sector through the acquisition of assets in the privatization processes taking place in neighbouring countries. These were followed by other investments in service activities, especially pension fund management, and in manufacturing. In the case of the latter, most of the activities concerned were natural resource-based, examples being food and beverages, wood pulp and paper, and metal manufacturing (table 1). By the end of the decade, a number of these firms had achieved a major regional presence. Nevertheless, some of the most successful —such as the electricity companies

FIGURE 1

Chile: Direct investments abroad, 1990-2005
(Millions of dollars)



Source: Central Bank of Chile.

TABLE 1

Main Chilean companies with investments abroad, by country, 2005^a
(Millions of dollars and percentages)

A	B	Company	Sector	Countries where company operates ^b						Sales		
				AR	PE	BR	MX	OT	US	Total	% abroad	
1	2	Empresa Nacional del Petróleo (ENAP)	Oil	X	X			X			6 674	...
2	3	Enersis ^c	Electricity	X	X	X		X			6 277	...
3	4	Cencosud	Retail	X							4 915	32
4	7	Falabella	Retail	X	X			X			3 854	22
5	9	Lan Airlines	Transport	X	X	X	X	X	X		2 507	...
6	12	Celulosa Arauco y Constitución (ARAUCO)	Wood, pulp and paper	X		X		X			2 377	...
7	13	Compañía Manufacturera de Papeles y Cartones (CMPC)	Wood, pulp and paper	X	X		X	X			2 130	11
8	14	Molymet	Metal manufacturing				X	X			2 090	...
9	16	Compañía General de Electricidad (CGE)	Electricity	X							1 663	10
10	18	ENTEL	Telecommunications		X			X	X		1 496	16
11	19	Ripley Corp.	Retail		X						1 475	25
12	20	Farmacias Ahumada (FASA)	Retail		X	X	X				1 230	60
13	23	Compañía Cervecerías Unidas (CCU)	Beverages	X							961	10
14	24	Embotelladora Andina	Beverages	X		X					934	52
15	25	AES Gener ^c	Electricity	X	X			X			899	...
16	30	Masisa ^c	Wood, pulp and paper	X		X	X				744	73
17	32	Manufacturas de Cobre (Madeco)	Metal manufacturing	X	X	X					713	39

Source: Prepared by the author using data from the companies and from *Capital* (2006) and *América economía* (2006a).

^a Column A ranks the companies by their foreign investments and column B by their sales.

^b AR: Argentina; PE: Peru; BR: Brazil; MX: Mexico; OT: Other Latin America; US: United States.

^c Company taken over by a transnational enterprise.

and the AFPs— were taken over by transnational corporations seeking to quickly establish a substantial presence in Latin America. For many, too, lack of international experience, overconfidence and difficult conditions in the recipient economies resulted in losses that matched the original investments in size.

Thus, firms that decided to invest abroad had a difficult and unrewarding experience: they were taken over by competitors from outside the region or else ran up large losses. Despite the dynamism of the Chilean economy and the availability of low-cost

financing, the country's firms thus became warier of new attempts to expand abroad. At the same time, the corporate perception of the Latin American business climate rapidly deteriorated in the face of growing economic and political volatility in the neighbouring countries and reduced legal security for investments abroad (Calderón, 2005).

In an atmosphere of greater uncertainty, Chilean firms sought to strengthen their position in their home market and postponed many of their foreign investment ventures. In Argentina, in particular, but also in Peru,

companies set contingency plans in train and in some cases implemented radical financial and operational restructuring projects. They also worked to improve their efficiency locally, incorporating new technologies and innovative forms of management and seeking to generate renewed synergies. To this end, there was an intensive round of consolidation through mergers and acquisitions and alliances between operators in related businesses, which resulted in economies of scale and far-reaching integration. Currently, Chilean companies seem to be more selective and cautious when it comes to embarking upon an internationalization strategy.

Chilean investments abroad began to pick up again in 2003, coinciding with an upturn in the domestic economy (which grew by over 6% in 2004 and 2005) and a strong flow of financial resources as a result of robust growth in the world economy and buoyant prices for the country's main exports (figure 1). Certain sectors started to look for new business opportunities in order to continue growing, and the limited size of the domestic economy meant that the prospect of investing abroad once again seemed appealing. This has not led to any significant change in internationalization patterns, as the same businesses and geographical destinations predominate. This trend has been greatly strengthened by economic recovery and the return to institutional normality in Argentina.

Just as the electricity sector led the way in the first wave, retail companies have clearly taken the lead in this new phase of Chilean investment abroad. These firms have learned from recent experience, refining a business model with clear competitive advantages and exporting it successfully to other countries in

Latin America. Chilean firms have learned from the global giants of industry and adapted their experience to Latin American conditions, basing their competitive advantages on their management capabilities. While keeping a majority stake in their foreign affiliates, they have sought to operate as local firms in collaboration with strategic domestic partners, thereby limiting the exposure of capital exported from Chile. This is in contrast to the first phase of Chilean investment abroad, when this logic did not exist because markets were not yet sufficiently developed.

To summarize, the internationalization of Chilean firms has taken place within Latin America. Early reforms, the privatization of State enterprises and the experience accumulated in an open, competitive economy, together with geographical proximity and cultural affinity, gave these firms a major competitive advantage in initiating the international expansion of their activities and harnessing the opportunities that emerged in neighbouring countries. Initially, given the highly uncertain environment, this experience was crucial for competing with transnational corporations that were less familiar with Latin America. Nevertheless, these advantages dwindled rapidly, competitors became more familiar with the local environment and some of the Chilean firms that had been most active in this process were swallowed up by international operators. Now, after a lull, Chilean investments abroad have been making a comeback. Chilean firms have learned from their experience and developed business models that they can apply successfully abroad, retailing being the prime example.

II

The internationalization of retailing

In the mid-nineteenth century, there was a sharpening of the divide between the wholesale and retail trades in the United States and Europe. France saw the establishment of the great emporia that were the forerunners of today's department stores, creating the retail trade as we know it today. Right from the start, large stores in Paris such as Galeries Lafayette had special sections for displaying their products, sales personnel whose task was to meet the needs of customers, and credit facilities. This model spread rapidly to other European

countries. The first half of the twentieth century saw the advent in the United States of the supermarket and one of its emblematic features, the shopping trolley, which led to a veritable revolution in consumption patterns. In the early 1960s, new formats gave a fresh impetus to the retail industry; the French chain Carrefour opened the first hypermarket and shopping centres began to proliferate in the United States. These brought together department stores, boutiques, supermarkets and entertainment facilities (restaurants, cinemas,

etc.) under one roof. Powerful local operators began to consolidate in the different retail formats, and these developments were copied all over the world.

In Latin America, the progression was similar. Large stores started to make their appearance in the main cities of the region at the beginning of the twentieth century. Subsequently, following the United States model, the first supermarkets appeared, followed shortly afterwards by hypermarkets and shopping centres. Generally speaking, the retail business was operated by local family-owned groups and its growth was quite fragmentary.

Retailers internationalized more slowly than firms in other industries. The first efforts in this direction were made by some of the major United States stores, such as Woolworth, which set up operations in Canada (1907) and later in Europe, and Sears Roebuck, which expanded into Cuba in 1942. In the 1960s, these initiatives were emulated by some of their peers on the other side of the Atlantic, including C&A of France and Marks & Spencer of the United Kingdom. Prior to that, most companies had largely confined their growth and diversification strategy to their local markets. Signs of saturation in these, however, together with regulatory changes and greater openness to foreign direct investment, prompted some large firms in the sector to seek out new growth opportunities abroad. The pioneers in the supermarket segment were European companies, led by Carrefour of France and Royal Ahold of the Netherlands.

The process started to gain greater momentum in the 1990s, especially with the emergence of the United States firm Wal-Mart. By 1990, less than thirty years after its foundation, Wal-Mart had already become the leading retail chain in the United States, thanks to an active strategy of acquisitions and consolidation of its format (discount or convenience stores). Thereafter, it set in motion an ambitious process of international expansion, combining greenfield investments with acquisitions and partnerships. Initially, its expansion was concentrated in North America (Mexico in 1991, through a partnership with the local group Cifra, and Canada in 1994); then it set its sights on South America (Argentina and Brazil in 1995) before finally venturing into more distant markets in Europe (Germany in 1998 and the United Kingdom in 1999) and Asia (China in 1996, Republic of Korea in 1998 and Japan in 2002). Wal-Mart has thus become the world's leading retailer, with three times the turnover of its closest competitor (Carrefour), and is climbing towards the highest rankings in the classification of the

world's largest companies (the Global 500) prepared by Fortune magazine.

As the experience of Wal-Mart demonstrates, the international expansion of retail firms accelerated considerably in the second half of the 1990s, albeit only a few major players were involved. Moreover, this process did not only take place in industrialized countries (the United States, Western Europe and Japan), where it was boosted by the existence of the European Union and the North American Free Trade Agreement, but also spread to a considerable number of developing economies, principally in Asia, Latin America, Eastern Europe and the Mediterranean area (figure 2 and table 2). With home markets close to saturation, several companies saw emerging economies, where the business model was largely underdeveloped, as a major opportunity for continued growth.¹

Nevertheless, United States retailers dominate, accounting for 36% of the sales of the 250 largest companies in the industry, followed by European companies (35%) and those from Japan (16%) (Deloitte, 2006). As they expanded internationally, these companies' operations abroad began to have a significant impact on total sales. Between 1996 and 2003, the number of retailers ranking among the top 100 transnationals worldwide increased from none to four: Carrefour, Wal-Mart, Royal Ahold and Metro of Germany (UNCTAD, 1998, pp. 36-38 and 2005, pp. 267-269). As outside companies began to enter their own markets, however, domestic performance was held back and none of these companies has emerged as a clear winner across all regions or markets (McKinsey Global Institute, 2003).

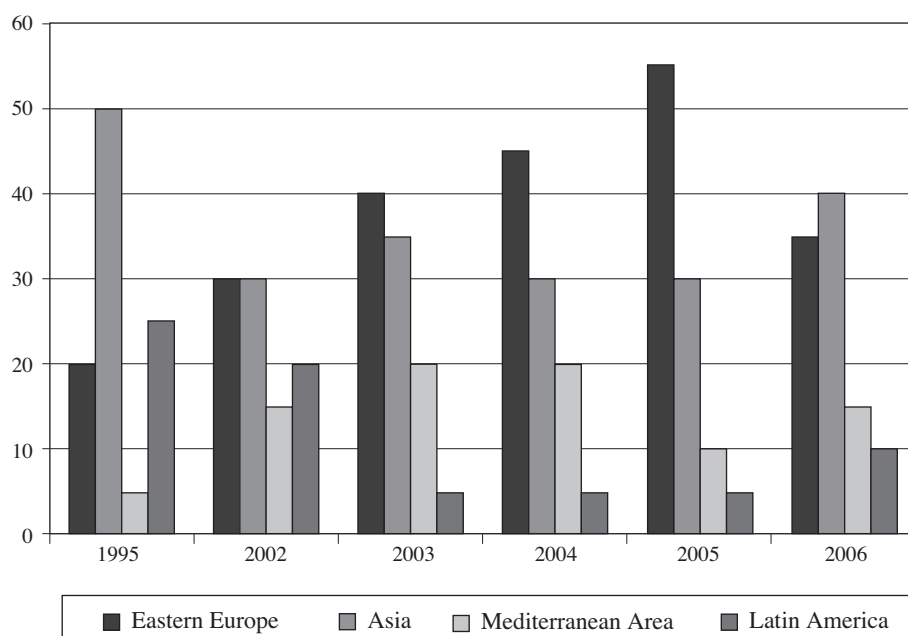
Thanks to the reforms and the promising economic outlook in its principal countries, Latin America became one of the regions where industry leaders with global ambitions had the greatest potential for international expansion (figure 2).² The region thus

¹ At the beginning of the current decade, Royal Ahold owned a chain of stores with operations in Western and Eastern Europe, North America, Central and South America and South-East Asia; Carrefour had a strong presence in Europe, the Americas, Asia, the Middle East and Africa; and Wal-Mart had operations in the Americas, Western Europe and East Asia.

² In 1995, five Latin American countries ranked among the 20 most attractive destinations for retail development. At that time, Asia had 10 countries on the list, Eastern Europe four and the Mediterranean area just one (A.T. Kearney, 2005).

FIGURE 2

Developing country markets with the greatest retail potential, by region, 1995-2006
(Percentages)^a



Source: Prepared by the author on the basis of A.T. Kearney (various years).

^a Percentage of markets that are among the 20 most attractive destinations for retail development.

TABLE 2

World's leading retailers, by sales, 2004
(Millions of dollars)

	Firm	Country of origin	Total sales ^a	Regions outside home country where it operates ^b				
				NA	LA	EU	AS	OT
1	Wal-Mart Stores Inc.	United States	285 222	X	X	X	X	
2	Carrefour S.A.	France	89 568		X	X	X	X
3	The Home Depot Inc.	United States	73 094	X	X ^c			
4	Metro AG	Germany	69 781			X	X	X
5	Tesco PLC	United Kingdom	62 505			X	X	X
6	Kroger Co.	United States	56 434					
7	Costco Wholesale Corp.	United States	47 146	X	X ^c	X	X	
8	Target Corp.	United States	45 682					
9	Royal Ahold N.V.	Netherlands	44 793	X		X		
10	Aldi GMBH & Co.	Germany	42 906	X		X		X
228	Falabella	Chile	2 608		X			
239	D&S S.A.	Chile	2 420					

Source: Prepared by the author on the basis of *Stores* (2006).

^a Group turnover in the retail segment.

^b NA: North America (United States and Canada); LA: Latin America and the Caribbean; EU: Western and Eastern Europe; AS: Asia; OT: Others.

^c Operations in Mexico only.

rapidly became a priority target for the major retail operators (figure 3). Through an aggressive strategy that consisted essentially in buying up local chains, Wal-Mart, Carrefour and Royal Ahold rapidly built up solid positions in the region's major markets (Argentina, Brazil and Mexico), taking their place among the principal transnationals with operations in the region and becoming leaders in the Latin American retail industry.

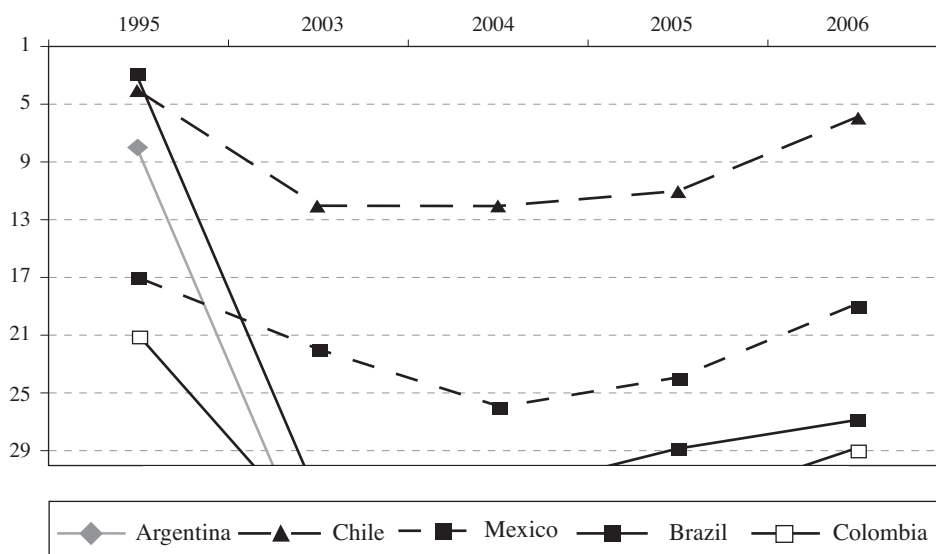
Despite barriers to entry, these major markets offered the companies sufficient economies of scale for them to gradually introduce the formats developed in their countries of origin. In Brazil, the retail trade was very fragmentary, had low operating margins and

needed a great deal of investment; it also faced intense competition from the informal sector, which made foreign capital inflows into the industry very valuable. This led to a high level of penetration by international operators, especially Carrefour and Casino of France, Sonae of Portugal, Royal Ahold of the Netherlands and, more recently, Wal-Mart. In Mexico, on the other hand, where local operators were in a better position, Wal-Mart entered the market through a partnership which gave it a better understanding of the preferences and needs of the country's consumers. Subsequently, the United States firm took control of the operation³ and applied an aggressive strategy centred on pricing and the transfer of best practices, which resulted in a significant

³ In 1997, Wal-Mart paid US\$ 1.2 billion to acquire the Cifra group's share of their joint operation in Mexico.

FIGURE 3

Latin America: Most attractive markets for the retail industry
(Country ranking among the 30 most attractive emerging markets)^a



Source: Prepared by the author using information from A.T. Kearney (various years).

^a A.T. Kearney publishes an index on global prospects for the retail trade in developing countries. This analysis is meant to help international operators to prioritize their global strategies. The index is constructed on the basis of variables associated with country risk, attractiveness, market saturation and the time required to take advantage of the opportunity. The end result is an annual classification that ranks the 30 main emerging economies by their investment potential.

increase in competition in the Mexican market. This experience enabled Wal-Mart to intensify and speed up its expansion in Latin America, particularly Brazil, where it took over the assets of Royal Ahold and Sonae.⁴ In 2004, Wal-Mart was in third place among the 50 largest transnational corporations with operations in Latin America, surpassed only by General Motors and Telefónica of Spain, while Carrefour ranked thirteenth (ECLAC, 2006, p. 42).

Expansion into the smaller Latin American economies was more limited during this period, with Royal Ahold being practically the only significant participant. In 1998, after entering the Brazilian market, the Dutch firm went into partnership with the Argentine group Velox (owners of the Disco and Santa Isabel supermarket chains), gaining simultaneous access to the markets of Argentina, Chile, Paraguay and Peru. The following year, even as it was embarking upon ambitious growth in the United States, Royal Ahold set its sights on Central America. Using the same strategy

as it had applied in the Southern Cone, it formed a company with the Guatemalan firm La Fragua, which already had operations in El Salvador and Honduras. It subsequently expanded the partnership to include the Corporación de Supermercados Unidos (CSU) of Costa Rica, thus creating the largest supermarket network in the subregion, Central America Retail Holding Company (CARHC).⁵ In 2002, Royal Ahold took control of operations in South America. In early 2003, however, the Dutch group ran into serious financial difficulties and publicly admitted to accounting irregularities. Under these circumstances, and faced with the deteriorating economic situation in the Southern Cone, Royal Ahold announced its withdrawal from Latin America, thereby opening up new opportunities for other companies that wished to expand their presence in the region. Its most valuable Latin American assets were acquired by just two companies: Wal-Mart and the emerging Chilean group Cencosud (table 3).⁶

TABLE 3

Latin America: Leading international retail chains, their turnover and their market position, 2005
(Millions of dollars)

	Regional leaders				Emerging operators			
	Wal-Mart Stores		Carrefour		Cencosud		Falabella	
	Sales	Position	Sales	Position	Sales	Position	Sales	Position
Argentina	538	4	1 743	1	144	...
Brazil	5 032	3	5 394	2	-	-	-	-
Chile	-	-	-	-	4 915	1	3 854	2
Colombia	-	-	751	3	-	-	-	-
Mexico	15 518	1	^a	-	-	-	-	-
Peru	-	-	-	-	-	-	404	3
Central America	2 200	1	-	-	-	-	-	-

Source: Prepared by the author on the basis of data from the companies and *América economía* (2006).

^a In March 2005, Carrefour sold its assets in Mexico to the local chain Chedraui for an estimated US\$ 500 million.

⁴ In 1995, Wal-Mart moved into the Brazilian market through a partnership with the local chain Lojas Americanas, opening a couple of discount stores. Two years later, the partnership was dissolved and Wal-Mart started a slow process of organic growth, opening 25 new outlets. Recently, the process has accelerated considerably thanks to new acquisitions from some of its leading global competitors. In March 2004, Wal-Mart bought the Bompreço chain for some US\$ 300 million from the Netherlands company Royal Ahold; this brought it 118 stores in north-eastern Brazil. In December 2005, Wal-Mart paid US\$ 748 million for the Brazilian operations of the Portuguese firm Sonae, thus positioning itself, with 295 stores in 17 of Brazil's 26 states, as the third-largest retail chain in the country

behind Carrefour and Companhia Brasileira de Distribuição (CBD), which has the backing of the French group Casino (*The Wall Street Journal Americas*, 2005).

⁵ Royal Ahold controlled 33.3% of CARHCO, which in turn owned 85% of La Fragua and 100% of CSU. By 2005, CARHCO was operating 363 stores in Costa Rica (124), Guatemala (120), El Salvador (57), Honduras (32) and Nicaragua (30).

⁶ Wal-Mart acquired the Brazilian chain Bompreço and Royal Ahold's share of the Central American supermarket chain CARHCO. Cencosud bought the Santa Isabel chain in Chile and the Disco supermarkets in Argentina.

As can be seen from the experience of Royal Ahold, it has not been easy for large retailers to expand into foreign markets, since good results at home are no guarantee of success abroad (Bianchi and Ostalé, 2004, p. 3). Moreover, the “windows of opportunity” opening up in developing countries were associated with a high degree of uncertainty, owing to the rapid saturation and instability of local markets (figure 2). Latin America has been no exception, and Royal Ahold is not the only transnational corporation to have pulled out of the region. Other emblematic cases include The Home Depot (Argentina and Chile) and Carrefour (Chile and Mexico). In most such situations, the international operators in question proved unable to adapt their formats and practices to the characteristics of local markets and faced unexpected problems with suppliers, consumer tastes and aggressive competition from established local chains.

In summary, the dominant international operators, Wal-Mart and Carrefour, have concentrated on consolidating their position in the main regional markets. They have recently sought to expand their presence into smaller markets, with mixed results. On the whole, consolidation in the smaller economies has taken place among local firms, which have been incorporating some of the best practices and formats developed by the global operators. Chile’s experience is particularly striking, since the local chains put up fierce resistance to the global leaders, consolidated their position in the domestic market and then ventured out to explore new business opportunities in neighbouring countries. This last development is especially noteworthy, since not even the large Mexican chains (Organización Soriana, Controladora Comercial Mexicana, Grupo Gigante and Grupo Elektra), which have competed strongly with Wal-Mart, have been able to expand their activities abroad to any significant degree.

III

The integrated retail model in Latin America

Retail is one of the most dynamic and competitive sectors of the Chilean economy, and is in a state of unceasing development. This has made the Chilean market the most attractive in Latin America (figure 3). In recent years, there has been a trend towards consolidation of the different formats that compete for custom in the sector: supermarkets, specialized chains (pharmacies, home improvement and building materials) and department stores. A greater diversification of income sources has now become explicit, essentially involving the provision of customer credit and the sale of a broader range of products at the same location in order to attract more consumers (banking services, insurance and travel). Many of these changes have occurred against the backdrop of profound transformations in the sector’s largest companies, especially the transition from family businesses to professionally managed firms and then to public companies whose shares are traded on stock markets in Chile and abroad.

With a more open economy and growing competition following the arrival of the first international operators, retail companies adopted a defence strategy which yielded good results. First, they were quick to study the top international retailers. Then they took

some of those retailers’ business models and practices, pinpointed and eliminated their shortcomings and proceeded to adapt them to the local market. They also hired executives with ties to those companies and added new products and services. For their part, the foreign corporations underestimated the local firms’ ability to react and ultimately had to withdraw from the Chilean market⁷ (Bianchi and Ostalé, 2004). The sector thus saw the emergence of a group of companies that had developed competitive advantages, enabling them to establish a strong position in the domestic market, block international competitors’ attempts to enter the Chilean market and begin to expand into neighbouring countries (table 4).

⁷ In 1999, after operating for five years without making a profit, the largest United States department store chain, J.C. Penney, sold its assets to its local competitor, Almacenes París. In 2001, three years after it began trading, the world’s biggest home improvement store, The Home Depot, decided to sell its out to its local partner, Falabella. In 2003, after five years in the country, the world’s largest supermarket chain, Carrefour, sold its stores to the local operator D&S. Lastly, in the same year, Cencosud acquired the operations of Royal Ahold in Chile.

TABLE 4

Chile: Leading retail groups and their market share, 2005
(Percentages)

Group	Department stores	Home improvement	Supermarkets	Pharmacies
Falabella	40	21	3	-
Cencosud	29	5	25	-
Ripley	31	-	-	-
D&S	-	-	35	4
Farmacías Ahumada (FASA)	-	-	-	30
Salcobrand	-	-	-	27
Cruz Verde	-	-	-	34
Others	0	74	37	5
Total	100	100	100	100

Source: Prepared by the author with information from the companies.

One of the main peculiarities of Chilean retailers is their involvement with financial services.⁸ Chilean firms were pioneers in consumer lending. The development of the sector has been closely linked to the provision of customer credit, boosted by the creation of the retailers' own financial arms: Banco Falabella (1998), Banco Ripley (2003) and Banco París (2004). Indeed, meeting customer demand for credit has become an additional source of revenue and a key factor in these companies' profitability. Consumer credit activities have strengthened the retail side of the business and the success of this has boosted lending in turn, generating a powerful synergy between the two activities (Falabella, 2004b, p. 27). Lending activities could become even more important at times of economic slowdown, since people would then prefer longer repayment terms. The financial business currently represents between 7% and 10% of total income for Cencosud and Falabella, and about 25% for Ripley, which is not yet in the supermarket business. Moreover, it provides companies with information on their customers (consumption

habits and borrowing capacity) that helps them to define their marketing strategies and optimize the composition of the goods they sell and their promotional activities. It would appear that the present focus of strategy is on increasing the loyalty of existing customers rather than attracting new ones. Thus, lending could be increased further by providing more credit to the best customers without necessarily increasing risk.⁹

The provision of credit cards by retailers was not formerly subject to many restrictions, and in some cases this led to complaints by users. In April 2006, a new law was brought in to govern the operation and use of non-bank credit cards, bringing them under the supervision of the Superintendency of Banks and Financial Institutions (SBIF).¹⁰ Although these changes in the regulatory framework could affect their capacity to generate operational flows, the companies in the sector seem to be adapting rapidly to this more restrictive environment. As part of this, they have improved their credit profile forecasting models and tightened up their bad debt provision policies.

⁸ This strategy had already been applied by United States companies. In Chile, however, it proved particularly successful, since the major stores' credit cards were targeted at lower-income consumers, a segment clearly not covered by traditional banks.

⁹ In December 2005, the main retailers had loan portfolios totalling more than US\$ 3.15 billion: Falabella, US\$ 1.072 billion; Ripley, US\$ 907 million; Cencosud, US\$ 428 million; D&S, US\$ 374 million; and La Polar, US\$ 374 million (*La Segunda*, 2006).

¹⁰ Under the new regulations, customers who have problems with their card, be they irregularities in the commissions charged or security anomalies, can complain to SBIF or the National Consumer Service (SERNAC). The companies are obliged to provide customers with information on the item for which interest is being charged, the rate applied, the basis of calculation and the period covered.

In the absence of international operators in Chile, local companies competed vigorously with one another in areas ranging from hypermarkets to the more innovative types of convenience store. Economic growth and stability, together with strong consumption growth, enabled the leading firms to continue expanding without significant losses of market share. Nevertheless, the first signs of saturation prompted the Chilean chains to seek new growth opportunities abroad.

The pioneer in international expansion was Cencosud. During the 1980s, it opened two shopping centres with Jumbo hypermarkets in Buenos Aires; one of them, Unicenter, was the largest of its kind in Argentina. These initial incursions set what was to become the pattern for Cencosud's internationalization drive: a combination of vigorous real-estate development (construction and operation of shopping centres) and active participation in retail activities, particularly supermarkets, to which it would later add home improvement stores. In 1993, the company introduced a new line of business simultaneously in Chile and Argentina when it created building materials and home improvement stores under the Easy brand name. From then until 1998, Cencosud's growth in Buenos Aires was particularly rapid, as it built and ran seven new

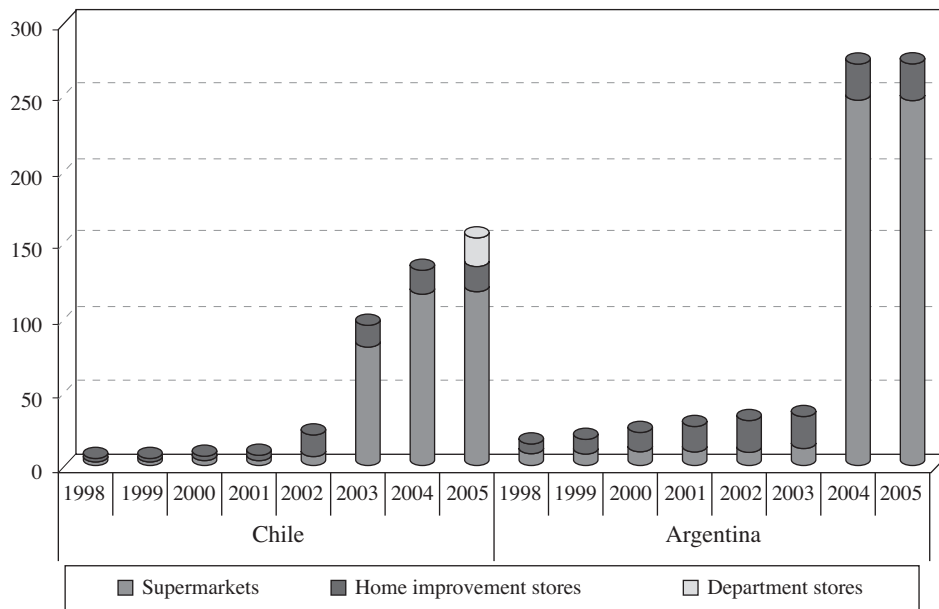
shopping centres, all of which included Jumbo and Easy stores. The penetration strategy for Easy was even broader, as about half these stores were located away from the shopping centres run by Cencosud. This was part of a strategy of generating powerful synergies between the company's different lines of business, especially in Argentina (figure 4).

During the same period, the department store chain Falabella also moved into Argentina, but with a considerably more conservative strategy than the one used by Cencosud. In 1993, Falabella opened its first store in the border town of Mendoza, where people were already familiar with the company because of the amount of tourist traffic between the two countries. Falabella saw Mendoza as offering an opportunity for growth with less risk than would have been involved in moving directly into Buenos Aires (Bianchi, 2002, p. 6). With this initial operation, Falabella became the only department store chain to operate in the Argentine market (Falabella, 2004b, p. 37).

Despite this privileged position, the results did not live up to expectations. Falabella had to deal with a complex environment in which legal standards, consumer preferences and habits and product import facilities were very different from those in Chile.

FIGURE 4

Cencosud: Number of stores, by business segment and country



Source: Prepared by the author on the basis of information from Cencosud.

Nevertheless, the company continued its expansion into Argentina by opening two new stores, in San Juan (1994) and in Córdoba (1997), seeking to generate economies of scale that would make its business profitable (Bianchi, 2002, p. 6). Its great opportunity to consolidate its position in Argentina came a little later, however, when Cencosud remodelled the Unicenter shopping centre. Falabella then came in as the second anchor store alongside Jumbo, thus establishing itself in Buenos Aires. As a means of promoting department store sales, it also introduced its CMR credit card, along with other services such as its travel agency. When it began to provide credit, the company's performance started to pick up, and expectations for Falabella's future growth in Argentina are now high (Falabella, 2000, p. 17).

In light of its experience in Argentina and the difficulties encountered there, Falabella reformulated its strategy for entering other markets and began to pay greater attention to local idiosyncrasies. In 1995, encouraged by the Peruvian economy's growth prospects, it entered that market by acquiring the SAGA (Sociedad Andina de Grandes Almacenes) department store chain, which was well known locally and had two stores in Lima, from its Colombian owners. The company began operating under the name SAGA Falabella, retaining local management and incorporating processes and best practices applied in Chile (Bianchi, 2002, p. 7). The strong position of the SAGA brand, the established managers' knowledge of the market, the existence of a department store shopping culture and the perception among Peruvian consumers that Falabella was a local company meant that it quickly achieved positive results (Falabella, 2004b, p. 38). As in Argentina, those results were boosted by the introduction of the CMR credit card and the company's travel agency, and by the selling of insurance.

In view of Falabella's success, one of its main rivals in Chile, Ripley, began its own internationalization process in Peru in 1997. The new competitor reproduced the characteristics of the Chilean market by opening its first premises in Lima at the Jockey Plaza Shopping Center, where Falabella also had a store. In Peru, Ripley sought to build up its corporate image among higher-income consumers before turning its attention to segments with less purchasing power.

In a bid to cope with this new situation, between 1996 and 1998 Falabella expanded and remodelled its existing facilities, opened two new shops in Lima, and set up a distribution centre. The company also worked to maintain good relations with its Peruvian suppliers

(almost 50% of its purchases were local), while at the same time coordinating closely with the buying department in Chile, as a way of creating synergies in bulk purchases from foreign suppliers (Bianchi, 2002, p. 8).

The economic situation in Peru began to deteriorate, however, affecting the results of the two Chilean firms' Peruvian subsidiaries. In response, both Ripley and Falabella launched new expansion drives involving major changes in their strategies. In 2000, Ripley introduced a new low-price, self-service store format (Max). This strategy enabled it to reach segments of the Lima population which its competitor had yet to approach. Meanwhile, Falabella was also opening smaller stores (SAGA Falabella Express), but with a view to exploring market potential elsewhere in Peru. Thus, the company used a small shop format and careful product selection to try to identify the needs and preferences of consumers in the northern part of the country, while also introducing the CMR credit card. Over a short period, Falabella opened premises in Trujillo (the largest city in northern Peru) and in Chiclayo, Piura and Arequipa.

Coming on top of the difficulties in Peru, the sharp downturn in the Argentine economy destabilized Falabella's and Cencosud's plans. Falabella put a freeze on new investment and announced that it would not open any more new stores in Argentina, but would instead concentrate on improving the commercial management and efficiency of its operations (Falabella, 2001, p. 19 and *El Mercurio*, 2002). One of the most important measures taken by the Chilean firm in Argentina was a rapid reduction in the percentage of imported merchandise, which it replaced with local products more suited to Argentine tastes. This gave it a considerable competitive advantage (Falabella, 2004b, p. 37). Falabella also sought to improve its communication strategy and capitalize more on the economies of scale generated by its joint operations in Chile and Peru (Falabella, 2001, p. 19). Lastly, the department store format proved highly convenient and flexible for Argentine consumers during the economic recession because they could use the CMR credit card for their purchases (Falabella, 2004a, p. 14).

Meanwhile, Cencosud continued to grow but, unlike Falabella, focused its efforts on expanding its real-estate business into other parts of Argentina by opening somewhat smaller shopping centres (Neuquén and Mendoza) and extending its Easy chain (table 5). Cencosud saw an opportunity in the deep economic crisis, and while other major operators in the industry

TABLE 5

Cencosud: Shopping centres in Argentina, 2005

Opened	Shopping centre	Leasable floor space (m ²) ^a	Location	Description
1982	Parque Brown Factory	26 224	Federal capital	Jumbo, Easy, 44 stores
1988	Unicenter	91 771	Martínez, Buenos Aires	Jumbo, Falabella, 287 stores, Aventura, Food Court, 14 cinemas
1993	Lomas Center Factory	33 675	Lomas de Zamora, Buenos Aires	Jumbo, Easy, 50 stores, Aventura
1994	San Martín Factory	32 729	San Martín, Buenos Aires	Jumbo, Easy, 31 stores, Aventura
1996	Centro Comercial Palermo	29 699	Federal capital	Jumbo, Easy, 43 stores
1997	Quilmes Factory	44 132	Quilmes, Buenos Aires	Jumbo, Easy, 47 stores, Aventura, Food Court, 12 cinemas
1997	Plaza Oeste Shopping	41 634	Morón, Buenos Aires	Jumbo, Easy, 138 stores, Aventura, Food Court, 8 cinemas
1998	Las Palmas del Pilar	49 581	Pilar, Buenos Aires	Jumbo, Easy, 102 stores
2000	Portal del Escobar	32 740	Escobar, Buenos Aires	Jumbo, Easy, 24 stores
2000	Portal de La Patagonia	33 813	Neuquén	Jumbo, Easy, Food Court, 40 stores
2001	Portal de Los Andes	32 563	Godoy Cruz, Mendoza	Jumbo, Easy, 30 stores
2004	Portal Rosario	55 000	Rosario	Jumbo, Easy, 160 stores, Food Court, cinemas

Source: Prepared by the author on the basis of information from Cencosud.

^a Includes Jumbo and Easy stores.

were trying to withdraw from the country, the Chilean company sought options for continuing growth. Although it did experience a significant slump in sales, it was clearly confident that the Argentine economy would bounce back (figure 5). In 2002, Cencosud paid US\$ 105 million for the four stores owned by the United States chain The Home Depot in Argentina (Cencosud, 2003, p. 15).

Cencosud thus became one of Argentina's largest shopping centre management companies¹¹ and the leader in the country's home improvement and building stores sector (tables 5 and 6). The devaluation of the peso forced Easy to substitute local products for imports and use a greater number of local suppliers.¹²

This situation created an opportunity to introduce new products to its subsidiary in Chile, enabling the company to reap volume synergies in its purchasing (Cencosud, 2004, p. 36).

The troubled economic situation of Argentina and Peru in the early 2000s held back the international expansion of Chile's largest retailers, but they did succeed in growing and strengthening their position in the Chilean market while introducing major changes in their business development strategies. Given the small size of their domestic market, they realized that they could not achieve sufficient scale if they acted in just one segment of the industry, so they began to broaden and diversify their provision in order to create synergies among different but related lines of business. Thus, while global operators were specializing and standardizing their formats, a new variant began to emerge in Chile's retail industry: integrated retailing.

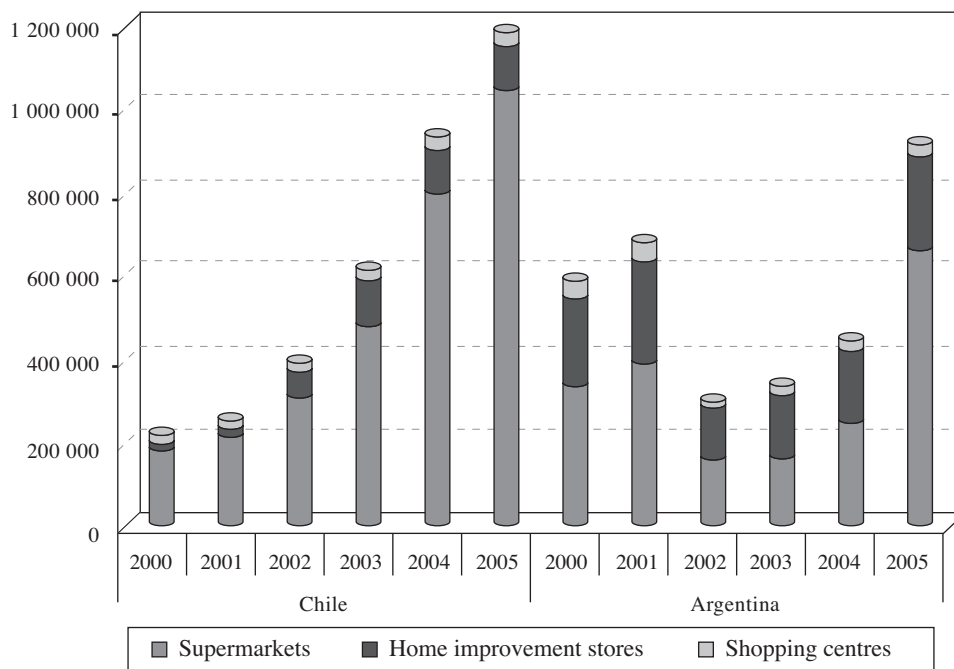
It was Falabella that took the first steps in this direction. In the late 1990s, it moved into the home improvement stores segment in partnership with the

¹¹ The Argentine shopping centre market basically comprises two large operators, Cencosud and IRSA-Alto Palermo Centros Comerciales, which account for 60% of gross leasable space in commercial establishments of this type.

¹² Prior to this, some 30% of the products sold in the company's stores were of foreign origin.

FIGURE 5

Cencosud: Operating revenue, by business segment and country, 2001-2005
(Millions of Chilean pesos)



Source: Prepared by the author on the basis of information from Cencosud.

TABLE 6

Retailers: Number of stores, by business segment and country, 2000-2005

	Falabella			Cencosud			Ripley		
	1998	2000	2005	1998	2000	2005	1998	2000	2005
Department stores									
Chile	26	29	33	-	-	21	14	23	31
Argentina	4	5	6	-	-	-	-	-	-
Peru	4	4	10	-	-	-	1	4	8
Home improvement									
Chile	2	5	54	2	3	16	-	-	-
Argentina	-	-	-	8	14	26	-	-	-
Peru	-	-	2	-	-	-	-	-	-
Colombia	-	-	9	-	-	-	-	-	-
Supermarkets									
Chile	-	-	11	3	4	119	-	-	-
Argentina	-	-	-	8	10	248	-	-	-
Peru	-	-	3	-	-	-	-	-	-

Source: Prepared by the author on the basis of information from Falabella, Cencosud and Ripley.

United States firm The Home Depot and acquired 20% of Farmacias Ahumada (FASA), a specialist company with an interesting growth strategy. In 2001, Falabella bought out its partner, The Home Depot, and created HomeStore. Two years later, it merged HomeStore with Sodimac, Chile's largest operator in the segment. This operation indirectly boosted Falabella's internationalization, thanks to Sodimac's presence in Colombia.¹³ Falabella subsequently expanded into the supermarket segment, first establishing itself in Peru with the creation of the Tottus hypermarket chain and then quickly applying this experience in Chile.¹⁴

Not to be outdone, Cencosud began to implement a similar strategy. First, it sought to extend the geographical coverage of its supermarket chain in Chile and diversify its format. To that end, it bought up a number of local operators: Santa Isabel, Las Brisas and Montecarlo (Cencosud, 2005, p. 13). Then, in March 2005, Cencosud made its boldest play, taking over Almacenes París, Chile's third-largest department store chain after Falabella and Ripley.¹⁵ As a result, like Falabella, Cencosud has established a broadly based retail business that will enable it to generate synergies and complementarities between its different assets, especially with the non-banking credit business—Cencosud (Jumbo) and Almacenes París have about 4 million credit card holders between them—and with Banco París.

Cencosud and Falabella thus appear to have cut several years off the process of developing an integrated model for supermarkets and department stores (a strategy which has also been successfully implemented by the Spanish chain El Corte Inglés). Again, while the integrated retail concept has been applied most intensively in the domestic market, this new strategy began to be implemented outside Chile as well when the economic situation in a number of Latin American countries improved, and Falabella and Cencosud have

shown great interest in continued expansion into relatively undeveloped market segments or niches in other countries of the region.

In less than two years, Falabella has very successfully replicated its business model in Peru, opening three Tottus hypermarkets, two Sodimac Homecenter home improvement stores (with six more planned for the next two years) (Sodimac, 2005, p. 24), and four new SAGA Falabella department stores (table 6). In Argentina, it hopes to gain a new impetus with the opening of two new department stores in a major street (calle Florida) in central Buenos Aires (*La Nación*, 2005 and Falabella, 2005, p. 20). In Colombia, it plans to open three new Sodimac stores and four Falabella department stores, a format that is almost non-existent in that country.¹⁶ Indeed, Falabella has announced that it will invest some US\$ 1.13 billion over the next four years (Falabella, 2006, p. 11) to double the number of retail outlets of all formats in Chile, Argentina, Colombia and Peru (table 7). The company is also looking for new opportunities in Ecuador and the Bolivarian Republic of Venezuela (*Business Latin America*, 2005), thereby making explicit its aim of becoming a major regional player. All this has turned it into one of the 10 fastest-growing retailers in the world (Deloitte, 2006, p. 15).

With the first signs of recovery in Argentina, Cencosud saw a chance to increase its market share and expand the geographical coverage of its operations in that country by buying the Disco supermarket chain,

TABLE 7

Retail sector: Planned investments, 2006-2010
(Millions of dollars)

Company	Period	Amount
Cencosud	2006-2010	1 200
Falabella	2006-2009	1 130
Ripley	2006-2007	551
D&S	2006-2009	800

Source: Prepared by the author on the basis of information from company reports.

¹³ In 1994, the original owners of Sodimac formed a joint venture with the local group Corona to introduce the Homecenter franchise in Colombia. Falabella currently owns 35% of the joint operation and runs eight stores, and has thus achieved nationwide coverage and consolidated its position as the leader of the sector in Colombia (Sodimac, 2005, p. 25).

¹⁴ In 2004, Falabella entered the supermarket business in Chile by acquiring 88% of Supermercados San Francisco, the country's third largest chain, for US\$ 62.5 million.

¹⁵ On 31 August 2005, shareholders' meetings of both companies approved the merger of Cencosud and Almacenes París, the latter being taken over by the former.

¹⁶ Falabella intends to invest some US\$ 100 million for this purpose together with the Corona group, its partner in Sodimac (*El Mercurio*, 2005a).

the second largest in Argentina, from Royal Ahold, which was in serious difficulties.¹⁷ It very soon began to show what it was capable of in Argentina, where it was competing with the two global leaders, Wal-Mart and Carrefour, achieving a 22% market share by early 2005. Furthermore, following the acquisition of Almacenes París, the company decided to step up the internationalization of its department store format by building on its platform of shopping centres in Argentina.¹⁸ Cencosud expects to double its annual sales to over US\$ 10 billion by 2010, positioning itself as the industry's fourth-largest operator in Latin America behind Wal-Mart, Carrefour and Casino. To that end, it plans to invest some US\$ 1.2 billion, financed basically through internal cash generation. In addition to growth in Chile, Cencosud aims to increase the number of its Easy stores in Argentina from 26 to 50 and to open between seven and nine new Almacenes París stores (table 7). It also wishes to expand into a third country at the same time, and is looking at opportunities in the Bolivarian Republic of Venezuela, Brazil, Colombia, Mexico and Peru (*La Tercera*, 2006a).

Ripley has not been left behind either, but has continued to seek opportunities for diversification and may follow Falabella's lead by entering the supermarket segment in Peru before turning to the Chilean market. The company has announced a new push in its international expansion and is targeting other Latin American countries that have potential and are of "manageable" size, the main contenders being the Bolivarian Republic of Venezuela, Colombia and Ecuador (*El Mercurio*, 2005b). Notwithstanding, Ripley has also expressed interest in entering larger markets such as Brazil and Mexico (*La Tercera*, 2006b). The

company plans to invest over US\$ 550 million for this purpose (table 7).

The Chilean model has also been followed by other operators in Latin America. In Colombia, for example, Falabella and Carrefour have joined forces to manage their own consumer credit system, while the local chain Carulla Vivero has attempted to do the same with Ripley (*América economía*, 2006a, p. 92). This latter partnership has suffered a delay because the Colombian chain Almacenes Éxito may be acquiring part of Carulla Vivero (*La Tercera*, 2006b).

With this track record, it seems logical that the leading Chilean retail companies should continue to expand their presence, both in the different segments of the industry and geographically. Accordingly, they have already announced ambitious investment plans for the coming years. These companies' past and future expansion plans have required complex financial engineering to meet the financial requirements of this process by combining equity, bank credits, bonds and new share issues. Nevertheless, their borrowing has remained within acceptable limits. Cencosud is the company that has faced the greatest difficulties, as its recent aggressive expansion plan left it heavily indebted; it has managed to turn the situation around rapidly, however.¹⁹

In sum, boosted by the growth of the local economy and, especially, by private consumption trends, the revenues of the large Chilean retail chains have expanded steadily. This is reflected in the substantial investments announced for the next few years, in the pace at which new stores are being opened and in the expansion of agreements for the use of credit instruments. Thus, these companies have consolidated and expanded their participation in the markets where they operate. The big chains have increased their presence by taking over smaller operators, thereby significantly increasing the degree of concentration in the domestic market. Notwithstanding this trend, there is no clear evidence that competition has suffered. Indeed, consumers have mostly enjoyed lower prices.

¹⁷ In early 2004, Cencosud successfully completed its first issue of shares and American Depositary Receipts (ADRs), equivalent to 21% of its holding, thereby raising US\$ 332 million. Using these funds, it struck an agreement with Royal Ahold some months later to acquire an 85% share in Argentina's second-largest supermarket chain, Disco S.A., for about US\$ 315 million. After numerous legal battles, the operation was finally concluded, although the merger with Jumbo could not take place (*El Clarín*, 2005). Thus, during an especially difficult period, following the purchase of Disco and the remodelling of the Jumbo stores (in which it invested over US\$ 500 million), Cencosud became the second-largest supermarket operator in Argentina (Cencosud, 2005 and *Estrategia*, 2004).

¹⁸ As with Jumbo and Easy, Cencosud plans to open an Almacenes París store in each of its shopping centres in Argentina. This process was to begin in early 2006 with the opening of a store at Unicenter in Buenos Aires, to compete with Falabella (*La Nación*, 2005).

¹⁹ A capital increase was approved in January 2005, and this was used to fund part of the takeover of Almacenes París. Including the liabilities of Almacenes París, Cencosud's financial debt stands at US\$ 1.156 billion, of which 40% is repayable in the short term. In June 2005, Cencosud sold 38.6% of Disco and Jumbo in Argentina to various institutional funds for US\$ 130 million and subsequently implemented a US\$ 550 million liability refinancing plan. This operation allowed the company to extend the maturity profile of over half its financial liabilities (Cencosud, 2006, p. 8).

The market leaders still have room for further growth, which would seem to indicate that the industry is far from having reached maturity. In this respect, two central trends have emerged: (i) the search for synergies between different retail segments and formats to make up for the small size of the Chilean market; and (ii) the use of selective and gradual internationalization strategies to expand the market. The first of these trends has enabled the leading companies to consolidate their position in the domestic market, check the expansion of international chains and acquire highly valuable know-how in the management of related businesses, especially in the increasingly important financial segment. On the

strength of this experience, the leading companies in the sector have moved with particular success into certain external markets, thus opening up new potential to scale up their business. Their international experience has also enabled the leading operators to assimilate new elements, such as local characteristics and supplier relationships, into their overall strategies. Nevertheless, it is also true that greater international exposure will mean increased competition with global operators, which could introduce greater uncertainty into the potential for Chilean companies to sustain these strategies.

IV

Specialist retailing: A record of success in fragmented markets

In contrast to the leading retail companies, which have grown rapidly by expanding the range of their business and their geographical coverage, Chile also offers interesting examples of a completely opposing logic: specialization in a particular segment of the industry. This is the case with certain chains of pharmacies and home improvement stores, such as Farmacias Ahumada (FASA) and Casa&Ideas.²⁰

In 35 years or so, FASA has grown from a traditional pharmacy to the largest chain of pharmacies in Latin America and one of the 10 largest in the world, with operations in Chile, Peru, Mexico and, until recently, Brazil (FASA, 2005, p. 7; *Chain Drug Review*, 2002). It is also one of the few companies in the world to have successfully implemented an internationalization strategy in this particular segment of the retail market, whose leader is the British company Boots Group PLC.

In recent years, Chile's pharmacies have been undergoing intensive consolidation in a highly competitive environment, with the three largest

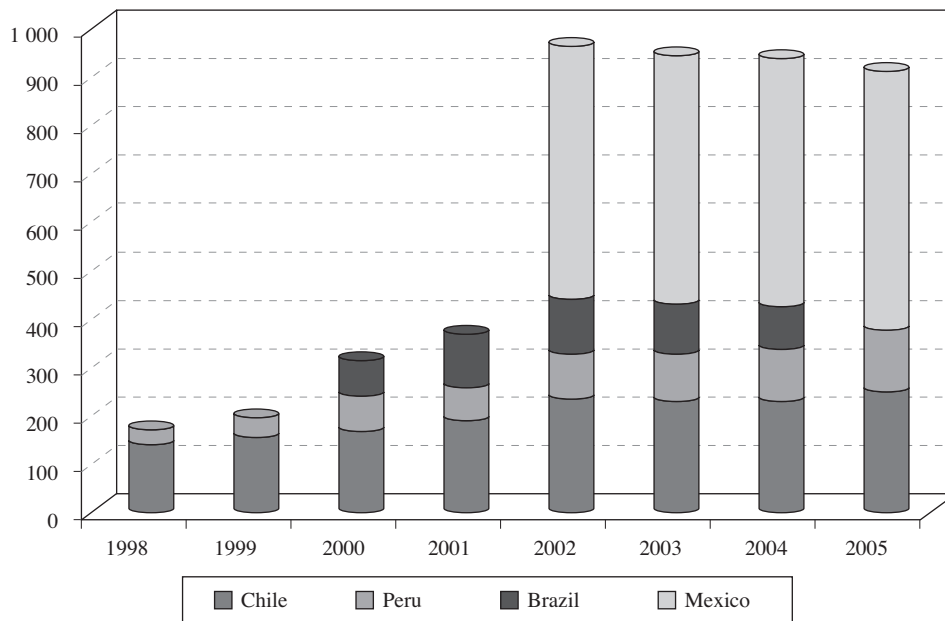
operators having a combined market share of 90% (see table 4). Unlike its competitors, FASA realized that the shrinking market share of independent pharmacies and the consequent consolidation of the chains would translate into fewer opportunities for growth within Chile. The company therefore embarked upon an active internationalization process, seeking out new markets that would offer profitable growth and enable it to benefit from the synergies generated by its size and experience (FASA, 2005, p. 7). Entering highly fragmented and dispersed markets, FASA was able to expand its market share rapidly, thanks to cost advantages resulting from its greater volume of business, the implementation of technological and logistical improvements, and marketing campaigns (FASA, 2002, p. 29 and 2003, p. 49).

FASA began its internationalization drive in 1996 when it entered the Peruvian market, setting up the Boticas FASA S.A. pharmacy chain in a joint venture with local investors. In 2000, together with AIG Capital Partners Inc., it acquired 77% of Drogamed, the largest pharmacy chain in the Brazilian state of Paraná, for US\$ 25 million. A year later, in order to take full control of its affiliates in Peru and Brazil, FASA acquired 15% of Boticas FASA and, jointly with AIG, 23% of Drogamed. In early 2005, FASA bought the remaining 35% of Drogamed from AIG, turning it into a wholly-owned subsidiary (figure 6).

²⁰ The experience of Casa&Ideas is more recent and more limited in scope. In 1993, Casa started trading with two stores in Santiago; five years later, it was replaced by Casa&Ideas, with a new corporate image and a new business concept: affordable design for all. In 2005, following huge success in Chile, the company ventured abroad with the opening of two stores in Lima, Peru. Casa&Ideas currently has 26 stores in Chile and three in Peru.

FIGURE 6

Farmacias Ahumada: Number of outlets, by country, 1998-2005



Source: Prepared by the author using information from FASA.

In December 2002, FASA acquired a majority interest in the Mexican company Far-Ben S.A. de C.V. through the subscription and payment of a US\$ 45 million capital increase. The Mexican chain was going through a profound crisis and needed a strategic partner to turn around its financial situation (*América economía*, 2006b, p. 46). In 2003, FASA consolidated its operations by successfully taking over Farmacias Benavides in Monterrey, Mexico. This doubled the size of the business in terms of sales, customers and the number of outlets (see figure 4).

Thus, by using different internationalization strategies tailored to each market, from entirely new operations in Peru (Boticas FASA) to the takeover of chains in Brazil and Mexico (Drogamed and Farmacias Benavides), FASA has been able to expand its operations substantially in record time. After more than eight years of international expansion, over 60% of the company's consolidated operational earnings now come from abroad and over 71% of its customers are outside Chile.

This international expansion effort has not been trouble-free, however, particularly in Brazil. In fact, the operation in that country was largely responsible for the deterioration in the company's profits from

US\$ 10.5 million in 2001 to US\$ 2.5 million in 2002. The fragmentation of the Brazilian market made it difficult to operate a chain like FASA and, despite large capital injections, debts were increasing and the operations showed no sign of recovery. Moreover, competition in Chile was becoming stiffer, resulting in a six point loss of market share between 2003 and 2005 (*América economía*, 2006b, p. 47). FASA therefore decided to withdraw from Brazil. In January 2006, following five years of losses, it sold its Brazilian subsidiary to the then executive president of Drogamed. Complicated regulations, high taxes and commissions, competition from the informal economy and the difficulty of adapting to local consumption patterns had turned its operations in Brazil, the world's sixth-largest consumer of pharmaceutical products, into a nightmare (*Qué Pasa*, 2006).

In summary, faced with intense, unremitting competition in the Chilean market, FASA decided to expand its operations abroad on the strength of the experience it had built up in Chile and the relative underdevelopment of external markets. Other than in Brazil, the outcome has been successful, making this one of the few companies in the world to have internationalized its pharmaceutical retailing operations.

V

Conclusions

Chilean retailers have achieved significant competitive advantages using a business model based on synergies between a number of related activities, a strong customer orientation and a powerful financial dimension. This strategy has given companies a solid base in the local market, enabling them to head off efforts by some of the major international operators to enter what is one of the most attractive destinations for the retail industry in the developing world. The development of this integrated retail formula was the direct result of intense competition in the Chilean market, whose small size made it very difficult to run a profitable operation in just one segment of the retail industry. Accordingly, Chilean companies progressively developed a full range of integrated retail operations, based on six main pillars: department stores, home improvement stores, supermarkets, credit card administration, financial services provided through their own banks, and real estate. The key to success was a combination of best international practice with knowledge of local conditions, a diversified product range including banking services, and the ability to survive in a highly competitive market.

Following their success in the local market, and alert to the first signs of saturation, retailers saw international expansion as the best option for sustainable growth. Their internationalization has been gradual and limited to neighbouring countries, which has enabled them to gain experience of operating in other markets without major traumas. Indeed, some of the approaches developed in the Chilean market have been emulated by other operators in the region.

Chilean companies have applied the central elements of their domestic market strategies to their international expansion, adapted somewhat to enable them to tune in to local consumer habits and needs and win acceptance. To this end, they have sought out local partners, established long-term relationships with suppliers and recruited local staff whenever possible in the countries where they have invested. Many of these changes were implemented during economic crises in

the countries concerned, and this enabled the companies to take advantage of new opportunities and acquire assets from transnational corporations that were unable to weather the situation and grasp the peculiarities of local consumers.

The leading Chilean operators have recently been facing new challenges in the domestic market, particularly where supermarkets are concerned. In the first place, the restrictions imposed by Chile's competition authority, the Tribunal de Defensa de la Libre Competencia (TDLC), on continued growth in the Chilean market via acquisition of smaller chains, together with the regulation of these operators' relationships with their suppliers, will help to keep a check on market concentration and prevent abusive conduct. Secondly, the new standards laid down by the Superintendency of Banks and Financial Institutions (SBIF) for credit cards issued by retail operators will regulate the provision and use of these non-bank payment facilities, preventing companies from levying excessive interest and charges. Although it means tighter restrictions than in the past, the new situation does not appear too problematic for local companies. While some of them may see their profit margins fall, their efficiency will increase and their relationships with their customers and suppliers will improve significantly. There is surely no impediment to their continuing to improve the quality of their internal management and looking with fresh enthusiasm at the opportunities for more ambitious international expansion.

The model developed by Chilean companies would also be applicable to medium-sized economies where major international operators such as Wal-Mart and Carrefour have not been very successful or have not shown any interest. This could be risky, however, as the subregional chains being set up by Chilean companies in rapidly consolidating markets could become prime targets for global operators wishing to position themselves quickly and on a sound footing in Latin America. A case in point is Wal-Mart's recent acquisition of the CARHC chain in Central America.

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