Leclerc: The Expansion Challenge

Case

Michel-Edouard Leclerc, co-chairman of the private cooperative group E. Leclerc, France's second largest retailer, leaned back in his chair and frowned at his executive team. It was late 2012, and Michel-Edouard was able to look back with pride on Leclerc's stellar performance that year. However, now that he was meeting with his team to discuss plans for next year, he could see the difficulties that lay ahead. “While this year's results have been reasonable, we need even more growth,” he said. “I would like to see profits up at least 6 percent in 2014. Even though the French market is the core of our company, international expansion is critical for our strategic growth. Let's get back together in a week to review your proposed marketing plan for the Australia market.”

Leclerc

Leclerc was founded in 1949 by Edouard Leclerc. It was initially a private company, but in 1962 it became a cooperative. By 2003 Leclerc had a rather complex organizational structure with three different divisions: stores, a central governing association, and a buying group.

Leclerc stores were individually owned and operated. Each store had an owner who invested in the store, managed the operations, and enjoyed the profit. In most cases, store owners controlled several different stores. Nonetheless, store ownership was very fragmented; no owner controlled more than 10 percent of the total number of stores.

The Leclerc stores were largely controlled by Association of E. Leclerc distribution centers (ACDLec). This organization was responsible for strategy, communication, and international development of the Leclerc brand. It was run by Edouard Leclerc and his son MichelEdouard. Independent store owners paid a fee to the association in exchange for the right to use the Leclerc brand. In return, retailers had to comply with the rules set by the association. For example, every Leclerc store had to have a price index equal to or below any other competitor in a given area. An independent store owner who would not comply with those rules could lose the right to use the Leclerc brand.

The Leclerc purchasing group (Galec) was responsible for buying and general agreement negotiations with the largest suppliers. In addition, there were sixteen local purchasing groups, operating with a high degree of autonomy, responsible for buying local products.

Leclerc was primarily a hypermarket operator; the company had a network of large retail stores across France. Leclerc had more than 500 stores in France in 2012.

Leclerc was beginning to expand into other countries, but the vast majority of sales were in France. Its international operations were basically break-even. Management was optimistic, however, that the international division would be profitable in five years.

In 2012 Leclerc claimed about 12 percent share of food retailers' sales in France, with total retail sales about of €25.0 billion in the country. It was the second largest retailer in the market behind Carrefour. However, Leclerc was the largest hypermarket retailer.

Leclerc hypermarkets carried a wide selection of food products plus a diverse collection of non-food products: health and beauty, clothing, home textiles, home and kitchen items, furniture, entertainment products, and electrical appliances. The product selection was tailored by store, with only the largest stores selling big-ticket items such as televisions and furniture.

Over the years Leclerc had fought for the right to offer lower prices. The company had supported public campaigns against anti-competitive actions in categories such as books, fuel, and health and beauty products.

From its founding, Leclerc positioned itself as France's price leader: the large-scale grocery retailer that offered shoppers high-quality products at rock-bottom prices. Edouard Leclerc had stated that his mission was “buying as cheaply as possible to sell as cheaply as possible.” There were two pillars supporting this mission: leveraging scale to negotiate cheap prices and then controlling store level prices to be certain Leclerc remained lowest priced. In addition, Leclerc had always kept overhead costs very low. Across all the different store formats, whether hypermarket or specialty store, the company consistently applied its core positioning statement: Leclerc stood for value and low prices.

Like many retailers in France, Leclerc relied heavily on private label products. Private label products made up about 25 percent of Leclerc's 2012 sales. Leclerc had several different private label brands. The Marque Repère brand, launched in 1997, was the core of Leclerc's private label portfolio, and was priced an average of 35 percent below national brands. The Nos régions ont du Talent brand, also launched in 1997, was Leclerc's premium private label brand and focused on regional food and alcohol. The Éco+ brand was the newest of Leclerc's private label brands. It provided even greater discounts, and was only offered in high-volume food categories.

Leclerc's marketing efforts focused on communicating value and low prices. Leclerc had a highly developed loyalty card program designed to reward repeat customers. The E-Leclerc program allowed shoppers to collect points that could later be exchanged for vouchers to spend in Leclerc stores. Certain items provided a greater number of points; these were marked with a “Ticket E. Leclerc” sign.

The French Economy

In 2012 France was one of the world's largest countries, with a population of more than 65 million. The French economy was the fifth largest in the world, behind the United States, China, Japan, and Germany.

The French government had long played a major role in the nation's economy, characterized by the term *dirigisme*. Following World War II, the French government decided to exert strong directive influence over the economy in order to accelerate rebuilding. The French government owned the national railway company SNCF, the national electric utility EDF, the gas utility GDF, the airline Air France, and the phone and postal services PTT.

Dirigisme delivered strong results for the French. Between 1945 and 1975 the French economy grew at an unprecedented average rate of 4.5 percent per year. The three post-war decades became known as “the Thirty Glorious.” As a result, the French population came to firmly believe in the power of the government to solve the country's economic issues.

The socialist François Mitterrand, elected president in 1981, promised even more government intervention in the economy. He nationalized industrial companies such as Thomson, SaintGobain, Rhône-Poulenc, and Pechiney, as well as financial institutions such as Paribas, Suez, CIC, Crédit du Nord, CCF, and Rothschild.

Unfortunately the economic success did not continue; the French economy slowed in the 1980s and 1990s. As the economy struggled, subsequent governments began to shift away from *dirigisme*. Despite this shift, the government continued to have a major say in the French economy. Indeed, government spending, which in 2001 was 53 percent of GDP, was the highest among industrialized nations. In addition, despite a series of high-profile privatizations, the government held major stakes in companies in a wide range of industries, including banking, energy production and distribution, automobiles, transportation, and telecommunications.

The French economy strengthened in the late 1990s, with GDP growth of more than 3 percent in real terms. However, GDP growth slowed sharply in 2001, and had mixed outcomes since then.

Considering the slow economic growth in the domestic market, Leclerc would like to enter the Australian market as part of their expansion strategy. Before making any decision, Leclerc would like to know more about the Australia market.

Case study problems:

1. Conduct a 5Cs and SWOT analyses with regard to the Australia market for Leclerc.

2. Develop segmentation, targeting and positioning strategies for the Australia market, based on your 5Cs and SWOT analyses.

Notes:

- This case was adapted from Calkins, T., & Dangles, J. (2009). *Leclerc: The Growth Challenge* in SAGE business cases.
- some numbers / statistics are fictitious