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CASE STUDY

Middle East & North Africa • Egypt

Kheir Zaman: A New Player in Food Retail

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Sector • Consumer Products

Enterprise Class • Large Domestic Company



Executive Summary

This is a study of an Egyptian company which is contributing to the development of retail trade among low-income people. In the process of giving them better purchasing opportunities it is also developing the capabilities of informal suppliers to be included in the mainstream, formal economy.

Until recently the internal food trade in Egypt was largely the domain of the government, through its cooperative stores. There were also small private grocery stores, open markets and peddlers occupying the streets. A major portion of the private-sector market is informal, operating outside governmental supervision of quality and hygiene, and is not reached by tax authorities.

Retail trade in the form of modern super markets is a relatively new concept in Egypt and was originally designed to serve high-income people. The Mansour Company originally followed this new pattern and it was able to develop a successful business model along these lines. However, as low-income people constitute a majority of the Egyptian population, the company could not ignore that segment any longer. It capitalized on its well developed management system and its retail experience in the Egyptian market to adapt its high-end business model to suit the needs of this important, low-income, market segment.

The Mansour Company, through its high-end Metro supermarket chain, was one of the early companies to introduce the super market concept in Egypt in 1998. In 2006, it opened its new chain, Kheir Zaman (KZ), to serve lower income people. Since that time, this new chain has expanded in several low income areas in greater Cairo. Through KZ, the company is able to serve a significant consumer base with better shopping options, create employment opportunities and improve suppliers' capabilities



Introduction

Selling to the well-to-do is generally preferred by business people. It generates a high margin of return since consumers in this market segment seek well-known brands and differentiated service, even at higher prices. This obsession with high-end markets tends to neglect the largely unexplored market of low-income people. The lower margin in this segment can be compensated by a large volume of sales which generates reasonable total profit. This is especially true in developing countries where most of the population is poor.

This is a study about an Egyptian food retail company which followed that pattern. Its initial experience was establishing a high-end food retail chain. This stage was useful in building up company resources, capabilities and introducing efficiency measures which were later leveraged in the lower-end food retail business. It will be shown that both types of businesses can take place simultaneously, using shared resources but delivering differentiated services.

The Egyptian Economy and Business

Egypt is a country with a total population of about 83 million people. The main problems facing the country are the high poverty level, a large informal economy, a huge bureaucracy and a state budget over-burdened with subsidies.

The overall per capita income in Egypt reaches US\$1,800 with about 18% of the population classified as poor with less than US\$2 dollar a day to spend.¹ A high level of informal economy, reaching about 30% of GDP, impedes growth and reduces the tax intake. Out of a total of 21.7 million employed people, around 12.2 million are informally employed.² This sector is inefficient, weak on hygiene and has low growth potential due to limited access to formal finance.³

Until the 1980s, the public sector dominated the scene even in internal trade. However, starting in the late 1980s, the government embarked on a program to liberalize the economy. This program picked up speed in 2004 with significant steps including tax reduction, streamlining the bureaucracy, deregulation, tariff reduction, and privatization and improving the business climate to attract foreign investment. As a result, the bureaucracy is loosening its grip on the business environment but still is well entrenched. So, despite improvements, the country is still ranked 106th out of 183, in terms of the ease of doing business.⁴ At the macro-level the retail business suffers from slow government procedures but improvement has taken

¹ World Bank Country Data Profile, Manal el-Jesri, A Portrait of Poverty, Egypt Today, December 2009, Volume 30

² A Country Commercial Guide for U.S. Companies .U.S .Commercial Service, U .S. Department of Commerce, 2009

³ Global Forum on Competition, Organization for Economic Co-operation and Development, January 2009

⁴ Ease of Doing Business, Global Forum on Competition, International Finance Corporation, 2009



place. For example, the fee for registering property has been reduced from a 3% of property value to a fixed amount. Paperwork for opening a food retail outlet used to take up to two years to complete which included interactions with 14 government bodies.⁵ Now, the number of days to get a store license is much less.

Considering the importance of internal trade in the growth of the economy, the government has encouraged foreign retail chains to open branches in Egypt. This should lead to more competition and internal efficiency.⁶ On the other hand, ascertaining availability of basic products and stability of prices are important priorities of the government. Shortages and soaring food prices have caused riots in the past.⁷ Through using import and export restrictions and incentives it tries to stabilize the forces of supply and demand in order to prevent major imbalances. For example, recently the government has stopped exports of sugar when it noticed a significant local shortage. It also lifted import restrictions to comply with The World Trade Organization (WTO).⁸ However, it still preserves the right, in case of national emergencies, to re-impose them.

LOCAL FOOD TRADE

Local retail trade in food is part of total internal trade which represents a significant portion of the economy contributing 11.4% of GDP in 2006/7 and employing 9% of the country's labour force. Total value of trade in food, beverages and tobacco is US\$31 billion which accounts for 43.5% of employment in micro-enterprises.⁹ Available data shows the annual growth rate of food retail sales is from 5% to 15%.¹⁰ These figures reflect only the formal sector of the economy. Obviously including the informal sector will increase the figures considerably. On the other hand, Egypt imports about 60% of its food stuff, reaching a total of US\$27 billion in 2007. This means that the local trade market is significantly affected by worldwide food shortages and rising crop prices which unavoidably cause local inflation often reaching the double digit level. Since food represents a significant portion of the Egyptian family budget, any effort to rationalize this sector will definitely contribute to the welfare of the Egyptian people.

In internal food retail, the size of the store is a good indicator of the state of affairs in that sector. Store size is related to the possibility of employing modern storage facilities and increasing the level of hygiene. It also gives the customer wider choice and more space to be able to compare between the available merchandize and make choices based on price and quality. Large size automatically means large volume and the possibility of applying

⁵ Business Monthly, May 09, "Gov. sets sight on internal market"; www.bi-me.com

⁶ Ministry of Trade and Industry in 2009 established the Internal Trade Development Authority (ITDA) to help carry out internal trade development. In December 2008 the government allocated LE400 million to encourage investment in and development of the internal market. It includes developing commercial trading areas with storage facilities to overcome bottlenecks to improve the efficiency of the market place, and encourage global retailers and wholesalers such as Metro, and Cash and Carry.

⁷ Alex Jones, Food Riots in Egypt Al Jazera, March 13, 2008, Infowors.com

⁸ Business Today, Bigger is better

⁹ Invest in Egypt, Ministry of Investment, www.investment-gov.eg

¹⁰ Business Intelligence Middle East, www.bi-me.com



economies of scale which is eventually translated into lower prices. Space is also important in affecting the relationship between the customer and the store staff. In a cramped little store the merchandise is crowding the limited shelf space and the customer is a passive agent expressing his needs, while the staff performs most aspects of the transaction.

The structure of the Egyptian food retail market consists mostly of small grocery stores (90-95%) while mass retailers account for only 6-8.6% of the total market.¹¹ The latter includes hyper markets (more than 5,000 square metres), super markets (averaging more than 450 square metres), and mini markets (more than 150 square metres). For example, Spinney's, a multinational chain, occupies an area of about 13,500 square metres which is located in a modern shopping centre on the outskirts of Cairo. The average Metro or Kheir Zaman store is around 800 square metres in size including the storage area. Average daily sales of Spinney's are around US\$145,000-218,000 while for Metro it is US\$12,000.¹²

The traditional small food retailers are fragmented between small, independent and largely family-owned grocery shops (around 60 square metres) and food specialists such as butchers, bakers and laban (dairy product specialists) in addition to open markets (mainly for fruits and vegetables). Food shopping typically entails trips to five types of outlets on average every week.

Consumer cooperatives are another traditional category which prevailed in the 1960s and 1970s but their role in relative terms is shrinking, catered to the very poor since their products used to be highly subsidized. However, nowadays prices at consumer cooperatives are the same as most private discounters, therefore undermining their past popularity. There are still a total of 332 of these cooperatives in Cairo and 1,080 in Egypt as a whole. These stores have lately been going through a modernization program such as the introduction of the bar code system. Until the recent past, customers of these stores were being abused and treated badly. However, there is evidence of more respect recently.¹³ This could be due in part to the increasing attention given to internal trade as an engine for growth for the whole economy, including the spread of modern supermarkets which provide a good example for shopping standards.

Given the crowded nature of Cairo, traditional small outlets provide convenient shopping to nearby residents. However, this type of shopping does not allow self-selection, self-service and an adequate product range. In modern supermarkets customers, for example, see cheese and meat prepared for them which they choose themselves.¹⁴ As the economy grew in recent years at a rate between 4-7% and the conditions of some poor people improved, they flocked to modern stores such as Kheir Zaman which provide competitive prices.

¹¹ Invest in Egypt, www.investment-gov.eg

¹² Business Intelligence Middle East, www.bi-me.com

¹³ Ahram, sept 16, 2009 cutting prices in government cooperatives

¹⁴ Ayman El-Amir and Steve Burt: Sainsbury in Egypt: The Strange case of Dr. Jekyll and Mr. Hyde?



Using a local terminology, the market is divided into A, B, C, D and E type consumers. These categories overlap and sometimes intermediate levels are introduced such as B+ or B-. The wealthiest segment (around three million households) belongs to the A and B categories. They will include the likes of businessmen, affluent doctors and employees of multinational and large private firms. These people would shop at Metro. Those shopping at Kheir Zaman would be in the C and D categories such as small government employees, retired people, drivers, manual labour, nurses and teachers. These groups live in modest neighbourhoods but they are not slum dwellers. Their average yearly income would be around US\$4,300 which is more than double the national average income. Since there are levels of poverty, these groups can still be classified as poor by international standards.¹⁵

A New Player in Food Retail: Kheir Zaman



Photo: D.R.

the establishment of a new supermarket chain that would satisfy this new approach and would focus on serving lower income people. This new supermarket should attempt to satisfy people's needs of goods at reasonable prices and quality. In 2006, the first supermarket of that chain was opened under the name of 'Kheir Zaman.' According to Mr. Mansour, *"through this new store we were able to play a significant social role through offering customers good deals on both price and quality"*.¹⁶

As one of three sons to the late Mr. Loutfi Mansour, Youssef was given the opportunity to gain experience in his father's wide business activities that spanned car manufacturing, agriculture, trade and real estate development. When he decided to focus on the retail area he went back to college to INSEAD in France to learn about business. Youssef Mansour's involvement in retail trade went through stages that paralleled Egypt's recent economic transformation. Until the late 1970s Egypt's economy, including internal trade, was controlled by the State through its public enterprises. During the 1980s, the country started reluctantly to

¹⁵ Manal El-Jesri, A Portrait of Poverty, Egypt Today, December 2009

¹⁶ Interview with Mr. Youssef Mansour, Al-Ahram, December 13, 2009.



move toward a free market economy with limited privatization of public assets. Starting in the 1990s, the private sector started to grow significantly compared with the public sector which started to shrink in relative terms. During the 1980s and early 1990s, Mansour Manufacturing and Distribution (MMD), headed by Youssef Mansour, was the sole distributor of major brands like Philip Morris and it held a McDonalds franchise in Cairo.¹⁷ Due to the control of internal trade by the public sector it was alright to be an agent or a licensee for a foreign product but not a direct trader of all sorts of goods.

Once it became apparent that private sector encouragement took a firm hold as a major government direction, Youssef Mansour started thinking of serious investment rather than simply being an agent of other companies. Due to his extensive experience and knowledge of the local retail market, through representation of foreign companies, it was natural for him, as part of a diversification strategy, to enter into food chain distribution by starting the Metro Chain in late 1998 to serve the high-end of the market. While Metro was serving the A and B segment customers, Kheir Zaman was opened in 2006 to serve people with tighter budgets. Since that time it has expanded into a total of 19 stores. Both store chains are now under the umbrella of MMD.

Traditionally the Mansour family is a major philanthropist family with significant contributions made annually in the fields of education, the environment, alleviation of poverty and public service. Growing up in this environment, Youssef Mansour became very active in public service particularly in areas related to business social responsibility and development. He is a member of several civic groups. He attends UNDP conferences and is a supporter of their events. In 2004, the Mansour Group accepted UNDP's invitation to participate in and champion the Global Compact network in Egypt. He applies these principles in his companies by treating human resources as an asset and adopting a democratic management style. His companies adopt detailed measures on corporate social responsibility and business sustainability in order to help management track its commitments in these fields.

On the other hand, the Mansour family is a keen observer of market trends and top management keeps its eyes open for growth opportunities that are consistent with their value system. The creation of Kheir Zaman to serve low- income people was a manifestation of the two factors: business acumen and social responsibility.

Youssef Mansour's philosophy regarding the role of business in society is expressed as follows: *"We believe in giving back to the community as part of being responsible and as being an asset to the development of our country .We also believe that the private sector and the civil society have to cooperate with the government in order to solve all the country's social issues and economic problems. It is not only the government's responsibility; rather is a shared one between all of us in the community."*¹⁸

¹⁷ UN Global Compact: Towards Corporate Social Responsibility, Dec.2007.Communication on Progress, Mansour Manufacturing and Distribution Group

¹⁸ Part of a quotation by Mr. Youssef Mansour, Sustainability Report, A commitment to Active Citizenship, Al Mansour Holding Company for Financial Investments, 2005-2008.

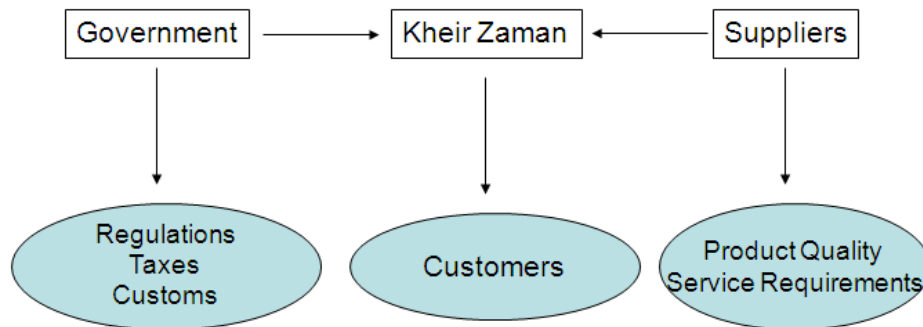


An Evolving Business Model

The business model that was adopted in the case of Kheir Zaman in order to create value for the company as well as for low-income people was actually a by-product of the business model adopted for the high-end Metro Store. The former became viable as the company became mature in its management system which evolved throughout the years. In simple terms, corporate efficiency which resulted from developing the resources and management system for Metro benefited Kheir Zaman later on.

Both Kheir Zaman and Metro share the same resources but with a differentiated service package. It is therefore essential to briefly describe the development of resources for the Metro chain.

Figure 1: Business Model



Right from the start the company applied the principle of vertical integration by having its own warehouse and delivery trucks. This helped to assure prompt delivery and reduced costs which later became beneficial for Kheir Zaman's customers. Other resources that are shared between the two stores are training and personnel policies since a similar system is applied to both stores in these two areas. The company also applied a good system of supply chain management which was useful in providing customers with a package of availability, affordable prices and freshness. Both elements of vertical integration and supply management are described below.

VERTICAL INTEGRATION

Mansour Manufacturing and Distribution (MMD) is a highly integrated company with most of the supporting services operating under one roof. While this seems old fashioned in times of outsourcing, it is suitable to the unpredictable logistical problems of a crowded city like Cairo. Kheir Zaman, being the twin store of Metro, relies on the service infrastructure that was created to serve the latter. Administrative departments located in the company headquarters, such as procurement, IT, human resources and project management serve both stores. So, these overhead costs are more widely distributed. Logistical support is also shared.



The company owns a huge storage and food processing facility near Cairo where shipments arrive daily using natural gas-operated company-owned trucks to be delivered directly to the different stores. Limited shelf space in the store requires a distribution centre that can deliver needed items on time. Supply chain management relies on an up-to-date IT system where the stores, the warehouse, the procurement department and the suppliers are linked together.

SUPPLIERS

The company has a total of around 700 suppliers. In terms of order size, Kheir Zaman's biggest suppliers total LE¹⁹ 35 to 65 million/year. Seventy five percent of the suppliers are shared between Metro and Kheir Zaman. The rest are exclusive to each store. They are either manufacturers of food items or wholesalers. In the case of Kheir Zaman, about 90% of the items are local and only 10% are imported (the share is about 75/25 for Metro). Suppliers find themselves an important link in a tightly managed supply chain. The stores are equipped with modern cashier machines which record sales by items. On a daily basis the balance of each item is recorded and reported directly to the warehouse which adds up the total for all the stores and when the reorder level is reached a purchasing order is issued automatically. In case of a new product, all stores are informed of the new suppliers to prepare for the delivery of their goods.

Once the goods arrive, warehouse personnel check the items for specifications, packages, freshness, expiry date and general appearance. Contracts with suppliers are clear regarding their responsibility in these areas and their willingness to accept back non-conforming shipments. Once the ordered items reach the store they are checked again to assure conformity to expectations. Suppliers are responsible for delivering their supplies to the warehouse but MMD uses its transportation fleet to move the products to different store locations.

About 80% of the products are the well known brand names in the market. These are produced by modern large manufacturers who are the market leaders. The company receives regular market survey results from marketing research centres on market leaders who are then given priority over others. Examples are major local companies such as Juhayna and Enjoy, who are major dairy product and juice producers, and Henkle and Proctor & Gamble, the major multinationals and producers of detergents.

Some suppliers cater only to the upper-end of the market and some serve both higher and lower-ends of the market. An example of the first case, Vitrac, a major local manufacturer of jam serves only one market segment. There are no lower-end producers for this product. So, the same product is available in Metro as well as in Kheir Zaman. But, in pasta, Barilla is the market brand name and an upper-end product which is sold only in Metro while Shahia or Italia are lower-end producers and are sold in Kheir Zaman. The difference in price between the two cases is in the range of 10 to 20%.

¹⁹ Egyptian Pound



The remaining 20% of products sold belong to small producers; the quality and packing in this case are lower than in the case of brand names in order to cater to lower income people. For example, orange juice differs in its degree of concentration and the level of water content. Also, packages differ from the Tetra carton packs, which can preserve milk for six months, to Fino packs, which have a shorter shelf-life.

The company does not seek small suppliers but due to the well-established name of the stores they frequently come to offer their services. Since supplying the stores with its needs are done on a daily basis suppliers need to have a minimum level of organization. Informal suppliers who are operating outside the law where their products are of doubtful quality are excluded. However, those with good quality products and who are willing to improve their service are encouraged.

The company uses different methods to help small suppliers improve their products either by showing them sales figures, demonstration, testing, or through a suppliers' manual that is given to them. This manual, which contains generic standards, carries the Metro name but is also applied to Kheir Zaman's suppliers. Sales reports are reviewed regularly and products are ranked according to their performance. Those at the lower end are subject to be replaced by new entries. Sometimes, in order to give them a second chance, the purchasing manager may ask the delinquent supplier to offer a promotion campaign on his product in order to stimulate its sales. He may also be shown the competitive product as a model to be emulated. This applies more in the case of packaging. For example, the supplier may be advised to improve the package, which requires him to use a different technology. Performance figures of his products are examined later on for the decision to be made, whether to continue or discontinue the relationship with him.

The issue of packaging was faced directly in the area of fresh food which traditionally is sold in straw boxes in the open market. For example, tomato and fruit suppliers were advised to use a different technology by packaging these items in foam plates covered with plastic. Another example, honey, used to be sold in jars that require the customer to use a spoon. Suppliers were advised to use plastic containers with a squeezer like the packaging for ketchup.

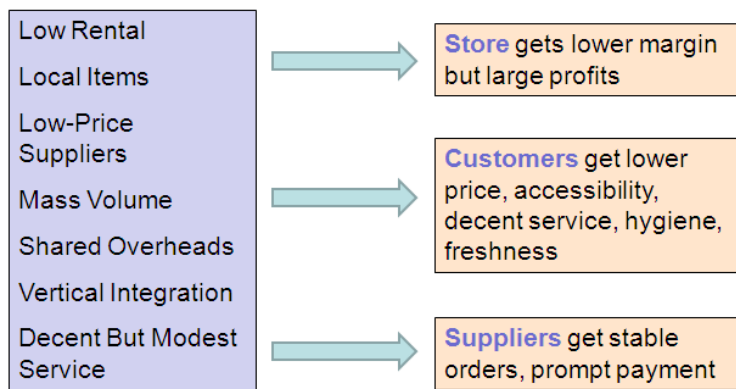
In the case of new suppliers, their products are inspected and if necessary they may be tested at the homes of female employees from the purchasing departments. For example, a new butcher may bring a sample of the meat he plans to deliver to the stores which is given to the employees to cook at home and taste it and then give their opinion to the manager. If the reaction is positive the supplier is given an experimental three month contract, during which his level of commitment in terms of quality and delivery is checked. It is therefore expected that the turnover rate among small suppliers is higher than that of the market leaders since the former are still in the process of developing their products, packages and management system.

In exchange for lowering their prices, suppliers are assured of considerably large orders and a stable relationship. MMD, being financially sound, pays its suppliers promptly and fairly. So,



suppliers are much better off than doing it the old way of directly selling to grocery stores even at a higher price but with an unpredictable relationship. Suppliers are given checks which are due after a certain credit period. When a supplier comes to collect his check he finds it ready and when he takes it to the bank to cash it never bounces back. This prompt payment is a major attraction over other smaller grocery stores with much less financial strength and buying power.

Figure 2: Value Package



MARKETING STRATEGY

The marketing package delivered in both stores contains standardized and differentiated elements. In food retail, the value expected by customers includes price, accessibility, product quality, variety, product package appearance, freshness and hygiene, and staff availability. Among both types of customers, high-income and low-income, there is no compromise on quality or hygiene, of course, within the range of product grade.

The marketing component of the business model evolved as the market niche changed. For the Metro case, customers are not price-sensitive but they want top quality, 'grade A products.' Many are imported well-known brands and top meticulous service where store staff are constantly caring for the store and customers' needs. In the case of Kheir Zaman, customers are price conscious (products are mostly local) but the product brands are less known. Service is good but less intense.

Kheir Zaman is classified as a convenience store located near the living quarters of its customers in densely populated areas. Customers of Kheir Zaman are of the C and D variety. They are price sensitive. Being price conscious and constrained by limited budgets, a slightly less and preferably unnoticeable difference in quality can be tolerated if the price is low. The value generated by shopping at Kheir Zaman becomes clearly apparent once comparison is made with the service provided by traditional stores in the same areas. Customers of Kheir Zaman exercise self-service by picking up the items themselves, and enjoy hygienic conditions and better trained staff than in the case of traditional grocery stores. A study by the



Local Internal Trade Chamber shows that Kheir Zaman's prices are lower than similar nearby stores and a major hyper market.

Compared with Metro, Kheir Zaman's promotion campaigns are used extensively with a visible striking impact; for example, offering a free chicken with purchases reaching LE 150 (US\$27.30). Visible hand-written promotion signs are usually posted around the store. Keeping with the elegant demeanour of its customers in Metro, the promotion would take a more subtle form such as a direct discount on the price of the item. In Kheir Zaman, product quality is good within its price range. In the end, the customer feels he is getting value for his money. Products are delivered daily to the store. At the end of the day, the unsold items are thrown away if they do not maintain their freshness for the next day. Top quality refrigeration is used to preserve freshness.

To illustrate price difference between Kheir Zaman and Metro, a comparison is made between the promotion prices of eight essential, fast-moving items (rice, sugar, oil, butter, macaroni, tomato paste, tea and beans) which are sold in small packages ranging from 35 grams to 1 kilogram. These items are carried by lesser known brands at Kheir Zaman. At Metro the total promotion price is LE 34 (US\$6.20) while in Kheir Zaman the price is LE 31 (US\$5.60). While, shelf price in Metro for the same items is LE 42 (US\$7.60) and in Kheir Zaman it is LE 36 (US\$6.50). So, there is a difference in price of about 9 to 16%. Even for products which have the same brand name, prices are less. For example, the price of one litre of Juhayna full cream milk was recently sold in Metro for LE 6.25(US\$1.40) while at Kheir Zaman it was LE 5.75(US\$1.10). Here, the difference is about 8%.

Since the products of Kheir Zaman are mostly not imported and not category A, their packages, while pleasant, are modest in comparison with more expensive items. Staff wears a uniform made of modest but good looking fabric and they are well trained on the issue of freshness. Due to location, real estate cost is also considerably lower. For example, the price per square metre in an upper class neighbourhood could be in the range of US\$1,800 to US\$3,500 per metre. In Kheir Zaman's locations it ranges between US\$900 and US\$600 per square metre. These differences in cost are reflected in the differences in prices in both stores.

Like Metro, Kheir Zaman's store staff is motivated through sound personnel policies and a lucrative incentive system. This is why the turnover rate among staff is low reaching about 8%.²⁰ The same salary and benefit systems are applied in both stores. But since Kheir Zaman is more recent, the average money intake by employees is less.

DEALING WITH CONSTRAINTS ON THE BUSINESS MODEL

Customers with limited income are price conscious and are traditionally accustomed to doing their shopping in several shops or markets. However, due to the entry of a large number of women into the labour market they would not tolerate these multiple shopping trips anymore. Kheir Zaman is helping these people do their shopping under one roof at prices they can

²⁰ Business Monthly, April, 05, Retail Chains pleased by Customs Import Duties.



afford. Therefore, the company had to adapt its marketing mix to fit the needs of these people. Lowering cost was evident not only in lower prices but also in cheaper packages and essential services without compromising quality or hygiene conditions. Achieving lower prices through economies of scale came as a result of using combined resources to serve both Metro and Kheir Zaman. This includes the warehouse, transportation vehicles and supply management. These resources also helped overcome the physical conditions in Cairo in terms of congestion and bottlenecks in moving goods from one place to another. The human resources and training department, another shared resource between Metro and Kheir Zaman, was also ready to provide help once the new store was open, thus minimizing the chance of workforce instability or failed customer expectations from a newly created entity.

Despite recent improvement, like other investors, the company had to deal with a slow bureaucracy in getting permits and licensing. In this area, Kheir Zaman benefited from the accumulated experience of the projects and legal departments which have served Metro for several years.

Engaging suppliers in the business model was essential to overcome the informal nature of many small businesses in Egypt. Through orientations, demonstration, advice or formal requests, informal suppliers were introduced to the discipline of the market.

Integrating social responsibility in the workings of the business is an important part of MMD philosophy. Lacking local guidance in this area the company had to cooperate with relevant international organizations, like UNDP, and to obtain international certificates such as the ISOs²¹. In addition to introducing Mansour Group to the United Nations Global Compact network and principles, UNDP Egypt undertook a review of Kheir Zaman's outcomes, including suggestions on how to make it even more beneficial for lower-income customers.

Impact of Kheir Zaman

IMPACT ON THE COMMUNITY

The company is serving the community in a variety of ways. It contributes to the growth and modernization of retail trade, creates employment opportunities and plays an active role in the areas of environmental protection and business social responsibility.

In 2009, the total 58 stores of Metro and Kheir Zaman had a volume of sales exceeding US\$250 million (Kheir Zaman's share was almost US\$60 million) compared with also US\$250 million for Carrefour's four major hyper markets spread around Cairo.²² Metro and Kheir Zaman provide employment for a total of 5,500 employees. By itself, Kheir Zaman has a total of 1,300 employees.

²¹ See International Organization for Standardization, <http://www.iso.org/iso/home.html>

²² Invest in Egypt, Ministry of Investment, Retail Value Proposition, 2008. www.investment.gov.eg



Growth of Kheir Zaman contributes to the growth of the economy in terms of taxation, lowering prices and improving services for lower income people. However, the pressures on traditional neighbourhood grocery stores from modern outlets such as supermarkets/hypermarkets are significant but there is no data available on this issue.²³ According to the purchasing manager, Kheir Zaman was even indirectly beneficial to these stores. Due to price differences, especially during promotion campaigns, the traditional stores even buy some of their needs from Kheir Zaman and sell them at higher prices.

In order to pre-empt possible resistance from small shops, the company adopted a gradual expansion strategy and avoided acquiring existing business.²⁴ Through its efforts in upgrading small suppliers, the company is contributing to the government's strategy of modernizing the food retail sector. In 2008, the Egyptian National Food Authority was established to modernize and standardize all regulations which cover safety, hygiene conditions and clear labels.²⁵

Company philosophy, culture, strategy and systems are highly coherent with regard to the role of business in society. The leadership is keen on minimizing the social cost of the business. The Mansour Group was environmentally conscious right from the start and environmental sustainability is an important ingredient of the company strategy. The company has received several certificates and international awards in this area. Kheir Zaman is part of this environmentally-conscious system and is applying it.

MMD is the focal point of the local UN Global Compact network and is active in organizing events in this area and establishing a dialogue between the government and the private sector in enhancing the role of the former in the development of the country.

Environmental protection is an important part of MMD's strategy. It has already transformed 50% of its shipping vehicles into using natural gas. MMD's Seclam Dairy Products Factory, (one of Kheir Zaman's suppliers) which is located in Alexandria, adopts modern environmental standards in waste management, water treatment, and sound level water and energy consumption.²⁶ In a more direct fashion, the internal cleanliness of the stores is an essential responsibility of the staff. The stores' internal structure and facilities are designed by the projects department to assure the required levels of insulation, coolness and lighting. All of this helps to prevent food contamination and to assure its safety and quality. On a daily basis garbage is collected by a third party.

²³ Invest in Egypt, op .cit.

²⁴ The company learned from the experience of Sainsbury, the British Retailer which entered the Egyptian market in March 1999 and exited in April 2001, after a sudden growth into 100 outlets in Cairo, due to ignoring local sensitivities. Among the reasons for the failure: threat to smaller grocery stores through cutting prices below cost, acquisition of competitors and sudden expansion. The British company was also accused of possible links with Israel which caused a consumer boycott. Ayman El-Amir and Steve Burt: Sainsbury in Egypt: The Strange Case of Dr. Jekyll and Mr. Hyde?

²⁵ German-Arab Trade Magazine, Taste Egypt, Food Sector, German-Arab Chamber of Industry and Commerce, September/October 2007

²⁶ UN Global Compact, Towards Corporate Social Responsibility, December 2007



IMPACT ON SUPPLIERS

With regard to large suppliers, who already have a good management system in place, dealing with a large company like Kheir Zaman assures them an important outlet which has branches all over the country and enables them to produce in large quantities which contributes to lowering their costs. The impact of Kheir Zaman on smaller suppliers is considerable and goes beyond improving the quality and packages to improving the management system and business behavior of these small suppliers. Mr. Mohamed El Naggat, the supply chain manager, gives an example to illustrate this situation:

“At the beginning of Metro’s operations when we were looking for butchers to supply us with meat I would go to the area where the store is located and inquire about the best butcher available. Then I ask him to double his purchases, for example, from three animals to six in order to supply us with store’s needs. At the beginning I used to call him by phone to give him separate orders for each store and call later to remind him and follow up on delivery. Then I suggested to him to buy a fax machine so I can send him the orders through it. He said he does not know English so I explained to him that language does not matter and the fax will use any language. When he installed the fax machine this helped us to add up all our orders and then send them all at once. Once he had a printed order he did not need a reminder or follow up. This released us to do other important things. Then I told him we needed invoices since we had to pay taxes. At the beginning he objected but due to our large volume he gave in .So, he had to hire an accountant to keep his books in order to be ready in his dealings with the tax authorities. The butcher did not have his transportation fleet so he used his influence over the third party to assure prompt and timely deliveries to our stores all over town. This in turn improved the management system, planning and time orientation throughout the supply chain”.

These different pieces of advice and instructions used to be given informally to each individual supplier. Now, the supply chain department has developed a supplier’s guide to prevent any misunderstanding. This little booklet was developed originally for Metro but it was later applied to Kheir Zaman as well. These guidelines assure incorporation of suppliers into the state tax system, improves their delivery and contract behavior, assures consistent quality, improves understanding of modern marketing concepts and the factors of supply and demand, improves safety and hygiene requirements, and improves packaging and product information, thus contributing to improving customers’ awareness. In short, it is gradually transforming informal businesses into formal activities.

Growth Strategy and Future Outlook

The company plans to expand Kheir Zaman into the rest of Egypt with a projection of a total of 200 stores (see Figure 3). Also, the company is considering the introduction of a new chain



that caters to the C and D sector customers into Upper Egypt which is generally poorer than the Delta (northern part of Egypt). A feasibility study is currently being conducted including impact on micro retailers as well as micro suppliers. So, while the company originally started serving high-end customers, which helped to develop its internal capabilities, it has evolved into serving customers with limited income and is still proceeding along the same lines. This gradual penetration of different income levels required having the proper value system, proper strategy and the development of internal capabilities.

Figure 3: Kheir Zaman's Newest Store

The new 900 m² store in El Daher, a low income area of Cairo is illustrative of the nature of this business. The store is open 24 hours, 7 days a week and provides the full range of Kheir Zaman's renowned services. The staff of 90 employees was trained for more than two months in keeping produce fresh in cool, hygienic conditions. The new store is one of Kheir Zaman's mid-sized branches with 750 square metres of shop floor and another 150 square metre area for storage and food preparation. More than 15,000 products will be displayed on the grocery shelves and in the fridges that have been imported directly from Italy to ensure the freshness of the fruit and vegetables as well as the meat.



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