Bernhard Swoboda, Dirk Morschett,
Thomas Rudolph, Peter Schnedlitz,
Hanna Schramm-Klein (Eds.)

European Retail Research

2008 | Volume 22

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Preface of the Editors

EUROPEAN RETAIL RESEARCH is a new bi annual that is in the tradition of the reputable and distinguished book series “Handelsforschung” (Retail Research) which has been published by Prof. Dr. Volker Trommsdorff in Germany for more than two decades. With Volume 22 appear ing in 2008, Prof. Trommsdorff handed over this publication to a team currently consisting of re tail researchers from Austria, Germany and Switzerland. The aim of the publication is to publish interesting manuscripts of high quality with a focus on retail researchers and lecturers, retail stu dents and retail executives. As it has always been, retail executives are part of the target group and the knowledge transfer between retail research and retail management remains a part of the publi cation’s concept. Following the international development in the field of retail research and publi cation, the new team has decided to introduce some changes and extensions to the concept:

- *Language* articles will appear in English
- *Content* manuscripts will be double blind reviewed and the book will invite manuscripts from a wider regional context but with a focus on Europe
- *Institutional* a permanent team of editors will be supported by an Editorial Advisory Board

EUROPEAN RETAIL RESEARCH will be published in two parts per year, Issue I in fall and Issue II in spring. The review process will support the authors in enhancing the quality of their work and will offer the authors a reviewed book as a publication outlet. Part of the concept is an only short delay between manuscript submission and final publication, so the book is intended to become a quick publication platform. Therefore the deadlines are always fixed. Issue I (pub lication in April): submission deadline: End of August, notification of acceptance: End of Octo ber, re submission of revised manuscript: End of January. Issue II (publication in October): submission deadline: End of February, notification of acceptance: End of April, re submission of revised manuscript: End of June. An electronic database with all published articles will be prepared and will be available with an adequate delay after the printed edition.

EUROPEAN RETAIL RESEARCH welcomes manuscripts on original theoretical or concep tual contributions as well as empirical research based either on large scale empirical data or on the case study method. Following the state of the art in retail research, articles on any major is sues that concern the general field of retailing and distribution are welcome, e.g.

- *different institutions in the value chain*, e.g. customers, retailers, wholesalers, traders, service companies such as logistics service providers, but also manufacturers’ distribution activities,
- *different value chain processes*, esp. marketing orientated processes (e.g. innovation, cus tomer relationship management, category management), supply chain processes (e.g. pur chasing, logistics), organizational processes, informational or financial management proc esses,

- *different aspects of retail management and retail marketing*, e.g. retail corporate and competi tive strategies, incl. internationalization, retail formats, e commerce, customer behaviour, branding and store image, retail location, assortment, pricing, service, communication, in store marketing, human resource management,
- *different aspects of distribution systems*, e.g. sales management, key account management, ver tical integration, alliances and networks, channel power, conflicts and multi channel strategies.

However, EUROPEAN RETAIL RESEARCH is also interested in manuscripts that focus on wholesaling, distribution concepts, specific strategies or country markets and we accept that non English literature is used to. Basically, we are considering different types of papers. Articles can be based on large scale empirical data, on the case study method or on conceptual issues:

- *Research articles* should provide a relevant and significant contribution to theory and practice; they are theoretically well grounded and methodologically on a high level.
- Manuscripts submitted as more *practice or conceptual based articles* show new questions, is sues, solutions and contributions from practice or conceptual issues. These papers are selected based on relevance and continuing importance to the future retail research community as well as on originality.

Manuscripts are reviewed with the understanding that they are substantially new, have not been previously published in English and in whole, have not been previously accepted for publication, are not under consideration by any other publisher, and will not be submitted elsewhere until a decision is reached regarding their publication in EUROPEAN RETAIL RESEARCH. The only exceptions are papers in conference proceedings that we treat as work in progress. Furthermore, the editors invite articles from specific authors, which address the retailing situation in a specific European country. Those articles will also be double blind reviewed. Contributions should be submitted in English language in Microsoft Word format by e mail to the current EUROPEAN RETAIL RESEARCH managing editor or to info@european retail research.org. Questions or comments regarding this publication are very welcome. They may be sent to one of the editors or to the above mentioned e mail address.

Full information for prospective contributors is available at http://www.european retail research.org. For ordering an issue please contact the German publisher "Gabler Research" (www.gabler.de).

Fribourg, St. Gallen, Vienna, Saarbrücken and Trier, Summer 2008

Dirk Morschett; Thomas Rudolph; Peter Schnedlitz; Hanna Schramm Klein;
Bernhard Swoboda (managing editor for the 22nd volume)

Preface of the Founder of the Series

The German yearbook of retail and trade re search ("Handelsforschung") that I have been editing for 21 years has recently found a new form of scientific and international level, the EUROPEAN RETAIL RESEARCH. The new editors perfectly realized my input to develop a future oriented publication outlet.

Gradually a new standard was established in the complex market of economic and manage ment publications. The target groups of the new format are marketing scientists and stu dents as well as young international retail and trading authors. This concept combines scien tific and practical aspects: "Nothing is as prac tical as a good theory" (Kurt Lewin).

I would like to congratulate my young col leagues to the solution of a new positioning of the "Handelsforschung" and wish the new me dium a successful future.

The annual Handelsforschung originally was a newsletter of a Berlin retailing research institu te ("Mitteilungen der Forschungsstelle für den Handel e.V. FfH Berlin"). As a scientific direc tor of FfH I first developed a small booklet out of the newsletters which became a comprehen sive and well acknowledged German standard medium of retailing and trading research.

I would like to thank all authors, sponsors, collaborators and readers for supporting this success. I wish the new editors, the new and traditional authors and readers as well as the Gabler publisher (who already edited 11 out of 21 volumes of the old Handelsforschung) all the best for the future.

Berlin, Summer 2008

Volker Trommsdorff

Vorwort des Gründers der Serie

Das Jahrbuch Handelsforschung, das ich 21 Jahre lang herausgegeben habe, hat auf wissen schaftlich höherem und internationalem Niveau eine neue Form gefunden. Den Herausgebern der neuen Publikation ist die Umsetzung meiner Anregung gelungen, aus dem „in die Jahre ge kommenen Jahrbuch" etwas Zeitgemäßes und Zukunftsorientiertes zu entwickeln.

Für wissenschaftlich interessierte Handelsprak tiker, für Marketingwissenschaftler und studier ende sowie besonders für junge Autoren der Handelsforschung hatten sich allmählich neue Anforderungen im komplexen Markt für wirt schaftswissenschaftliche Publikationen etabliert.

Zur Neupositionierung der Handelsforschung möchte ich meinen jungen Kollegen herzlich gratulieren und dem neuen Fachmedium eine erfolgreiche Zukunft wünschen. Entstanden war die Handelsforschung einmal aus den Mit teilungen der Forschungsstelle für den Handel e.V., FfH Berlin. Als langjähriger Wissen schaftlicher Direktor der FfH hatte ich aus den bescheidenen Mitteilungen zuerst ein jährliches Büchlein entwickelt, das sich über zwei Jahr zehnte hinweg zu einem umfangreichen und angesehenen deutschsprachigen Standardme dium der Handelsforschung entwickelte.

Autoren, Förderern, Mitarbeitern und Lesern möchte ich für Ihre Mitwirkung an diesem Er folg danken und den neuen Herausgebern, den neuen und alten Autoren und Lesern sowie dem Gabler Verlag, der 11 von 21 Ausgaben der alten Handelsforschung verlegte, für die Zukunft das Beste wünschen.

Berlin, Sommer 2008

Volker Trommsdorff

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Social Media: A New Frontier for Retailers?

Efthymios Constantinides, Carlota Lorenzo Romero and Miguel A. Gómez Boria

Abstract

During the last two decades the retailing industry is finding itself in a state of constant evolu tion and transformation. Globalization, mergers and acquisitions, and technological develop ments have drastically changed the retailing landscape. The explosive growth of the Internet has been one of the main catalysts in this process. The effects of the Internet have been mostly felt in retail sectors dealing mainly with intangibles or information products. But these are not likely to be limited to these sectors; increasingly retailers of physical products realize that the empowered, sophisticated, critical and well informed consumer of today is essentially differ ent to the consumer they have always known. The web, and particularly what is known as So cial Media or Web 2.0, have given consumers much more control, information and power over the market process, posing retailers with a number of important dilemmas and chal lenges. This article explains what the new face of the Internet, widely referred to as Web 2.0 or Social Media, is, identifies its importance as a strategic marketing tool and proposes a number of alternative strategies for retailers. Implementing such strategies will allow retailers not only to survive, but also create competitive advantages and thrive in the new environment.

Keywords

Social Media, Web 2.0, Retailing, Internet Retailing, Customer Behaviour, Online Strategy

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1. Introduction

Fifteen years after its commercial launching, the Internet has become the second most important distribution channel (after high street retailing) and a major source of customer information and empowerment (Urban 2003, 2005; Constantinides/Fountain 2008). A number of recent developments in this field threaten to further weaken the role of traditional retailing in a number of sectors where retailers and intermediaries have always played an important role. Music, entertainment, press, printing/publishing and traditional travel agents are some of the branches that have already felt the negative effects of Internet enabled disintermediation. The web has made possible the direct contact between producers and consumers, making the physical retailer of information based products or intangibles redundant.

These developments are widely seen as effects of the Internet evolution and have been extensively discussed and debated. However, over the last three years, a new generation of online tools, applications and approaches such as blogs, wikis, online communities and virtual worlds, commonly referred to as Web 2.0 or Social Media, are increasingly attracting the attention of practitioners and, recently, of academics. As often happens when revolutionary innovations become booming business, research and theoretical underpinning on the Web 2.0 issue is still very limited and there is not even a generally accepted definition. What most people would agree though is that a fundamental element of Web 2.0 is what is widely known as Customer Generated Content (CGC): besides extracting value, users also add value to Web 2.0 applications and processes by generating, reviewing, editing and disseminating content. Direct customer involvement and CGC result in powerful network effects and users' communities (O'Reilly 2005).

This article identifies the theoretical foundations of the Web 2.0 movement, based on the definition of the term proposed by Constantinides/Fountain (2008), and describes the main dimensions and elements of Web 2.0 applications. It examines the effects of Social Media on the consumer decision making process and proposes a number of ways that corporations and retailers, in particular, can implement such applications as part of their marketing plan.

2. The Internet / Web 2.0 as Commercial Platform

While the Web 2.0 issue enjoys a lot of publicity and many businesses are rushing to integrate various forms of Social Media applications into their marketing strategies, very limited academic attention has been paid so far to strategic and commercial aspects of this phenomenon and, specifically, its appropriateness and importance as a strategic marketing tool. Most of the recently published articles are focused on describing the technical, social and commercial effects of Web 2.0 applications rather than analyzing the strategic nature of the phenomenon and the applications themselves. The vast majority of businesses and consumers in several parts of the world have already adopted the Internet as a mainstream information medium, and often as a transaction and distribution channel. For an increasing segment of the approxi mately 1.5 bn online users, the web is already the main if not the only source of informa tion (Zogby International 2008) and a popular channel for commercial transactions: Eighty five per cent of the online consumers shopped online in 2007 according to Nielsen Online. According to a recent Newsweek (2007) article “the web has replaced phone books, and is in the process of replacing phones. It’s the place that answers our questions in four tenths of a second […] it’s the main news source […] a megaphone for those who make their own media […]”. For businesses, the Internet is widely seen as a major commercial platform and indis pensable part of their strategic planning (McKinsey 2007c).

Some recently published studies underline the growing importance of the Internet as interac tive communication environment and social interaction platform (McAfee 2006; Birdsall 2007; Beer/Burrows 2007). These areas represent some exciting developments in the web domain, namely the fast growth of a new breed of online applications and technologies often referred to as Web 2.0 [1]. These applications and technologies are shaping business proc esses (Swisher 2007; Craig 2007), consumer behaviour (Deighton/Kornfeld 2007) and mar keting practices (Hoegg et al. 2006; Parise/Guinan 2008; Constantinides/Fountain 2008; Bernhoff/Li 2008). In less than three years after the term Web 2.0 was introduced, an increas ing number of corporations are rushing to integrate various forms of it into their marketing strategies. Studies published by McKinsey (2007 a, b) and Li et al. (2007) indicate the rising popularity of Web 2.0 among businesses and the increasing willingness of companies to ex pand their activities in this domain. A study conducted by prospero.com (2007) estimates that 88% of businesses expect to increase their spending on Social Media in 2008, and a study by awareness.com (2007) claims that 54% of organizations with more than 1,000 personnel util ize Web 2.0 technologies, as do 74% of companies with less than 500 employees. A recent report by Bracewell/de Lussanet/Camus (2008) also predicts fast growth of spending on Web 2.0 technologies (43% per year,) reaching 4.6 bn USD in 2013, while 56% of the corporations surveyed in the study say they have put Web 2.0 on their priority list.

2.1. Customer-Generated Content

Threadless in Chicago and Shirtcity in Barcelona are T shirt retailers. OhmyNews is a Korean news service and Domino’s pizza is the well known pizza giant in the US. What do these firms have in common? Besides the fact that all of these businesses are wholly or partly based on the web as distribution channel (something that millions of firms worldwide also do), all four have embraced Web 2.0 as a crucial element of their business model: they extract value from CGC by using Web 2.0 based approaches as intelligence agents and sources of innova tion. A common aspect is the outsourcing of their product development and innovation proc ess to their customers: Instead of developing products or services, they invite customers to do this, as well as to review and evaluate products created by their peers:

Threadless invites creative customers to submit their ideas about T shirts designs online; the submissions are evaluated by other site visitors and the best designs become part of the assortment, while the designer wins 2,500 USD in cash and merchandise as reward.

Shirtcity offers customers the opportunity to create their own customized T shirts and ac cessories and purchase them through the Internet. MyShirtcity (a customer operated shop in the Shirtcity web site) allows customers or businesses to create their own products and collections and offer them online. The service is free: customers establish their shop and MyShirtcity does the rest.

OhmyNews is a very influential Korean online newspaper written exclusively by about 60,000 amateur citizen journalists who submit and edit content. It has grown to become one of the most influential news media in S. Korea and is currently expanding internation ally.

Domino's Pizza, one of the old and traditional pizza brands, not only allows customers to order pizzas online, but also invites them to create customized pizzas. Customers can then give a name to their creation and make it available to others. One such customer developed pizza has been ordered more than 80,000 times online within a short time.

These are examples of businesses capitalizing on the emerging desire of consumers to become co developers and participate as equals in many aspects of the business activity: customers not satisfied with what businesses offer for mass consumption increasingly demand an indi vidualized approach and customized products. Pro active businesses have understood that in volving customers in their internal processes (something that would sound like pure science fiction just ten years ago) improves relationships and increases customer loyalty; engaging the customer as innovation agent can also substantially reduces the company's new product de velopment budgets and time to market.

There are several examples of such close relationships, pioneered mainly by large producers or service providers. SAP, one of the major players in the ERP software market, opened its doors a few years ago to external developers, embracing a large innovation driven, interactive community. This approach has allowed SAP to solve very specific customer problems by cre ating technology services on a customized basis. A platform including blogs, wiki, discussion forums and portals, is part of this approach. AMD, a software developer, is also one of the pioneers in engaging users in developing, testing and improving its software solutions. Sun Microsystems follows the same tactics with the Sun Developer Network and Linux this very successful operating system was developed exclusively by means of collaboration among specialists online.

In all such cases, closing the distance between the company and the user is essential; customer forums, online communities, blogs, and a variety of open source or user controlled applica tions are part of this effort. Executives like the CEO of Sun Microsystems, Jonathan Swartz, the CEO of Apple Computers, Steve Jobs, and the McDonalds Vice President, Bob Langert, post regularly on corporate blogs, encouraging customers to interact and freely express their feelings, suggestions or remarks about the company and its products.

2.2. Collaboration with the Customer

Information products are the area where online customer collaboration is easy, but the concept can easily be applied to tangibles, as the examples of Threadless, Shirtcity and Domino's Pizza and hundred of other cases demonstrate. Collaborative development and mass cus tomization is increasingly attracting mainstream companies traditionally involved in mass production. Many such businesses are already testing methods of involving customers or their networks in product development, outsourcing their product design and even their advertising to talented consumers. Pioneers in this area are companies like Kleenex, Heinz, M&M, the Spanish firm Portage, PepsiCo, the sport article manufacturer NIKE and its competitor Ree bok, as well as the household furniture and décor chain IKEA.

Tapping customer communicational and advertising creativity is another area attracting busi ness attention. This has to do with the decreasing effectiveness of traditional mass media ap proaches [2] and the increasing mistrust of customers in corporate communication and com pany claims. SONY and Sunkist with their *Share the Orange* initiative are indicative exam ples of a growing number of corporations partnering with talented amateurs who generate ad vertising concepts or even create TV commercials for them. The idea behind such partner ships is that advertisements and product endorsements by peers are not only much cheaper to produce, but also are perceived as being more credible and therefore more effective than those created by advertising experts.

3. What is Web 2.0 (or Social Media)?

Inspired by a new generation of Internet applications like the popular online encyclopaedia Wikipedia, online photo or video exchanges like Flickr, YouTube and Dreamstime, social networks like Facebook, LinkedIn and MySpace, business collaboration platforms like Slide share, Joynet and Zimbrs, online communities like SecondLife, influential blogs like En gadget, Gizmodo or Techcrunch (the examples are countless), businesses and increasingly academics are paying more and more attention to the phenomenon. Marketers are becoming increasingly interested (Tancer 2007 [3]; Li et al. 2007): According to a study by McKinsey (2007b), 61% of companies surveyed engaging Web 2.0 applications are somewhat satisfied or very satisfied with the returns on their investment. The most popular of the Web 2.0 tools were web services (80%), collective intelligence (48%), P2P networking (47%), social net working (37%), podcasts and RSS (35% each), wikis (33%) and blogs (32%). In a similar study, Bughin (2008) calculated the proportional penetration of collaborative technologies: web services (67%), P2P networking (28%), collective intelligence (21%), social networks (19%), podcasts (17%), blogs (16%), RSS feeds (14%), wikis (13%), and mashups (4%). A recent study of Scene7.com [4] confirms the popularity of Web 2.0 among businesses: Ninety three per cent of the surveyed marketers working for companies selling products online (manufacturers, retailers, agencies and high tech companies) plan to add Web 2.0 ca pabilities to their sites in the next six months.

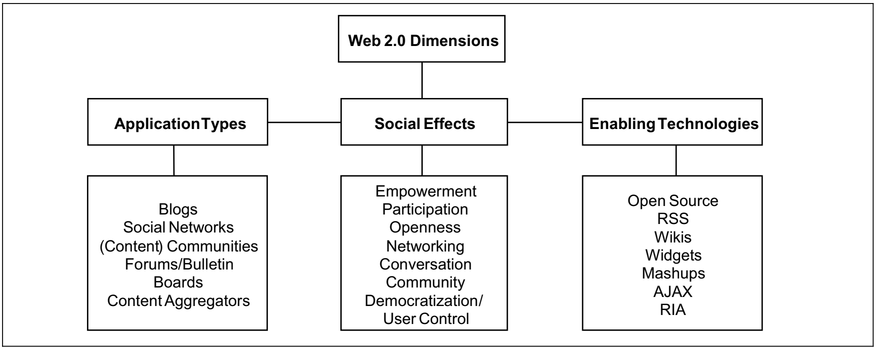
In the heart of all developments described above we find a new term that has already earned the status of a buzzword: Web 2.0 or Social Media, the terms are often used interchangeably. The term Web 2.0 was officially coined in 2005 by Tim O'Reilly (O'Reilly 2005) who de scribed it as a new form of collaborative Web, a "platform harnessing collective intelligence". Although most people would not disagree that Web 2.0 is the new generation of the web, an exact definition has not yet been universally accepted. Building on the original text of O'Reilly (2005), several definitions have been proposed. Hoegg et al. (2006) define Web 2.0 as "the philosophy of mutually maximizing collective intelligence and added value for each participant by formalized and dynamic information sharing and creation." The simple defini tion "Social Web" can be preferred, while some researchers describe the term by focusing on applications (Korica/Mauer/Schinagl 2006) or use the term "Social Software" (Castañeda 2007). Other definitions focus on the social or sociological aspects of Web 2.0 (Birdsall 2007; SpannerWorks 2007; Beer/Burrows 2007) or place emphasis on the technical aspects or ap plications allowing Web 2.0 functionalities (Facca/Lanzi 2004; Anderson 2007; McKinsey 2007b). Anderson (2007) defines the term Web 2.0 in two ways: His short description refers to a group of technologies that have become deeply associated with the term: blogs, wikis, podcasts, RSS feeds and so on, technologies contributing to a more socially connected Web where everyone is able to add to and edit content. The long definition is more complicated, touching on economics, technology and new ideas about the connected society. Nielsen (2007) proposes four components encapsulating what he considers as the Web 2.0 defining elements: a. "Rich" Internet Applications (RIA). b. community features, social networks, and user generated content c. mashups (using other sites' services as a development platform) and d. advertising.

In general, the press has approached Web 2.0 as a social phenomenon, driving content and building personal relationships with the consumer rather than the marketer being in control. In this line, the key interest to marketers is how to effectively leverage Web 2.0 and derive value from social media based tools; get real time feedback on existing products or new product ideas/concepts, build “communities” among consumers around their goods, services or brand, leverage customer self service, and have consumers collaborating on developing future prod uct strategies (Parise/Guinan 2008).

Many observers and researchers agree that Web 2.0 is one of the important trends in technol ogy (Cordington 2007; McKinsey 2007a); no general agreement as to the definition of the term can be found in the academic literature. It seems however that the variety of aspects in volved in Web 2.0 require delineation of the term according to its different components. Con stantinides/Fountain (2008) proposed the following definition: “Web 2.0 is a collection of open source, interactive and user controlled online applications expanding the experience, knowledge and market power of the users as participants in business and social processes. Web 2.0 applications support the creation of informal users’ networks, facilitating the flow of ideas and knowledge by allowing the efficient generation, dissemination, sharing and edit ing/refining of informational content.”

On the basis of this definition we propose a more detailed illustration of Web 2.0 along three main dimensions: Application Types, Social Effects and Enabling Technologies. These three elements are combined in the following image (see Figure 1):

Figure 1: The Three Dimensions of Web 2.0



Application Types

There is a wide variety of application types fulfilling the criteria of the proposed definition. Applications can be classified in five categories:

Blogs: Short for Web logs: online journals, the most known and fastest growing category of Web 2.0 applications (Du/Wagner 2006) often combined with Podcasts and Videocasts, i.e. digital audio or video that can be streamed or downloaded to portable devices.

Social Networks: Platforms allow users to build personal web sites accessible to other us ers for exchange of personal content and communication. These networks also allow users to create contacts in all fields, from professional to personal ones (Dans 2007). Examples: www.myspace.com, www.facebook.com, www.hyves.nl, www.ning.com, www.meetic.es. According to McKinsey (2007c), social networks refer to systems that allow members of a specific site to learn about other members' skills, talents, knowledge or preferences. Pew and Internet [5] define this term as an online location where a user can create a profile and build a personal network that connects him or her to other users. Wikipedia [6] defines a social network as a service focused on the building of communities of people who share in terests and activities, while Stroud (2008) sees the participants of social networks as people who are interested in exploring the interests and activities of others

(Content) Communities: Web sites organizing and sharing particular types of content. Ex amples for applications of video sharing: www.video.google.com, www.youtube.com, www.etsylove.ning.com, photos sharing: www.flickr.com, social bookmarking www.digg.com, www.del.icio.us and publicly edited encyclopaedias: www.wikipedia.org and www.citizendium.org.

Forums / Bulleting Boards: Sites for exchanging ideas and information, usually around special interests. Some examples are www.epinions.com, www.personaldemocracy.com, www.python.org.

Content aggregators: Applications allowing users to fully customize the web content they wish to access. These sites make use of a technique known as Real Simple Syndication or Rich Site Summary (RSS). Examples are www.my.yahoo.com, www.google.com/ig. The user is a vital factor for all categories of Web 2.0 applications, not only as consumer, but also as content contributor. The term User Generated Content (UGC) is often used to un derline this special attribute of all above Web 2.0 application categories.

Social Effects

Enabling seamless generation of information and easy access to it is the key advantage of Web 2.0 applications. Copying, sharing, editing, syndicating, reproducing and re mixing in formation are common practices in the Web 2.0 domain. The creation, sharing and dissemina tion of information results in democratization of knowledge and allows active participation by users as contributors, reviewers and editors. Users can easily create communities of special interests and further share their experience and knowledge, but also engage in a transparent conversation with the industry or politicians. The result is, as explained earlier, a unique form of customer empowerment allowing customers to affect as never before the market power structures and more importantly the shape of future marketing. Web 2.0 applications are be coming increasingly popular due to the advantages they offer to users (e.g. transparency, re ferrals, contacts with other users etc.) and their effect on customer power (Urban 2003, 2005). Interaction with peers triggers new customer needs (often for niche and highly personalized products) and alters buying attitudes. Nowadays, customer reviews posted in different forums or virtual communities, web blogs and podcasts are much more powerful and believable than expert product reviews (Gillin 2007). In fact, the influence of blogs and podcasts is increasing due to fast expansion of the audience and contributors [7]. However the usage rate of some Web 2.0 applications can be influenced by technical barriers requiring some higher degree of user sophistication (Tancer 2007). Another interesting social effect in online communities is the self regulated quality assurance process observed (Hoegg et al. 2006). The social effects of the social media are, by and large, a fascinating research area and a field most likely to shape future consumer or even human behaviour.

Enabling Technologies

While most technologies involved in the Web 2.0 domain are not really new, there is a basic difference between Web 2.0 and Web 1.0, the previous generation of Internet applications, namely the fact that many of these applications based on open source software are the re sult of collaborative development and continuous, real time improvement (O'Reilly 2005; Constantinides/Fountain 2008). This fact places the application user in the chair of the appli cation co developer and has led to fast, low cost and efficient application improvement. Be sides existing applications, the Web 2.0 movement is founded on some unique ways to use software applications and on new development techniques. The purpose of this article is not to examine this aspect of Web 2.0, but below there is a short description of the most important enabling technologies and development tools applied in this domain.

RSS is short for Rich Site Summary or Really Simple Syndication, a way to syndicate and customize online content. Services like Google Reader, MyYahoo, Bloglines, Netvibes, Alesti etc., allow monitoring of consumers' favourite blogs, efficient customization of the news (Dans 2007) or other online content of interest to the user.

Wiki are applications allowing collaborative publishing. They are multi author edition pages in which some authors can jointly collaborate to edit the web page and elaborate on specific documents. Wikipedia, considered to be the biggest encyclopaedia today, was developed and continues to grow through a wiki tool (Dans 2007).

Widget is a generic term for the part of a Graphical User Interface that displays information and allows users to interface with the application and operating system in different ways.

Mash ups are aggregators of content from different online sources to create a new service.

AJAX, short for Asynchronous JavaScript and XML, is a web development technique used for creating interactive web applications. This technology allows continued re charge and actu alization of web pages, facilitating navigation within sites that require a large quantity of data, such as maps, photos, videos, etc. (Cerezo 2007).

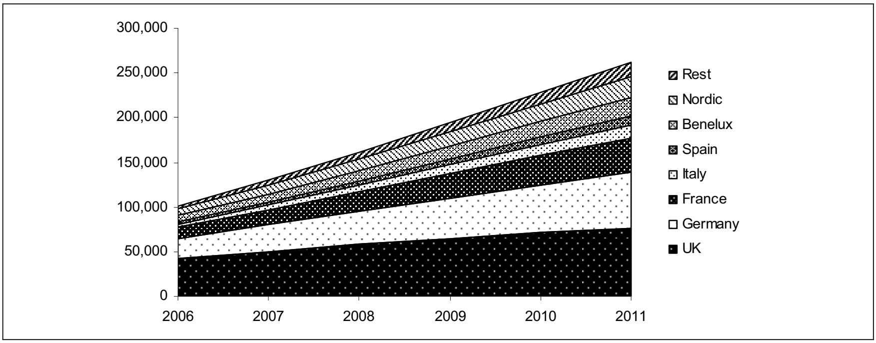
RIA, Rich Internet applications (RIA), are Web applications that have the features and func tionality of traditional desktop applications

4. Web 2.0 and Retailing: E-tailing in the Social Internet

4.1. Web 2.0 as Enabler of Internet Retailing

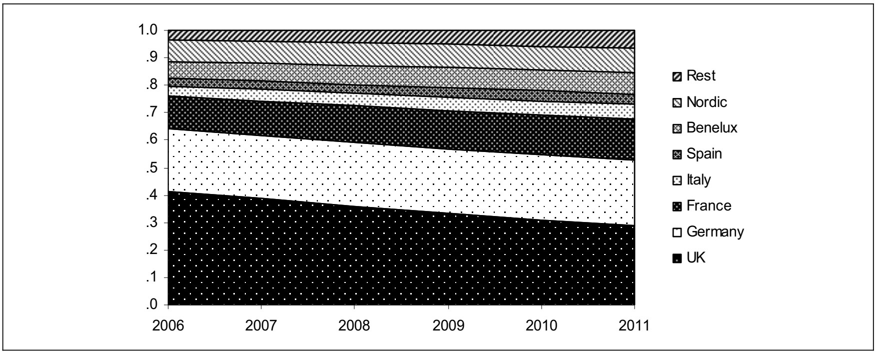
Grewal/Iyer/Levy (2004) observed that "[…] no other innovation has received as much atten tion from retailers, manufacturers, consumers and the general public as has been accorded to Internet retailing, or e tailing. Indeed, no other form of intertype competition threatens to up set traditional retailing more than Internet retailing". All statistics point to outstanding growth of Internet retailing in the past few years. Estimations from different sources (i.e. e marketer, Forrester) show that Europe's online retail market is growing at a yearly rate of about 37%, while the US online market is growing in the low 20s (Dellner 2007).

Figure 2: Online Retail Sales Estimations in Europe (in m EUR)



Source: Dellner (2007) based on Forrester Research.

Figure 3: Online Retail Sales Share in Europe (Estimations)



Source: Dellner (2007) based on Forrester Research.

According to Forrester Research, the number of Europeans shopping online will grow to 174 m with an average yearly net spending of 1,500 EUR. With these numbers, European ecom merce could reach 263 bn EUR in 2011, with travel, clothes, groceries and consumer elec tronics all above the 10 bn EUR per year mark. According to Dellner (2007), the highest growth rates are likely to manifest in countries with faster increasing rates of Internet penetra tion (e.g. Portugal or Greece). Nevertheless, the largest volumes of online retailing are real ized in the United Kingdom, Germany and France. The most popular categories for online retailing in Europe are quite similar to those in the US. Leisure and travel products lead the ranking, followed by books and CDs, apparel and home products, and grocery shopping, par ticularly in the UK (Dellner 2007). Figure 2 shows the online retail sales estimations for dif ferent countries and Figure 3 the relative share of different countries.

Internet retailing does not escape the Internet technological trends, and e tailing as a retail format has moved quickly through its life cycle paralleling the technology change. We agree with Grewal/Iyer/Levy (2004) when they say that the observations and content regarding the actual state of internet retailing may be debatable or obsolete in a very short term.

As we noted earlier, one of these technological and conceptual changes, not only in Internet retailing, but in human system interaction, is the emergence and the mushrooming growth of Web 2.0 concepts and tools. In fact, according to Bracewell/Lussanet/Camus (2008), the main trends and challenges of online retailers are related to Web 2.0 concepts as collaborative mer chandising or mobile comparison shopping.

Figure 4: Internet Retailing Enablers and Limiters

Enablers	Limiters
- Product category	- Lack of trial
- Information availability	- Lack of interpersonal trust
- Access to price information	- Lack of instant gratification
- Novelty	- Customer service issues
- Accessibility	- Loss of privacy and security
- Convenience	- High economies of scale
	- Lack of stable consumer base
	- Poor logistics
	- Lack of experience
	- Lack of in-store shopping experience

Source: Grewal/Iyer/Levy (2004).

To evaluate the impact and potential effects of Web 2.0 concepts and tools, the framework of Grewal/Iyer/Levy (2004) for analyzing Internet retailing phenomena can be a good starting point. These authors identify different factors that enable or limit Internet retailing growth. The question is whether Web 2.0 as a technological and conceptual framework can stimulate enablers and reduce limiters to Internet retailing growth. While some of the enablers and lim iters are not dependent on Web 2.0 functionalities, Web 2.0 as a new element can have an im portant effect on them. Figure 4 shows the enablers and limiters proposed by Grewal/ Iyer/Levy (2004).

By and large, some enablers have been reinforced; through Web 2.0 applications, consumers can access richer information, not only due to the fact that this information can be of higher quality (e.g. using RIA or mashups applications in web sites) or more trustworthy (e.g. other users' opinions from a virtual community), but because the information can be easily proc essed (e.g. using different applications for comparing prices or product features) and edited. Information accessibility, availability, quality and comparability are clearly reinforced. At the same time, e tailers have additional tools and resources in place for a better shopping experi ence, improving originality and expanding consumer experiences on the web. Moreover, more products are bought online due to the additional option of customization.

In addition, Web 2.0 tools can reduce risks and uncertainty of shopping online. Their main advantage is the new interactive and social dimension. This interaction both with the e tailer personnel and other consumers can enhance consumer confidence and trust (e.g. live agents, virtual communities) and improve consumer service (e.g. chat or live agents, VOIP Voice over IP: Internet based telephony applications). At the same time, the shopping experience is improved both by richer stimuli and by different tools that allow a more enjoyable and eas ier interaction with the web site.

4.2. Implementation of Web 2.0 in Retail

As noted above, Web 2.0 could give a new impulse to Internet retailing and in some cases al leviate some of its negative dimensions. The effects of Web 2.0 in retailing can be broken down into three dimensions (Jain/Ganesh 2007a): Content parameters, collaboration parame ters, and commerce parameters (see Figure 5).

Figure 5: Implementation of Web 2.0 in Retail

Content Parameters	Collaboration Parameters	Commerce Parameters
- Unique user experiences (RIA driven). - Dynamic user help (peer-to-peer or central). - Data Feeds (RSS, ATOM, HML, JS). - Podcasts/Vodcasts. - Search (semantic). - Aggregation mechanism (mashups).	- Customer peer-to-peer network, collective intelligence (blogs, wikis, discussion forums, user reviews, tagging etc.). - Collaborative product customiza-tions.	- End user product customizations. - Contextual shopping help (live agent chat). - Voice based shopping help (VoIP). - Comparison shopping (across brands, end user recommenda-tions.

Source: Jain/Ganesh (2007a).

Content parameters are related to tools and techniques, allowing a better and richer informa tion environment. For example, RIAs (Rich Internet Applications) like FLEX allow a higher quality presentation format with an easier and more user friendly interface that enhances the customer experience. The same happens with RSS feeds, podcasts, videocasts or mashups. Collaboration parameters refer to applications that allow consumers retailer interaction and participation of consumers and other agents in product or services productions (see the exam ple of SAP or AMD at the beginning of this chapter). Finally, commerce parameters are re lated to functionalities that can support consumer choices and/or give a higher value to the chosen option. For example, offering some kind of shopping assistant or a complementary support service through voice or chatting tools.

5. The Web 2.0 as a Marketing Tool

A basic issue for firms wishing to engage Web 2.0 as a Marketing tool should be the position it takes in relation to the rest of the marketing programme. The literature available on this is sue is focused on the impact of Web 2.0 applications on corporate processes (Craig 2007; Yakel 2006), the importance of online communities for corporations (Du/Wagner 2006; Korica/Mauer/Schinagl 2006; Swaine 2007) or issues regarding the effects of these new tech nologies on business (Karger/Quan 2005; Biever 2006; Deshpande/Jadad 2006; Boll 2007). Non academic sources also provide plenty of evidence as to how corporations integrate Web 2.0 applications into their operations (DeFelice 2006; McKinsey 2007b). An increasing num ber of studies suggest that corporate interest in the Web 2.0 domain keeps growing, and more and more firms are introducing different forms of social media into their daily business rou tines as well as their marketing strategies (Cymfony 2006). Whereas marketing with tradi tional communication media such as newspapers, television, and news web sites was about delivering a message, marketing with social media is about building a relationship and con versation with others. Marketing by means of social media is therefore not just about deliver ing a message, but also about receiving and exchanging perceptions and ideas with the cus tomer (Drury 2008). This requires a different approach and organization by marketers. From the marketing perspective, it is necessary to identify the strategic position of Web 2.0 in the context of the overall marketing strategy of a firm and what the basic requirements are for successful engagement of Social Media as marketing tools. The relation of Web 2.0 to the rest of the marketing effort is illustrated in the following image (see Figure 6) indicating the posi tion of Web 2.0 in relation to the overall marketing plan. According to this approach, Web 2.0 must be seen as the pinnacle of the marketing process, the top of the marketing strategy pyramid.

STAGE 1: The basis of marketing strategy should be the quality of the company products and services. Quality must reflect the company's vision, market image and market positioning. Failing to deliver the expected product quality in the era of Social Media is risky because the consumer is able to find out the truth (i.e. whether the value promised by the firm is actually delivered) by getting in touch with other users or product reviewers. Quality systems and con trol mechanisms are very important strategic components in this stage.

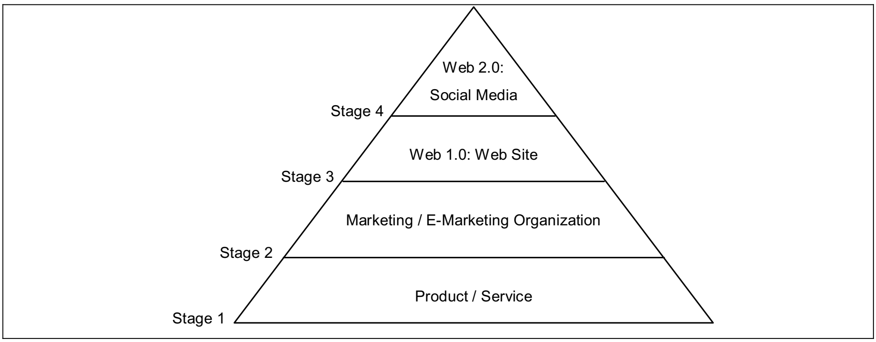
STAGE 2: Refers to the creation and maintenance of a market oriented organization that will be able to support traditional, as well as online marketing activities. We should remember that many of the traditional organizations that adopted e commerce often had difficulties in adapt ing their organization and reaching the level of sophistication required to operate online. On the other hand, the reputation and competitive advantages of traditional business is a valuable asset and source of goodwill for online business.

STAGE 3: Creating a market oriented organization supporting traditional and online market ing activities is essential in order to establish a successful online presence in the form of a web site. For retailers, it is important to understand that the web site can play a number of dif ferent roles: Informational, promotional, relational, educational or transactional. Assigning the right roles to it is imperative for online business to become a valuable part of the overall marketing programme (Constantinides 2002).

STAGE 4: Having an impeccable online presence will allow firms to move to the next stage, namely involving Web 2.0 in their marketing. Since the corporate web site is the first (and often the only) place that online consumers will turn to after they are informed about the firm, their experience of the web site must be of the highest possible quality. If this is the case, the firm can proceed in identifying and selecting the proper Web 2.0 tools for its marketing.

Regarding the step from Stage 3 to Stage 4, Nielsen (2007) suggests that while a modest 2.0 infusion can be beneficial, advanced features are rarely the most important contributor to good user experience or profitable web sites. For Web 2.0 enabled firms, simplicity really pays off and synergy with the Web 1.0 environment is vital. Therefore, before investing in "2.0" features, a company must make sure that their "1.0" interface is operating perfectly

Figure 6: The Marketing Strategy Pyramid

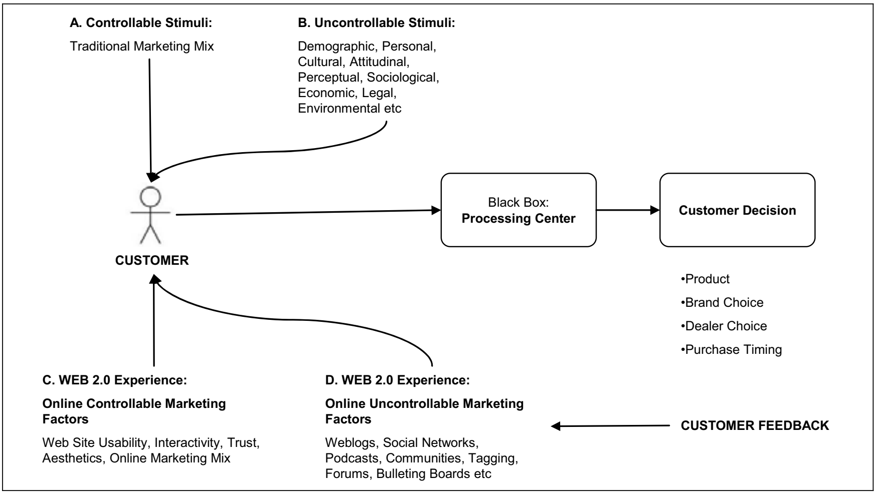


6. Web 2.0 in Practice: Effects on the Customer Decision-Making Process

In order to integrate Web 2.0 applications into the corporate commercial strategy, marketers should firstly understand its effects on the consumer's decision making process, identify the sources of customer value, and the customer motives for using these applications. In the Web 2.0 era, customer preferences and decisions are increasingly based on inputs provided by par ties beyond the control of online marketers: peer reviews, referrals, blogs, tagging, social networks, online forums, and other forms uncontrollable by marketers of user generated content.

Based on Kotler (2003) and Constantinides (2004), in Figure 7 we see Web 2.0 as a new mar ketplace component, further complicating the time honoured textbook buying behaviour process described in the inputs processing response model. The A and B elements represent the traditional influencers of consumer behaviour: Conventional marketing mix influences as controllable stimuli (A), and uncontrollable personal influences stimuli, such as demographic, cultural, perceptual, economic, etc. (B). The emergence of the Internet, its adoption and use as communication and transaction medium by marketers and users, adds two more inputs and influencers of buying behaviour to the model: the controllable Web Experience factors (C), such as usability, interactivity, trust, aesthetics and online marketing mix (Constantinides 2004), and Web 2.0 influencers (D) considered as non controllable by marketers.

Figure 7: Factors Influencing the Consumer's Decision Making Process



Source: Constantinides/Fountain (2008).

McKenna (1997) proposed the term Real Time Customer, based on the premise that informa tion technologies enable companies to conduct real time dialogues with their customers. These conversations should then facilitate long term relationships with current and potential customers. With the advent of Web 2.0 tools, the Real Time Customer is a fact: marketers can not only communicate with customers through traditional broadcast advertising, but also can (and should) empower consumers to participate in marketing activities that were previously "one way": branding, product development, product evaluation, and customer service. This is important as the basis of a transparent and pleasant image (Moral 2007).

Moreover, web based customer communities can provide a 50% faster turnaround time and cost reduction in obtaining effective product ideas and feedback compared to traditional mar ket surveys and focus groups. In addition to answering direct questions, it is the customer to customer trusted conversation that yields some of the most interesting insights (Parise/Guinan 2008). This new phenomenon of information crowd generation is known as "crowdsourcing", as an evolution from outsourcing. As customers increasingly take over typical company ac tivities, corporations will be forced to work much more "on demand" (Moral 2007): market only the t shirts demanded by their clients (www.lafraise.com), launch advertising campaigns developed or approved by their customers (www.fon.com), or create assortments suggested by users like the furniture retailer muji.net.

7. Engaging the Web 2.0 as a Marketing Tool: The Passive and Active Ways

The process of adopting Web 2.0 tactics as part of the company marketing programme re quires new thinking and new tactics; traditional push marketing methods are incompatible with social networking (Li et al. 2007). Lack of experience in engaging social media as mar keting communication tools means, that, for many pioneers, this is still a trial and error proc ess. In this respect there is a considerable knowledge gap on the real nature and importance of Web 2.0 and its added value for marketing strategy.

Most knowledge on the role of Web 2.0 applications as marketing tools is primarily based on anecdotal evidence. This evidence (with several examples mentioned earlier) also suggests that, paradoxically, the majority of firms pioneering in engaging Web 2.0 as a marketing tool are large corporations. Based on field experience, this chapter will classify the main paths marketers can follow in order to extract value from the Web 2.0 domain. Marketers could in fluence the customer decision making process by means of Web 2.0 tools in two principle ways: Passive and active.

7.1. The Passive Way or Listening-In: Using the Web 2.0 as an Intelligence Source, i.e. as a Source of Customer Voice and Market Information

Marketers can learn a lot by listening to the customer's voice, and they have done this extensively in the past by using, for example, surveys and focus groups. Today, marketers can do the same by monitoring the social media space: blogs, podcasts, forums, and online communities. Listening to the customer is especially important in order to identify market experiences, new market needs, and hear early warnings about product problems indicating the need to improve, modify or drop products. What customers say online is vital, and vital sharing of customer experiences can lead to success or failure of brands and products and seriously disrupt costly marketing actions. "Listening in" to the customer's voice provides companies with early warnings of customer dissatisfaction and allows for fast corrective reactions. Furthermore, the online customer voice can provide precious and high quality information at a fraction of the time and cost required in using traditional market research for this purpose.

The important question is how to find and tap the customer's voice, but there are already different options available. Web sites like the TIMES Online List, with the 50 best business blogs [8], the Corporate Responsibility Group [9] or Bized [10], are examples of useful online sources of consumer voice. Besides this, marketers must trace discussion forums, communities or even video sharing sites where exchange of information about the firm's and competitive products takes place. There are several specialized tools and search engines that could help marketers in locating and gathering this type of content. Nielsen Buzz Metrics, a commercial service monitoring several millions of blogs, can provide marketers with a lot of information as to what is discussed online and even what is said about the company or its products. Specialized classification tools like Technorati, blog search engines like BlogPulse or the "index aggregator" TalkDigger are easy to use and offer low cost alternative solutions.

7.2. The Active Way: Using Web 2.0 Applications as a PR, Direct Marketing and Customer Influence Tool, as well as a Means of Personalizing the Customer Experience and Tapping Customer Creativity

7.2.1. Using Web 2.0 Based Applications as PR and Direct Marketing Tools

Several businesses are actively engaged in dialogue with the customer by launching their own corporate blogs and discussion forums. Business executives like Jonathan Swartz, CEO of Sun Microsystems, Steve Jobs, CEO of Apple Computers, and McDonalds Vice President Bob Langert post daily on their corporate blogs, encouraging customers to interact and freely express their feelings, ideas, suggestions or remarks about their postings, the company or its products. A widely applied variant of this strategy (initiated by Microsoft back in 2003) is to encourage company employees to become publishers of content themselves in corporate blogs and forums. This approach requires openness and trust in employee capabilities on the part of the firm (McAfee 2006). Censoring of employee content is counterproductive; a good practice is to agree in advance on the basic principles and possible limitations on corporate blogging. An alternative and more simple way to engage social media as a PR tool is to use content communities like the video sharing sites YouTube, GoogleVideo and others as broadcasting media for distributing advertising material. Commercials uploaded to these sites have the potential to be viewed by thousands or even millions of viewers or virally distributed among users at practically no cost.

7.2.2. Engaging Web 2.0 Personalities for Customer Influence

This approach is based on proactively engaging the online sources of customer influence (blogs, podcasts, online forums etc.) as customer influence tools. This requires identifying, reaching and informing the "New Influencers" (Gillin 2007) about the firm, its brands or (new) market offers. The objective is to attract the attention of leading blogs or users' forums so that they review, discuss, comment on or even recommend using the firm's products. Besides obtaining and engaging these sources as company advocates, marketers can also reach very specific audiences by advertising in well selected blogs and special interest networks or communities. This enables immediate access to target markets, even to very specific market segments at a fraction of the costs required by traditional media. Finding the major influencers per product or product category requires some effort, but the tools mentioned in the previous section are also suitable for this purpose.

7.2.3. Engaging Social Media for Personalizing the Customer's Online Experience

The first step retailers should take is the creation of a social web site allowing users to interact with the firm and with the rest of the site visitors. Wang et al. (2007) suggest that the use of "social cues" (i.e. language, social role, voice, interactivity) by virtual retailers yields a competitive advantage that provides consumers with enhanced perceptions of human connection and the formation of emotional bonds; social applications induce perceptions of web site sociality, leading to increased pleasure and arousal, both of which positively influence flow, hedonic and utilitarian value, and patronage intentions. Moreover, this social, cue induced arousal improves pleasure, mainly for consumers who are involved with the product category. Regarding demographic aspects, the influence of arousal on hedonic value is stronger for women, flow does not lead to pleasure for older consumers, and utilitarian value is less relevant for this older group than for the younger one. This approach could lead to closer ties between the customer and the firm by offering customers the opportunity to personalize their online experiences in an environment created and controlled by the firm itself. Brick and mortar firms like Nike, Disney, Coca Cola, TIME magazine, The Hearst Media, etc., are al ready experimenting with such tactics as part of their direct marketing: seeking communica tion, interaction and customer feed back. They do this by introducing web sites based on user generated content, encouraging customers to customize them to their needs, and often create their own social networks.

Tapping and Disseminating Customer Creativity in the Form of Advertising Concepts or Product Reviews

Tapping customer advertising creativity is likely to increase customer goodwill and customer advocacy. SONY, Frito Lay's, Sunkist and Coca Cola are indicative examples of a growing number of corporations partnering with talented amateurs who review their products, generate advertising concepts or even create TV commercials for them. The idea behind such partner ships is that advertisements created by peers are perceived as being more credible and there fore more effective than those created by advertising experts. There is some evidence that this is often the case: According to a Bizrate survey (2007), 59% of web users consider customer product reviews   a concept initiated by Amazon and widely applied now   to be more reliable than those of experts. A study by Deloitte Touche USA indicates that 62% of US consumers read consumer generated online reviews and 98% of them find these reviews reliable enough. Besides, 80% of these consumers say that reading peer reviews has affected their buying in tentions. In a study conducted by Carlson Marketing, 85% of consumers say that they rec ommend a company with which they have a trusted relationship to others. The trust of con sumers in peer rather than expert opinion is based on the perception that the former is more reliable because it reflects the genuine feelings of the product user, like themselves. This strategy requires either creating Web 2.0 type corporate web sites where users or customers can place their own product reviews or creating communities and Forums/Bulletin boards where customers can express their views.

Parise/Guinan (2008) carried out a study where some firms were interviewed to evaluate the use of web based customer communities tools as to their efficiency as marketing strategies. The companies utilized such communities in order to solicit product ideas and product feed back. One of the leading companies in the greeting card and gift business had been using a customer community successfully to verify and explore ideas that were currently under devel opment by its product development department. Conversations among community members ranged from discussing colours and designs that should be used on a greeting card to selecting what gifts and price ranges were more appropriate for a high school graduation. Community members were also asked to keep a virtual journal where they recorded and ranked marketing materials that they received from the company. Additionally, the company used the online community to learn more about the customers themselves. Community members were asked to upload and share their pictures and provide insights about their lifestyles, hobbies, and needs. This resulted in the company gaining valuable insights into consumer behaviour, reac tions to new products and ideas, as well as the effectiveness of the company's marketing ma terials, all at a very low cost and effort.

Making the Customer a Co Producer

The second variant of the strategy of utilizing customer creativity is capitalizing on growing customer individualism by making online tools available that allow partial or full customiza tion of the company's products. Companies like Kleenex and photostamps.com allowing con sumers to customize their products, Heinz invites customers to create their own personalized labels for their ketchup bottle, and M&M make it possible for customers to select their fa vourite colours of sweets and have a personalized message printed on it, Portage.es in Spain allows users to decorate the bags they purchase with their photos. Pepsi co. invites fans to de sign their soft drink cans in the Design Our Pepsi Can Contest. The best idea is adopted as the new monthly packaging of the Pepsi can. The sports article manufacturer NIKE offers similar tools to customers allowing them to customize the sport shoes they order online. Its competi tor, Reebok, uses collaborative development in a different way, i.e. by reducing the develop ment cycle of new sport shoes by engaging online collaboration involving suppliers, laborato ries, retailers and personnel. This can not only reduce the development costs, but in some cases can also reduce the usual 18 month development cycle to only ninety days. Another way of using social media for Reebok is to operate a shop in the well known online commu nity Second Life, which offers virtual visitors the opportunity to customize products in a vari ety of colours and styles far beyond what they are able to order in retail stores. As a final ex ample, we would like to mention the popular chain of household furniture and décor IKEA who recently launched an online campaign called "Everyone is Designer", encouraging cus tomers to create their ideal living space.

Figure 8: Web 2.0 Applications as Marketing Tools

Marketing Objective / Application Type	Passive	Active			
	Listening in	PR and direct marketing	Reaching the new influencers	Customer advertising concepts and product reviews	Customer as co-producer
Web logs	XXX	XXX	XXX	XX	X
(Content) communities	XX	X		XXX	XXX
Social networks	X	XX		X	XX
Forums/Bulletin boards	XXX	X	X	XX	XXX
Content aggregators		XX	XXX		

Note: XXX: very suitable; XX: suitable; X: suitable sometimes.

Figure 8 suggests that certain application types are more suitable than others for achieving certain marketing objectives. In the event of the passive use of Web 2.0, firms will should lo cate the sources of customer input and identify an efficient way to tap and analyze the infor mation. There are already several commercial organizations specialized in this type of data mining. In the active use of Web 2.0 cases, firms will have to develop an intelligence system and network for their online PR activities and create their own Web 2.0 applications allowing for product customization and co creation.

Utilization of the above passive and active tools depends on the abilities, resources and char acteristics of each company. A substantial number of retailers belonging to the small and me dium enterprise category often struggle to keep up with even the more traditional online web activities, such as having a presentable and truly interactive web site; lack of financial and human resources and lack of time are usually serious barriers for such firms (Van der Veen 2004). The proper way for most retailers to pursue marketing objectives by means of Web 2.0 applications is to proceed by addressing a number of critical issues:

A basic condition is: Willingness to invest: In order to improve the traditional online pres ence, retailers interested in using the social media must be willing to allocate some finan cial and human resources to that activity.

Review options: Reviewing different new marketing tools (see Figure 4) and deciding which of these methods are proper and feasible to apply according to the company's re sources and capabilities.

Engage social media as passive marketing tools: Given the small size and often limited market coverage of retailers, there is little chance that most of them will be able to catch any substantial online customer murmur about their products through the buzz method. Listening in to the user's voice makes sense if the company or brand is known. Retailers can, however, listen to the voice of the market in order to be informed not only about changing consumer needs and trends, but also to hear the customer's opinion about com petitors or products. Web logs and online forums are the most important potential sources of such information, followed by the content communities and social networks.

Engage social media as active marketing tools: Depending on the company size, market coverage and the marketing objectives, a retailer could create and make available online tools that allow users to interact with the firm and other customers, customize their experi ence, express their creativity either in advertising copies or design of new products, inte grate good ideas from customers into the mainstream marketing program, and so on.

The framework is based on practical experience so further research is necessary to confirm the relative suitability of different application types to achieve the different objectives and refine these applications.

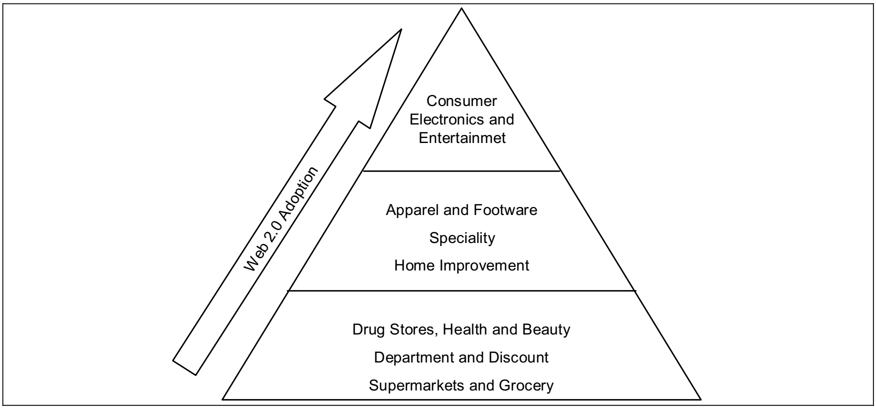
8. Web 2.0 Adoption: Facts and Prospects

Assuming that Web 2.0 could improve e tailer marketing and the exchange relationships with the customer to a large extent, it is interesting to look closer at the degree of adoption of Web

2.0 applications by the industry. A recent study at Infosys by Jain/Ganesh (2007a, b) (see Ga nesh 2007, too) looks closely at this issue.

According to this study, Web 2.0 adoption is not yet a fact in this sector. The most popular features are RIA based user interfaces, static mashups (e.g. third party maps as Google maps) and qualitative and quantitative product reviews. Tools as blogs, discussion forums, data feeds, live agent chat, podcasts, videocasts or end user products and service customizations are scarce. Functionalities such as wikis, synchronous chat, collaborative product customiza tions, comparison shopping across retailers, end user contributed contents of VOIP [11] con sumer based support are the least adopted applications.

Figure 9: Web 2.0 Adoption for Different Retail Sectors



Source: Jain/Ganesh (2007b).

The adoption rate also varies for different types of retail sectors. As we can see in Figure 9, consumer electronics and entertainment is the sector with a higher adoption of Web 2.0 tools, while supermarkets and grocery are light users. While retailer size and resources influence the adoption of these tools, it is important to include two remarks here. Firstly, retailers with low commitment in online business (i.e. many limitations in their Web 1.0 situation) are less likely to make a commitment for Web 2.0. Secondly, it seems that even top retailers are far from incorporating Web 2.0 applications into their marketing plans. As mentioned earlier, most initiatives come from large traditional producers of consumer products or click only online retailers.

If we consider the benefits and potential of Web 2.0 for different dimensions of the retail sec tor and the fact that most e tailers have not taken advantage of these new and widely available functionalities, it is necessary to rethink the way that these benefits could be realized.

Jain/Ganesh (2007b) suggest an interesting and intuitive kind of "roadmap" to implement Web 2.0 functionalities. They differentiate between short term implementations (could be adopted in less than three months), medium term implementation (adopted in three to six months) and finally, long term technologies implementation that refers to functionalities that need more than six months for their application. Their classification of "potential implementa tion" depends on the technological maturity of the technology that supports the functionality, the resources required for implementation, and the time that a retailer needs to assess the suc cess of the various actions.

9. Limitations of the Study and Issues for Further Research and Conclusions

Every study on new social or commercial phenomena faces a typical situation, namely a shortage of academic references, and often an abundance of non academic ones. This is cer tainly the case for the Web 2.0 issue and the authors of this paper have also been confronted with this reality. Whenever non academic references have been used in this paper, the selec tion of sources was careful and based as much as possible on the reputation and validity of the source. Lack of concrete academic scrutiny and scientific evidence is a warning to businesses to be cautious when engaging Social Media as marketing tools: blind imitations and haphaz ard implementation can lead to disappointments and misjudgements as to the real value of these tools. In this respect, several of the ideas and models presented in this introductory study will become the focus of further study and empirical analysis as hypotheses to be tested. Most emphasis in the immediate term will be placed on the empirical testing of the parame ters in the model presenting the Web 2.0 applications as marketing tools. Finally, the some times normative style of the paper is partly the result of the above mentioned lack of scientific underpinning and is partly motivated by the need to establish some bases for further research and debate. Considering the serious social and commercial effects of the Social Media, this debate is urgently needed.

This introductory article presents a comprehensive picture of the theoretical and practical de bate around the new generation of Internet applications and tools usually referred to as Web 2.0 or Social Media, with special attention to implications for the retailing branch. It identifies the main parameters of the issue, one of the most important being the customer empowerment emanating from the wide adoption of Social Media by the online consumer. The article re views the literature around the topic and proposes a definition of Web 2.0 touching on all im portant dimensions of the concept: the application types, social effects, and enabling tech nologies.

A review of the adoption status of Web 2.0 applications by the retail sector indicates that only a limited number of retailers have adopted one or more Social Media based approaches to their marketing strategy. Paradoxically, the pioneers in this area are traditional producers of branded mass products and online retailers, while most of the traditional retailers are still not involved in any substantial form of Web 2.0 based marketing. With regard to the first type of adopters (producers of mass branded products), we could mention that the main motive of these firms to explore Web 2.0 terrain is the fact that consumers become not only more pow erful, but also increasingly quality conscious and negative towards mass products. Further more, marketers realize that traditional forms of marketing become increasingly ineffective when consumers trust other consumers much more than corporate communication. The article explains the basic strategic issues around Web 2.0, and particularly its position in relation to the overall marketing strategy. It argues that implementing Web 2.0 strategies is the last step of the strategic marketing process, after a number of more basic marketing issues have been addressed in an adequate manner. This concept is illustrated in the Marketing strategy pyra mid.

The article also examines the effects of the Social Media on the consumer decision making process, identifying them as a new uncontrollable factor of the Inputs Processing Response equation. Attempting to control the Social Media makes no sense; the best strategy a firm can follow is to identify ways of utilizing such applications to its own benefit. There are two main strategies available: using the Social media in a passive way (as a channel of listening to the voice of the customer), or in an active way: as Public Relations tools, as a means of offering customers' superior experience, and as tools for customizing their products. The Social Media can also be engaged as tools for tapping into customer creativity: utilizing advertising propo sitions generated by users that, according to evidence, are better accepted by their peers, or tapping customer ideas for innovation and promoting co development.

The article has identified and explained the potential of Web 2.0 functionalities when applied to the retail sector. Both general (enhancing value of internet and physical retailing interac tions) and specific benefits (reaching and retaining customers) can be achieved by combina tions of different tools. The retailing environment becomes increasingly competitive and fu ture survival and success will greatly depend on the degree to which retailers understand and welcome the empowered and highly sophisticated future consumer on board.

Notes

[1] The term Web 2.0 will be used in this paper alternatively as Social Media or Consumer generated Media.

[2] According to McKinsey "television advertising in 2010 will be only 35% as effective as it was in 1990".

[3] HitWise.com in a study published in April 2007 calculates the participation of Web 2.0 in the top participatory web sites at 12.28%, an 68% increase compared to 2 years ago, http://www.hitwise.com/downloads/reports/Hitwise US Measuring Web 2.0 Consumer Participation June 2007.pdf.

[4] Confer: https://www1.scene7.com/registration/2008 survey.asp?emaillist=Survey 2008 homepage.

[5] Social Networking Web sites and Teens, January 3, 2007.

[6] Confer: http://en.wikipedia.org/wiki/Social networking.

[7] According to Technorati.com, a firm measuring the development of this phenomenon as of September 30, 2006, 1.3 m of blog posts are published daily, 54,000 per hour.

[8] Confer: http://business.timesonline.co.uk/tol/business/industry sectors/media/article1923706.ece.

[9] Confer: http://www.corporateresponsibilitygroup.com.

[10] Confer: http://www.bized.co.uk/current/index.htm.

[11] Voice over Internet Protocol i.e. connecting telephone subscribers by means of the Internet.

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International Retail Divestment:
Reviews, Case Studies and (E)merging Agenda

Steve Burt, John Dawson and Leigh Sparks

Abstract

Organizational learning, knowledge transfer and knowledge sharing are core components of the retail internationalization process. However, organizational learning is not solely derived from examples of success   we also learn from failure. Divestment is an intrinsic feature of retail internationalization, and has recently become a focus for academic research. This paper considers the growing body of academic work on international retail divestment at both the country and firm level, and assesses how we have examined this activity through the construc tion of incident based datasets and in depth case studies of individual company experiences. This review concludes that further research is needed to provide a deeper understanding of this element of the internationalization process and suggests a potential agenda for future re search.

Keywords

Internationalization, Divestment, Retailing, Research Agenda

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1. Introduction

The (often implied) assumption in much of the academic literature and market reports on retailing is that retail internationalization is inevitable, irresistible and successful. However, whilst this "big picture" has some validity, there is a growing body of evidence, particularly at the level of the retail firm or shop, that shows that retail internationalization is fraught with risk and far from uncontested or invariably successful. Successful forays across national boundaries can be contrasted with other examples of retrenchment and retreat. High profile examples of the latter include the many trials and tribulations of Marks and Spencer and Boots in international markets, the total withdrawal of C&A from the UK, and recently the selective withdrawals and asset swapping amongst Tesco, Carrefour, Wal Mart and leading local retailers in various countries in Asia and Eastern Europe. Alongside these high profile cases are many smaller firms that reduce some or all of their foreign investments.

Despite the apparently coherent and logical strategic planning processes taught in business schools, serendipity and chance play an important role in the retail internationalization process and in shaping spatial outcomes. Most of the studies recording the patterns and trends in retail internationalization note particular upsurges in activity as conditions within the international environment change. In the 1980s, the strength of sterling against the dollar and the general buoyancy of the UK retail sector contributed to a growth in British investment in the United States. During the late 1990s the economic crisis in the ASEAN region stimulated a series of investments in food retailing by major European companies who bought stores and companies while entry prices were low. The dramatic political changes in Central and Eastern Europe similarly provided internationalization opportunities which were previously unavailable. Internationalization is not however a simple, uni directional or uncontested activity. This realization has focused recent attention on the difficulties with internationalization and the processes and nature of international entry and subsequent development. In reality retail internationalization is in a constant state of flux: "(retail) internationalization progresses through combinations of reconsideration, reappraisal and retrenchment, deriving from both corporate situations and the impacts of and reactions to entry and ongoing activity" (Jackson/Sparks 2005).

Alongside this acceptance of the disjointed nature of retail internationalization, there has been a growing recognition of and interest in how organizations learn from and adapt to their varying international experiences. The retail organization is not simply a passive actor, reacting to its wider environmental setting (Dawson 2003; Coe 2004; Coe/Hess 2005). Organizational learning, knowledge transfer and knowledge sharing are core elements of the process of internationalization. They are now present in the retail internationalization research agenda, as components of explaining how retail organizations evolve and manage dispersed retail operations. Organizational learning is however not just about success but also about failure. In his study of Tesco's divestment experiences, Palmer (2004) identifies five areas of "divestment learning", whereby a "mistake" contributing to divestment in Ireland and France triggered a strategic response based on organizational learning. In short, Tesco learnt from both positive and negative experiences in the international arena and adapted its approach to future markets accordingly. Similarly, Carrefour shows a clear pattern of organizational learning associated with both its review procedures for international investment after three years and its changes in retail formula as development takes place in the foreign market. Divestment, including international divestment is thus a "natural" aspect of development and change in organizations (Van de Ven/Poole 1995; Hoskisson/Johnson/Moesel 1994; Sheppard/Chowdhury 2005).

There is a growing recognition and acceptance of the significance of studying retail internationalization "in the round" i.e. by considering not only "what works" but also "what hasn't worked". This in turn has produced a literature in recent years that has attempted to define and report on "failure", "divestment" or other retail internationalization experiences and activities. This body of studies on international retail divestment is however somewhat disjointed in appearance. This paper tries to make some sense of this emerging literature. It does this in four ways:

- by considering the "frame" for understanding retail international divestment,
- through a review of existing published research at both the country and the firm level,
- by utilising the "Stirling" dataset to consider further some issues raised by previous literature,
- finally, through reconsidering a possible research agenda in this area and confronting how best to take forward this agenda.

2. Framing the Understanding of International Retail Divestment

Despite an overwhelming focus upon success and growth, failure or divestment is mentioned in many studies of retail internationalization (e.g. Hollander 1970; Treadgold 1990; Burt 1991; Knee 1993; Evans 1996; Godley/Fletcher 2001) and in case studies of individual firms (e.g. Burt 1986; Parker 1986; Lord et al. 1988; Whysall 1997). For example, Tordjman (1988) described the failure of the French hypermarket concept in the USA, as an outcome of:

- *a lack of innovation*: the basic trading proposition of the hypermarket (large food and non food ranges under one roof) was not seen as innovative in the American market, as similar mixed merchandise formats already existed.
- *existing competition*: intra type (concept) competition was strong. There were a range of store types in the American market providing similar options to consumers.

lack of power: the method of entry via internal growth (i.e. opening own stores) did not provide the necessary scale or leverage with suppliers, which was crucial in the grocery market.

customer preferences: the “one stop shop” behaviour characteristic to Continental Europe in the 1980s, was less prevalent in the US. Perceptions of distances and other shopping criteria also varied.

management culture: the traditional hypermarket as developed in France was heavily dependent on a decentralized management culture, however, this was generally an alien concept in the USA.

Divestment however should not always be seen as failure nor assumed to reflect an inherent weakness on the part of the retailer, as divestment may occur for other tactical or strategic reasons (Alexander/Quinn 2002). Divestment may in fact represent a proactive re allocation of resources: “Changing corporate strategies, alternative opportunities and changes to resource availability determine the shape and geographical location of activities and affect the nature of the international investment and divestment process” (Burt et al. 2004). Similarly, as retailing has moved from family to public and in some cases private equity backed ownership the emphasis on maximising value from the business “assets” has increased. In such a context a more fluid pattern of investment and divestment might be expected, with not all divestment seen in a negative light.

Whilst divestment is a relatively new focus for international retail research, general management literature has addressed the issue from a number of different perspectives (Benito/Welch 1997): the economic perspective which views divestment and exit as a response to changing economic circumstances and the rate of economic return; the strategic management perspective which considers divestment in relation to business life cycles and corporate business portfolios; the internationalization management perspective which sees divestment or de internationalization as the mirror image of internationalization processes; and the financial perspective which considers how divestment may increase the value of the firm.

In the context of international retailing, Alexander/Quinn (2002) refer to the divestment process framework devised by Godar (1997). This identifies three phases the decision to divest (conditions, motives, precipitating circumstances); the process of divestment (steps taken, timeframe, nature of divestment) and effect (short term financial impact). Alexander/Quinn (2002) suggest the addition of a fourth phase the retailer’s response (longer term lessons learnt).

Benito (1997, 2005) identifies four factors which underpin any divestment decision:

management perceptions about the stability and predictability of the host environment,

the economic and strategic performance of the operation over a pre determined time frame,

the strategic fit with the domestic operation,
management capabilities and governance issues.

Burt/Dawson/Sparks (2003) link international divestment and failure, which is defined as an unplanned underperformance by a firm. Failure may arise from four sources:

market failure, where the market does not "behave" as expected and sales do not meet expectations;
competitive failure, where operational performance does not "match" that of competitors or regulation impacts upon competitive capabilities;
operational failure, when a domestic retailer is simply not a good international retailer and domestic competencies do not transfer;
business failure, when decisions impacting upon the international business are made because of changing domestic circumstances (performance, stakeholder expectations etc).

Such "failure" generally stimulates a review of strategy which may lead to four broad investment options: inertia, where the organization does nothing and accepts the underperformance; an increase in investment, where the company aims to build scale through more store openings or an acquisition; operational restructuring, which requires changes to operational process to improve efficiency and performance, or divestment. The divestment option takes three forms:

closure a reduction in the number of stores or channels generated in the market;
organizational restructuring a change in ownership levels and influence, for example, moving from ownership to franchise or a reduced stake in a joint venture;
exit total operational exit from the country concerned.

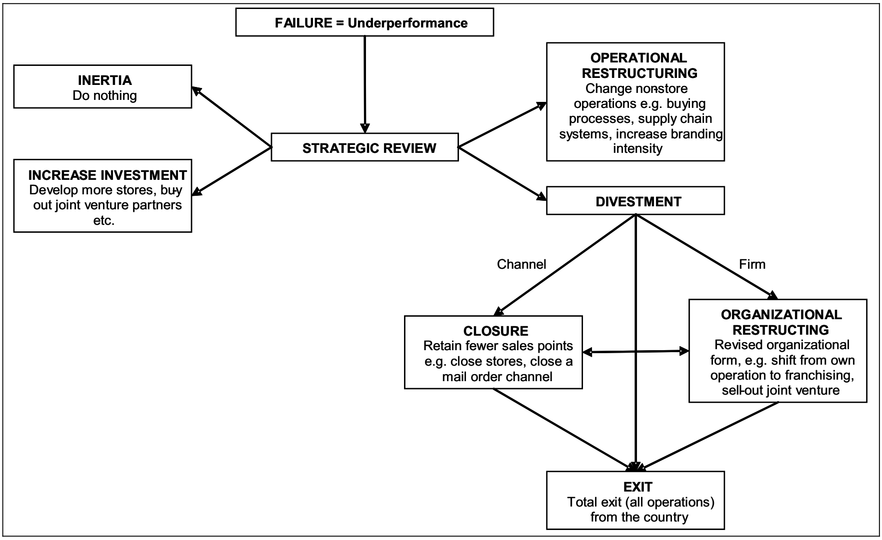
The inter related nature of these options is mapped out in Figure 1.

Palmer (2004) takes a slightly different approach, framing divestment within the broader context of organizational restructuring. From this perspective divestment may arise from:

financial restructuring, relating to changes in governance structures and stakeholders expectations,
portfolio restructuring, arising from merger and acquisition activity and alliances or joint ventures,
organizational restructuring, reflecting changes in company structure, processes or management,
spatial restructuring, requiring changes in the geographical scope and scale of activity.

The common feature in all these frameworks is the combination of external and internal factors which contribute to and shape the divestment processes. One might question however the explanatory power of some of these frameworks and their comparative lack of relationship to broader international business and other conceptualizations. This may be due to issues of timing in the emergence of this specific retail research area and also the distinctive nature of retail internationalization. It is also possible to question how international divestment differs from domestic divestment and re structuring (see the domestic retail failure example of Pal/Medway/Byrom 2006). It can be argued that there are aspects of international divestment which make it different simply because it is taking place in a different market. It is this foreign market (local structure, competition, consumer response, and distance from managerial core of the firm) that defines the nature of the international divestment process. The case has to be made that international divestment is not the same as divestment in the home market.

Figure 1: Failure Concepts in International Retailing



Source: Burt/Dawson/Sparks (2004).

3. Researching International Divestment: What Have we Done?

The nature of international retail divestment itself has played a part in guiding the initial research agenda and the methodological approaches selected. The most visible examples of divestment are often the most dramatic and involve the larger companies this inevitably focuses studies on country exit. Other forms of divestment such as individual store closures channel and organizational changes and financial restructuring are not as visible nor as well reported and may thus be under considered. The nature of divestment itself also creates barriers to a deep understanding of the processes and decisions involved. In all walks of life, success is celebrated and visible. In contrast, “failure” is forgotten and often erased. In business terms, “failure” may be erased from the company history and corporate memory. As more companies include histories on their websites, it is telling how many seem to forget to detail market withdrawals. The consequent rewriting of events raises issues about even becoming aware of failed activities and then of getting to the “truth” about them. The triangulation of contemporary accounts, public relations pronouncements and individual’s recollections and interpretations of events is necessary, but is itself often partial. International divestment episodes are often sensitive and highly political within organizations (even if carried out for “good” business reasons) and those involved at the time often move on, or are “moved on”, thus making tracing them more difficult and their viewpoints often less objective. Key documentation e.g. internal company notes, minutes and finance records are often not available to contemporary researchers. Researching (international) divestment is thus not easy.

In a retail context, international divestment, particularly in the form of exit, has often therefore been explored at the national level as part of the wider process of the restructuring of retail sectors (Clark/Wrigley 1997; Wrigley 1999; Wood 2001, 2002). With respect to international retailing, academic study of divestment to date has tended to follow a similar pattern to that of the internationalization process itself, with studies of the broad patterns of divestment from specifically constructed datasets, accompanied by in depth case studies of individual corporate experiences. These descriptions form the main thrusts of the research to date and are thus explored further here.

3.1. Dataset Analyses

Researchers at the Universities of Reading, Stirling and Ulster have separately constructed three substantial datasets from which descriptions and analyses of macro level patterns have been published. Other work is undoubtedly underway on constructing other and broader datasets. In the Reading dataset, Godley/Fletcher (2001), provide 115 exit dates for foreign investors into the UK retail sector during the 1850 1979 period. Many of these are single store operations (which have also been considered as a separate sub dataset). In the Stirling dataset, Burt/Dawson/Sparks (2004) record 270 divestment activities (of which 177 are country exit) by European grocery retailers between 1970 and 2003. In the Ulster dataset Alexander/Quinn/Cairns (2005) noted 167 divestment activities (99 exits) originating from a range of countries and covering several retail sectors over the 1987 2003 period. From these datasets divestment activities are typically reported as general trends through activity counts and ratios.

Some general observations can be made across these three datasets, although the nature of the individual base data means that the three datasets tend to record and report on slightly different activities thus restricting direct comparisons (e.g. there are differences in the type of divestment activities recorded; the presence of entry dates; indications of the scale of the operation etc). Despite these restrictions, and the number of activities falling into particular “cells” when specific characteristics are explored, five general trends may be observed.

Volume and Form of Divestment Activity

Divestment activity is a frequent occurrence taking many forms. Most forms of divestment result in exit. The calculation of indicative exit rates suggests that market exit is a common feature of retail internationalization. Some caution should be expressed however as this may be a factor of data source limitations, as sources may be more likely to report exit than other forms of international divestment. The Reading and Stirling databases record both entry and divestment/exit activities. Godley/Fletcher (2001) record 154 foreign entrants into the UK, although this is based on a wide "inclusive" definition of retailing. If the dataset is restricted to "mainstream" store based retailing (e.g. through the removal of service retailing and non store retailing) 117 entrants are recorded, of which 67 are more than single store operations. Matching exit dates to entry dates provides an indicative exit rate of 73 75% depending on the definition of retailing taken, which rises to 83% if non dated exits are included. Burt/Dawson/Sparks (2004) record different forms of divestment, although the majority (65%) are exit actions, and when linked to entry activity an indicative exit rate for European grocery retailers of 44% can be derived. Alexander/Quinn/Cairns (2005) also distinguish between different forms of divestment, and again 64% are categorised as exit actions. However, divestment activities are not directly paired with entry data to provide an exit rate.

Trends in Divestment Activity

Despite the varying timescales covered, all three datasets show that the volume of divestment activities is increasing. In all three studies the point is made that international retail divestment has occurred throughout the time periods recorded and is not a new event. Perhaps not surprisingly the Reading dataset shows a peak of exit activity in the inter war period (>1 store dataset), but also shows a greater volume of exit in the 1960s and 1980s, than in earlier periods. The Stirling dataset shows an increase in all forms of divestment, especially exit, over time, as does the Ulster dataset, with more divestment activities occurring in the second half of the decade under study. Some of these findings may be open to question, given the arguably more recent greater financial market, trade and academic coverage of retailing generally and thus the development of more thorough or complete data sources.

Impact of Host or Home Country

When patterns are explored by host countries or region, both the Stirling and Ulster studies suggest that exit/divestment rates vary by region. Some markets appear "riskier" than others. In the case of country of origin, Alexander/Quinn/Cairns (2005) suggest that the timing of divestment by region reflects the broader overall picture, except where major regional crises have occurred (e.g. Asia). Although the Godley/Fletcher (2001) dataset records country of origin, as between 73 83% of entrants end in exit, any discernable patterns in terms of success rates between country of origin are difficult to ascertain.

Time in Market

All three datasets provide an indication of time in market before divestment occurs. There is some evidence that time before a divestment decision is made is falling, and that the time period varies with retail sector. The data provided by Godley/Fletcher (2001) allows calculation of the mean period in the market. For the >1 store (n=67) dataset the average length of time before exit is 24.2 years, and this time period has fallen from 60 years for those entering between 1850 1900, and 37 years between 1901 1914, to 9.2 years for entrants between 1960 1969 and 15.8 years for 1970 1979 entrants. The Stirling grocery dataset covering a 45 year period provides an average time of 7.1 years before a divestment decision is made, with most exists occurring within 4 6 years of entry. Alexander/Quinn/Cairns (2005) confirm sectoral differences with 85% of food divestments occurring within 10 years, compared to 68% of clothing and 53% of variety/department store divestments.

Scale of Divestment

The scale of investment is recorded (although differently) in the Reading and Ulster studies. In relation to the "mainstream" retailing dataset provided by Godley/Fletcher (2001) 50 of these entrants involved a single store and 67 more than one store at their peaks. Indicative exit rates of 78% for the former and 73% for the latter can be derived. Alexander et al. (2005) record network scale within broader bands and at the time of divestment 57% of their divestments occurred in chains of fewer than 20 stores and 72% with fewer than 40 stores allowing them to conclude that larger chains appeared to be less susceptible to divestment activities. Although the Burt/Dawson/Sparks (2004) study does not provide any indication of operational scale, different grocery formats are considered but with no notable differences found amongst formats. Outside these three datasets, some studies provide listings/examples of divestment to illustrate a specific point. Typically these also provide a broad assessment of the reason for the divestment decision. For example, Palmer (2004) categorises his divestment examples as either strategic/proactive or forced/reactive, whilst Swoboda/Schwarz (2006) distinguish between the internal and external environment as reasons for divestment in their list. Many of these "reasons" are however externally generated by researchers as opposed to being based on internal views or internal source materials.

3.2. Case Studies

A second strand of divestment research has been developed through specific retail internationalization divestment case studies. It is argued that case studies "fill in" some of the detail lacking in the sector level studies and provide a firm level focus to the divestment research. They also, due in part to methodological considerations, reinforce the notion of divestment as a complex and confusing activity. As noted earlier these cases typically focus upon the experiences of larger operators or high profile divestment episodes. For example, Marks and Spencer (Burt et al. 2002; Jackson/Mellahi/Sparks 2004; Jackson/Sparks 2005), Tesco (Palmer 2004), Arcadia (Alexander/Quinn 2002) and Boots (Burt et al. 2005) are recent UK based cases. Cases relating to specific companies and/or specific regions as for example Ahold (Wrigley/Currah 2003), Home Depot (Bianchi/Arnold 2004) and Chile (Bianchi/Ostale 2006) in Southern America have also emerged.

Whilst these cases were no doubt not intended to be necessarily generalisable, and the companies themselves are at the large end of the retail company size spectrum, it is possible to suggest some broadly common themes that emerge. These themes could and should of course be added to by the development of further and more in depth case studies from a different spectrum of retailers, formats, entry modes and countries. The need to adapt or conform to the host environment and to possess the management capability to transfer the domestic source of competitive advantage into host markets, are two widely recognized themes. These considerations are also evident in the broader business failure and divestment literature (e.g. Mellahi/Wilkinson 2004), and broadly speaking equate to external behaviours, relationships and interactions (i.e. environmental issues); and internal management competences, incorporating systems and expertise, (i.e. organizational issues). The third common feature of these cases is the seemingly serendipitous nature of timing, emphasising the dynamic process nature of retail internationalization and divestment and its complex and often disjointed nature over time.

The Host Environments (Environmental Issues)

The host environment is clearly important in the success or otherwise of the retail internationalization activity. Divestment is often "explained" by reference to an inability of the retail firm to adapt operations and formats to the new country and its particular retail, consumer and other environments. Whilst there is a considerable debate about adaptation versus standardization, the local nature of much retailing makes it important that sufficient attention is paid to the host environments. This attention has many dimensions, some of which have been framed via institutional theory as a way of understanding failure. It is notable however that the research is mainly about how firms respond to the international environment and tends to ignore how firms change the environment.

The Role of Management (Organizational Issues)

There seems to be an assumption on the part of retailers and perhaps academics that there is nothing particularly different about operating outside home country environments. It seems to be implied that management capability in this area is readily available or can be learned very quickly. The case studies recorded to date would however imply the opposite. In many situations it would appear that management has been somewhat naïve about the requirements of operating across national boundaries. It is only through experience and the internalization of this experience that this capability is achieved. Divestment may thus come about because the initial investment was not really thought through in management terms or because the management proved incapable of operating outside its home knowledge base.

Timing

The cases also show that divestment is not uncommon. This hints at the importance of timing in investment and divestment. In some cases divestment has occurred as the conditions for successful investment and development have not been fully available or may even have changed post entry (e.g. legislation affecting operating conditions). Divestment has thus occurred to allow the conditions (whether external or internal to the company) to change to a more favourable state. In some situations cumulative investment to a country from outside retailers may change the conditions or force reactions from competitors or authorities. Company perceptions of conditions and the likely return on investment change over time owing to a variety of internal pressures, not least changes in ownership and management. Whilst serendipity does play a part, it is possible that as knowledge increases so the nature of the timing of entries and possibly the appropriate pre conditions for minimising risk are becoming better understood, thus affecting the consequent divestment patterns. If we consider these issues from the macro studies and the case studies together, then the nature of retail internationalization (of which divestment is a component part) as a process becomes clearer. This is explored elsewhere by Dawson (2006) in greater detail. The process approach to retail internationalization emphasises the wide and broad reaching nature of retail internationalization and the need to consider this over a reasonable time period. A process approach suggests a focus on mechanisms and impacts, and this applies equally to divestment. In that event, assessing the nature of separate, sustained and cumulative impacts on both organizational and environmental factors over time is important.

Figure 2: An Approach to Analysing Impacts of Retail Internationalization including Divestment

	Types of Impacts	Processes of Impacts	Intensity of Impacts
Changes in sectoral competitiveness			
Public policy reaction			
Increased consumer literacy			
Performance of the firm			
Changes in socio-cultural values			
Changes in the effectiveness of demand chains			

Source: Adapted from Dawson (2003).

Dawson (2003) provides an approach for such an assessment (here adapted as Figure 2). His model emphasises both the dynamism of internationalization and the breadth of possible impacts that need assessing. Understanding at this level will assist in comprehending the mechanisms and processes of divestment. At this stage, we might argue that research to date has been either insufficiently broad by focusing on narrow case studies or insufficiently deep by focusing on retail internationalization (and divestment) as a series of points, mostly store closings and openings.

4. Placing International Retail Divestment into the "Big Picture"

At this stage in international retail divestment research we have an eclectic mix of dataset based research establishing broad parameters about the volume and patterns of divestment, and a collection of case studies exploring a series of selective divestment activities and the mixture of the motives and management processes behind these. Underlying both the current conceptual frameworks and empirical studies are two broad discourses that of the management of firm and of the responses to the business environment. In our exploration of the spatial outcomes of divestment we need to understand how the observed patterns fit within the wider context of what is happening in these internal and external environments. The relationships between divestment activities and entry and other investment activities need to be appreciated to gain a "full picture" of what is happening. Appreciation of these events and linkages over a sustained time period is also advisable to provide a clear perspective of the extent and nature of divestment activities, which in turn should guide us on where to focus our research efforts.

The Stirling grocery dataset can be used to illustrate these "big picture" issues. This dataset provides a longitudinal database, covering investment and divestment activity over a forty year period, allowing activities to be observed over several planning cycles, through changes in senior management and in ownership, and witnessing macro (and micro) environmental changes in home and host environments. It provides the basis for establishing longitudinal patterns and trends within a single retail sector from which we can develop priorities for future research. Here we skim the potential for developing such case studies within the "big picture" context. We recognize that there is a need to develop the detail at all levels, but the approach at the intersection of firm level and macro level studies should be clear.

Owing to the form of data collection, data are often presented quantitatively, often supported by little more than descriptive statistical analysis, within researcher imposed boundaries. In the figures to be found in the appendix, data are presented in a more visual way in the form of time series charts. The entry and exit data for a number of large European grocery retailers are presented in figures A1 A5, and entry and exit data for a selection of host markets in A5 A11. Presenting data in this way allows a visual impression of the patterns of internationalization activity. Although still essentially descriptive, this form of presentation of time, company and sectoral dimensions, provides an instant macro view of the degree of turbulence within this particular retail sector. The immediate impression from these figures is one of disjuncture, with frequent "breaks" in activity as markets are exited. This analysis is preliminary and although visual at this stage will be analysed quantitatively as the next stage of project work.

From the firm level charts the general investment pattern for these organizations appears to consist of a limited number of country focused activities in the 1970s and 1980s, with a significant spreading of activities in the 1990s. The opportunity to invest in a range of emerging markets in central Europe and Asia would appear to be behind this pattern, although within these markets, adjustment and retrenchment (exit) is a common feature.

The disjointed nature of internationalization activity is perhaps more evident when one examines patterns from the host country perspective. In all the market types shown (developed, developing and emerging) consolidation in the market occurs at the level of the firm and is a common pattern across all markets as the grocery structure evolves. Reactive events at the firm and the sector levels are common reflecting the consequences of international entry, not only for the internationalising firm. Analysis of the data by grouping countries on different criteria, for example as used in Wrigley/Currah (2003) might also be revealing.

By only illustrating entry and exit at the corporate level the figures shown here simplify the complex nature of the spatial outcome of the internationalization process. If the figures are refined to illustrate forms of market entry (control, JV or minority control, or franchise/ licensing), and or other visible divestment activities (the sale of stores, formats or companies) the complexity of the process and the inter relationships between activities is amplified (see Figure A12 for the example of Carrefour). This in turn suggests that to fully understand the mechanisms involved, company case studies, based on combining detailed quantitative and qualitative data, need to be developed to fill in the macro level "big picture" and to provide possible managerial learning points.

Although naive to draw detailed observations from this preliminary macro level exercise, a number of apparent patterns can be observed:

- divestment (country exit in this case) is a common occurrence and has occurred throughout the time periods that these retailers have been involved in retail internationalization, and over which the host country has seen foreign investment,
- exit and re entry into geographical markets and by individual large firms is not un common (this perhaps has been under recognized and under explored in the literature),
- there is an inter play amongst entry and divestment, retail formats and modes and degrees of entry and divestment,
- exit often occurs relatively soon after market entry, suggesting that market conditions and market responses are key factors in contesting entry.

5. (E)merging Agenda

This paper contains a review of some of the work that has been published recently in the newly developing field of retail international divestment. We have attempted to summarise the conceptual frames that have been used to date and to consider the common findings that can be seen in the different datasets and case studies that have been published. We have used the Stirling dataset to briefly illustrate the complexity of the patterns of divestment and to argue for a need to deepen analyses to uncover the issues behind the activities and processes identified. Here we conclude with four thoughts on the possible way forward. Our aim here is not to set a research agenda *per se* but to suggest the parameters from within which an agenda can emerge:

The work to date is both important and useful. It has at various levels demonstrated that retail international divestment is complex, disjointed, common and probably different from divestment in a domestic market. We know that risk varies in various directions and that the timings of divestments are changing. Perhaps the processes themselves are undergoing change? Retail academics have succeeded in providing sets of information about the activities involved, but perhaps without developing the necessary frames and concepts to fully understand what we are recording. Divestment, including international divestment is a "natural" aspect of development and change in organizations (Van de Ven/Poole 1995; Hoskisson/Johnson/Moesel 1994; Sheppard/Chowdhury 2005). Because we do not yet have good models of the way retail enterprises operate we are not yet able to explore how the nature of development and change in international retailers relates to the generic models of firms. The body of studies of international retail divestment is therefore somewhat disjointed in appearance.

This activity needs to be brought together. There is a need to understand what we really know about retail international divestment and to draw more certain conclusions. We also need to be clear about what it is that we need to know. An agenda for research needs to be developed. It is argued here that this (e)merging agenda will need to be broader and deeper than perhaps some imagine, in order to address the issues that retail divestment (and investment) raise. Meyer (2004) makes a similar plea for the study of multinational businesses generally in emerging economies and implicitly argues for a move away from the American scholarly imperialism that tends to govern what and how research is undertaken in international business. There are big gaps in our knowledge of retail internationalization. We have focused only on divestment where unanswered research issues include:

the completeness or otherwise of the coverage of data sets,

an possible over similarity of extent case study firms,

an uneven or incomplete analysis of environmental factors,

the insufficient understanding of internal and external organizational dynamics,

the role of the shop and the brand in affecting environments including through consumer reactions,

how retailers (re)construct the environments to better suit their needs, pre, during and post entry and exit,

what benefits to the firm result from the divestment,

what happens in the host retail system after divestment, the impact of time on all of the above.

We need some clearer ideas about the nature of the proposed agenda for future research. We would argue that whilst there is no monopoly on the possible ways forward, as a staring point discussion could usefully centre around the propositions that we have already put forward in Burt/Dawson/Sparks (2003). Whilst these propositions (Figure 3) were constructed around the idea of failure, they could be reconfigured to assess a broader concept of divestment.

Figure 3: International Retail Failure: Research Propositions

Divestment due to Market Failure

i. Failure is related to the degree of managerial perceived risk in any particular country.
ii. Failure is related to the extent and perceptions of cultural and psychic distance and competitive difference between host and target countries.

Divestment due to Competitive Failure

i. Failure is related to the retail sector, format and organizational type involved.
ii. Failure is related to the entry mode.
iii. Failure is related to the stage of organizational development, normally viewed as the age and size of firm.

Divestment due to Organizational Failure

i. Failure is related to length of time in the country.
ii. Failure is related to the extent of experience of international operation as indicated by number of countries entered and number of formats operated.
iii. Failure is related to the degree of adaptation made to the customer interaction aspects of the format in the target market.

Divestment due to Business Failure

i. Failure is related to the managerial competency of the firm in the home market and the management quality and competency adopted in the target market.
ii. Failure is related to the degree to which the corporate culture is international.

Source: Burt/Dawson/Sparks (2003).

Finally, we would make a plea for clarity over what is different in international retail divestment when compared with both divestment in the home market and international divestment by production firms. Dawson (2006) argues that retail internationalization is different to such activities in production. The existing work on international retail divestment implies this as well. We should therefore perhaps be more confident about exploring these differences and conceptualising retail divestment and investment internationally, within the retail specific context. Relying on non retail conceptualizations given the nature of the processes outlined in the work reported in this paper would seem to be an outdated notion and may constrain our conceptualizations.

Appendix

Figure A1: Selected European Grocery Retail Groups, 1969 2006: Delhaize

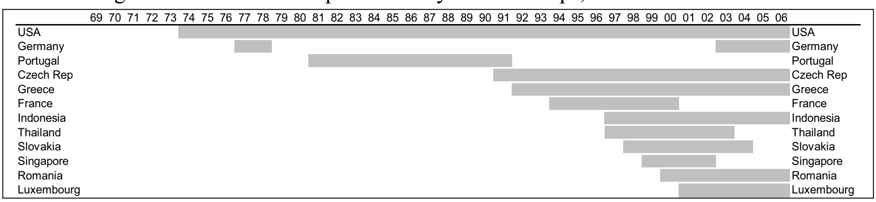


Figure A2: Selected European Grocery Retail Groups, 1969 2006: Carrefour

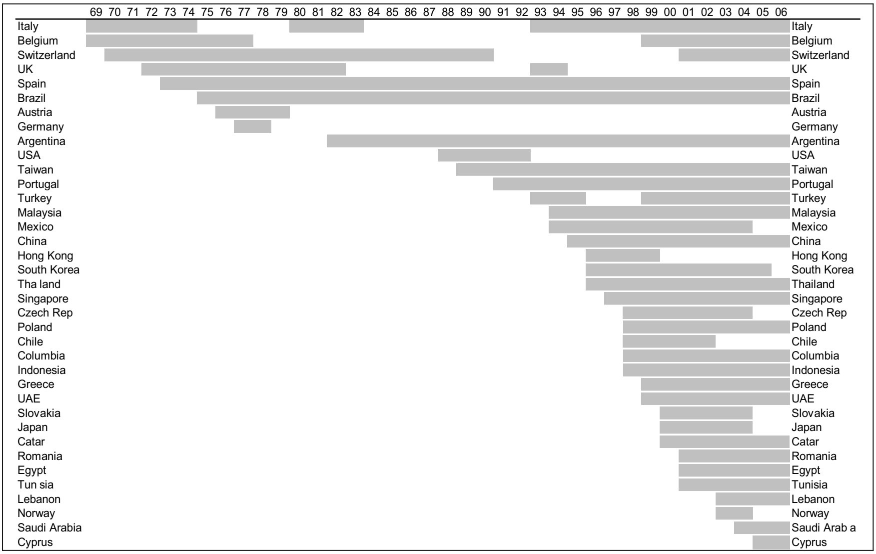


Figure A3: Selected European Grocery Retail Groups, 1969 2006: Ahold

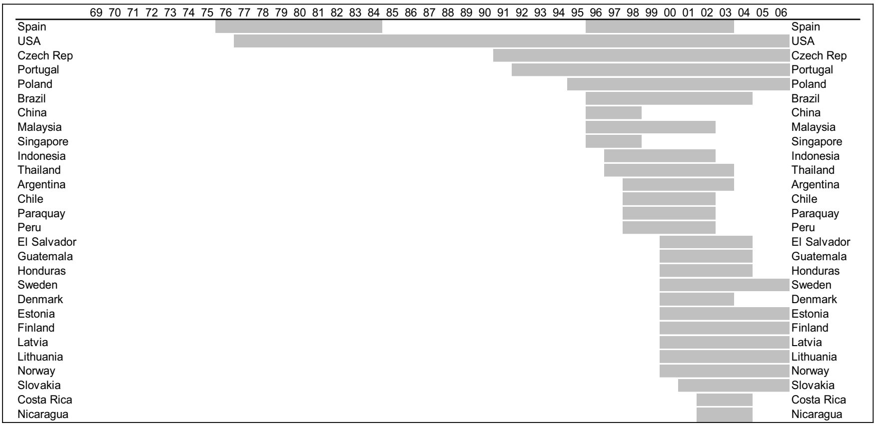


Figure A4: Selected European Grocery Retail Groups, 1969 2006: Tesco

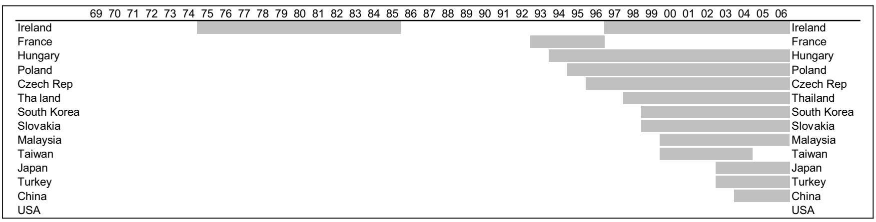


Figure A5: Selected European Grocery Retail Groups, 1969 2006: Rewe

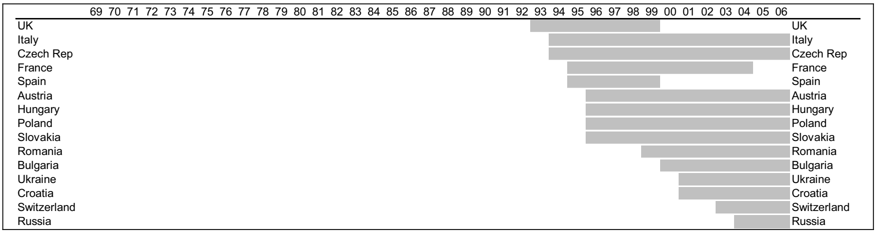


Figure A6: Selected host markets for European Grocery Retail Groups, 1964 2006: UK (exe NI)

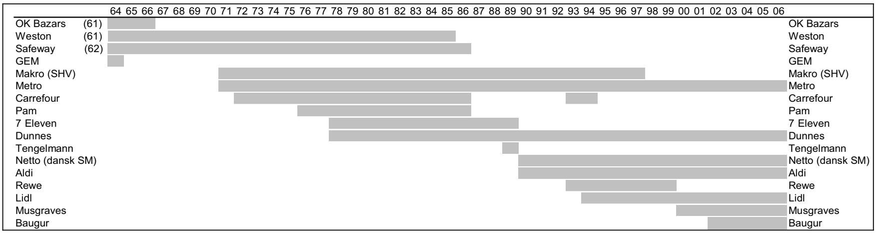


Figure A7: Selected Host Markets for European Grocery Retail Groups, 1964 2006: Italy

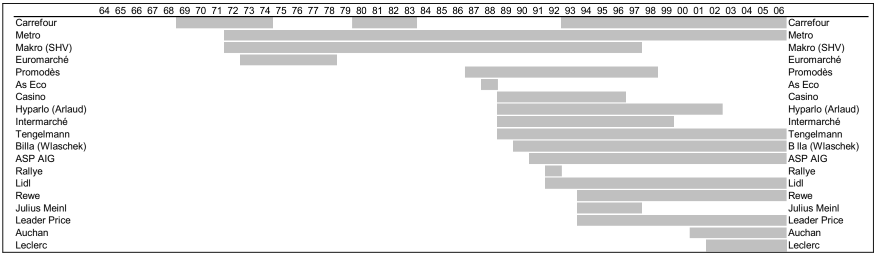


Figure A8: Selected Host Markets for European Grocery Retail Groups, 1964 2006: USA

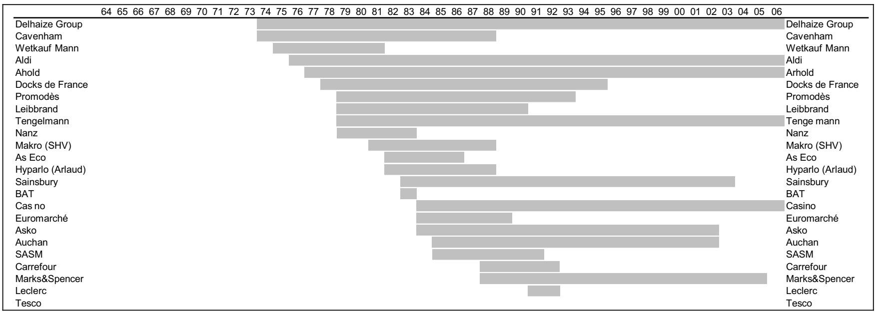


Figure A9: Selected Host Markets for European Grocery Retail Groups, 1964 2006: Spain

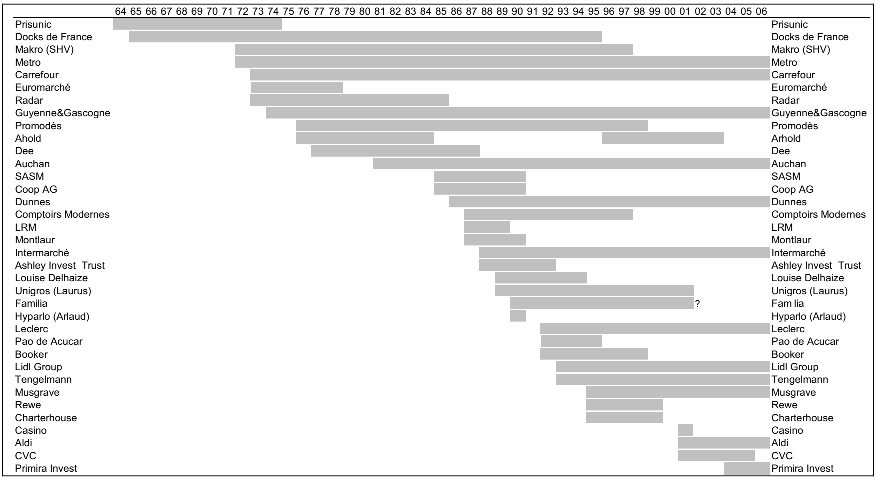


Figure A10: Selected host markets for European Grocery Retail Groups, 1964 2006: Poland

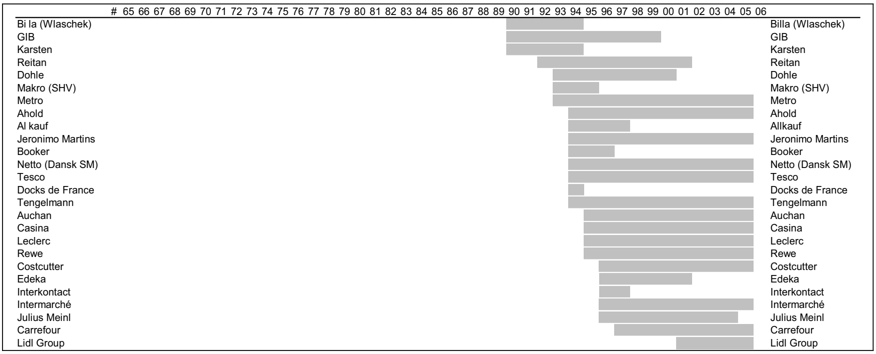


Figure A11: Selected Host Markets for European Grocery Retail Groups, 1964 2006: Czech Republic

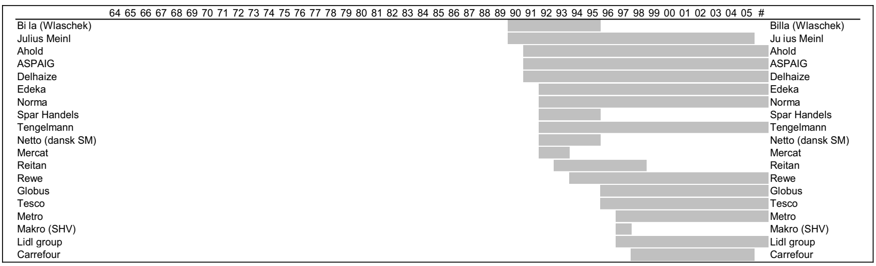
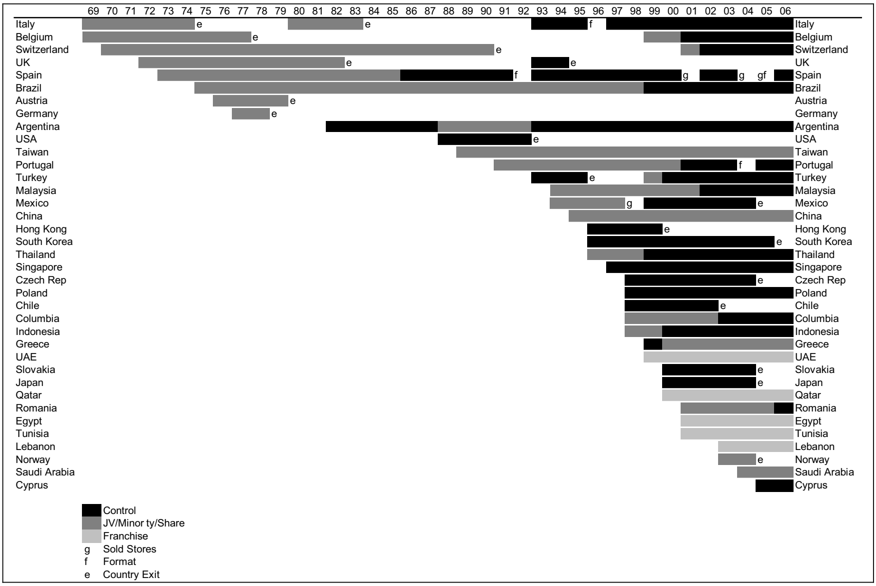


Figure A12: Ownership and Divestment in Carrefour, 1969 2006



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Exploring the Power of Adaptive Selling Techniques on Consumers' Buying Behaviour

Hans H. Bauer and Isabel Martin

Abstract

This article addresses how sales representatives' behaviour in a retailing context influences cus tomer satisfaction, trust, attitudes towards products and buying behaviour. The salespersons' behaviours analysed are derived from commonly suggested personal selling techniques. Al though adaptive sales strategies are frequently discussed in marketing literature, the specific in fluence of adaptive selling techniques on consumers is only analysed rudimentarily in empirical research. This gap is addressed by developing a conceptual framework incorporating important adaptive behavioural selling techniques that are perceived by consumers. Empirical data, ana lysed in a LISREL approach (n=376), demonstrates different influences of specific behavioural patterns of salespeople on the consumer. Findings suggest that especially techniques relating to salespersons' characteristics and relationships with the consumers influence their decisions more than techniques communicating product information, while communicating low prices in a personal selling setting may even result in reduced perceived product quality. Results will provide managerial implications for both salespeople and management.

Keywords

Personal Selling, Adaptive Selling Tactics, Retailers' Success Factors, Similarity and Exper tise, LISREL Model

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1. Personal Selling in Consumer Stores - Importance and Challenges

For decades, sales researchers and managers paid considerable attention to identifying sales representatives' characteristics that predict higher performance levels. In particular, the concept of adaptive selling has emerged as a widely accepted subject for research and for managerial models of sales performance (Park/Holloway 2003, p. 239; Porter/Inks 2000, p. 15; Morgan/Stoltman 1990, p. 43). As proposed by the adaptive selling framework, "Personal selling is the only communication vehicle that allows a marketing message to be adapted to the specific needs and beliefs of each customer" (Spiro/Weitz 1990, p. 61). Adaptive salespeople are a powerful instrument in influencing the customers' buying behaviour and, therefore, the companies' success (Chakrabarty/Widing/Taylor 2004, p. 125; Goolsby/Lagance/Boorom 1992, p. 62; Robinson et al. 2002, p. 111; Saxe/Weitz 1982, p. 344).

Although there is agreement on the importance of salespeople by both academics and practitioners (Pettijohn et al. 2000, p. 91; Thomas/Soutar/Ryan 2001, p. 63), paradoxically, very little empirical work has been done in the B2C context to actually demonstrate the effects of specific adaptive selling tactics on key success factors for the retailer. While scientific research has provided reasonable work in the B2B personal selling context (Humphreys/Williams 1996; Sharma/Sarel 1995; Vink/Verbeke 1993; Wagner/Klein/Keith 2001), personal sales strategies and techniques for the consumer context are mainly provided by management literature unfortunately mostly based on authors' personal experiences and conceptual work without empirical foundation. Yet more insights seem useful to better understand how consumers deal with a salesperson's attempts to persuade (DeCarlo 2005, p. 247).

A recently published customer satisfaction survey of European retail consumers pointed out that 3 out of the 10 most influential aspects that lead to consumers' dissatisfaction are related to the behaviour of sales representatives, including the first and second place in the ranking, while organizational or product related aspects were perceived as being less important (GfK 2006). Due to this dilemma, the research objective of the article was to question which commonly used behavioural adaptive selling techniques used by salespeople in consumer shops have what kind of influence on highly relevant success factors for retailers.

2. Theoretical Background and Conceptual Framework

In this chapter, six often discussed and commonly used adaptive techniques in personal selling are presented in brief. Every single sales tactic will, when applied, cause specific behaviour by the salesperson that is perceived by the consumer and can be considered an important cue in the decision process. The most important techniques exert influence on the consumer through the perceived similarity between the salesperson and the customer (cooperation technique and commonality technique), the perceived expertise of the salesperson (demonstration of expertise technique and demonstration of product information technique), and the line of verbal reasoning used by the salespeople (technique of low price argumentation and technique of quality argu mentation).

Perceived Similarity. With regard to the impact of similarity on the consumer, many authors refer to the customer’s subjectively perceived similarity between his and the salesperson’s per sonal system of moral values, character and objectives (Churchill/Collins/Strang 1975, pp. 29 30). Approaches like the theory of social comparison processes (Festinger 1954, p. 117) and the match up hypothesis (Kamins 1990, p. 6) support these assumptions. The salesperson can at tempt to enhance the perceived similarities by utilising techniques that accentuate similar char acteristics and opinions between himself and his client. In the literature, such an approach is known as cooperation technique (Nerdinger 2001, p. 178). In this case, the salesperson tries to suggest that he is pursuing the consumer’s goals, promoting these with strong commitment in order to enable the consumer to make an optimal buying decision (Pothmann 1997, p. 132), and indicating that he is absolutely on the customer’s side (Cialdini 1996, p. 47). Ahearne/Jelinek/Jones (2007, p. 606) emphasize that it is important for salespeople to demon strate that they care for their customers and “feel their pain”. Furthermore, similarities between the salesperson and the client can be made clear by the so called commonality technique (Franke 1991, p. 185). “A communicator who is similar to his audience in some dimension […] is expected by the audience to be more sincere. The audience assumes that the communicator feels a commonality with them and is concerned about their welfare” (Mills/Jellison 1968, p. 153). The salesperson, advising the customer accentuates similarities that surface during the customer salesperson interaction. Usually, the topics discovered are first mentioned by the cus tomer and consequently picked up by the salesperson, for example shared hobbies, children, pets, holidays, friends, home town or politics (Tebbe 2000, p. 255).

Perceived Expertise. In scientific literature, perceived expertise is defined as a person‘s exper tise in a certain subject, as attributed by another individual. The perceived expertise of the salesperson is suggested as a convenient means of influencing the customer. “A highly expert salesman is more effective than a poor expert in producing the intended behavioural response in potential customers” (Busch/Wilson 1975, p. 9). A significant link between the perceived exper tise and the sales performance can be supported empirically (Mancuso 1969, p. 20; Weitz 1981, p. 95; Woodside/Davenport 1974, p. 198). One of the two commonly used sales techniques based on the perceived expertise is the demonstration of expertise technique. This tactic de scribes the explicit demonstration of professional competence by verbal means: the salesperson deliberately demonstrates that he is a specialist, i.e. by introducing specialist terms, emphasizing his expert knowledge, or manifesting insider know how (McGuire 1985, p. 263). The salesper son can also present his expertise by implication, using a selling technique called demonstration of product information. The salesman demonstrates certain information on the advantages and disadvantages of the chosen products in order to divert the consumer's attention to specific product attributes. In this way, the salesman can dominate the extent and depth of the custom ers' search and evaluation of alternatives (DeCormier/Jobber 1993, p. 47; Olshavsky 1973, p. 211).

Verbal Argumentation. In terms of the impact of verbal argumentation, influence on the con sumer is exerted by the salesperson's line of reasoning, involving needs relevant to behaviour (Lambert/Marmorstein/Sharma 1990, pp. 2 6). Since consumers select products on the basis of their wishes and needs, the salesperson can use verbal argumentation "[…] that serves to fulfil many important human needs" (Reynolds/Beatty 1999, p. 13) to influence the consumers' pur chasing behaviour. In order to satisfy the physiological needs as well as the needs for safety, the so called low price argumentation technique is used frequently in a personal selling context (Fabiunke/Grünewald/Lehm 1983, p. 137). The salesperson emphasizes the relative price of a product: he stresses the low price in relation to the comparatively high product value. He can also stress savings compared to competitors by distinguishing his company from them, i.e. by denouncing competitors' offers or by revealing lack of credibility in pricing. The technique of quality argumentation is also based on verbal argumentation by the salesperson and alludes to physiological needs and to the need for safety (Weis 1989, p. 155). Therefore, quality argu ments are very important in a customer's purchase decision. The salesman can enhance the per ceived product quality by emphasizing quality arguments, such as quality guarantees that pro vide security to the customer for a certain period of time (Goldmann 1958, p. 68).

In the following section, the adaptive selling techniques described will be transposed to a hy pothesis system examining consumers' perception of the techniques applied and, consequently, their influence on dependent variables, such as customer satisfaction, trust, perceived product quality and willingness to buy.

3. Hypotheses Development

In the literature, a clear link has been verified between perceived willingness to cooperate and perceived expertise in social exchange situations (Paulhus/Paulhus 1992, pp. 233 239). Indi viduals evaluate their respective in group more competently than they evaluate the respective out groups (Singh/Choo 2004, p. 381). One can plausibly assume that, as a consequence of the salesman's cooperative behaviour, the client gauges him to be a pleasant social exchange part ner and thus, as a member of his in group, i.e. competent. As a result of these considerations, the following hypothesis is formulated:

H 1: The greater the consumer's perception of the salesperson's willingness to cooperate, the greater the consumer's perception of the salesperson's expertise.

Customer satisfaction is acknowledged as an area of great interest because of its positive impact on companies' performance (Homburg/Giering/Hentschel 1998, p. 1) and can be generally defined as "the consumer's fulfilment response" (Oliver 1996, p.12). The construct of customer satisfaction with the salesperson is based on a specific transactional experience with the salesperson's provision of services (Oliver 1993, p. 421; Swan/Oliver 1989, p. 518). The consumers embark on interaction with certain expectations of a personal and cooperative counselling service, as well as with certain expectations of the salesman's proficiency (Leigh/Rethans 1984, p. 227). According to the confirmation/disconfirmation paradigm, customer satisfaction results (Szymanski/Henard 2001, p. 16) if the willingness to cooperate perceived by the client and the perceived expertise of the salesperson meet the customer's expectations. The above considerations lead to formulation of the following two hypotheses:

H 2: The greater the consumer's perception of the salesperson's willingness to cooperate, the greater the consumer's satisfaction with the salesperson.

H 3: The greater the consumer's perception of the salesperson's expertise, the greater the consumer's satisfaction with the salesperson.

Depending on the degree of the consumer's product involvement, a more or less effective impact of perceived expertise on satisfaction with the salesperson is suggested (O'Shaughnessy 1971, p. 37). Highly involved people are aware of obtaining a great deal of product information and substantial product knowledge and therefore, they have considerable capacity (Thorelli/Thorelli 1977, p. 251). For this reason, it is expected that the influence of the perception of a salesperson's expertise on customer satisfaction with the salespeople is less effective for individuals with high product involvement than for consumers with low involvement. On the basis of these considerations, the following hypothesis can be formulated:

H 4: In the event of high product involvement by a consumer, the consumer's perception of expertise of the salesperson leads to lower customer's satisfaction with the salesperson than it does when a consumer's product involvement is low.

Customer satisfaction with the store is an overall evaluation of a shop (Anderson/Fornell/ Lehmann 1994, p. 54). In the personal selling context, customer satisfaction with the store is generally related to the salesperson as a representative of the shop. Therefore, it can be assumed that customer satisfaction with the salesperson has an impact on customer satisfaction with the store, which leads to formulation of the following hypothesis:

H 5: The greater the consumer's satisfaction with the salesperson, the greater the consumer's satisfaction with the store.

Trust is identified as the relevant construct in successful customer relationships in numerous studies in the field of marketing research (Dyer/Chu 2000, p. 455). (Dyer/Chu 2000, p. 455). Moorman/Deshpandé/Zaltman define trust "as a willingness to rely on an exchange partner in whom one has confidence" (Moorman/Deshpandé/Zaltman 1993, p. 81). As a large body of literature emphasizes, perceived commonalities between the customer and the salesperson, such as personal interests, objectives, values, etc., can affect the development of trust in the salesperson positively (Dwyer/Schurr/Oh 1987, p. 21; Fine/Gardial 1990, pp. 7 11; Morgan/Hunt 1994, p. 25). Furthermore, a positive influence of the perceived expertise of the salesperson on the development of trust can be verified (Hawes/Mast/Swan 1989, p. 2; Sargeant/Lee 2002, p. 784; Sirdeshmukh/Singh/Sabol 2002, p. 17). Since the construct of perceived risk takes on an important function in the field of consumer research, it is seen as a determinant of consumer trust (Bhattacharya/Devinney/Pillutla 1998, p. 462). One possibility the consumer has to reduce perceived risk is to increase the search for information (Walsh 2002, p. 282). By means of the amount of perceived information on advantages and disadvantages of a product, the consumer reduces his perceived risk, he evaluates the salesperson's behaviour as favourable, objective and honest, and consequently as more trustworthy (Wiswede 1994, p. 98). These considerations lead to formulation of the following hypotheses:

H 6: The greater the consumer's perceived commonalities between himself and the salesperson, the greater the consumer's trust in the salesperson.

H 7: The greater the consumer's perception of the salesperson's expertise, the greater the consumer's trust in the salesperson.

H 8: The greater the consumer's perception of product information from the salesperson, the greater the consumer's trust in the salesperson.

Trust literature suggests that customers can develop trust in individuals, as well as in organizations (Doney/Cannon 1997, p. 36). According to Kenning (2002), trust in a shop appears as a consequence of trust in salespeople. The following hypothesis suggests that this causal link exists similarly during the development of consumer's trust in the shop and in the salesperson:

H 9: The greater the consumer's trust in the salesperson, the greater the consumer's trust in the store.

The perceived product quality is built by classifying and evaluating product information. These factors are considered key information for purchase (Foscht/Swoboda 2007, p. 91). In their study, Dodds/Monroe/Grewal (1991) have been able to prove that the provision of product information determines the perceived product quality positively. It can therefore be assumed that perceived information about a product has a positive impact on the consumer's perception of product quality. Furthermore, numerous empirical studies show a significant link between the perceived price of a product as key information and the perceived product quality: low (high) perceived product prices lead to a lower (higher) perceived product quality (Dawar/Parker 1994; Render/O'Connor 1976; Teas 1981). According to these results, perceived low price argumentation is expected to have a negative influence on the perceived product quality. As key information, the quality guarantee affects the consumer's perception of quality as well (Hoyer/ MacInnes 2004, p. 218; Kuß/Tomczak 2004, p. 122). Transferring these findings in the context of personal selling, one can expect that a perceived quality argumentation by the salesperson can influence the consumer's perceived product quality. An adaptation of the above results to the link between perceived behaviour of the salesperson and perceived product quality leads to formulation of the following hypotheses:

H 10: The greater the consumer's perception of product information from the salesperson, the greater the consumer's perceived product quality.

H 11: The greater the consumer's perception of low price argumentation by the salesperson, the lower the consumer's perceived product quality.

H 12: The greater the consumer's perception of quality argumentation by the salesperson, the greater the consumer's perceived product quality.

Many studies have investigated a greater development of trust in a store as a result of greater customer satisfaction with the store (Garbarino/Johnson 1999, p. 75). Based on this considera tion, the following hypothesis proposes such a causal link during the development of trust in personal counselling situations:

H 13: The greater the consumer's satisfaction with the store, the greater the consumer's trust in the store.

Past researchers have clearly shown consumer's trust in the store to be associated with con sumer's attitude towards the store (Laroche/Kim/Zhou 1996). Moreover, one can plausibly as sume that, as a positive result of attitude towards the store, the products presented by the store are also perceived more positively by the consumer. This consideration can be explained by the so called Halo Effect. This effect is understood as a particular kind of simplified thought pattern which is not substantiated objectively (Bauer et al. 2003, p. 22). This consideration leads to formulation of the next hypothesis:

H 14: The greater the consumer's trust in the store, the more positive the consumer's attitude towards the product.

In addition, research demonstrates that perceived product quality supports the overall attitude towards the product (Schiffman/Kanuk 2004, pp. 179 181) in this respect:

H 15: The greater the consumer's perceived product quality, the more positive the consumer's attitude towards the product.

The construct attitude towards the product, as an influencing variable of purchase behaviour, has received special attention in the field of consumer behaviour research. Eagly/Chaiken (1993) have proved in their study that attitude towards a product influences attitude towards the purchase of the product, which in turn impacts the consumer's willingness to buy. Based on this idea, the link presented will be verified for the personal counselling situation by the following hypothesis:

H 16: The more positive the consumer's attitude towards the product, the greater the con sumer's willingness to buy.

Customer satisfaction with the store has received much attention in academic literature because it is recognized as a determinant of economic success. Empirical studies have shown a positive impact of overall customer satisfaction on willingness to buy (Mittal/Ross/Baldasare 1998; Mooradian/Olver 1997; Taylor/Baker 1994). This consideration leads to formulation of the fol lowing hypothesis:

H 17: The greater the consumer's satisfaction with the store, the greater the consumer's will ingness to buy.

Numerous empirical studies have shown a significant link between the consumer's willingness to buy and actual purchase behaviour (Miniard/Obermiller/Page 1983, pp. 206 211). The fol lowing hypothesis is formulated to demonstrate, with actual buying data, that the former re search result suggesting that the intention to buy a special product actually leads to purchase (Ajzen/Madden 1986, p. 453) will hold as well for the given context:

H 18: The greater the consumer's willingness to buy, the more likely the purchase.

The hypotheses formulated provide a complex study model that will be subjected to an empiri cal review in the following chapter.

4. Methodology and Hypotheses Testing

The theoretical assumptions discussed in the previous chapter have first been analysed in a pre test using in depth interviews with 21 members of retailing sales teams regarding their actual relevance in every day selling situations. The results show that most of the known techniques were indeed used by the sales representatives in the stores. Nevertheless, there was little aware ness of the specific impact on behavioural patterns. The pre test points out that personal selling techniques are used frequently without knowledge of their influence on important objectives, i.e. turnover, satisfaction or trust.

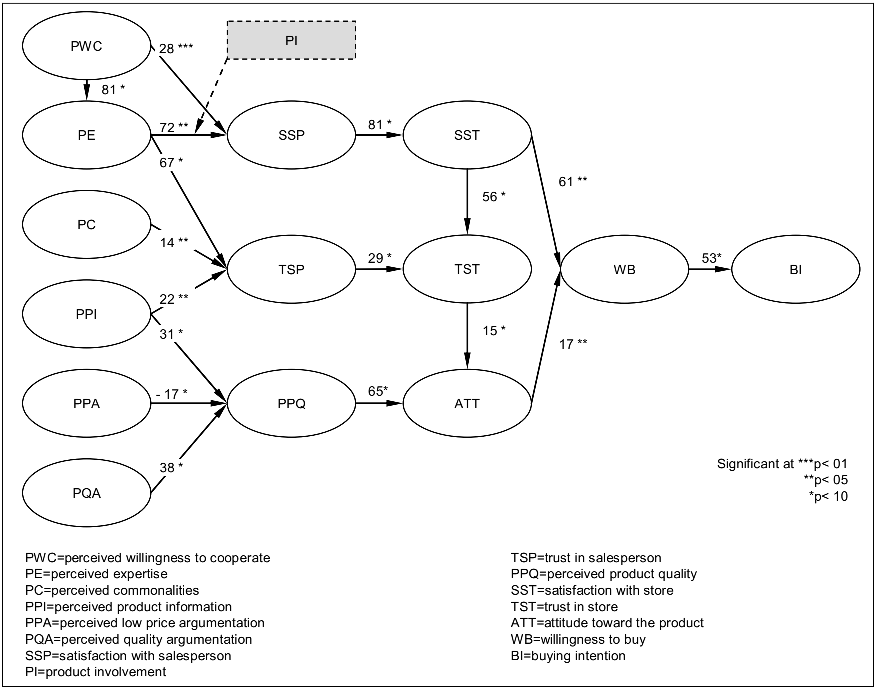
After the in depth interviews the hypothesized relationships were examined by means of an online questionnaire. Following a socio demographic survey of relevant personality traits, par ticipants were first asked to remember and write down the latest shopping situation in which they were advised by a salesperson in a retail store. Subsequently, based on this specific experi ence, the questions representing the items for the measurement models indicating perceived selling techniques and dependent variables were presented. The actual data was collected over a period of three weeks. During that time, 403 randomly chosen consumers participated in the survey, in which 376 people filled out the questionnaire completely. The data sample contained 49.2% females and 50.8% males. According to the variable involvement and based on the mean value, two groups were formed, 199 of which can be described as consumers with high in volvement and 177 as consumers with low involvement in the particular product situation they remembered. T test statistics ensured that both groups were not significantly different in their demographic variables.

Except for demographic variables, all items were collected using a five point likert scale. Con sidering the dependent variables, existing reflective measurements were used. However in the case of independent factors, all of the reflective scales were newly developed by the authors on the basis of a review of the extant literature and interviews with practitioners. The challenge was to transform a recommendation for a specific form of behaviour (of a salesperson) into a variable that measures the perception of behaviour by the counterpart (consumer). Multi item scales were discussed with 12 marketing research colleagues. Furthermore, a preceding study (n=40) served as guarantee for internal consistency of the measurement instruments. Addition ally, based on Cronbachs α and item to total correlation, some items were eliminated or modi fied and the final set of items was confirmed. The results indicated sufficient construct opera tionalization. A complete list of items appears in the Appendix.

Structural equation modelling software LISREL 8.72 (Jöreskog/Sörbom 1996) was used for evaluation of the measurement and structural model posited by the theoretical framework. The analytic approach was based on the two stage procedure suggested by Gerbing/Anderson (1988) as the best possible evaluation of a LISREL model. Before the model was calculated, all factors were tested with several CFA statistics and Fornell Larcker tests (Fornell/Larcker 1981) were consucted to ensure discriminant validity. After all measurement models were accepted, the causal structure was analysed using Unweighted Least Squares and aggregated to a com plete LISREL model.

Including 14 latent variables and 54 items, the model can be described as complex in nature (Homburg 1992, p. 506). Therefore item parcelling was conducted to ensure degrees of free dom, as is suggested for such complex models (Kim/Hagtvet 2003, pp. 101 104; Parasura man/Zeithaml/Malhorta 2005, p. 226). More specifically, the values on the respective scales were averaged for each construct and then used as indicators. A key condition for the use of item parcels is unidimensionality of the scales that are aggregated as items parcels (Ban dalos/Finney 2001). The results of CFA strongly suggest that all scales are unidimensional. To test the model, commonly suggested goodness of fit statistics were used (Homburg/Klarmann 2006, p. 736) and found to be within the guidelines (χ^2/df=4.127, GFI=.99, AGFI=.99, RMR=.039, SRMR=.052, CFI=1.0, TLI=1.02, t values >1.64). Furthermore, all path coeffi cients included had a value of at least $|.10|$, which Mullins (1974) suggests as a limit for in terpretation of the standardized solution of complex models. All hypotheses were confirmed, as illustrated in the final model in Figure 1.

Figure 1: Final LISREL Model



After evaluation of the model, the parameters must be interpreted. The results demonstrate that customer satisfaction with the salesperson is influenced highly by both the perceived willing ness to cooperate (.28) and perceived expertise (.72) of the salesperson, while the latter is stronger for consumers with a low product involvement. Moreover there is an indirect effect (.58) of perceived willingness to cooperate on consumer's satisfaction with the salesperson via the impact of perceived willingness to cooperate on perceived expertise (.81). Furthermore, cus tomer satisfaction with the store is highly dependent on satisfaction with the salesperson (.81), which stresses the huge importance of salespeople's behaviour in corporate success. It can be argued that satisfaction is therefore highly dependent on the level of competence a consumer perceives in a salesperson and the assumed willingness to use his competence to support the consumers' shopping objectives.

Trust in the salesperson and its resulting variable of trust in the shop (.29) are determined by perceived commonalities (.14), perceived expertise (.67), perceived product information (.22), and indirectly by perceived willingness to cooperate (.54). Trust, therefore, is determined by four constructs. Perceived product quality is positively influenced by perceived product information (.31) and perceived quality argumentation (.38), while a perceived low price argumentation will reduce perceived product quality (.17). The relevance of the factors satisfaction and trust, as well as the perceived product quality, is indicated by their impact on the dependent variables of attitude towards the product, willingness to buy, and buying behaviour. Attitude towards the product is determined directly by the variables trust in the store (.15) and perceived product quality (.65), whereas satisfaction with the store has a small indirect impact (.084). Attitude towards the product influences the intention to buy (.17), as does satisfaction with the store (.61). Finally, a positive impact can be verified by intention to buy a product on consumers' purchasing behaviour (.53).

5. Results and Discussion

The objective of this research was to develop a better understanding of the impact of salespeople's behaviour on customers by analyzing adaptive selling techniques. The final model demonstrates which behavioural patterns by salespeople really influence relevant variables. The important variables of customer satisfaction and trust, as well as perceived product quality, are influenced by six behavioural patterns representing adaptive selling techniques. The most important results can be summarized as follows:

- The perceived expertise of the salesperson has the strongest effects on customers' satisfaction and customers' trust, and therefore impacts indirectly the consumers' purchasing behaviour. This result is congruent with numerous academic studies that attach value to the perceived expertise of the salesman in influencing consumer behaviour. Furthermore, a salesperson's perceived expertise can be verified as having a stronger impact on consumers with low product involvement than on consumers with high product involvement.
- The selling technique of perceived willingness to cooperate impacts highly on the perceived expertise of the salesperson, as well as on relevant aspects of the consumers' purchase decision and, therefore, on final purchasing behaviour. The effect results from the salesperson's possibility of influencing the customer's behaviour by promoting common goals with strong commitment.
- The perceived quality argumentation impacts exclusively on the perceived product quality and consequently influences the company's success in an indirect manner. The communication of low prices using the selling technique of perceived price argumentation diminishes the perceived product quality and hence, has an indirect impact on the consumers' intention to buy.

Consequently, it can be assumed that the influence on relevant key success factors is very strong for selling techniques that are related to a salesperson's characteristics and relationship summa rized with customers, such as demonstration of expertise or cooperation technique. Management needs to be aware of the importance of a salesperson's expertise to meet the consumers' needs and to gain their trust. This goal can be realized by improved training of the sales personnel. Furthermore, companies should invest in the recruitment of sales staff, as well as in recurrent training of salespeople's social skills. Additionally, the results show a lower impact of selling techniques that emphasize product characteristics compared to the technique of quality argumentation and of low price argumentation. The negative influence of stressing low prices brings up an interesting question because major retail chains operate with high focus on prices. Should the focus on price come to an end once a consumer has been involved in an actual personal selling context in retail stores? Future researchers are encouraged to address the question of how intensive personal selling efforts are compatible with price strategies in retail stores.

This study demonstrates the enormous relevance of staff behaviour, and its impact on the shop is stressed and should encourage large chains, in particular, to reconsider their limited attention to personal selling compared to other strategic options, especially price focus. Moreover, it is shown that different types of behaviour, representing selling techniques in the literature, have an impact on various relevant key success factors. Salespeople and management are therefore encouraged to be aware of these different influences and question whether the selling techniques used are suitable for the company's objectives.

Appendix

Figure A1: Measures of Constructs

Construct	Measuring Item	Reference
Perceived willingness to cooperate	The salesperson did everything in his power to give me good advice. The salesperson spared no effort during the consultation. The salesperson gave me the impression that I would find the right product with his help. The salesperson showed every effort to satisfy my wishes. The salesperson went to great lengths to meet my demands. Perceived willingness to cooperate.	Own derivation
Perceived commonalities	I had the feeling that and the salesperson and myself were tuned to the same wavelength. The salesperson and I had additional topics of conversation besides the product. The salesperson and I were alike in some ways. Similarities between the salesperson and myself emerged during the consultation. The salesperson and I were not too different.	Own derivation
Perceived expertise	The salesperson gave qualified advice. The salesperson was competent. The salesperson had very good expertise. The salesperson was not an expert. The salesperson answered my questions professionally.	Own derivation
Perceived product information	The salesperson explained the strengths and weaknesses of the product. The salesperson pointed out what to expect from the product. The salesperson judged the product objectively. I had the impression that the salesperson made no wrong assurances concerning the product. The salesperson examined the product from all sides.	Own derivation
Perceived low price argumentation	The purchase price was portrayed as being fair by the salesperson. The salesperson explained that the product was not expensive. The salesperson portrayed the product as being inexpensive. The salesperson explained that the product was reasonably priced. The salesperson explained I would be purchasing the product at a good value.	Own derivation

Perceived quality argumentation	The salesperson emphasized that the product is distinguished by its high quality. The quality of the product was praised by the salesperson. The salesperson extolled the product quality. The salesperson stressed the high quality of the product.	Own derivation
Product involvement	I have great interest in this product category in general. This product category is very important to me. The product category means a lot to me.	Beatty/ Talpade (1994)
Satisfaction with the salesperson	I was very satisfied with the consultancy of the agent. I perceived the consultancy as very pleasant. The consultancy by the salesperson was very satisfying.	Crosby/Evans/Cowles (1990)
Satisfaction with the store	Compared to other stores, I am very satisfied with this store. Based on all my experience with this store, I am very satisfied. My shopping experiences at this store have always been pleasant.	Bettencourt (1997)
Trust in the salesperson	I could rely on the salesperson. I could trust the salesperson. I had confidence in the salesperson. The salesperson was trustworthy.	Own derivation
Trust in the store	I trust this […]. I rely on this […]. The […] is trustworthy. I perceive shopping in this store as being risk-free.	Chaudhuri/ Holbrook (2001)
Perceived product quality	I think the product is of high quality. I believe the product is high-grade. In my opinion it is an excellent product.	Own derivation
Attitude toward the product	I find the product as being positive. I favour the product. The product is appealing to me. I like the product	Deshpandé/ Stayman (1994)
Willingness to buy	After the consultancy… … I tended towards buying the product. … the probability of my buying the product was high. … I tended towards buying the product.	Putrevu/ Lord (1994); Ajzen/Madden (1986)
Buying behavior	Did you actually buy the product after the consultation? Yes/No (alternative choice).	Own derivation

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Measurement of Attitude Toward Private Labels: A Replication and Extension

Thomas Kilian, Gianfranco Walsh and Holger Buxel

Abstract

In recent years, private labels have attracted a large amount of attention among marketing scholars and practitioners. In many countries private label products enjoy a growing popularity and compete head to head with national brands in numerous product categories. Burton et al. (1998) have proposed a scale to measure consumers' attitudes toward private labels (ATPL). Their scale, based on previous research in the U.S., does not appear to have been widely tested. This study tests the applicability of the ATPL scale within a German retailing context. The ATPL scale was administered to more than 600 consumers in Germany. Study 1 assesses the cross cultural validity of the measure. Further, the ATPL scale's predictive and nomological validity is assessed. Then cluster analysis is employed using a second sample (Study 2). The ATPL scale appears to have elements of construct validity and has potential use across interna tional populations. Implications for marketing research and retail managers are discussed.

Keywords

Attitudes, Private Labels, Own Brands, Own Labels, Replication, Retailing

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1. Introduction

Private label brands (also called store brands) continue to attract attention within marketing management and research, which is reflected in a growing body of research (e.g. Aila wadi/Harlam 2004; Akbay/Jones 2005; Choi/Coughlan 2006; Jin/Suh 2005; Lamey et al. 2007; Steiner 2004). The growth in research regarding private labels and associated consumer behav iour is not surprising, given the increasing economic relevance of private labels compared to national brands. Indeed, private label products are successful in most developed countries, gen erating high shares in total grocery sales (e.g. Nielsen 2005; Akbay/Jones 2005; Her stein/Gamliel 2004; Jin/Suh 2005; Lamey et al. 2007; Tarziján 2004). Furthermore, private brands have been introduced in almost every product category, which is testament to their im proving quality and growing popularity (Herstein/Gamliel 2004).

The success of private labels affects not only retailing companies as they help create an exclu sive offering for customers and ultimately lead to customer store loyalty (Ailawadi/Harlam 2004; Harvey/Rothe/Lucas 1998; Johansson/Burt 2004; Richardson/Jain/Dick 1996; Steenk amp/Dekimpe 1997; Wu/Wang 2005) but also manufacturers in their struggle with retailers for control of the distribution channel (Garretson/Fisher/Burton 2002; Herstein/Gamliel 2004; Kahn/McAlister 1997; Steiner 2004; Tarziján 2004). Furthermore, the growth and concomitant acceptance of private label products may be indicative of a change in general consumer behav iour. For example, Garretson/Fisher/Burton (2002, p. 97) found that consumers “who seek pure value” are satisfied with private labels and have little if any loyalty toward national brands. If a growing share of consumers develop a more positive attitude toward private labels, this might imply a decreasing degree of loyalty toward national brands as a whole. It is therefore pertinent to gain a better understanding of consumers’ attitude toward private labels and important corre lates.

Research on private labels has focused on factors explaining the success of private labels com pared to national brands, on manufacturers’ reactions to private label success, and on factors that attract consumers to private labels (Baltas 2003; Verhoef/Nijssen/Sloot 2002). This study ties in with the latter research stream as it focuses on the attitude consumers hold toward private labels and consumer consequences. Burton et al. (1998) developed and tested a scale measuring attitude toward private labels (hereafter referred to as ATPL) using U.S. data. However, there remains a dearth of studies addressing consumers’ attitudes toward private label products in relation to the ATPL scale. Indeed, to the best of our knowledge, the ATPL scale has not been replicated outside the U.S., which means that the scale appears not to have been assessed for use in other cultural contexts. Hence, considering the continuous interest of scholars and practitio ners in private labels, assessing the generalisability of the ATPL scale seems appropriate (Shar maa/Weathers 2003). Our investigation of the ATPL scale contributes to the marketing litera ture in numerous ways.

Firstly, Burton et al. (1998) note that their scale's generalisability needs to be tested further by administering it to different cultural contexts. We agree and would further argue that the ATPL scale needs to be applied to populations in other countries in accordance with Hunter's call (2001) for more replication studies in consumer behaviour research. Recently, Evanschitzky et al. (2007) reiterated this call and reported that replication studies accounted for only 1.2% of articles published in leading marketing journals in the period from 1990 2004. This is a decline of 50% compared to a study by Hubbard/Armstrong (1994). Thus, we report on an assessment of the ATPL scale in another country Germany, one of the largest markets for private labels brands in the world. We survey more than 600 German consumers using two samples. Sec ondly, we assess the psychometric properties of the ATPL scale (i.e. reliability) as to its consis tency in a second country. Thirdly, we consider the predictive and nomological validity of the ATPL scale with our first sample. Fourthly, using a second sample, we conduct a cluster analy sis to further validate the scale. Therefore, it is our intent to examine the instrument using Ger man consumers and to examine German consumers using the instrument.

2. Private Labels in Europe and Germany

Private label brands are owned and sold by retailers, whereas national brands are owned by manufacturers and sold to end users through retailers (Herstein/Gamliel 2004; Richard son/Jain/Dick1996). Although the first private brands appeared as early as 1840, the rise of pri vate labels as a true competitor to national brands began in the 1970s when large retailing com panies began extending their reach. Today, it is estimated, that due to lower costs in building a brand reputation private label brands are approximately 20% to 30% cheaper than the corre sponding national brand in most countries (Akbay/Jones 2005; Baltas 2003; Dick/Jain/ Richardson 1995; Herstein/Gamliel 2004; Steiner 2004).

Compared to the U.S., private labels in Europe have much higher market shares. An explanation could be the higher degree of concentration in European retailing. Large scale retailers like Tesco in the UK or Aldi in Germany have the market power to establish private label brands despite resistance from manufacturers (Akbay/Jones 2005; Lamey et al. 2007; Tarziján 2004). For ex ample, Tesco, the UK's largest retailer, introduced its "Value" range in 1993. The aim of the "Value" private label brands is to provide everyday basics (so called "everyday essentials") at the lowest possible price. In 1997, Tesco launched its "Finest" product range. These premium private label brands are of high quality and are usually priced the same as their branded counter parts. Private labels are on the advance in most developed markets, but no other region matches the Western European market with an overall share of 23%, compared to 16% in North America, 6% in Eastern Europe, 4% in Southeast Asia, and 2% in South America (Nielsen 2005).

For a long time the UK was the most advanced market in terms of private labels. The UK has comparatively large retailing companies, like Tesco and Sainsbury that adopted private label strategies early to build customer store loyalty (Burt 2000). However, there is evidence to sug gest that Germany has overtaken the UK in terms of market share of private labels (Nielsen 2005). The growth of private labels in Germany is, to a large extent, driven by the success of large retailers like Aldi that focus on private label products (Lamey et al. 2007). The evolution of private labels in the German market is impressive. While the private label share in the gro cery market was 11% in 1975, it grew to 30% in 2004, making Germany the second largest market for private labels worldwide behind Switzerland (Nielsen 2005).

3. Attitude Toward Private Labels

Burton et al. (1998, p. 298) define attitude toward private labels as “a predisposition to respond in a favourable or unfavourable manner due to product evaluations, purchase evaluations, and/or self evaluations associated with private label grocery product”.

Prior to Burton et al.’s study (1998), different approaches existed to measure consumer’s per ception of private labels. In some studies, store brand proneness was measured on the basis of consumers’ frequency of store brand purchases or from panel data in different product catego ries (Dick/Jain/Richardson 1995; Myers 1967; Richardson/Jain/Dick 1996). However, Burton et al. (1998) were the first to introduce a scale related to attitudinal phenomena in the context of private labels for self measurement by consumers. In their study, Burton et al. (1998) focused on a specific product category. However, they view ATPL as an enduring phenomenon held by consumers that is valid for private label grocery products as a whole. Thus, ATPL bears similar ity to other general predispositions held by consumers, such as attitude toward advertising in general vs. attitude toward the ad.

The rationale for the existence of a specific consumer related ATPL is straightforward it may be brought about by consumer price perceptions. For example, a positive attitude may be in duced by consumers’ perception of the price. Moreover, if consumers believe that private labels offer a lower quality and less utility than national brands, they are likely to exhibit a negative ATPL (Burton et al. 1998; Garretson/Fisher/Burton 2002; Richardson/Jain/Dick 1996).

So far, the ATPL scale has not been assessed outside the United States. Garretson/Fisher/Burton (2002) used it in a study focusing on brand promotions and reported satisfying fit of the scale. Also, Jin/Suh (2005) applied the ATPL scale in the context of Korean discount stores, but they only used two items of the scale and did not discuss the scale’s psychometric properties. Repli cation studies would enhance the generalisability of the ATPL scale. However, in the absence of such replications, the scale's generalisability remains questionable.

Empirical Validation of the Scale. Based on a literature review of business press articles and a Pre test with 140 respondents, Burton et al. (1998) conceptualize ATPL as a one dimensional construct that captures an individual's general predisposition toward private label brands, which is not specific to products or product categories. Although ATPL is conceptualized as a single dimension attitude, it encompasses quality and price related facets, which tend to be inextricably linked (Hoch 1996; Hoch/Banerji 1993), and non economic facets, such as the positive feeling associated with getting a good deal (Burton et al. 1998).

The psychometric literature has been relatively consistent in describing the fundamental qualities a good measure must possess and these are summarized by Churchill (1979) and Bearden/Netemeyer/Mobley (1999). The criteria typically used to assess scales are content validity (which was addressed in the original Burton et al. (1998) study), dimensionality (the extent to which the empirical factor structure of a measure reflects the theoretical dimension ality of the construct), internal consistency reliability, and construct validity. We next provide a brief summary of the validation of the scale as addressed in Burton et al. (1998).

Internal Consistency and Dimensionality. Burton et al. (1998) conducted an exploratory fac tor analysis which (after deletion of six items) resulted in a one factor solution. The Cronbach alpha was .89 and the results of a confirmatory factor analysis suggested that the model ade quately represented the input data. Most indices exceeded recommended threshold levels and suggested convergent and discriminant validity. The main study, using data from a second survey, was subjected to confirmatory factor analysis. Coefficient alpha was .87, the Good ness of Fit Index (GFI) and Adjusted Goodness of Fit Index (AGFI) were .94 and .86. The latter was below the recommended threshold of .90. In addition, the Comparative Fit Index (CFI) and Tucker Lewis Index (TLI) both exceeded the threshold recommended (CFI=.94, TLI=.91), suggesting a good overall model fit.

To confirm discriminant validity Burton et al. (1998) examined correlations with other price related constructs, coupon proneness and value consciousness. All in all, they were able to support discriminant validity. Respondents rated the ATPL scale items on a 7 point scale (1=strongly disagree, 7=strongly agree).

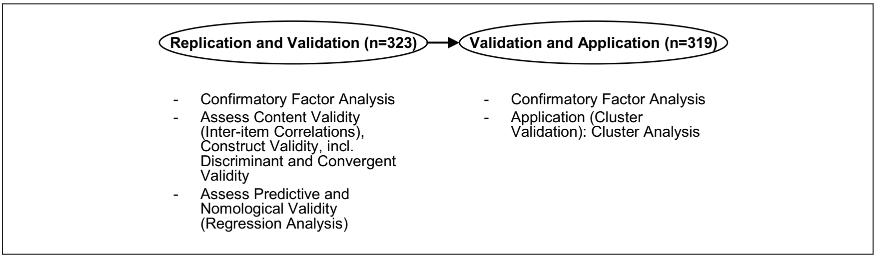
Nomological and Predictive Validity. Burton et al. (1998) assessed criterion related validity by examining its relationship with private label purchases, which were measured by share of total purchases. They regressed private label purchases on the ATPL scale, on impulsiveness, and on price quality perceptions. The regression analysis produced a moderate coefficient of determination (R^2=.12) and beta values of .27 for ATPL and .19 for impulsiveness (both at $p<.01$) while the relationship of price quality perceptions with private label purchases was non significant. Further, the correlations of ATPL with consumer value consciousness, price consciousness and price quality perceptions were all significant at p<.01 and in the predicted direction. Thus, nomological and predictive validity was achieved.

4. Replication Study

4.1. Method and Choice of Country

Figure 1 summarizes the scale validation and application procedures employed in the present study. We conducted two surveys, hereafter referred to as study 1 and study 2. Study 1 (n=323) is used for replication and validation purposes while study 2 (n=319) is used for vali dation and application purposes.

Figure 1: Scale Validation and Application



Jin/Suh (2005) have pointed out that most research on private labels has taken place in the U.S., suggesting that a better understanding of private label related consumer behaviour is needed in the rest or the world. Therefore, a different cultural context for data collection seemed pertinent.

The empirical studies were conducted in Germany. The choice of country was influenced by several considerations. Firstly, although Germany is the largest country within the 27 state European Union, with more than 82 m inhabitants and one of the highest Gross Domestic Products per capita in the world (U.S. Central Intelligence Agency 2007), no study on ATPL has focused on it. In this context, the argument by Walsh/Mitchell/Hennig Thurau (2001) that there is a striking paucity of international marketing research focusing on Germany persists. All in all, Germany evidences an inherent interest in its own right due to the size of the retail market, and its economic and political status in the world. Second, Germany is the second largest market for private labels in the world behind Switzerland (Nielsen 2005). The greater acceptance, relatively speaking, of private label brands in Germany is driven by the continued success of large retailers like Aldi that focus on private label products (Lamey et al. 2007). Thirdly, while Germany offers an interesting cultural contrast for the study of ATPL, the con cept has a universal premise that may make it largely immune to cultural influence. This is an important area of exploration and a necessary one for the advancement of research into ATPL, especially considering the fact that a growing number of retailing companies act on a global basis and need information on how private labels can be introduced internationally to con sumers with different characteristics (Jin/Suh 2005).

4.2. Samples

To achieve our research aims we used primary data collected in Germany. Usunier (2000) argues that a basic issue in cross cultural research is the determination of whether the con cepts used have similar meaning across the social contexts surveyed. Concepts used in cross cultural business come from a particular source culture (here the U.S.) and were developed in a particular linguistic context (i.e. English). To establish language equivalence, a German version of the questionnaire was developed by translating the six items of the original ATPL scale (Burton et al. 1998) into German. The terminology was adapted to suit German shop pers. When translating items, it is more important to achieve an equivalence of meaning than a direct translation (Nasif/Al Daeaj/Thibodeaux 1991; Van Auken/Barry/Bagozzi. 2006), and, in order to achieve comparability, back translation was conducted (Sekaran 1983). No prob lems emerged during a pre test and all items were used in the final questionnaire.

Table 1: Description of the Sample Characteristics

		Sample 1 (n=323)	Sample 2 (n=319)
Age	≤ 18	1.5%	4.1%
	19-29	62.0%	57.6%
	30-39	7.8%	10.5%
	40-49	12.5%	11.6%
	50-59	8.6%	10.6%
	> 60	5.7%	5.6%
	no answer	1.9%	
Gender	Male	35.0%	48.9%
	Female	65.0%	51.1%
Education	All categories up to high school graduate	13.0%	32.5%
	Vocational school / some college	74.9%	47.1%
	Bachelor degree / graduate school	12.1%	20.4%
Net household income (per month)	≤ 1,000 EUR (1,300 USD)	39.3%	23.3%
	1,001-2,500 EUR (1,301-3,250 USD)	33.7%	20.8%
	2,501-4,000 EUR (3,251-5,200 USD)	18.3%	16.7%
	> 4,000 EUR (5,200 USD)	7.3%	8.8%
	no answer	1.4%	30.4%

To assess the reliability and validity of the ATPL scale, two surveys were carried out in two major German cities using convenience samples of male and female and different ages of consumers. Questionnaires were administered by trained interviewers during face to face in terviews. The interviewers, students majoring in marketing from two German universities, were instructed to recruit five people to complete the respective survey. Four of the five peo ple had to be non students and represent a range of ages, genders, and professions. Following Vanhuele/Drèze (2000), we gave no incentives to participants to avoid attracting mainly price sensitive shoppers. The data collection process lasted two weeks. A total of 642 people (study 1 with n=323; study 2 with n=319) completed the questionnaire, representing approxi mately a 60% response rate of those individuals asked to respond. Both sample sizes were deemed sufficient and consistent with Bryant/Yarnold's (1995) recommendation that the sub jects to variables ratio should be no lower than five. Table 1 provides a description of both sample characteristics.

Before completing the questionnaire, respondents were read survey instructions by the inter viewer and were shown one of four private label brands. The product categories for our study were chosen to represent a cross section of regularly shopped supermarket categories. Gro cery items were chosen for this presentation to ensure that interviewees were familiar with the products.

4.3. Study 1 - Replication and Validation

The ATPL scale (Burton et al. 1998) was tested with data from the first survey using confir matory factor analysis (CFA). A 6 Item confirmatory factor model was estimated and inspec tion of model fit revealed a good global fit with GFI=.98, CFI=.97, RMR=.04, RMSEA=.06, and χ^2=20.15, df=8 (χ^2/df=2.52; p<.001) (Baumgartner/Homburg 1996). The factor reliability was .73, all indicators loaded significantly (p<.001) on the ATPL construct with nearly all standardized factor loadings exceeding .50 (Steenkamp/van Trijp 1991). The analysis sug gests that the ATPL scale performs well overall in Germany (see Table 2). Next, we tested the ATPL scale's predictive and nomological validity.

Predictive Validity. To test for predictive validity, we regressed the aggregated ATPL scale on Consumers' Perceived Value (CPV) of private label brands. Sweeney/Soutar (2001) con ceptualize CPV as a multi dimensional phenomenon with interrelated dimensions, Quality, Emotional, Price, and Social: 1) Quality value refers to the practical or technical benefits that consumers can obtain by using a service. 2) Emotional value refers to mental or psychological needs of consumers and the utility they derive from the feelings or affective states that a product generates. 3) Price value refers to how satisfactory a good or service is compared to cost, time or effort spent in obtaining the good and service. 4) Social value refers to the social utility a product imparts (e.g. prestige). Respondents in our studies evaluated the perceived value of private label brands. Each dimension of CPV was measured by three items, which were aggregated for regression analysis while ATPL as the independent variable was created by adding together its six items. The reliability of the four CPV dimensions was assessed with coefficient alphas and confirmatory factor analysis, which resulted in good fit measures for the scale (see Appendix).

As expected, the results of the regression analysis showed a positive relationship of ATPL with all dimensions of consumer perceived value of private labels. The regression resulted in a beta value of .29 for ATPL and “quality”, a beta value of .15 for ATPL and “emotional”, a beta value of .24 for ATPL and “price”, and a beta value of .13 for ATPL and “social”. All regression results were significant at $p<.01$ and thus provide support for the predictive validity of the ATPL scale.

Nomological Validity. To assess the ATPL scale’s nomological validity, we examined how well it relates to another consumer variable, brand consciousness. Brand consciousness refers to consumers who are oriented toward buying the more expensive, well known national brands, believing that a higher price means better quality. They also prefer best selling, adver tised brands (Sproles/Kendall 1986). Brand consciousness is expected to be negatively associ ated with ATPL. The measure was operationalised with four items, which were based on prior research, as noted in the Appendix. Again the reliability of the scale was assessed with coeffi cient alpha and confirmatory factor analysis, which resulted in good fit measures for the scale (see Appendix). As predicted, ATPL and brand consciousness are negatively correlated with a correlation coefficient of .17 significant at $p<.01$. Thus, the measures correlated in a manner predicted by theory, supporting nomological validity.

4.4. Study 2 - Application

A CFA with data from the second survey was conducted and resulted in good model fit, with GFI=.98, CFI=.97, RMR=.03, RMSEA=.05, χ^2=16.96, df=8 (χ^2/df=2.12; $p<.001$). Factor reliability was .78. Again, all indicators loaded significantly ($p<.001$) and substantively on the ATPL construct with nearly all standardized factor loadings exceeding .50 (Steenkamp/van Trijp 1991). The results for both CFAs as well as Burton et al.’s (1998) original results are summarized in Table 2.

To further validate and assess the practical utility of the ATPL scale, segments based on 1) ATPL, 2) the conceptually related CPV of private labels, and 3) brand consciousness were identified, employing a two step clustering procedure. Cluster validation is an established procedure in the scale development literature (Arnold/Reynolds 2003).

A hierarchical cluster analysis followed by a k means analysis was performed. Respondents’ relative standing on the aggregated ATPL scale, the CPV scale, and on the brand conscious ness scale were used as input variables for clustering. Distances between the clusters were calculated with the Euclidean distance measure, and aggregation of clusters was performed with Ward’s procedure. To reflect the true structure of the data set, the agglomeration sched ule was examined and the elbow criterion used to decide on the number of clusters, which resulted in choosing a three cluster solution as the most appropriate representation of the data. The cluster centroids are presented in Table 3. As demographic profiling alone offers limited insight for targeting, other variables were included, namely, intention to buy a private label product, and demographic variables. In order to detect differences in scores across the differ ent variables between the different clusters, chi square tests and ANOVA followed by a Scheffé test were performed.

Table 2: Summary Psychometric Data for the ATPL Scale

	Factor Loadings (from Burton et al. 1998)	**Standardized Regres-sion Coefficient (from CFA) German results Study 1**	**Standardized Regres-sion Coefficient (from CFA) German results Study 2**
Attitude toward private labels	α=.87	α=.73	α=.74
Buying private label brands makes me feel good.	*	.70	.73
I love it when private label brands are available for the product categories I pur-chase.	*	.67	.64
For most product categories, the best buy is usually the private label brand.	*	.55	.51
In general, private label brands are poor-quality products. (rev)	*	-.36	-.49
Considering value for the money, I prefer private label brands to national brands.	*	.57	.53
When I buy a private label brand, I always feel that I am getting a good deal.	*	.44	.52

Note: CFA Confirmatory Factor Analysis; α Cronbach Alpha; * not reported.

Table 3: Cluster Centroids

	Cluster 1: Private Label Prone (n=164)	**Cluster 2: Value Shoppers (n=84)**	**Cluster 3: Private Label Indifferent (n=66)**
Cluster results			
F 1: Attitude toward private labels	3.90^{a}	$3.97^{b, a}$	2.88^{c}
F 2: Customer perceived value	3.14^{a}	$3.22^{b, a}$	2.71^{c}
F 3: Brand consciousness	1.75^{a}	3.02^{b}	3.28^{c}
Cluster profiles			
Buying intention toward private label brands	4.13^{a}	$4.06^{b, a}$	3.20^{c}
Gender (p>.05)			
- female	55.5%	50%	45.5%
- male	44.5%	50%	54.5%
Age (Mean (SD))	31.70^{a} (13.24)	$31.73^{b, a}$ (14.5)	$32.97^{c, b, a}$ (17.74)
Persons in household	2.70^{a}	$2.60^{b, a}$	$2.92^{c, b, a}$
Education (p>.05)			
- up to high school graduate	54 (33.0%)	25 (30.1%)	30 (46.1%)
- vocational school/ some college	76 (46.3%)	42 (50.6%)	23 (35.4%)
- bachelor degree/ graduate school	34 (20.7%)	16 (19.3%)	12 (18.5%)

Note: For the variables ATPL, CPV, brand consciousness, age, persons in household, mean values with the *same* superscript are *not* significantly (p<.05) different from each other (based on ANOVA and a Scheffe test); Scale: 1 strongly disagree, 5 strongly agree; Chi-square tests were applied to the variables gender, age, education (for these variables, percentages within clusters are given in brackets).

Cluster 1 (n=164; 52.2%), labelled "Private Label Prone", is the largest cluster and exhibits a relatively high score on ATPL, an average CPV, and the lowest brand consciousness of all clus ters. Compared to the other clusters it represents the consumers with the highest intention to buy private label brands.

Members of Cluster 2 (n=84; 26.8%), the "Value Shoppers", are more brand conscious than members of Cluster 1 while scoring similarly on ATPL and CPV. Since this cluster also scores comparatively high on the intention to buy private label brands, it can be deduced that consum ers in Cluster 2 buy private label brands on a regular basis, supplemented by national brands.

Cluster 3, the "Private Label Indifferents", contains 66 (21%) respondents and represents the smallest segment. Consumers in this cluster score below average on the factors ATPL and CPV, but have the highest score on brand consciousness compared to the other two clusters. Since members of this group also have the lowest score on buying intention toward private label products, they are unlikely to build up loyalty toward retailers because of their private label of ferings.

In contrasting the clusters beyond the three factors of ATPL, CPV and brand consciousness, it is interesting to note that these three distinct clusters do not differ in terms of demographic vari ables. This is consistent with prior market research, which argues that demographic variables do not fully explain consumer behaviour (e.g. Walsh/Mitchell 2008).

5. Conclusions

This study reports a reassessment of the ATPL scale in a new country. We found the ATPL scale to be valid for both U.S. and German consumers. Based on the analysis of German survey data, the 6 item ATPL scale performed reasonably well. Using German data from two surveys, the ATPL scale was assessed for reliability and validity. We demonstrated that the scale appears to have sound, stable psychometric properties. This study also provides further empirical sup port for several relationships suggested in the literature regarding private label brands. Predic tive validity was achieved by providing evidence for the positive effect of attitude toward pri vate labels on consumer perceived value, while nomological validity of the measure in the German context was shown by the scale's negative relationship with brand consciousness.

The original study by Burton et al. (1998) produced a scale mean of 25.7, an average per item of 4.3 on a seven point Likert scale. The corresponding means in our samples (extrapolated from a five point scale as used in our study to a seven point scale) were 31.16 and 31.16 for the aggre gated scale and 5.20 and 5.19 per item, respectively. Overall, the means are very stable for both samples and considerably higher than in the original study in the United States. A comparison of the rotated factor pattern from the Burton et al. (1998) study with the squared loadings from the two CFA on the German data was not possible because Burton et al. (1998) have not re ported factor loadings in their study. This is regrettable because a comparison could show that corresponding items have a substantial loading on the same common factor in the U.S. and German samples. Furthermore, this result may reflect the greater importance German consumers attach to private labels compared to their U.S. counterparts and may be indicative of cultural differences in the perception of private labels. However, we could also surmise that, over time, customers grow more accustomed to private labels, perhaps suggesting that U.S. consumers nowadays would score higher on the ATPL scale. This is an important issue for future research as familiarity with private labels could imply a more positive attitude and higher perceived quality of private labels by consumers (Richardson/Jain/Dick 1996).

5.1. Limitations and Research Implications

The present study is one of few to test Burton et al.'s (1998) ATPL scale. Hence, it should not be surprising if there are several limitations that still need to be addressed. Firstly, in the present study, conventional private label brands were used. Previous studies seemed to assume a rather outmoded stereotype of retailers' private labels as being of low price and not especially distinguished in either their quality or distinctiveness. This may have been a more valid generalization 10 or 15 years ago but private labels have moved up market over time in terms of product ingredient mix, type of supporting promotion, and customers. To achieve a more comprehensive view of ATPL, future research should apply the ATPL scale to premium private labels which are of high quality and are often priced the same as or higher than their branded counterparts (e.g. Tesco's "Finest" product range). Secondly, although the present study is based on almost twice as many respondents as the original study, the age group of 30+ is overrepresented, along with the lower income households. Future research should try to use less skewed samples, for example by using strong quota controls.

The results of this research provide initial evidence of the universality of ATPL, at least in two western countries the U.S. and Germany. Future research should include additional countries to permit a triangularisation of internal and external results. However, additional research is needed to establish the ATPL scale's generalisability more firmly. While the findings of this study are market specific, they have important implications for research into private labels. For example, the results suggest that the ATPL scale may be useful in other cultural settings.

Further replication studies in different countries promise further insights into how private labels perform in different markets and whether there is a pattern in the development and acceptance of private labels in different countries. For developing countries Herstein/Gamliel (2004), for example, project a market share of private labels for the future that is consistent with that in developed countries.

Moreover, further international replications of the ATPL scale are needed as retailers are ex panding internationally and have to cope with a wide range of consumer attitudes. Mooji/ Hofstede (2002) predict a divergence in consumer behaviour internationally. For retailers oper ating internationally, this could imply the need for a more customized private label strategy in different international markets.

As private labels are becoming more and more popular within different product categories, ap plication of the scale should be sought for non grocery products (Batra/Sinha 2000; Jin/Suh 2005). Finally, retailers such as Wal Mart have extended their private brand lines (e.g. to cloth ing) but also added so called “premium private label brands” that attain the quality of national brands (e.g. Choi/Coughlan 2006; Herstein/Gamliel 2004). It would be interesting to investigate how these products score on the ATPL scale in comparison to the typical generic private brand.

5.2. Managerial Implications

In addition to the research implications highlighted and future research directions, our study is valuable to retail managers as well. First of all, for managers, a key insight from this study is that ATPL is positively correlated with important consumer outcome variables.

Secondly, in planning transnational assortment and communication strategies, international re tail managers may do well to consider differences in ATPL between target customers in differ ent countries. Cultural differences in ATPL may cause consumers to respond differently to pri vate label related messages in advertising.

Finally, the cluster analysis provides interesting findings which have further implications. The cluster analysis identified three distinct ATPL groups, which could serve retailers in different ways. Marketers could design products and/or communication strategies specifically to target the most useful ATPL groups. For example, retailers with a strong emphasis on building cus tomer loyalty through private label brands should concentrate their marketing efforts on “private label prone” consumers and “value shoppers”. However, in doing so, they may risk losing the “private label indifferents” to stores that emphasize national label brands in their assortment. This risk could be attenuated by the introduction of premium private labels. For example, the German discount supermarket chain Plus is using private label brands to shape its image as an innovative retailer. At Plus, the most popular national brands are just as much a part of the range as high quality Plus private label brands. In response to consumers’ demand for greener products, Plus introduced the new “BioBio” private label brand in 2002, which offers affordable organic products. In 2006, Plus launched its “Viva Vital” brand, a brand for contemporary, low fat cuisine for nutrition conscious consumers.

Furthermore, retailers could offer free samples or product trials through e mails and advertising leaflets containing information on private label brands targeting the “private label prone”. Re tailers targeting “value shoppers” should bear in mind that these consumers have a favourable attitude toward private labels, but are also relatively brand conscious, suggesting that they would respond to price related messages as well as private label products and branded products offered at a discounted price. “Private label indifferents”, who are predominantly male and the least well educated, have a relatively unfavourable attitude toward private labels and are more brand conscious than the consumers from the other two clusters. As for “private label indiffer ents”, retailers might choose to ignore this group in terms of private label promotions as they do not seem interested in private label products and score relatively weakly on the intention to buy private label brands.

Appendix

Figure A1: Measures of Constructs

	Cronbach Alpha/ Stand. Regression Weight	Source/ Adapted from
Consumer perceived value		Sweeney/Soutar (2001)
Factor 1: Quality	α=.70	
has consistent quality	.48	
has an acceptable standard of quality	.63	
would perform consistently	.86	
Factor 2: Emotional	α=.90	
is one that I would enjoy	.94	
would make me want to use it	.87	
would make me feel good	.78	
Factor 3: Price	α=.83	
is reasonably priced	.60	
offers value for money	.82	
is a good product for the price	.93	
Factor 4: Social	α=.90	
would help me to feel acceptable	.88	
would improve the way I am perceived	.99	
would give its owner social approval	.76	
Brand consciousness	α=.78	Sproles/Kendall (1986)
I tend to choose the more expensive brands.	.74	
The well-known national brands are best for me.	.84	
The higher the price of the product, the better the quality.	.68	
The most advertised brands tend to be a good choice.	.48	

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Determinants of Relationship Continuity between Fashion Retailers and Suppliers in Brazil

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Abstract

Fashion markets are characterized by increasingly short product life cycles and demand uncertain ties. Due to these peculiarities, the patterns of relationships between suppliers and retailers have specificities that differ from more stable markets. This study identifies the aspects most valued by fashion retailers to maintain relationships with their suppliers in Brazil. The existing research en compassing distribution channels, as well as industrial and relationship marketing indicates the relevance of trust and commitment, their antecedents, and consequences. Based on the Morgan and Hunt KMV framework, we adjusted and tested a model in which supplier and seller elements are taken into account to reflect the characteristics of supplier and retailer relationships in the Bra zilian fashion markets. Data were collected from a survey with 154 store brand product manager respondents from 29 firms, classified into four retail store formats: department stores, hypermar kets, upscale, and low end specialty stores. Two distinct techniques were applied: SEM for aggre gate data and factor analysis followed by multiple regressions for each retail format. Findings of qualitative and quantitative research indicate that the relationship continuity intention is mediated by affective commitment and by the trust dimensions credibility and benevolence, supporting the Morgan and Hunt Commitment and Trust theory. Six trust antecedents were identified in order of relevance: seller characteristics, agility, supplier competencies, willingness to agree, supplier val ues, and product development skills. Depending on retail format, product managers distinctly evaluated these trust antecedents, each one requiring a different approach by supplier and seller.

Keywords

Fashion Industry, Relationship Marketing, Commitment, Trust, Buyer Seller Relations

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1. Introduction

Competitive supply chains demand stronger ties between their members, and firms must nurture cooperative relationships based on commitment and trust (Morgan/Hunt 1994). To provide a better understanding of this phenomenon, and considering the relevance of the textile sector in Brazil, a quantitative study was developed to identify apparel retail buyers' perceptions of key commitment and trust determinants.

The apparel industry plays a major role in the Brazilian economy. The country ranks 6th as a global apparel producer, with most of its production being allocated to the domestic market, consisting of 150,000 shops. A study developed in 2006 by IEMI (a Brazilian research institute for industrial marketing), identified 18,800 apparel suppliers operating in Brazil, producing 6 billion apparel units, with a turnover of 23 bn USD, and employing 1.2 m workers. As a mature market with low barriers for entry, competition is becoming fierce and has forced companies to invest in plant modernization and to raise their management expertise skills to remain competi tive. But most of the industry is still made up of small, less efficient, and very vulnerable com panies. Regardless of the level of management sophistication, a basic requirement to assure sur vival and growth is the quality of the relationship skills they have with their buyers.

Fashion retailing in Brazil presents low levels of market concentration. The top three leader chains (C&A, Riachuelo and Renner department stores) account for less than 6% of the entire 50 bn USD fashion retail market, including the informal economy (Mano 2002). To compete effectively, these largest chains realized that they should not take excessive advantage of their bargaining power with their suppliers, and have adopted partnership programmes to reinforce relationships and to make producers feel less vulnerable. In these larger and well organized re tailers, department buying teams are managed as a SBU, and team managers have autonomy for product mix, quantity allocation per store, promotional and pricing decisions, while their finan cial performance is evaluated at category level . The department sourcing strategy is developed and managed by each team leader, who may adopt different approaches concerning their rela tionship behaviour with suppliers.

Most of the apparel retailing sector in Brazil is composed of small firms, positioned in a contin uum that covers the low end to upscale market segments, having limited access to modern man agement practices. The owner, usually supported by a few assistants, is responsible for all rele vant management functions including finance, merchandise planning, negotiation, supplier se lection, and buying. Therefore, few retailers have capabilities to develop a store brand. Small retailers usually rely on manufacturer brands, which are sold to them either directly or via wholesalers. Many of the existing private label small retailers have evolved from vertically in tegrated manufacturers specializing in one or few categories (such as jeans). For other catego ries, they rely on suppliers to complement the assortment.

Arbuthnot/Slama/Sisler (1993) indicated that different retailer formats have adopted different procedures to select merchandise or vendors. Yu/Fairhurst/Lennon (1996) noted that small retail buyers are usually generalists instead of specialists, fulfilling all the merchandise needs of the retail store. Yet, Yu/Fairhurst/Lennon (1996) indicate that the responsibilities of buying for a small firm are more distinct than those observed by a larger firm. These aspects were taken into special account, by investigating the evidence of different patterns of relationships adopted by four specific store formats: department store chains, hypermarkets, low end stores, and upscale stores.

The literature does not clearly indicate the pattern of relationship to be expected between channel members in the fashion industry. The vast number of both retailers and suppliers suggests that opportunistic behaviour should prevail due to the many available alternatives (Williamson 1985). However, the Wathne/Heide (2004) research findings indicate lasting relations in the fashion pipeline, contrary to the transaction cost theory normative predictions. They suggest that the fashion retailers' particular needs, such supplier flexibility, can reduce opportunism. Previous research also indicates that agility and flexibility in the supply chain is becoming essential to enable retailers to offer their consumers the right product, at the right time, in the right place, due to the fast pace of fashion development and adoption (Fisher 1997; Christopher/Lowson/Peck 2004; Barnes/Lea Greenwood 2006). In this study, we will attempt to investigate this relationship behaviour pattern in the Brazilian context.

Due to the peculiarities of the fashion industry, such as short product life cycles, sensitivity to trends, and demand volatility, it is reasonable to expect that these variables would affect buyer seller relationships in terms of commitment, trust, and the intention to continue the relationship in the future. To clarify the relationship phenomenon within the fashion industry, we developed a model and tested it empirically with a sample of fashion retail buyers. The proposed model integrates the specific fashion industry variables with the relationship variables of commitment, trust, and relational continuity. With respect to the Brazilian market, there are no previous studies in this area. Furthermore, we extended the investigation by analyzing the effects of these variables in different retail formats. This analysis provided not only conceptual, but also managerial contributions. The findings could help producers to better adjust their marketing programmes to respond more adequately to the fast and less predictable pace of the fashion market. Therefore, the objective of this paper is to shed light on the relationship phenomenon, and to find answers to the following research questions related to the very relevant and dynamic apparel industry in Brazil:

1. What are the main determinants for fashion retailers maintaining enduring relations with their suppliers?
2. What trust and commitment antecedents are more relevant to enhance relationship continuity?
3. What is the relative relevance of these antecedents for each fashion retail format?

In this article, the supplier is the goods provider (producer), and the seller or sales professional is the manufacturing party who contacts the retail buyer. This paper is organized in the follow ing four parts: the first part presents a literature review, identifies and classifies the constructs that influence relationship and introduces the study modelling hypotheses; the second part ex plains the methodology, sampling procedures, and the steps to build and select the measurement instrument; while part three presents and discusses the modelling results. Finally, the conclusion explores the managerial implications and supplier recommendations, and discusses the limita tions and directions for future research.

2. Theoretical Foundations

2.1. Relationship Continuity

Relationship marketing (RM) is concerned with establishing, developing and maintaining suc cessful relational exchanges (Dwyer/Schurr/Oh 1987; Morgan/Hunt 1994). Frazier (1999, p. 231) suggests that RM has influenced research in marketing channels since the 90's, bringing new directions to this knowledge field. Since then, many authors (Dwyer/Schurr/Oh 1987; Moorman/Zaltman/Deshpande 1992; Morgan/Hunt 2004; Kumar/Hibbard/Stern 1994; Wilson 1995; Geyskens et al.1996) have argued that commitment among channel members produces significant benefits for companies, and the relationship continuity intention is one of the most important benefits. For Morgan/Hunt (1994), high levels of commitment are associated with relationship continuity. Kumar/Hibbard/Stern (1994) use intention to stay in the relationship as an important desirable consequence of commitment that has a direct impact on supplier customer relationships. Intention to stay reflects the customer's motivation to continue the rela tionship. In this study, we adopt intention to stay, as indicated by Kumar/Hibbard/Stern (1994), to reflect relationship continuity.

2.2. Relationship Commitment

According to Wilson (1995), commitment is the most common dependent variable used in buyer seller relationship studies, and is a critical variable in measuring the future of a relation ship. Moorman/Zaltman/Deshpande (1992, p. 316) define commitment as "an enduring desire to maintain a valued relationship", which is constituted by an "implicit or explicit pledge of re lational continuity between exchange partners" (Dwyer/Schurr/Oh, 1987, p 19). This study bor rows the concept of commitment from Morgan/Hunt 1994, p.23, who define it as "an exchange partner believing that an ongoing relationship with another is so important as to warrant maxi mum efforts at maintaining it: that is, the committed party believes the relationship endures in definitely". The above definitions have roots in social exchange (Cook/Emerson 1978), mar riage (Thompson/Spanier 1983), and organizations (Meyer/Allen 1984).

Previous research indicates two major dimensions of relationship commitment: affective com mitment and calculative commitment (Kumar/Hibbard/Stern 1994, 1995; Geyskens et al. 1996; Fullerton 2003; Hansen/Sandvik/Selnes 2003; Johnson et al. 2001; Ruyter/Moorman/Lemmink 2001; Gustafsson/Johnson/Roos 2005). Affective commitment is based on a general positive feeling towards the exchange partner. Affective commitment indicates that the relationship is cultivated because buyers *want* to do business, and it is based upon positive feelings toward the partner (Kumar/Scheer/Steenkamp 1995, Gustafsson/Johnson/Roos 2005). Calculative com mitment refers to a firm's motivation to continue the relationship because it cannot easily re place its current partner, and because it cannot obtain the same resources and outcomes outside its current relationship (Kumar/Scheer/Steenkamp 1995; Ruyter/Moorman/Lemmink 2001). Calculative commitment is found when buyers *need* to keep such a relationship running, be cause there are high costs associated with its dissolution. Therefore, it is hypothesized that:

H 1: Affective commitment is positively related to relationship continuity.

H 2: Calculative commitment is positively related to relationship continuity.

Kumar/Hibbard/Stern (1994), Geyskens et al. (1996) and Wetzels/Ruyter/Birgelen (1998) sug gest affective commitment builds stronger relations than calculative commitment. Therefore, it is hypothesized that:

H 3: Affective commitment contribution towards relationship continuity is stronger than cal culative commitment.

2.3. Trust

According to Atuahene Gima/Li (2002), the vast body of literature on trust provides different definitions for the term, depending on the inter firm (e.g. buyer seller relationship) or intrafirm domain (e.g. manager subordinate relationship). In the domain of inter firm relationships, trust is characterized as a bi dimensional construct. Garbarro (1987) and Moorman/Deshpande/ Zaltman (1993) define trust as a mix of partner values (integrity, honesty), predictable behav iour and operational competence (expertise, skills, structure and capabilities). These aspects are commonly described as the credibility dimension of trust (the belief that the party is reliable, stands by his or her word, and fulfils promised role obligations). Sahay (2003), Morgan/Hunt (1994), Ganesan (1994), and Doney/Cannon (1997) point out that trust goes beyond credibility, and encompasses the benevolence dimension (the belief that one party is genuinely interested in the welfare of the other party and is motivated to seek mutually beneficial gains). According to Ganesan (1994, p. 3), benevolence "is based on the extent to which the retailer believes that the vendor has intentions and motives beneficial to the retailer when new conditions arise, condi tions for which a commitment was not made". As this research deals with inter firm trust, we adopt the view of trust identified by marketing scholars in the inter firm context.

Morgan/Hunt (1994, p.22) indicate that commitment and trust encourage marketers to preserve the relationship and "resist attractive short term alternatives in favour of the expected long term benefits of staying with existing partners". Yet, Morgan/Hunt (1994, p.24) suggest that "trust is a major determinant of relationship commitment, because relationships characterized by trust are so highly valued that parties will desire to commit themselves to such relationships. As commitment entails vulnerability, parties will seek only trustworthy partners." As trust is a ma jor determinant of relationship commitment, both the credibility and the benevolence dimen sions of trust are associated positively with commitment (Sahay 2003; Morgan/Hunt 1994; Ga nesan 1994; Doney/Cannon 1997). Therefore, it is hypothesized that:

H 4: Benevolence is associated positively with affective commitment.

H 5: Credibility is associated positively with affective commitment.

H 6: Benevolence is associated positively with calculative commitment.

H 7: Credibility is associated positively with calculative commitment.

2.4. Supplier Dependence

Dependence of a retailer on a supplier is increased when outcomes obtained by the retailer from the supplier are important and highly valued, i.e. outcomes obtained by the retailer exceed out comes available to the retailer from the best alternative supplier, and the retailer has few alterna tive sources or potential sources of exchange (Ganesan 1994). Morgan/Hunt (1994) indicate that dependence (reflected in the construct Relationship Termination Costs) is associated positively with relationship commitment. Ruyter/Moorman/Lemmink (2001), Ganesan (1994) and Gey skens et al. (1996) have shown that there is a positive relationship between dependence and cal culative commitment. As calculative commitment is based on cost benefit considerations, the more a customer experiences difficulties with supplier switching, the more the customer feels the need to continue working with the supplier. Therefore, it is hypothesized that:

H 8: Dependence is associated positively with calculative commitment.

2.5. Determinants of Trust

Ruyter/Moorman/Lemmink (2001) investigated and developed a model in which aspects of the product, relationship management activities, and market variables are taken into account as an tecedents of trust, commitment, and intention to stay. Although fashion products are not em bedded with high technology components, some characteristics are similar, such as the high pace of product obsolescence. Ruyter/Moorman/Lemmink (2001) indicated the constructs "of fer characteristics" and "relationship characteristics" as antecedents of trust. The total offering of a supplier consists of the core product and peripheral services, such as, product performance, quality, output, and after sales services, which are valued aspects for high technology products. The relationship characteristics construct reflects activities aimed at maintaining or increasing the level of gains and returns received from relationships with customers. In the high technology markets, this construct encompasses account support, communication, cooperation, and functional conflict. However, Ruyter/Moorman/Lemmink (2001) did not differentiate between the seller and company relationship efforts in their model. We tried to fill this void, incorporating the buyer seller relations framework in our model (see Figure 1).

For Plank/Reid/Pullins (1999, p.62): "trust is a global belief on the part of the buyer that the salesperson, product and company will fulfil their obligations as understood by the buyer". These determinants of trust, from the buyer's perspective, can be defined as follows: (1) Salesperson trust is the belief that the salesperson will fulfil his/her obligations as understood by the buyer; (2) Product trust is the belief that the product / service will fulfil its functions as understood by the buyer; and (3) Company trust is the belief that the company will fulfil all its obligations as understood by the buyer.

We proposed grouping trust antecedents as suggested by Ruyter/Moorman/Lemmink (2001) and Plank/Reid/Pullins (1999), aggregating preliminarily the determinants of trust into three main knowledge building blocks: (1) Supplier competencies; (2) Supplier resonance; and (3) Seller characteristics. The supplier competencies block encompasses the core product and services and follows the structure proposed by Ruyter/Moorman/Lemmink (2001) for the construct offer characteristics, adapted to fashion markets. We attempted to incorporate specific product features (e.g. design) and services (e.g. agility and flexibility for adaptations) relevant to fashion markets. Therefore, it is hypothesized that:

H 9: Supplier competencies are associated positively with credibility.

H 10: Supplier competencies are associated positively with benevolence.

Ruyter/Moorman/Lemmink (2001) consider both seller and firm relationship management efforts in the same construct (relationship characteristics). However, Plank/Reid/Pullins (1999) emphasize the different roles played by salesperson and company to achieve successful relationship management. We propose two building blocks to take account of the relationship characteristics of both company (supplier resonance construct) and salesperson (seller characteristics). Therefore, it is hypothesized that:

H 11: Supplier resonance is associated positively with credibility.

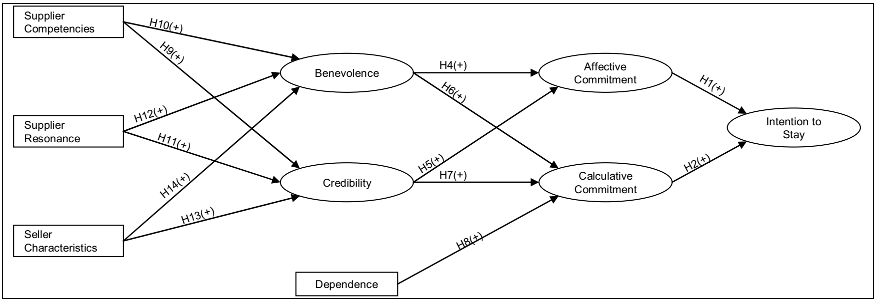
H 12: Supplier resonance is associated positively with benevolence.

H 13: Seller characteristics are associated positively with credibility.

H 14: Seller characteristics are associated positively with benevolence.

Figure 1 summarizes the fourteen hypotheses proposed.

Figure1: Synthesis of Hypothesis [1]



A more detailed discussion of the components of these three building blocks (supplier competencies, supplier resonance and seller characteristics) is offered in the next sections.

2.5.1. Supplier Competencies

Based on the sources presented in Figure 2 and Figure 3, two main aspects can be derived as components of supplier competencies.

Figure 2: Supplier Competencies: Product

Supplier competencies: Products	Arbuthnot/Slama/Sisler (1993); Arbuthnot (1997)	Ellram (1990)	Doney/Cannon (1998)	Groves/Valsamakis (1998)	Ruyter/Moorman/Lemmink (2001)	Tuten/Urban (2001)
Margins		x	x	x		x
Competitive pricing		x	x	x		x
Quality	x			x	x	x
Product design	x	x		x		
Product performance			x		x	

The first (see Figure 2) is associated with product performance and includes price, margins, quality, design, and turnover. The latter (see Figure 3) is related to the level of services (on time delivery, production output, physical structure, financial and human resources, and overall level of organization). The Fashion Market is characterized by demand volatility (Fisher 1997; Christopher 2000) and supplier cooperation for superior performance is a key aspect for retailers (Morris/Carter 2005). Agility for short lead times and flexibility for product changes are valued services (see Figure 2), due to the need to adapt frequently to market needs. Thus, supplier agility and flexibility can provide a better product mix by means of stock adequacy, short lead times for newly introduced products and quick response for best seller replenishment, resulting in sales, profit and turnover speed optimization (Christopher/Towill 2001; Christopher/Lowson/Peck 2004).

Figure 3: Supplier Competencies: Services

Supplier competencies: Services	Arbuthnot (1997); Arbuthnot/Slama/ Sisler (1993)	Ellram (1990)	Doney/ Cannon (1997)	Fisher (1997)	Wilson (1995)	Groves/ Valsamakis (1998)	Christopher (2000); Christpher/Lowson/ Peck (2001, 2004)
On-time delivery	x	x	x	x		x	x
Production output		x	x			x	
Physical structure		x			x	x	
Organization and proc-esses		x				x	
Agility		x		x	x		x
Flexibility for adaptations		x		x	x		x

2.5.2. Supplier Resonance

Hibbard et al. (2001) and Palmatier et al. (2006) indicate three conceptual blocks related to partner reciprocity: shared values, communication and compatibility. Figures 4, 5 and 6 sum marize these aspects. Figure 4 shows authors that mention suppliers' values, such as integrity, information confidentiality, and non opportunistic behaviour.

Figure 4: Supplier Values

Supplier resonance: Values	Morgan/ Hunt (1994)	Groves/ Valsamakis (1998)	Smeltzer (1997)	Whipple/ Frankel (2000)	Nicholson/ Copmpeau/Sethi (2001)	Tuten/ Urban (2001)
Integrity		x	x	x		x
Confidentiality on relevant info				x		
Non-opportunistic behaviour	x	x	x		x	x

Figure 5 refers to communication and encompasses communication openness, understanding of customer needs, and information sharing.

Figure 5: Communication

Supplier reso-nance: Communi-cation	Anderson/ Narus (1990)	Morgan/ Hunt (1994)	Groves/ Val-samakis (1998)	Doney/ Cannon (1997)	Smeltzer (1997)	Whipple/ Frankel (2000)	Tuten/ Urban 2001	Ben-dapudi/ Leone (2002)	Palmatier et al. (2006)
Openness	x	x	x		x	x	x	x	x
Understanding of needs		x	x	x		x			x
Information shar-ing					x	x	x	x	x

Figure 6: Partner Compatibility

Partner compatibility	Groves/Valsamakis (1998)	Whipple/Frankel (2000)	Nicholson/Compeau/ Sethi (2001)	Ruyter/Moorman/ Lemmink(2001)
Clear goals	x	x	x	
Similar policies		x		x
Conflict management		x		

Figure 6 refers to partner compatibility and is associated with culture fit, continuous effort in conflict management and market organizational similarity. According to Whipple/Frankel

(2000), partner compatibility facilitates team working and is driven by two aspects, similarity in business policies and partner involvement in problem solving (solution orientation).

2.5.3. Seller Characteristics

Ulaga/Eggert (2006) place great emphasis on seller expertise, services support and personal interaction. For Swan et al. (1988), sellers' expertise, honesty, availability, and promised accomplishment are important in creating relationship credibility. Figure 7 summarizes the seller traits found most often in the literature. Not surprisingly, authors denote the key role played by interpersonal identification. In fact, the customer's relationship with a key contact employee may be stronger than the customer's relationship with the vendor firm (Bendapudi/Leone 2002; Palmatier et al. 2006). Narayandas/Rangan (2004) go further and suggest that increasing interpersonal trust can balance initial power asymmetries.

Figure 7: Buyer Seller Relations

Seller characteristics	Arbuthnot/Slama/Sisler (1993)	Swan et al. (1988)	Hawes/Mast/Swan (1989)	Moorman/Deshpande/Zaltman (1993)	Doney/Cannon (1997)	Nicholson/Compeau/Sethi (2001)	Ruyte/Moorman/Lemmink (2001)	Bendapudi/Leone (2002)	Narayandas/Rangan (2004)	Palmatier et al. (2006)
Expertise	x	x	x	x	x					
Honesty		x	x	x	x	x				
Approach				x				x	x	x
Identification	x	x	x	x	x	x	x	x	x	x
Availability		x	x	x	x					
Responsibility		x	x	x						

3. Methodology

3.1. Research Design

Many procedures were used to design and refine the research. First, an exploratory study was conducted to identify specific aspects that might not have been observed in the literature review. Then, a preliminary questionnaire was composed using measures specially developed for this study (the scales for trust antecedents) and others already found in the literature and then translated into Portuguese. Next, it was refined, which enabled a final questionnaire to be complied that also included the scales for trust, commitment and relationship continuity intention. The nine item scale developed by Doney/Cannon (1997) was employed to measure trust because this is a representative study (Palmatier et al. 2006). Scales developed by Kumar/Sheer/Steenkamp (1995) were used to measure dependence, affective commitment and relationship continuity. Calculative commitment was measured by a four item scale developed by Kumar/Hibbard/Stern (1994). Participants provided complementary details of their retailing firms and the profile of their major supplier: size, relationship duration, average period invested for supplier development, and quantity of additional suppliers for the same category. The survey was applied to a convenience sample of 154 fashion retail product managers. A more detailed dis cussion of these procedures is offered below.

3.2. Exploratory Study

In depth interviews were conducted, following the procedures recommended by Yin (1994), with twelve retail buyers from the four different store formats according to the segmentation adopted by the fashion industry in Brazil: hypermarkets, department stores, upscale apparel and low end apparel retailers. The semi structured interviews were recorded and lasted 90 minutes on average. They were asked to define commitment, trust and behaviour expected from their most valued product provider and seller. Respondents related the outcomes of good and bad re lationship experiences and identified the most desirable supplier's attributes. Some relevant new findings include a concern with producers' cash flow vulnerability and supply interest.

3.3. Trust Antecedents Measures

The literature review and analysis of interviews enabled the identification of 38 trust antece dents proposed to develop the measurement instrument along with the scales for trust, commit ment and relationship continuity intention, as already validated in the literature. This material was revised by five senior product managers to avoid comprehension ambiguity.

Table 1: Antecedents of Trust

Group	Item	Coefficient Alpha
Supplier competencies	9 items	.78
Competitive price		
Quality		
On-time delivery		
Organized		
Cash flow sufficiency		
Product development ability		
Develop fashion/differentiated products		
Short lead time for product development		
Short lead time for production and delivery		
Supplier resonance	11 items	.85
Integrity		
Keeps information confidential		
Does not make false claims		
Does not take advantage in case of stronger power negotiation		
Clear goals		
Business policies compatible to our company		
Predisposition to manage conflicts		
Shows interest in supplying		
Proactive to discuss problems and opportunities		
Clients' needs comprehension		
Shares relevant market information		
Seller characteristics	4 items	.74
Honesty		
Expertise		
Mutual personal identification		
Tact		

For a preliminarily evaluation of scale reliability, a convenience sample of 20 product managers from different retail chains answered on a 1 (strongly disagree) to 7 (strongly agree) scale that was always preceded by "my largest supplier (seller) has" for each one of the 38 trust antece dents attributes. Some items were reverse coded intentionally as recommended by DeVellis (1991), to detect response bias. Scale internal consistency purification was conducted by com puting Cronbach's alpha for each construct after excluding lower score items (Churchill 1979; Nunnally 1994), resulting in 24 items for the three constructs with coefficients alphas ranging from .74 to .85 (see Table 1). These coefficients should be higher than .6 to be acceptable (Pe terson 1994).

3.4. Sampling and Data Collection

A convenience sample consisting of 154 buyers was selected to meet the following condi tions: 1) retailer organization has a buying team or a person entirely dedicated to this task; 2) retailer had at least 50% of its products outsourced, as vertical integration is usual; and 3) re tailer developed its own store brand. The latter condition was adopted, even limiting the amount of potential respondents, because implementation of a private label strategy demands more retailer commitment due to the risks involved for supplier substitution (Groves/Val samakis 1999). Despite such characteristics, the sample was composed of a relevant set of di verse formats of the organized sector of the Brazilian apparel retailing industry, including well educated professional buyers from the country's leading department stores and hyper markets, but also from the most recognized specialty upscale apparel and low end stores. As trust is established at a personal level (Swan et al. 1988; Doney/Cannon 1997; Plank/Reid/ Pullins 1999; Sahay 2003; Morrow/Hansen/Pearson 2004), more than one respondent of each firm took part in the survey. Furthermore, the retailers under analysis did not have policies demanding standardized buyer seller relationship behaviour. During the exploratory study, most of the buyers interviewed related that they had tried to maintain business with their pre vious partners when they moved to other teams, even with suppliers that had never developed a product for the new category.

By consulting internet sites and market experts, 110 potential firms were identified. These sources helped to identify 42 retail chain contacts. After contact by e mail and a personal phone call with a commercial or HR director, 29 firms agreed to participate (69%). The re maining 13 justified non participation with non disclosure of strategic issues (5), buyers' lack of time (5), or lack of interest in participating (3). A total of 330 self administered question naires were sent out by e mail, fax, mailing, or delivered directly to the respondents, accord ing to each retailer's preference, during July and August of 2004. Survey collection proce dures followed the same rules and, as a consequence of intensive contact, 154 useful ques tionnaires (47%) were returned in less than one month. The retailer sample was composed of

14 upscale stores (29 respondents), 7 low end stores (18 respondents), 5 department stores (79 respondents), and 3 hypermarkets (28 respondents). Respondents were experienced and had an average of 8.5 years experience as buyers, due in part to role specialization. Sixty nine re spondents (45%) worked with ladies' wear, 52 (34%) with menswear, and 33 (21%) with children's wear. Major suppliers were classified by size as follows: 69 large suppliers (45%); 74 medium sized suppliers (48%); and 11 small suppliers (7%). The average relationship pe riod is 6 years, but there were relationships lasting more than 30 years. Time invested in sup plier development varied from 6 months to 1 year (105 responses, 68%), 12 to 24 months (45 responses, 29%), and only 4 participants (3%) invested less than 6 months in supplier devel opment.

4. Empirical Findings

4.1. Scale Development and Validation

Testing of scales was accomplished in several steps, starting with an exploratory factor analy sis. This was followed by a confirmatory analysis using LISREL 8 and other analyses which support the validity of the proposed model. First, an exploratory factor analysis using princi pal components and varimax rotation was employed with an examination of MSA index, fac tor loadings, and coefficient alphas for proposed subscales, according to Hair et al. (1998) recommendations. Results indicate good factor analysis adequacy (MSA .83) for trust antece dents. Items loaded below .45 were discarded; as were items with high loadings in more than one factor, in order to guarantee factor unidimensionality (Hair et al. 1998, p.11 112). A scree test indicated a six factor solution, explaining 67% of the total variance, distinctly of the pre liminary grouping in three blocks (supplier competencies, supplier resonance, and seller char acteristics). Coefficient alphas were examined for each subscale, and were acceptable, ranging from .71 to .88 (see Table 2). Two main contributions were derived from the exploratory fac tor analysis. Firstly, results provided support for six factors instead of the three building blocks originally proposed. Secondly, the factor willingness to agree seemed to be a particular aspect of the fashion market.

4.2. The Six Trust Antecedents Revealed by Factorial Results

The first factor encompasses items related to supplier competencies, thus the factor name was retained. The factor seller characteristics remained as originally proposed. The 3rd factor is named willingness to agree, because variables are related to the negotiation process and be cause it encompasses items from previous supplier competencies and supplier resonance blocks. Buyers develop and introduce many new products each season with short life cycles (Fisher 1997), and the negotiation process must be facilitated (Christopher 2000; Christo pher/Towill 2001; Christopher/Lowson/Peck 2004). Supplier values compose the 4th factor and are associated with supplier integrity and confidentiality. Product development is the 5th factor and is associated with the supplier skills to develop fashionable products. The 6th factor is related to agility. We infer that structured suppliers will demand more accurate and fore casted volume planning to deliver production and services as ordered, limiting flexibility for rapid changes.

Table 2: Factor Analysis Results for Antecedents of Trust

Item	**Factor Loading**	**Factor Name**
Quality	.51	Supplier competencies (α .75)
On-time delivery	.71	
Organized	.77	
Cash flow sufficiency	.80	
Honesty	.68	Seller characteristics' (α .88)
Expertise	.81	
Tact	.86	
Mutual personal identification	.88	
Competitive price	.72	Willingness to agree (α .78)
Business policies compatible to ours	.61	
Willingness to manage conflict	.72	
Shows interest to supply	.52	
Comprehension of client needs	.63	
Integrity	.83	Supplier values (α .71)
Keeps information confidential	.77	
Product development ability	.88	Product development (α .76)
Develops differentiated/fashionable products	.81	
Short lead time for product development	.76	Agility (α .78)
Short lead time for production and delivery	.84	

Discriminant validity of factors was verified by calculating the correlation matrix of each fac tor's summated scales.

Table 3: Discriminant Validity of Factors

	Seller characteristics'	**Willingness to agree**	**Supplier competencies**	**Supplier values**	**Product development**	**Agility**
Seller characteristics	1.000					
Willingness to agree	.479	1.000				
Supplier competencies	.307	.300	1.000			
Supplier values	.404	.241	.293	1.000		
Product development	.246	.178	.209	.261	1.000	
Agility	.251	.410	.366	.357	.269	1.000

Table 3 shows that inter factor correlation is lower than .50 (Hair et al. 1998), indicating dis tinct factors. Findings of exploratory factor analysis for both credibility and benevolence di mensions of trust are adherent to the literature review. Results indicate a good factor analysis adequacy (MSA .88) for trust. A scree test indicated a two factor solution, explaining 66% of total variance. In addition, coefficient alphas were examined for each dimension, (.77 for credibility and .86 for benevolence), as shown in Table 4. Findings of exploratory factor analysis for dependence (MSA=.62; α=.66), calculative commitment (MSA=.71; α=.77), af fective commitment (MSA=.73; α=.93), and relationship continuity intention (MSA=.74; α=.74) indicate factor analysis adequacy and unidimensionality of the scales.

Table 4: Exploratory Factor Analysis for Trust

Trust (Coefficient Alpha=.87)	**Factor Loading**
Credibility: coefficient alpha=.77	
This supplier keeps the promises it makes to our firm	.68
This supplier is not always honest with us (R)	.81
We believe the information that this supplier provided to us	.49
This supplier is trustworthy	.73
We find it necessary to be cautious with this supplier (R)	.68
Benevolence: coefficient alpha=.86	
This supplier is genuinely concerned that our business succeeds	.86
When making important decisions, the supplier considers our welfare as well as its own	.88
We trust this supplier keeps our best interests in mind	.86

Table 5: Factor Analysis for Dependence, Commitment and Relationship Continuity

Item	**Factor Loading**	**Factor Name**
There are other suppliers who could provide us with comparable product lines	.68	Dependence
Our total costs of switching to a competing supplier's line would be prohibitive	.85	(α .66)
It would be difficult for our firm to replace sales and profits from this supplier	.80	
We would not drop the supplier because we like being associated with it	.94	Affective
We genuinely enjoy our relationship with the supplier	.96	commitment
Our positive feelings toward the supplier is the major reason we work with it	.91	(α .93)
It's a necessity, because there are no comparable alternatives	.76	Calculative
We have to invest a great deal of resources, energy and time to develop a supplier	.86	commitment
It would be difficult to transfer investments to another supplier	.82	(α .77)
There are no good alternatives; otherwise we would have already changed it	.63	
We expect our relationship with the supplier to continue for a long time	.86	Intention to Stay
It's unlikely our firm will still be doing business with this supplier in two years (R)	.86	(α .74)
The renewal of our relationship with the supplier is virtually automatic	.74	

4.3. Measurement Model

Structural equation modelling using LISREL 8 was employed to determine overall model fit, considering the six factor solution for antecedents of trust. Results indicated good model fit (χ^2=387.22 with 354 degrees of freedom; p=.108; and RMSEA=.029), with the exception of factor product development (PRODUCT), which did not show effects on either credibility (CREDIB) or benevolence (BENEV). Examination of data and residuals, strongly indicated BENEV as a predictor of CREDIB. Actually, Ganesan (1994) observed the same effect and this assumption was added to the modified model. Ganesan (1994) suggests that this behav iour may be an indication that buyers are becoming powerful, demanding supplier benevo lence in advance, as a pre requisite for perceiving the supplier as a trustworthy partner. Thus, buyers may become more receptive and develop more confidence after explicitly benevolent supplier actions.

No offending estimates were observed, nor inadequacies on goodness of fit measures (NNFI=.99, NFI=.94, CFI=.99, EFI=.99, RFI=.93) that might demand other model adjust ments (Hair et al. 1998). Examination of the distribution of normalized residuals reveals that they are symmetric, and only 14 (3.2%) are statistically significant and exceed the interval

{ 2.58; +2.58}, falling below the acceptable 5% threshold limit recommended (Hair et al. 1998). Yet, a Q plot graphic of standardized residuals reveals that points fall on a 45^o straight line, not indicating the presence of specification errors in the model, non normality or nonlin ear relationships among variables (Joreskog/Sorbon 1998).

Variance extracted exceeded .50 for each construct and reliability varied from .72 and .91, as recommended by Hair et al. (1998, p. 637). Correlations between constructs are lower than .90 (Hair et al. 1998), indicating that constructs are distinct. Figure 8 reveals that commitment and trust are moderating variables and their impact on relationship continuity is greater (R^2=57%) than the direct effect (R^2=42%) of independent variables (supplier competencies, agility, supplier values, willingness to agree, seller characteristics, and product development).

Table 6: Structural Equations x Reduced Form Equations

Structural Equations							
CREDIB=	.28*BENEV +	.61*COMPET +	.28*VALUE +	.31*SELLER,	Errorvar.=.14,	R^2=.85	
	(.096)	(.20)	(.090)	(.084)	(.058)		
	2.93	3.08	3.12	3.65	2.47		
BENEV=	.35*AGIL +	.59*AGREE +	.33*SELLER,		Errorvar.=.33 ,	R^2=.66	
	(.10)	(.28)	(.086)		(.078)		
	3.39	2.10	3.79		4.28		
AFFCOM=	.83*CREDIB,				Errorvar.=.19 ,	R^2=.78	
	(.12)				(.056)		
	7.01				3.38		
STAY=	.34*BENEV +	.53*AFFCOM,			Errorvar.=.43 ,	R^2=.57	
	(.12)	(.13)			(.11)		
	2.81	4.03			3.78		
Reduced Form Equations							
STAY=	.27*COMPET +	.16*AGIL +	.12*VALUE +	.27*AGREE +	.29*SELLER,	Errorvar.=.58,	R^2=.42
	(.11)	(.059)	(.049)	(.14)	(.059)		
	2.55	2.71	2.57	1.89	4.81		

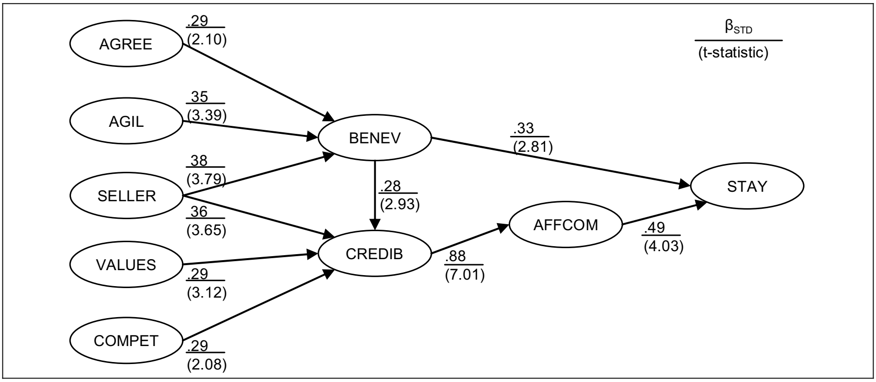
Based on findings, we propose an alternative model (see Figure 8) to explain the relationship continuity between fashion retailers and suppliers in which benevolence influences credibil ity.

4.4. Construct Relationships

As can be observed in Figure 8, trust and commitment are core constructs, moderating rela tions between fashion retailers and suppliers. For aggregate data, only affective commitment (AFFCOM) is associated with relationship continuity intention (STAY). Thus, H1 is not re jected, but H2 is. In addition, H3 is not rejected because affective commitment is more influ ential on relationship continuity than calculative commitment, as suggested previously by Kumar/Hibbard/Stern (1994), Geyskens et al. (1996) and Wetzels/Ruyter/Birgelen (1998). As many alternatives are available, buyers are inclined to choose those perceived as more reso nant. STAY is associated with AFFCOM (β_{std}=.49) and BENEV (β_{std}=.33). Thus, AFFCOM is the main determinant of STAY. H4 is not rejected, as CREDIB has a direct impact on

AFFCOM (β_{std}=.88). H5 is also not rejected because, as AFFCOM is influenced indirectly by BENEV, moderated by CREDIB.

Figure 8: Alternative Model



As assumed in the original model, trust was influenced by three main constructs (supplier competencies, supplier resonance and seller characteristics), although in a different way than we initially hypothesized. Only the latter construct remained as it was originally, while the others were rearranged. The supplier competencies block was split up into three factors: (1) COMPET, which is associated with supplier organization, quality, delivery and financial structure (2) AGIL, concerning supplier agility; and (3) PRODUCT, related to product devel opment skills, that is not associated with trust in the alternative model. Large suppliers might drive their capabilities to produce more basic items.

The supplier resonance block should be split into two factors: 1) VALUES, related to supplier values and 2) AGREE, related to supplier's willingness to agree, encompassing aspects asso ciated with facilitating communication, negotiation, interest and compatibility. We infer that this particular outcome refers to a retailer response to four idiosyncratic characteristics found in the fashion market (Fisher 1997; Christopher 2000): 1) demand volatility, 2) short product life cycles, 3) many new products, and 4) market structure with many comparable alterna tives, permitting buyers to maintain relations with most compatible suppliers.

The factor seller characteristics (SELLER) is the most relevant determinant of both CREDIB ($\beta_{std=}$.47) and BENEV (β_{std}=.38) dimensions of trust, and with major impact on STAY (β_{std}=.33), supporting the Bendapudi/Leone 2002 study. Perhaps not surprisingly, mutual per sonal identification is the most influential aspect that forms this construct, indicating the role performed by positive feelings. We suggest both parts tend to become more tolerant and co operative in the presence of interpersonal identification, or to a greater extent, interpersonal liking, as indicated by Nicholson/Compeau/Sethi (2001) and Sirdeshmukh/Singh/Sabol (2002).

BENEV is associated with AGIL (β_{std}=.35), AGREE ($\beta_{std=}$.29); and SELLER (β_{std}=.38). We infer that cooperative seller behaviour, availability and tact in managing conflicts elicit posi tive feelings and can be interpreted as a benevolent attitude. Supplier willingness to agree must result in concessions and cooperation, which can be seen as benevolent actions. Interest ingly, agility is associated with benevolence. We suppose that the supplier's agility effort to attend to buyers can be interpreted as a benevolent action because: 1) buyers feel suppliers treat them as a priority, and 2) agility is mainly required in situations in which high risks arise, demanding fast product delivery or product adaptations, as suggested by the following evidence collected in the exploratory study: "I felt despair when supplier 'X' failed to deliver goods scheduled for a TV ad. I could not replace the products with those already existing in the market because it was an exclusive brand and product. I feel indebted to and have great gratitude to supplier 'Y' because he produced and delivered 10,000 pairs of denim trousers in less than ten days, with the same price, design and quality negotiated with the previous one."

Therefore, H14 is not rejected, but hypothesis H10 and H12 must be accepted selectively, as only some items that were used to compound the original scales are associated with benevo lence. Hypotheses H9, H11 and H13 are not rejected, as credibility is directly influenced by COMPET ($\beta_{std=}$.29), VALUES ($\beta_{std=}$.29), SELLER ($\beta_{std=}$.47) and indirectly by AGIL and AGREE, moderated by BENEV ($\beta_{std=}$.28).

Table 7: Standardized Total Effects of KSI (ξ) on ETA (η)

	COMPET	AGIL	VALUE	AGREE	SELLER
CREDIB	.29	.10	.29	.08	.47
BENEV	--	.35	--	.29	.38
AFFCOM	.26	.09	.25	.07	.41
STAY	.13	.16	.12	.13	.33

Table 7 shows trust antecedents' total effects on credibility, benevolence, affective commit ment and relationship continuity intention. It is interesting to note that seller characteristics have a magnitude impact (.33), at least twice much as the others (.12 to .16), on relationship continuity.

5. Comparative Results of Different Retail Formats

Next, findings concerning the main determinants of relationship continuity intention for each retail format (hypermarkets, department, low end, and upscale stores) are discussed. Due to sample size, regression analysis was used employing the summated scale of each construct observed under the exploratory factor analysis procedure.

5.1. Hypermarkets

Regression analysis for n=28 respondents' results for significant relations are shown in Table 8.

Table 8: Regression Analysis Hypermarkets

CREDIB=	**-13.2 +**	**.571 SELLER +**	**1.25 VALUES +**	**.555 COMPET**	
SE Coef	(6.46)	(.20)	(.43)	(.20)	
N=27	R^2=63.1%		R^2 (adj)=58.3%	F=13.11	p=.000
STAY=	**13.7 -**	**8.74 small supp +**	**1.71 large supp +**	**.123 CREDIB**	
SE Coef	(5.84)	(2.40)	(.89)	(.08)**	
N=28	R^2=49.7%		R^2 (adj)=43.4%	F=7.91	p=.001

Note: * p<.10; ** p<.15.

For CREDIB, the model is significant (F=13.11, p=.000), and 63.1% (R^2) of variance is ex plained by SELLER, COMPET and VALUES, the latter by the largest magnitude effect (β_{std}=.43). STAY is strongly influenced by supplier size and credibility. We infer that hyper market buyers are more rational and evaluate supplier competencies and values, and do not believe producers will engage in benevolent actions. Hypermarkets evaluate supplier effec tiveness as an ability to comply with promises made (such as output, quality, on time delivery and financial structure), yet the seller can exert some influence. Two inferences can arise from the hypermarkets' intention to stay with larger suppliers: 1) large supplier volume output means productivity and low prices; and 2) smaller suppliers are less powerful (and relevant), so relationships can be discontinued with low impacts on retailers, as there are many compa rable alternatives.

5.2. Low-End Stores

Regression analysis for n=18 respondents' results for significant relations are shown in Table 9. For CREDIB, the model is significant (F=13.81, p=.000), and 82.2% (R^2) of variance is explained by AGIL, SELLER and SUPPLIER SIZE, the first by largest magnitude effect (β_{std}=.31). We infer that turnover speed must be very relevant, so they need suppliers that of fer large volumes and fast delivery. For BENEV, the model is significant (F=2.39, p=.000), and 74.4% (R^2) of variance is explained by AGREE and SELLER. We assume that price and payment conditions are relevant and, depending on the relationship quality with the seller, retailers believe they are privileged with such benefits. For AFFCOM, the model is significant (F=19.93, p=.000), and 72.7% (R^2) of variance is explained by CREDIB and BENEV. Thus, affective commitment is influenced by trust, and indirectly by seller, agility, and willingness to agree. Sellers play a key role as a buyer's advisor because these chains can't allocate many resources for planning and for market intelligence. Therefore, sellers can share relevant mar ket information and point out the best deals. The model for CALCOM is significant (F=21.09, p=.000), with R^2=73.8%, and it is inversely associated with CREDIB and positively influ enced by DEPEND. Finally, the model for STAY is significant (F=17.07, p=.000), and 78.5% (R^2) of variance is explained by CALCOM, AFFCOM and SUPPLIER SIZE. It denotes there are relevant, but not trustworthy, suppliers for retailers' commercial strategy, indicating that some relationships may even form without evidence of partner trust.

Table 9: Regression Analysis Low End Stores

CREDIB=	**4.23 +**	**.633 SELLER +**	**.926 AGIL -**	**4.83 small supp +**	**3.16 large supp**
SE Coef	(3.34)	(.16)	(.31)	(2.24)	(1.62)*
N=17	R^2=82.2%		R^2 (adj)=76.2%	F=13.81 p=.000	
BENEV=	**- 9.65 +**	**.567 SELLER +**	**.400 AGREE**		
SE Coef	(4.13)	(.14)	(.16)		
N=17	R^2=74.4%		R^2 (adj)=70.8%	F=20.39 p=.000	
AFFCOM=	**1.89 +**	**.355 CREDIB +**	**.353 BENEV**		
SE Coef	(2.82)	(.15)	(.17)*		
N=18	R^2=72.7%		R^2 (adj)=69.0%	F=19.93 p=.000	
CALCOM=	**11.3 -**	**.25 CREDIB +**	**1.08 DEPEND**		
SE Coef	(2.16)	(.14) *	(.18)		
N=18	R^2=73.8%		R^2 (adj)=70.3%	F=21.09 p=.000	
STAY=	**.18 +**	**.480 AFFCOM +**	**.128 CALCOM +**	**2.42 large supp**	
SE Coef	(3.32)	(.11)	(.08)*	(1.00)	
N=18	R^2=78.5%		R^2 (adj)=73.9%	F=17.07 p=.000	

Note: * p<.10; ** p<.15.

5.3. Department Stores

Regression analysis for n=79 respondents' results for significant relations are shown in Table 10. For CREDIB, the model is significant (F=33.27, p=.000), and 64.3% (R^2) of its variance is explained by SELLER, VALUES and AGIL. We infer that department stores need flexible and reliable suppliers, as the planning process is very detailed and developed with consider able anticipation. For BENEV, the model is significant (F=22.27, p=.000) and 55.0% (R^2) of variance is explained by SELLER, AGREE, VALUES and AGIL. We propose that supplier integrity and agility are relevant in trust building. These chains value market reputation and need to deal with responsible suppliers that do not jeopardize the retailers' reputation, as could be the case when subcontracting to suppliers who not respect workers rights or avoiding their obligations, such as not paying government taxes. Yet, as a result of anticipated planning in a volatile market, suppliers will be required to execute product adaptations. For AFFCOM, the model is significant (F=26.68, p=.000), and 52.0% (R^2) of its variance is explained by CREDIB, BENEV and AGREE. Thus, we can infer that both trust dimensions and the afore mentioned motives are important to develop and sustain affective commitment. As the same occurs with low end chain stores, calculative commitment is inversely associated with trust and directly associated with dependence. As previous studies suggest (Geyskens et al. 1996; Kumar/Hibbard/Stern 1994; Kumar/Sheer/Steenkamp 1995), affective and calculative com mitment are non related forms of commitment, as the former results from trust and the latter from dependence. Indeed, the presence of calculative commitment may be seen as a signal of relationship sickness (Geyskens et al. 1996). Finally, the model for STAY is significant

(F=32.85, p=.000) and 57.1% (R^2) of its variance is explained by CREDIB, BENEV and AFFCOM. Findings indicate that trust and affective commitment are the determinants of relationship continuity. Although the results of regression reveal that calculative commitment does not influence intention to stay, we can infer it is negatively related to relationship continuity, as it is inversely related to trust.

Table 10: Regression Analysis   Department Stores

CREDIB=	**3.04 +**	**.481 SELLER +**	**.232 COMPET +**	**.481 VALUES +**	**.375 AGIL**
SE Coef	(2.49)	(.08)	(.09)	(.18)	(.14)
N=79	R^2=64.3%		R^2 (adj)=62.3%	F=33.27 p=.000	
BENEV=	**-4.08 +**	**.271 SELLER +**	**.177 AGREE +**	**.391 VALUES +**	**.359 AGIL**
SE Coef	(2.49)	(.08)	(.10)*	(.17)	(.13)
N=78	R^2=55.0%		R^2 (adj)=52.5%	F=22.27 p=.000	
AFFCOM=	**-.67 +**	**.323 CREDIB +**	**.178 BENEV +**	**.192 AGREE**	
SE Coef	(2.26)	(.08)	(.10)*	(.09)	
N=78	R^2=52.0%		R^2 (adj)=50.0%	F=26.68 p=.000	
CALCOM=	**17.3 -**	**.274 CREDIB -**	**.285 BENEV +**	**.845 DEPEND**	
SE Coef	(3.33)	(.14)	(.17)*	(.15) 1.1	
N=78	R^2=35.7%		R^2 (adj)=33.1%	F=13.68 p=.000	
STAY=	**4.27 +**	**.241 CREDIB +**	**.273 BENEV +**	**.138 AFFCOM**	
SE Coef	(1.46)	(.07)	(.08)	(.09)**	
N=78	R^2=57.1%		R^2 (adj)=55.4%	F=32.85 p=.000	

Note: * p<.10; ** p<.15.

5.4. Upscale Stores

Regression analysis for n=29 respondents' results for significant relations are shown in Table 11. For CREDIB, the model is significant (F=24.11, p=.000), and 75.1% (R^2) of its variance is explained by SELLER, PRODUCT and AGIL. For these specialty stores, exclusive, differentiated and fashionable products are critical for market positioning, and we assume buyers value product development as the most relevant factor to develop trust in suppliers. During the exploratory study with upscale store brand managers, the relevance placed on suppliers' product development skills was observed. For BENEV, the model is significant (F=20.46, p=.000), and 64.0% (R^2) of its variance is explained by AGREE and VALUES. As product exclusivity is fundamental, these firms invest considerable resources to hire well known designers to develop innovative products. The supplier's integrity and confidentiality are highly valued and could be observed during the exploratory study, as related by a research respondent: "I only let a supplier know the fashion trends and product information strictly needed to develop a specific product. I do not show the entire collection, and if I suspect he/she lets others know about my collection, he/she will be excluded, I feel betrayed! You must protect yourself from being copied, but when São Paulo Fashion Week comes, and they are invited to attend too, they feel proud of it".

For AFFCOM, the model is significant (F=26.68, p=.000), and 42.5% (R^2) of its variance is explained by benevolence. Therefore, we can infer supplier discretion might create affective bonds, or at least positive feelings. Finally, the model for STAY is significant (F=13.39, p=.000), and 51.7% (R^2) of its variance is explained by credibility and affective commitment. Therefore, we suggest that supplier ability in product and discretion plays a distinctive role if compared to other retail formats.

Table 11: Regression Analysis Upscale Stores

CREDIB=	**8.87 +**	**.369 SELLER +**	**.462 PRODUCT +**	**.723 AGIL**	
SE Coef	(3.67)	(.12)	(.16)	(.13)	
N=28	R^2=75.1%		R^2 (adj)=72.0%	F=24.11	p=.000
BENEV=	**-3.43 +**	**.484 VALUES +**	**.456 AGREE**		
SE Coef	(3.22)	(.18)	(.13)		
N=26	R^2=64.0%		R^2 (adj)=60.9%	F=20.46	p=.000
AFFCOM=	**14.1 +**	**.348 BENEV**			
SE Coef	(1.27)	(.08)			
N=29	R^2=42.5%		R^2 (adj)=40.3%	F=19.93	p=.000
STAY=	**3.57 +**	**.337 AFFCOM +**	**.291 CREDIB**		
SE Coef	(3.44)	(.22)**	(.26)		
N=28	R^2=51.7%		R^2 (adj)=47.9%	F=13.39	p=.000

Note: * p < .10; ** p < .15.

6. Conclusions

6.1. Conceptual Discussion

In this study we developed and tested a model in which critical areas of relationship specific investments are taken into account. Then, we tested the model with aggregate data and with four retail formats: department stores, hypermarkets, upscale and low end specialty stores. Due to the lack of previous knowledge about apparel retail buyer seller relations in Brazil, we discussed the findings extensively with market experts in order to clarify the proposed inter pretation of results and to elaborate a coherent set of managerial recommendations. As previ ous research suggested, commitment and trust are central constructs in buyer seller relation ships in the fashion industry. Yet, affective commitment plays a pivotal role; results for ag gregate data do not indicate the presence of calculative commitment.

Findings indicate that relationships in the fashion market have a number of peculiarities. With respect to trust, both credibility and benevolence dimensions influence relationship continuity. However, our results provide support for the hypothesis that benevolence is a predictor of credibility. This behaviour may be an indication that buyers are becoming more powerful: demanding supplier benevolence in advance as a pre requisite to perceiving the supplier as a trustworthy partner. Thus, buyers may become more receptive and develop more confidence as a result of explicitly benevolent supplier actions. To achieve retailer trust, in contrast to the original proposal, there are six determinants in which suppliers of fashion products need to invest: seller characteristics, supplier agility, supplier competencies, willingness to agree, supplier values, and product development skills. For aggregate data, agility, willingness to agree and seller characteristics have direct influence on the benevolence dimension of trust. Supplier competencies, supplier values and seller characteristics have a direct impact on credibility.

The factor willingness to agree is a particular variable of the fashion industry, related to the negotiation process, and reflecting the relevance retailers place on supplier behaviour. It is composed of a mix of various items, such as price, interest in supplying, functional conflict, comprehension of client needs, and business compatibility. Suppliers must signal “willingness to agree” because buyers develop and introduce many new products every season with short life cycles, and the negotiation process must be simplified. Suppliers willing to agree try hard to cooperate, even in difficult situations, thus retailers may perceive them as benevolent. Other outstanding findings indicate the relevance of agility and salesperson behaviour as the most important determinants of relationship continuity. Interestingly, agility is associated with benevolence. We assume that a supplier’s agility effort in dealing with buyers can be interpreted as a benevolent action because: 1) buyers feel suppliers treat them as a priority, and 2) agility is mainly required in situations where there are high risks, requiring fast product delivery or product adaptations.

For each retail format, a number of peculiarities can also be verified. For department stores, findings indicate that credibility, benevolence and affective commitment are the determinants of relationship continuity. For hypermarkets, relationship continuity is only influenced by credibility. Yet, hypermarkets seem to maintain longer relations with large suppliers. Hypermarkets feel less dependent on small suppliers, so they are able to grab opportunities. The opposite pattern seems to occur with low end stores. Relationship continuity is related to affective commitment, calculative commitment and large suppliers. Due to the need to deal with large (and less expensive suppliers), these retailers deliberately engage in dependent relationships. To diminish the risks of suppliers’ opportunistic behaviour, they try to establish close relations with sellers. For upscale stores, relationship continuity is related to affective commitment and credibility. Upscale stores attach relevance to product development skills.

6.2. Managerial Implications

Seller characteristics influence both the credibility and benevolence dimensions of trust. Many producers do not grant the seller autonomy for negotiation. Others still believe that commercial relationships must be built on calculative aspects only because they consider that buyers are only interested in lower prices and better service. This study suggests that other aspects, such as affective ties and mutual personal identification, can enhance or hinder relationships. Suppliers must evaluate the sales professional assigned to represent the factory. The seller must be market oriented, experienced, and have the ability to solve any conflicts that may arise. As a result, the seller can develop emotional ties with a buyer, a precious asset in a very dynamic and volatile market. Prior to making contact with a client, we suggest that the supplier and seller must understand the retailer's market positioning and evaluate their ability to adjust the offer to the buyers' needs. The supplier and seller should visit the retailer's stores, analyze the collection and find potential gaps. This knowledge can be very useful and is a credible sign that the supplier is interested in the client and its market needs, and this can generate a positive impression. The seller must demonstrate expertise in the manufacturing process and cost composition, as buyers usually demand product and price adequacies. Yet, the seller is the contact person between buyer and supplier, and must know and inform the retailer as to whether the orders will be delivered on time, as well on the actual production stage, and whether adaptations are feasible because the second most important aspect is supplier agility.

An examination of each retail format provides interesting insights. Firstly, buyers attach distinct relevance to the attributes identified in this study, depending on the retail format. Department stores and hypermarkets prioritize supplier values, such as order fulfilment, due to their management rigidity in controlling planned sales and stocks. On the other hand, hypermarkets attach more value to large suppliers because of the economies of scale they can provide. Suppliers must develop efficient production processes because profits result from output scale and productivity. Findings suggest that a small supplier, prior to engaging in business with a large retailer, must evaluate how attractive its product is; otherwise the producer will be in a vulnerable position.

Department store buyers in Brazil build a coordinated collection mix containing fad and fashion basics. These stores have structured their organization in teams composed of product managers with expertise in design, planning and sourcing. As a result of this specialization, the supplier is required to have a strong sense of professionalism. Firstly, the producer must comply with its obligations as ordered, obeying colour range, size specs, quantities, and delivery times. Then, as many products are released within a short time, the negotiation process must be simple. Therefore, suppliers must be perceived as being willing to agree. Since, however, the planning process takes place at least six months in advance, these retailers require supplier agility for adaptations if market conditions change. Consequently, department store buyers are very interested in the supplier cash flow structure.

Upscale retail buyers place great emphasis on product development ability and supplier confidentiality in order to guarantee that information on a collection will be kept in secret until it is released on the catwalks. Suppliers must have expertise in design, styling, and fashion research, access to the "best of breed" textiles, quality of manufacturing, and most importantly, discretion.

Low end store buyers are influenced very much by the seller. This retail format, even when developing a store brand, requires competitive prices and thus, a bargaining process occurs to some extent. Although it can be considered opportunistic, product managers do not make pur chases with great anticipation when looking for stock offers. Thus, these buyers are less inter ested in a set colour range or technical features of raw material, accepting many mixed col ours because suppliers can provide products of similar design for one specific order. There fore, suppliers should screen the textile market to find stock offers for fabrics and must de velop production agility in order to offer bargains with short delivery times. As these retailers have less access to IT resources, managerial decisions are backed up by seller advice. Suppli ers must strengthen emotional bonds, assigning a seller with expertise and good communica tion skills to the buyer.

This research is a pioneering study for the fashion industry in Brazil. On a positive note, we contributed to knowledge systematization and scale validation of the determinants of trust be tween fashion retailers and suppliers, helping to pave the way for further research; on the other hand, the lack of other studies in Brazil restricted generalization of results because: 1) the fashion market still hesitates to work with researchers. Fashion brand managers may feel vulnerable because almost everything can be copied, creating obstacles in the sampling proc ess; 2) Although relevant players agreed to participate, the non probabilistic sampling proce dure limits generalization of the results; 3) retailers were asked to complete the survey regard ing their major supplier. In many cases, a major supplier is not assigned to produce fashion goods. Thus, results on product development ability must be interpreted with caution; 4) all concepts were measured at one point in time, essentially from a static perspective; 5) the de clarative nature of the information collected, expressing opinions, not actual behaviour; and 6) we neglected the supplier perspective in the relationship.

Relationships are of a dyadic nature and are best operationalised by incorporating more than one contributor. As such, we hope further longitudinal studies will be carried out to corrobo rate this preliminary set of propositions. Furthermore, new studies can be performed to iden tify suppliers' perceptions on this issue, comparing findings to those related in this study, and to investigate the determinants of relationship continuity between retailers and suppliers of other product categories in Brazil, such as groceries, electronics, appliances and hardware lines, comparing similarities and distinctions for each product category.

Notes

[1] Ultimately, findings from exploratory data factor analysis indicated that determinants of trust should be assigned into six distinct factors. These findings are presented in the discussion topic.

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The Impact of Communication on Satisfaction and Loyalty in the Franchise System: Subjective Viewpoints of Franchisees

Kuan Yin Lee, Ying Chiech Hsu and Hui Ling Huang

Abstract
The purpose of this paper is to apply communication theory to the study of franchisor franchisee relationships from the franchisees' perspective. In this empirical and cross sectional study, a sample is drawn from Taiwan's convenience stores, the density of which is the highest in the world. In total, 487 usable responses were used to examine collaborative communication, and loyalty behaviours between franchisors and franchisees. Communication direction, modal ity and content were found to have a positive and significant effect upon economic and social satisfaction, except for the relationship between communication content and economic relation ship. In addition, franchisee economic satisfaction and social satisfaction both influence the intention of a franchisee to renew contracts and advocate on behalf of the franchise system. In sights from the analyses suggest that suitable collaborative communication can help to improve a franchisee's economic and social satisfaction, further enhance its willingness to remain within the franchise system, and increase its willingness to recommend the system to others. All those in the franchise system should notice the importance of collaborative communication.

Keywords
Franchising, Retailing, Collaboration Communication, Satisfaction, Intention to Renew Con tract, Advocacy Intention

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1. Introduction

Franchising has been widely recognized as an important source of entrepreneurial activity in the UK, the U.S., Taiwan and abroad. But, with the increase in franchising density in the mar ket and intense competition, how to maintain a relationship with the franchisee in such a way as to gain a competitive advantage is an important issue for the franchisor (Kane 2001).

In the franchise system, conflict is almost always present at some level (Pondy 1967), but dysfunctional conflicts affect trust, commitment, and satisfaction adversely (Rodríguez/Pére/ Gutiérrez 2005). If the franchisor can manage dysfunctional conflicts through communication, the quality of the relationship is likely to improve (Paswan/Wittmann/Young 2004; Rodrí guez/Pére/Gutiérrez 2005; Tikoo 2005).

Communication can be described as the glue that holds together a channel relationship (Mohr/Fisher/Nevin 1996), and this is also true in a franchise system (Gassenheimer/Baucus/ Baucus 1996; Chiou/Hsieh/Yang 2004). Any franchise system requires a communication process by which valuable information is transmitted and participative decision making is fostered (Frazier/Summers 1986). Several articles in franchise management also stress that communication is the road to a solid franchise relationship (Allen 1994; Mubleman 1996; Laurie 2000; Tikoo 2002) which, in turn, can lead to franchisee satisfaction and reduce con flicts (Chiou/Hsieh/Yang 2004). However, prior research has examined only one aspect of communication and has not acknowledged the potential for multi dimensional aspects of communication, using the *communication theory* proposed by Mohr/Nevin (1990). Thus, the first aim of this research is to focus on the various facets of communication, including direc tion, modality, and content, in terms of managing communication better.

An enhanced understanding of communication within a franchise system can help to focus managerial efforts that stimulate satisfaction and positive attitudes among franchisees. Previ ously, most studies considered satisfaction as a unidimensional variable; but Geyskens/ Steenkamp (2000) argued that satisfaction should separate economic satisfaction and social satisfaction into economic and affective perspectives. By differentiating economic and social satisfaction, the relationship between distinct communication facets and satisfaction may be better understood. To achieve some better understanding in this regard is the second aim of this study.

Rodríguez/Agudo/Gutierrez (2006) mentioned the significant relationship between economic and social satisfaction in the distributor manufacturer relationship, but suggested that caution should be exercised with respect to generalizing their results. Thus, the third aim of this study is to re examine the economic satisfaction and social satisfaction relationships within a fran chise system.

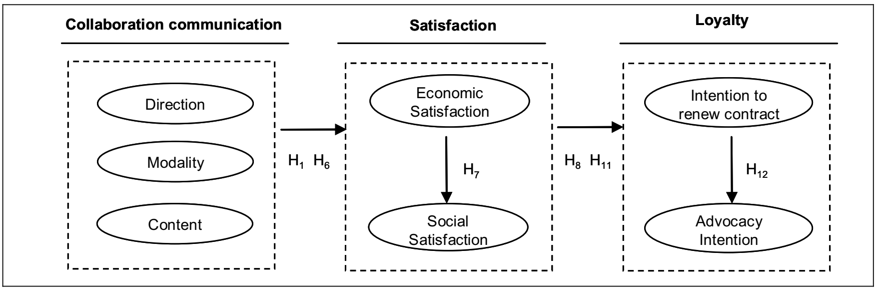
A strong franchise system maintains relationships with franchisees, in order to attain a com petitive advantage (Tikoo 2002). In past studies, the satisfaction and loyalty relationship has been well defined (Lam et al. 2004; Lai 2007), but little research has discussed the relation ship between the multi dimensions of satisfaction and the multi dimensions of loyalty (i.e. the intention to renew a contract and the intention to advocate for the franchise system), within the franchise system. Therefore, the fourth aim of this paper is to examine whether franchi sees' satisfaction with economic results or social interactions leads to a willingness to con tinue the franchising relationship or to recommend the franchise to others.

This paper will attempt to understand the process through which franchisees become loyal to a franchise system. Firstly, the paper will identify the key constructs that play a role in the franchisor franchisee relationship. Next, the theoretical foundation established in the first sec tion will be used to build a conceptual framework and some specific hypotheses about the franchisor franchisee relationship. Then the methodology used to examine this framework will be described. Lastly, the results will be reported and discussed, and the paper will close with a discussion of the implications of the findings.

2. Research Framework and Hypotheses

From the perspective of franchisees, the research framework is proposed in Figure 1. The hy pothesized model combines the collaboration communication that franchisees perceive from the franchisor to increase the franchisees' attitude of satisfaction (and that attitude's behavioural consequences), to increase intention to renew a contract, and to increase advocacy intention. As the figure indicates, we theorize the major outcomes of franchisees' satisfaction and loyalty.

Figure 1: Hypothesized Model



2.1. Communication Theory

The most common way to conceptualize communication in organizational communication research has been as a message exchange (Taylor et al. 1996). The idea of "messaging" as the core of communication originates in *information theory* (Shannon 1948). This theory allows for various interpretations on the part of sender and receiver, as any human communication situation involves the sending and receiving process (Berlo 1960). Schramm (1973) has pointed out that communication is fundamental to relationships, and there is an emerging view that communication theory has much to offer channel relationship marketing, in general, and franchising in particular (Gassenheimer/Baucus/Baucus 1996). In this regard, the follow ing observations of communication in franchising can be made:

Firstly, transaction based channel relationships traditionally have focused on one way communication; in contrast, a paradigm change has occurred such that there is more inter est in building franchisee franchisor relationships, leading to an increasing emphasis on two way communication. Under the conditions of two way communication, therefore, franchisee and franchisor function as sender and receiver.

Secondly, franchising has been evaluated as "strategic", and the primary tenets for the franchisor and the franchisee have been mutual responsibility, open lines of communica tion, and bilateral information exchange within franchising systems (Pappu/Strutton 2001).

Thirdly, franchise partners develop relational norms through collaborative communication, so as to augment format contracts (Dwyer/Schurr/Oh 1987; Gassenheimer/Baucus/Baucus 1996) or informal personalized communication, with franchisors acting as the central coor dinator for franchisees.

Thus, collaborative communication can be described as the glue that holds a franchising rela tionship together (Gassenheimer/Baucus/Baucus 1996; Chiou/Hsieh/Yang 2004). The fran chise system requires a communication process to transmit valuable information and foster participative decision making (Frazier/Summers 1986). Collaborative communication is the road to a solid franchise relationship (Allen 1994; Laurie 2000; Tikoo 2002). Consequently, this study recognizes that franchising communication can be sent through different types of collaborative communication such as communication direction, communication modality, and communication content all of which will be discussed in the next section.

2.2. Collaboration Communication

According to Mohr/Sohi (1995), communication is a flow of information, and it facilitates inter organizational relationships (Anderson/Weitz 1992). Thus, communication should be thought of in a strategic sense, since it has been demonstrated to promote cooperative conflict resolution behaviour, and to have a positive effect on the ability of firms to interact effectively (Mohr/Nevin 1990; Anderson/Weitz 1992; Mohr/Spekman 1994; Mohr/Fisher/Nevin 1996; Koza/Dant 2007). With the use of collaborative communication, conflicts decrease and rela tionship quality increases; so communication is especially important for a franchise system (Allen 1994; Chiou/Hsieh/Yang 2004).

The collaborative communication in our model includes content, modality, and direction, as demonstrated in past studies (Anderson/Weitz 1992; Mohr/Sohi 1995; Gassenheimer/Baucus/ Baucus 1996; Mohr/Fisher/Nevin 1996; Palmatier et al. 2006; Sahadev 2008). These three dimensions of communication are also responses to the communication process: the *content* comprises the message; the *modality* is the communication channel; and two way *direction* is the mode for feedback. Again, the *content* of communication refers to the message that is transmitted or what is said. Research in channel communication has shown that content influ ence strategy is embedded in exchange strategy (Frazier/Summers 1986; Boyle et al. 1992; Kim 2000; Lai 2007). In this study, we use non coercive influence strategy as communication content to investigate the relationship between franchisor and franchisee (Frazier/Summer 1986; Mohr/Fisher/Nevin 1999; Lim/Frazer 2002; Tikoo 2005).

The medium of communication, or its *modality*, refers to the method used to transmit infor mation. We define modality according to a formal/informal distinction, which has been widely used in empirical and conceptual research (Mohr/Sohi 1995; Mohr/Fisher/Nevin 1996; Kalla 2005). In the franchise system, the modality of collaboration communication refers to whether the franchisor and franchisee use written means, formal meetings, or word of mouth contact to communicate (Gassenheimer/Baucus/Baucus 1996; Bassuk 2001).

Direction refers to both the vertical and horizontal movement of communication within an organizational hierarchy (Farace/Monge/Russell 1977). When the direction of communication flow is studied in the context of a franchise system, the typical focus is on the franchisor franchisee relationship (Gassenheimer/Baucus/Baucus 1996; Rodríguez/Pére/Gutiérrez 2005). Franchisors give franchisees advice and suggestions according to their performance, and fran chisees give market intelligence back to the franchisor. In the present study, we focus on the communication that franchisees' received and send out.

2.3. Franchisee Satisfaction

Satisfaction has been considered widely in the literature as a unidimensional variable, basi cally consisting of an affective component (Anderson/Narus 1984, 1990; Scheer/Stern 1992; Skinner/Gassenheimer/Kelley 1992; Ganesan 1994; Gassenheimer/Calantone/Scully 1995; Andaleeb 1996; Selnes 1998; Jehn/Rupert/Nauta 2006). However, some scholars have sug gested that satisfaction is better encapsulated if subdivided into several components; for ex ample, financial, welfare and social (Ruekert/Churchill 1984; Michie/Sibley 1985). Gassen heimer/Ramsey (1994) considered that the satisfaction level between two members in a chan nel relationship predicts not only the economic results, in terms of efficiency and efficacy, but also the social interaction between the partners (Mohr/Spekman 1994). Rodríguez/Agudo/ Gutierrez (2006) also have suggested that satisfaction should capture economic and non economic psycho social aspects of communication.

In order to achieve comprehensive insight into the development and maintenance of a long term relationship, some analysis of franchisee economic satisfaction and social satisfaction is necessary. *Economic satisfaction*, therefore, is defined as the evaluation performed by a fran chisee of the economic results derived from the franchisor, such as profit, product quality, and vendor support. *Social satisfaction* is defined as a franchisee's evaluation of the psychosocial aspects of its relationship, in that interactions with the franchisor are gratifying and mutually respectful.

2.4. Effects of Franchisor's Collaboration Communication on Economic and Social Satisfaction

Since content, modality, and direction are important aspects of collaborative communication (Mohr/Nevin 1990), based upon organizational communications theory, several investigators have pointed out that communication through the exchange of information is positively asso ciated with an increased level of satisfaction (Mohr/Nevin 1990; Rodríguez/Agudo/Gutierrez 2006).

Bi directional communication allows for franchisees to receive franchisor information and pro vide feedback. A franchisee can ask questions, seek explications of assumptions and, in the process, have the perception that communications are accurate, conceivable, and exhaustive. Thus, increased bi directional communication with a franchisee can enhance its economic out comes, economic satisfaction, relationship quality (Rodríguez/Pére/Gutiérrez 2005), and social satisfaction. Using the preceding reasoning as a basis, we hypothesize the following:

H 1: The direction of communication is positively related to economic satisfaction.

H 2: The direction of communication is positively related to social satisfaction.

Formal modes are those that are connected with the organization in a structured, routinized manner. Informal modes are more personalized, such as word of mouth contacts. When fran chisor and franchisee only use formal modes to communicate, communication may feel more structured and more time consuming, but also less elastic. On the other hand, when franchise members use less formal communication, they tend to exchange more adequate and timely information, but less systematically. Thus, if the franchisor and franchisee communicate through both formal and informal modes, they may share information more efficiently (Bas suk 2001), contributing to performance and facilitating relationship quality (Gassenheimer/ Baucus/Baucus 1996). In this way, when franchise members vary communication modality, enhanced economic and social satisfaction may be the result.

H 3: The modality used for communication is positively related to economic satisfaction.

H 4: The modality used for communication modality is positively related to social satisfac tion.

In this study, communication content focuses on non coercive content, which refers to the use of influence strategies based on requests and information sharing in the franchisor franchisee relationship (Frazier/Summer 1986; Tikoo 2005). When a partner uses non coercive collabo rative communication, this indicates that available rewards and mutual respect will be gener ated. The greater the rewards and respect flowing to a franchisee as a result of its relationship with its franchisor, the higher the relationship's economic outcome (Mohr/Fisher/Nevin 1999) and social satisfaction will be (Lusch 1977; Frazier/Summer 1986). Hence,

H 5: Communication content is positively related to economic satisfaction.

H 6: Communication content is positively related to social satisfaction.

2.5. Effects of Economic Satisfaction on Social Satisfaction

The relationship between economic and social satisfaction has received little attention in mar keting literature (Rodríguez/Agudo/Gutierrez 2006). Franchisor franchisee relationships ini tially are economic relationships in which the members depend upon economic results to sur vive and grow. When there is a high level of economic satisfaction, the franchisees will be willing to respond to a doubtful situation, repress criticism, and behave positively and con structively Rodríguez/Pére/Gutiérrez (2005), thereby increasing their social satisfaction with the relationship.

H 7: Economic satisfaction is positively related to social satisfaction.

2.6. Effects of Satisfaction on Intention to Renew Contracts and Advocacy Intention

Customer retention, frequently operationalised as the intention to renew a contract in the fran chisor franchisee relationship, is perhaps the most important variable in relationship market ing research (Morgan/Hunt 1994), especially in a mature and competitive franchising market. Advocacy intention has also been well studied in relationship marketing (Zeithaml/Berry/ Pawasuraman 1996; Kumar/Bohling/Ladda 2003). Although advocacy intention (usually by "word of mouth") has always been an effective and powerful strategy, it is hard to harness it for every firm (Lee/Huang/Hsu 2007; Levy 2007). Hence, this study focuses on a complex mixture of evaluative and behavioural elements (Jacoby/Kyner 1973; Oliver 1999), so as to explore whether collaborative communication used by a franchisor really works.

Satisfaction and performance are both essential to franchise system outcomes. Unlike per formance, satisfaction refers to the attitude of channel members, while performance refers to their behaviour. Many previous studies have demonstrated that channel performance varies with economic and social satisfaction (Geyskens/Steenkamp/Kumar 1998; Geyskens/Steen kamp 2000; Ramaseshan/Yip/Pae 2006; Lai 2007). *Economic satisfaction* is defined as a franchisee's evaluation of the economic outcomes that flow from the relationship with its franchisor, such as sales ratios, cost assistance, and economic advantages derived from the relationship. An economically satisfied franchisee will receive an economic reward that is greater than expected or greater than it can obtain from the next best alternative partner, and such a franchisee will be more willing to recommend the franchise system (Rodríguez/Pére/ Gutiérrez 2005). Hence, such a franchisee will be motivated to renew its contract and exhibit advocacy intentions. In other words:

H 8: Economic satisfaction is positively related to the intention to renew a contract.

H 9: Economic satisfaction is positively related to advocacy intentions.

The other satisfaction, *social satisfaction*, is defined as a franchisee's evaluation of the psycho social aspects of its relationship during interactions with the franchisor, in terms of how gratify ing and simple they are (Hing 1995). A franchisee who is satisfied socially will be more likely to maintain the relationship (Morrison 1997; Chiou et al. 2004), and will engage in extra role behaviour, including advocacy (Hing 1995). Therefore, it is reasonable to predict that franchi sees who have social satisfaction with the franchise system may also exhibit a greater level of intention to renew their contract and advocate on behalf of the franchise system. Hence:

H 10: Social satisfaction is positively related to the intention to renew a contract.

H 11: Social satisfaction is positively related to advocacy intentions.

2.7. Effects of Intention to Renew Contract on Advocacy Intention

Practitioners recognize that loyal customers who are willing to give favourable recommenda tions about brands to other customers are a very important benefit of the cooperative experi ence (Moore 2002; Reicheld 2003). For the franchisor franchisee relationship, the franchisee who has a good experience with the franchise system and would like to renew a contract also is likely to recommend the system to others. Thus, we would expect that franchisees will tend to exhibit advocacy intentions when they are willing to renew their contracts. Hence:

H 12: Intention to renew a contract is positively related to advocacy intentions.

3. Methods

The study selected the franchise system of conveniences as the setting for our study. And then we designed the scale items to measure practicing franchisees' perception. Subsequently, the study used a combination of SPSS 13, LISREL 8.52 software packages to carry out the analy sis.

3.1. Study Subjects and Samples

Three franchise systems were surveyed from March to April 2006. To be good survey candi dates, these franchise systems must have attained a specific scale and have established a stable level of franchising quality. The market share of the three franchise systems represented as much as 80% of convenience store sales; note that Taiwan has the highest density of conven ience stores in the world (ACNielsen 2006).

Although the contract of these three convenience stores has become complete including such elements as the franchise fee, loyalty fee, guarantee fee, distribution of profits, education training, renew contract arrangements that franchisees should note, and so on , as the density of convenience store becomes saturated, the net increase in the rate of franchisee stores de creases. Consequently, how to enhance the relationship between franchisees through response market intelligence, and how to communicate corporate policy with franchisees are important issues to franchisors. Thus, using these franchise systems to examine collaborative communi cation and loyalty behaviour from a franchisee perspective was suitable to meet the objectives of this research.

The survey questionnaire was mailed to 1,500 franchisees in the convenience store system. To avoid demand effects, participants did not know the researcher personally. In total, 511 re sponses were returned, giving a 34.07% response rate. This rate compares favourably with those of previous franchise studies. Among the responses were 16 refusals and 8 unusable responses, resulting in 487 usable responses (32.47% usable response rate). The sampling method was successful in soliciting respondents with varied personal and firm characteristics. Respondents varied in the age of the franchisee (20 25: 3.3%; 26 30: 17.7%; 31 35: 32%; 36 40: 28.3%; 40: 18.7%), education (high school diploma: 1.2%; senior high school: 46.2%; university: 51.1%; graduate school: 1.4%), net profit per month (30,000 NTD: 15.2%; 30, 000 60,000 NTD: 48.67%; 60,000 90,000 NTD: 27.31%; 90,000 NTD: 8.83%) and years of franchising (1: 13.8%; 1 3: 31.6%; 3 6: 28.7%; 6 9: 15.0%; 9 12: 8.8%; 12: 2.1%).

ANOVA was used to compare early and late respondents on the constructs in the hypotheses to check for any non response bias (see appendix, Table A1). Comparing first and follow up respondents enables a check of non response bias because subjects who respond less readily, such as late respondents, are more like non respondents (Armstrong/Overton 1977). This work uses multivariate F ratio for the ANOVA test to compare the early and late response groups, with insignificant differences in terms of net profit per month, number of franchising stores, and age, with a p value between .42 and .85; therefore, a combined statistical analysis was satisfactory.

3.2. Questionnaire

Questionnaires incorporating a five point scale were used to measure responses to the seven constructs (i.e. communication direction, communication modality, communication content, economic satisfaction, social satisfaction, intention to renew contract and advocacy intention). The construct of communication direction, modality and content was measured using nine indicators from strongly agree to strongly disagree, taken from Mohr/Fisher/Nevin (1996). We examine coefficient alphas and used exploratory factor analyses to purify the scales. We discarded three items (Communication content: 2 items, Communication modality: 1 item) because of item to total correlations and the factor loadings between factors, using a cut off value of .3 for both. The economic and social satisfaction measurement was adapted from each of five items developed by Geyskens/Steenkamp (2000). We discarded four items (Eco nomic satisfaction: 2 items, Social satisfaction: 2 items) of economic and social satisfaction, respectively, because of factor loadings between factors less than .3. Intention to renew con tract and advocacy intention were each measured with two items adapted by Zeithaml/Berry/Pawasuraman (1996) (see appendix Figure A1).

4. Results

Data analysis proceeds according to the two step approach recommended by Gerbing/Anderson (1988). In this approach, the measurement model (CFA) is estimated first. Then, using LISREL version 8.52, a structural model is analyzed and the path coefficients are estimated.

4.1. Measurement Model

The correlations in Table 1 provide an initial test of the twelve hypotheses. A mean of seven constructs ranged from 3.25 to 3.88, and their standard deviation from .58 to .83. We evalu ated measurement model fit (CFA) using a series of indexes that Gerbing/Anderson (1992) and Hu/Bentler (1999) recommend. Overall fit statistics for the measurement model were as follows: goodness of fit index and adjusted goodness of fit index were .95 and .92, respec tively; comparative goodness of fit indexes were .99, .99, .99 and .99 for the Normed Fit In dex, Non Normed Fit Index, Comparative Fit Index, and Incremental Fix Index, respectively; the Root Mean Square Error of Approximation was .52; and the Standardized Root Mean Square Residual was .029. These indicate an optimum level of fit of the model.

Table 1: Descriptive Statistics, Correlation Matrix and Average Variance Extracted

	Mean	Standard Deviation	CD	CM	CC	ES	SS	RL	AL
Communication direction	3.68	.76	.78						
Communication modality	3.88	.58	.62**	.77					
Communication content	3.25	.80	.35**	.30**	1.00				
Economic satisfaction	3.83	.68	.46**	.59**	.23**	.82			
Social satisfaction	3.73	.67	.57**	.65**	.34**	.69**	.81		
Intention to renew contract	3.58	.73	.58**	.55**	.28**	.62**	.61**	.87	
Advocacy intention	3.67	.83	.48**	.58**	.20**	.55**	.57**	.72**	.85

Note: **p<.01; $\sqrt{AVE}$ values are show in diagonal.

Table 2: Measurement Items and CFA Results

Items	Standard Loading	t-Value	Reliability	Average Variance Extracted	Composite Reliability
Communication direction			.75	.61	.76
CD1	.71	16.68			
CD2	.85	20.50			
Communication modality			.77	.60	.82
CM1	.67	15.67			
CM2	.82	20.97			
CM3	.83	21.77			
Communication content			--	1.00	1.00
CC2	1.00	31.10			
Economic satisfaction			.87	.68	.87
ES3	.78	19.79			
ES4	.85	22.36			
ES5	.85	22.18			
Social satisfaction			.83	.65	.85
SS3	.77	19.42			
SS4	.83	21.66			
SS5	.81	20.88			
Intention to renew contract			.86	.76	.86
RL1	.88	23.05			
RL2	.86	22.42			
Advocacy intention	.85	22.37	.85	.73	.84
AL1	.86	22.87			
AL2					

Note: a.Fit index of CFA: $\chi^2_{(84)}$ 196.49, p .000, GFI .95, AGFI .92, CFI .99, NFI .99, RMSEA .052.

b. Reliability of construct j (α) computed as

$$\alpha \quad \frac{\left[\sum_{i}\lambda_{j}\right]^{2}}{\left[\sum_{i}\lambda_{ij}\right]^{2}+\sum_{i}Var(\varepsilon_{i})}$$

Where λ_{ij} is the completely standardized parameter estimate in the path between indicator i and construct j (see Fornell/Lacker 1981).

c. Average variance extracted of construct j is computed as

$$AVE \quad \frac{\sum_{i}\lambda_{j}^{2}}{\sum_{i}\lambda_{ij}^{2}+\sum_{i}Var(\varepsilon_{i})}$$

(Fornell/Larcker 1981).

In addition, as illustrated in Table 2, the *reliability* of the seven constructs is considered acceptable, as the composite reliability coefficients offer values that, in all cases, are appreciably higher than the recommended value of .7 (Bagozzi/Yi 1998) (see Table 2). To assess construct validity, the analysis first determined *discriminant validity* (see Table 1), which ensures that the square root of each construct's *average variance extracted* (AVE) is larger than its correlations with other constructs (Fornell/Larcker 1981). In addition, *convergent validity* analysis involved the examination of the sign, size, and significance of the estimated factor loadings. After computing the composite reliability index and AVE to assess how well each construct is measured by its indicators, it was determined that each standardized factor loading had the correct sign and was highly significant ($p<.01$). All factors loadings are larger than .5. The composite reliabilities of all constructs lie above .7, while the AVE for each construct is larger than .5. Based on these results, these constructs can be deemed reliable and unidimensional (Baggozzi/Yi 1988; Gerbing/Anderson 1988).

4.2. Structural Model

Structural equation modeling (SEM) was chosen, because it can support latent variables with multiple indicators, interrelated dependent variables, mediating effects, and causality hypotheses simultaneously. Structural equations can measure independent variable errors, while regression analysis and analysis of variance cannot (Bollen 1989). Once the scales for each one of the latent factors were validated, the estimation of the structural model was determined. Goodness of fit statistics, indicating the overall acceptability of the structural model analyzed, were acceptable: χ^2 (90) = 239.09 RMSEA =.058 GFI=.94 AGFI=.92 NFI=.98 CFI=.99 SRMR=.037. The proposed hypotheses proved significant, all moving in the expected direction. Table 3 outlines the results of the final model.

Table 3: Results of the Final Estimate

Dependent Variables / Independent Variables	Economic Satisfaction	Social Satisfaction	Intention to renew Contract	Advocacy Intention	Test Result
Communication direction	.18(2.13*)				H_1 Supported
		.23(3.38***)			H_2 Supported
Communication modality	.53(6.36***)				H_3 Supported
		.24(3.37***)			H_4 Supported
Communication content	.04(.94)				H_5 Not Supported
		.11(2.87**)			H_6 Supported
Economic satisfaction		.47(8.38***)			H_7 Supported
			.25(2.90**)		H_8 Supported
				.18(2.61**)	H_9 Supported
Social satisfaction			.48(5.46***)		H_{10} Supported
				.21(2.73**)	H_{11} Supported
Intention to renew contract				.58(10.29***)	H_{12} Supported

Note: ***p<.001, **p<.01, *p<.05; value in parentheses are t-value.
$\chi^2_{(90)}$ 239.09; RMSEA .058; GFI .94; AGFI .91; NFI .98; CFI .99; SRMR .037.

With regard to the antecedents of communication direction, positive and significant effects of economic satisfaction (H_1, $p<.05$) and social satisfaction (H_2, $p<.001$) were demonstrated. The second component of collaborative communication, communication modality, also demonstrated a significant effect on economic and social satisfaction (H_3, H_4; $p<.001$, $p<.001$), so that H_3 and H_4 were supported. The same was partially true of the third component of collabo rative communication, communication content, as it too exhibited a positive effect on social satisfaction (H_6, $p<.01$), but not on economic satisfaction (H_5, $p>.05$), so that H_6 was sup ported, but not H_5. Economic satisfaction and social satisfaction achieved a significantly posi tive relationship, so that H_7 was supported ($p<.001$). Economic satisfaction also demonstrated a positive effect on intention to renew contract and advocacy intention ($p<.01$, $p<.01$); thus H_8 and H_9 were supported. In addition, the equation model provided support for the hypothesis that social satisfaction leads both to intention to renew contract (H_{10}, $p<.001$) and advocacy intention (H_{11}, $p<.01$). Finally, intention to renew contract and advocacy intention exhibited a significantly positive relationship (H_{12}, $p<.001$). The goodness of fit values also indicated acceptable results.

5. Conclusions and Implications

Following Duncan/Moriarty's (1998) argument that the communication process is a critical element, even though relationship marketing literature often fails to include it in relationship building, this study demonstrated that collaborative communication is very important in rein forcing franchisees' satisfaction and loyalty in the franchise system. First, the study reveals that direction, modality, and content of communication are significantly related to franchisee summary judgments regarding the quality of that communication. The findings of the research support the link between collaborative communication and satisfaction (economic and social satisfaction), with the exception of the relationship between content communication and eco nomic satisfaction. Thus, the franchisor should communicate through respectful two way in formation sharing, formal meetings or spoken contact, and use non coercive communication, as these methods are very important in helping the franchisee make profits.

Based upon the results of this study, franchisors should come to understand that communica tion is the foundation for sound relationship building within a franchise system. Although the rights and obligations of franchisees are illustrated in contracts, franchisees still want franchi sors to communicate with them. In a competitive market, the franchise system always prompts new market programs to respond to variable consumer demands with innovative so lutions, like the launching of new products, adjusting of merchandise structures, and the de velopment of private label brand products. Communication, therefore, plays an important role in the process. The findings of this study also demonstrate that franchisees expect franchisors to discuss and explain issues and changes in detail. For example, franchisees may be puzzled when new products are launched; consequently, franchisors must communicate with franchi sees about the benefits of the product and communicate the predicted consumer response to reduce franchisee uncertainty.

Secondly, while the current author hypothesized that communication content and economic satisfaction would demonstrate a positive and significant relationship, the results fail to reveal any such significant relationship. There are several likely reasons for this finding. Firstly, Keith/Jackson/Crosby (1990) demonstrated that a distributor's satisfaction is greater when manufacturers use non coercive communication, but the affective components of satisfaction identified exclude the economic perspective. Thus, the discrimination between economic and social satisfaction helps us to understand their relationship with content collaborative com munication, and their effect on performance. The results of this study can be further investi gated in future studies, by separating the different kinds of satisfaction. Secondly, this study found that non coercive collaborative communication impacts social satisfaction, but not eco nomic satisfaction; therefore, the coercive communication of a hard recommendation and some reasonable requests should imply economic satisfaction. Thirdly, the relationship be tween a channel member and a franchise member may be a little different; franchisees need more definite advice and strict requests from the franchisor to reinforce the store's perform ance, and need more non coercive communication to maintain the relationship. The franchise system, in general, should reflect on this finding.

Thirdly, an important criterion of theory is law like generalizations (Hunt 2002). This study found that franchisees' levels of economic and social satisfaction are both very important in terms of the franchisees' intentions to renew their contracts and to advocate for the franchisor. These results are consistent with those of past research (Gassenheimer/Ramsey 1994; Gey sken/Steenkamp 2000; Rodrıguez et al. 2006), who also generalise the results on the franchise system. In addition, franchisees' intention to renew their contract has a positive and simulta neous effect on advocacy intention. When franchisees are satisfied with their profit and have a good social relationship with the franchisor, as a result of effective collaborative communica tion, they are willing to remain in the franchise system and also willing to reward it with strong and positive word of mouth advocacy. In other words, the franchisor should under stand that communication facilitates sound relationship building by satisfying the franchisee which, in turn, ensures that the franchisor's goals of franchisee loyalty will be met.

Several future research directions grow out of this study, the first relating to the inherent limi tations of the cross sectional design employed. To provide stronger inferences, models devel oped and tested in future studies could benefit from being tested within the context of a longi tudinal study. Secondly, this study limited its scope to the effect of collaborative communica tion on franchisee satisfaction and loyalty in Taiwan's convenience store franchising system. Caution should be exercised in generalizing the results across countries and to other retail formats. Therefore, future research should replicate and extend the model to other countries and industries. Thirdly, collaborative communication is not implemented at one end of the franchisor franchisee dyad. The questionnaire in this study was administered only to franchi sees, not to franchisors. The collaborative communication in channel relationships could be analyzed in greater depth if the questionnaire were bi lateral. Finally, although the study in cluded three types of collaborative communication to explore franchisee and franchisor rela tionships, other types of collaborative communication can be examined in future research, such as horizontal communication. If franchising knowledge is to be shared between franchi sees, it must benefit franchisees and improve knowledge of the franchise system.

Appendix

Figure A1: Measures of Constructs

Communication Direction (anchors: 1 = totally disagree; 5 = totally agree)	
CD1	Franchisor will tell me when I have a good performance.
CD2	I will provide the market condition to this franchisor.
Communication Modality	
CM1	In coordinating our activities with this franchisor, formal communication channels are followed. (a)
CM2	The terms of our relationship have been written down in detail.
CM3	The franchisor's expectations of us are communicated in detail.
CM4	The terms of our relationship have been explicitly verbalized and discussed.
Communication Content	
CC1	Franchisor makes a recommendation that by following their suggestions, I would be more profitable. (a)
CC2	Franchisor requests me to follow its wishes on an issue.
CC3	Franchisor merely discusses the overall strategy of operation without making a specific statement about what he or she would like to do. (a)
Economic Satisfaction	
ES1	My relationship with this franchisor has provided me with a dominant and profitable market position.(a)
ES2	My relationship with this franchisor is very attractive with respect and discount. (a)
ES3	I am very pleased with my decision to distribute the franchisor's products since their high quality increases customer traffic.
ES4	The marketing policy of this franchisor helps me to get my work done effectively.
ES5	This franchisor provides me with marketing and selling support of high quality.
Social Satisfaction	
SS1	The working relationship of my firm with this franchisor is characterized by feelings of friendliness. (a)
SS2	The franchisor expresses criticism tactfully. (a)
SS3	Interactions between myself and the franchisor are characterized by mutual respect.
SS4	This franchisor leaves me in the dark about things I ought know.
SS5	This franchisor refuses to explain the reasons for its policies.
Intention to renew Contract	
RL1	I am willing to renew contract with this franchise system.
RL2	I am willing to join multiple unit franchising store if I qualified.
Advocacy Intention	
AL1	I will say positive things about the franchise system to other people.
AL2	I won't recommend the franchise system to someone who seeks my advice. (r)

Note: (a) Item was dropped during scale refinement. (r) Reverse scored.

Table A1: Non Response Bias

		Age of Franchisee	**Education**	**Net Profit per Month**	**Years of Franchising**
Early and late response	*F*	.66	.13	.04	.66
	(p-value)	(.42)	(.72)	(.85)	(.42)

Table A2: Item Total Correlation Results

Communication	Item Total Correlation	Satisfaction	Item Total Correlation	Loyalty	Item Total Correlation
CM1	.6307	ES1	.7258	AL1	.7561
CM2	.6017	ES2	.6509	AL2	.7561
CM3	.7362	ES3	.7004	RL1	.7364
CM4	.7331	ES4	.7655	RL2	.7364
CD1	.6083	ES5	.7504		
CD2	.6083	SS1	.7464		
CC1*	.2515	SS2	.7201		
CC2	.5117	SS3	.7464		
CC3*	.3040	SS4	.7563		
		SS5	.7032		

Note: *Items were deleted because the difference in factor loading between the factors is not larger than .3.

Table A3: EFA Results

Communication	Factor 1	Factor 2	Factor 3	Satisfaction	Factor 1	Factor 2	Loyalty	Factor 1	Factor 2
CM3	.828	.186	.233	SS3	.789	.298	AL1	.873	.349
CM4	.818	.247	.169	SS5	.787	.267	AL2	.854	.377
CM2	.749	.278	- .018	SS4	.777	.337	RL1	.330	.881
CM1*	.644	.328	.298	SS1*	.626	.408	RL2	.401	.833
CD1	.315	.877	.033	SS2*	.600	.415			
CD2	.302	.745	.389	ES3	.243	.824			
CC2	.179	.157	.940	ES4	.328	.817			
				ES5	.385	.769			
				ES1*	.439	.673			
				ES2*	.489	.562			

Note: * Items were deleted because the difference in factor loading between the factors is not larger than .3.

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Multinationals in Central and Eastern Europe:
A Case Study of International Expansion by a Slovenian Retailer

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Abstract

Given the dearth of empirical evidence on Central and Eastern European (CEE) multinationals, this study examines the internationalization process of a large Slovenian chain retailer expand ing into its neighbouring markets of South East Europe. This research is based on existing theo retical conceptualizations of international retail involvement and uses a case study methodology. Internal motivations and external facilitators of the retailer's international expansion are ana lyzed, and its international entry and market development strategies in three South East Euro pean markets are examined.

Keywords

International Retail Expansion, Market Entry, Retail Marketing Strategy Adaptation, South East Europe, Slovenia

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1. Introduction

The knowledge of internationalization of firms in transitional economies in Central and Eastern Europe (CEE) is scarce, particularly in the area of individual firms' specific activities directed at outward foreign direct investment (FDI). Although such companies were believed to be barely visible in the global context until recently, the emergence of CEE multinational companies has been previously acknowledged and analyzed (Jaklič/Svetličič 2002). In view of the dearth of empirical work addressing internationalization of CEE firms, this study examines the process of international expansion by a Slovenian firm in a retailing sector, which, due to its idiosyncratic characteristics, is believed to be particularly complex and challenging (Leknes/Carr 2004; Jonsson/Elg 2006).

Indeed, after decades of being thought of as an activity confined to domestic and culturally cohesive markets, international retail expansion has become a reality for retailers in many developed economies. While the exact statistical data on the scope of retail internationalization is scant for this industry, reports in the trade literature provide evidence of an increasing number of retail chains seeking growth in markets beyond their domestic borders (Deloitte Touche Tohmatsu 2007). These analyses as well as academic research provide examples of several well known retailers based in Asia, Europe and the U.S. that chose the path of internationalization for their growth strategies, focusing on mature as well as emerging retail markets (e.g. Bianchi/Ostale 2006; Da Rocha/Dib 2002; Fernie/Arnold 2002; Jonsson/Elg 2006). Increasingly, however, there is evidence of attempts by retailers from transitional economies to move into culturally close international markets, i.e., markets characterized by a low psychic distance (Evans/Treadgold/Mavondo 2000; Sousa/Bradley 2006). It is believed that some companies in advanced transitional Central European countries try to capitalize on their knowledge, experience and historical business ties, aiming to garner first mover advantages (Jaklič/Svetličič 2002; Nakata/Sivakumar 2002) while expanding their operations into the neighbouring, less mature markets.

Given the lack of empirical efforts addressing internationalization by retailers from advanced emerging economies into other emerging transitional markets, this study addresses a gap in academic literature in that it aims to gain insights into the internationalization process of a large Slovenian chain retailer expanding into the markets of South East Europe. More specifically, based on existing theoretical conceptualizations of international retail involvement, the objectives of this empirical study were to analyze internal motivations and external facilitators of the retailer Mercator's international expansion, and to examine its international entry and market development strategies in three South East European markets, i.e. Croatia, Bosnia and Herzegovina, and Serbia.

This paper first examines theoretical background on retail internationalization and then explains the reasoning for selecting the qualitative case study as the appropriate methodological approach for this research. Next, historical information is provided on the retail company Mercator. The organization of the remainder of this paper follows the proposed conceptual framework in that it first examines the internal company and external market characteristics in South East Europe, and then analyzes Mercator’s initial international retail involvement and its entry strategies, including adaptation of its marketing approaches in the new markets. The study concludes with an appraisal of the retailer’s present international involvement and discusses implications of research findings.

2. Conceptual Background of the Study

While the evidence of increasing globalization in the retailing sector seems indisputable, academic research in this area is still lagging behind the “real world” activities, particularly as related to retailers in some transitional markets. Existing knowledge of retailers’ international expansion is presently confined to examinations of international moves by large retail organizations from mature retail markets (e.g. Bianchi/Ostale 2006; Jonsson/Elg 2006; Vida 2000). Many existing contributions tend to focus on the results of implementation of international expansion and often lack common conceptual basis. Hence, several researchers have called for more in depth investigations of various aspects of international retail expansion by drawing on existing theoretical models found in general business and retail specific literature (Akehurst/ Alexander 1995; Alexander/Doherty 2002; Vida/Fairhurst 1998; Williams 1991).

Researchers studying international expansion of firms in the retail industry have proposed and used various models in their conceptual and empirical work. Some of these studies are based on international business theories, such as Dunning’s eclectic paradigm (e.g. Chen/Sternquist 1995; Dawson 1994; Pellegrini 1991) and institutional theory (Bianchi/Ostale 2006). More recently, Swoboda/Anderer (2008) effectively utilize international management literature in examining the coordination dimensions of international retail processes, applying their proposed framework to the actual activities of sixty European retailers. On the other hand, other authors preferred to develop their own retail specific typologies and frameworks examining various aspects of the retail internationalization process (e.g. Salmon/Tordjman 1989; Simpson/Thorpe 1995; Treadgold 1988; Vida/Fairhurst 1998; Williams 1991; 1992). As regards borrowing theories from general business literature, some authors caution that differences in the organizational characteristics of manufacturing firms and retail industry firms might hinder the exact application of existing business theories to the internationalization of retail organizations (Gripsrud/Benito 2005; Dawson 1994, 2003; Leknes/Carr 2004). At the present time, however, there seems to be little consensus among researchers as to which of the pro posed models would serve best in providing a better understanding of the process of interna tional retail expansion (Jonsson/Elg 2006). One of the reasons may lie in the fact that very few retail researchers have actually followed up their proposed conceptual models with em pirical work.

The present study fills this void in that it builds on an existing theoretical model proposed in the literature on internationalization in the retailing industry, using it as a framework within which to examine the internationalization process of a Slovenian retail company empirically. One of the existing descriptive models comprehensively addressing retail internationalization is the dynamic model of factors impacting the retail internationalization process by Vida/Fairhurst (1998). This model, depicted in the appendix (see Figure A1), is derived from the behavioural paradigm of firm internationalization (e.g. Cavusgil 1984; Forsgren 2002; Jo hanson/Vahlne 1977, 1990; Perlmutter 1969) and attempts to provide an understanding of general and industry specific factors facilitating or impeding the retail internationalization (RI) process. The basic premise of the model has been applied previously in examinations of retailers' international expansion, e.g. in the case of large retailers (Vida 2000; Jonsson/Elg 2006), when studying international retailers in Finland (Uusitalo/Rokman 2004) and interna tional retail activities by smaller retailers in the UK (Hutchinson et al. 2007).

Alongside the well conceived analysis and characteristics of the external environment, the theoretical model emphasizes the crucial impact of the decision maker's characteristics and organizational characteristics in the initiation of international retail expansion. According to Vida/Fairhurst (1998), these elements represent facilitators or inhibitors for the process ele ments of retail internationalization (RI), i.e. whether a firm will initiate international retail activities, maintain a constant level, increase or decrease its level of international retail in volvement, or completely withdraw from its international markets. The last alternative identi fied as an element in the RI process has recently gained further discussion in the literature, specifically focusing on the international retail divestment process (e.g. Bianchi/Ostale 2006; Burt/Dawson/Sparks 2003). Moreover, the model postulates that, based on the initial or sub sequent decisions regarding a firm's international involvement, two critical strategic decisions need to be made: where to allocate a firm's resources and how to enter international markets. While this conceptual model also incorporates decision making with respect to retail man agement considerations in international markets, it does not specifically elaborate on these aspects of international retailing strategy. Hence, this present empirical study adopts the view offered by Evans/Treadgold/Mavondo (2000) in that a particularly careful adaptation of re tailing strategies and market development activities are needed to enhance the probability of a retailer's international effectiveness. The model in Figure A1 is dynamic in the sense that the outcomes of the RI process, i.e., international performance, will influence the model's inputs (i.e. the antecedents) in the subsequent decision making cycle (i.e. the feedback loop).

In the present study, the model presented in Figure A1 provides a conceptual basis for examining the internationalization process activities of a large retail organization from the advanced transitional economy of Slovenia, i.e. a retail chain which has, in recent years, shown aggressive expansion into the less mature transitional (and post war) markets of South East Europe. While Mercator, which is the focus of this case study research, by no means meets the size or even international scope standards of major Western retailers (Deloitte Touche Tohmatsu 2007), it has had a major impact on its domestic market economy in Slovenia and has made seemingly successful strides into the international retailing arena in recent years. The conceptual model of RI used in this study appears appropriate as it focuses on “the initial foreign market entry” phase (Douglas/Craig 1989) rather than on issues relevant to an experienced multinational company. Considering the fact that this study focuses on Mercator’s initiation of internationalization activities, its “novice” status in international retailing makes this theoretical basis particularly relevant for the analysis.

3. Research Methodology

This research was designed according to the qualitative case study methodology (Yin 1989). The dearth of published information on the emerging multinationals in the transitional markets of CEE (Jaklic/Svetlicic 2002), principally in the retailing sector, as well as the dynamic and context dependent nature of international retailing grants particular relevance to this methodology, which has been used in previous studies on RI (e.g. Bianchi/Ostale 2006; Gripsrud/Benito 2005; Jonsson/Elg 2006). Data collection consisted of internal and external company sources, including primary and secondary data. Considering the longitudinal nature of this study and its objectives, the majority of primary data were collected in the first three years of the company’s internationalization (2001 2003). The systematic collection of secondary data was a continuous process in the entire six year period of the investigation.

To build the chain of evidence needed to yield reliable, valid case study results, multiple sources of evidence were used and the data and interpretations were cross checked (Patton 2002). From September to October 2002, eight personal interviews were conducted with selected informants in the focal company and its international management and staff. More specifically, in Slovenia, semi structured interviews were conducted with the retailer’s CEO, its executive managers in charge of finance/controlling and of marketing, with the company’s chief market analyst, and its public relations representative. In addition, three unstructured interviews were conducted with Mercator’s management and staff in Croatia, including the CEO for Croatia, the general manager of the its first shopping centre, and staff members (front line employees in the selected hypermarket). Personal interviews lasted between 30 and 70 minutes. Other data sources included structured observations of the field setting (Merca tor's domestic and international retail outlets), the company's annual reports, promotional and other materials targeted to South East European markets, selected Internet sites, and industry data bases. Moreover, key informants of the headquarters in Slovenia (the CEO, the chief marketing manager) consented to review the preliminary case study compilation to verify the data collected and add relevant information.

3.1. Case Study Analysis and Discussion

Data were examined using qualitative analytic techniques recommended by Miles/Huberman (1984) and Patton (2002). The information gathered was compiled into a comprehensive sum mary of Mercator's international retailing activities in each international market, and analyzed with the aim of identifying common patterns and themes. The analysis involved comparison and contrast on key variables, as well as reflection with respect to the RI model used as a theoretical basis for this study and possible implications.

3.1.1. Historical Background of the Retailer

Mercator is the largest Slovenian chain retailer and can be traced back to 1949, when a large state owned grocery retailer named Živila was established. This retailer was a legal predeces sor of the present company, which was renamed Mercator four years later. Being a fast grow ing retailer, the company diversified and was reorganized several times during its period of state ownership between 1953 1993. Once Slovenia became an independent state, quickly adapting to the principles of a market oriented economy, a new era began for Mercator. The process of company privatization started in 1993 and was concluded a year later, when Mer cator became the largest joint stock company in Slovenia [1]. In fact, due to the size of the company and its capital value, it became the largest privatization effort in Central Europe.

The period from 1995 1998 was characterized by the process of restructuring, reorganizing and adapting its business operations to the European retail business models and standards. In 1999 and 2000, the company acquired several independent retailers in Slovenia (which evolved as a result of retail fragmentation in the early years of transition), continued to ex pand and modernize its marketing channels, built shopping centres in Slovenia, and inten sively implemented standardization of business processes and integration of the acquired companies into its business system. The company initiated its international expansion into the South East European markets (i.e. pre 1991 Yugoslavia) in December 2000 by opening its first two large scale supermarkets (hypermarkets) in Croatia and in Bosnia and Herzegovina, followed by the opening of its first shopping centre in Serbia in December 2002.

Mercator operates under the umbrella of the Business System Mercator, which runs not only retail and wholesale companies, but also manufacturing, agriculture, hotel services and engi neering operations. Its primary businesses, however, are wholesale and retail trade in fast moving consumer goods, whereby companies operating in these two sectors achieve more than 90% of the total net sales (of which approximately 75% net sales are derived from retail ing alone). Mercator had gained a domestic market share of 45.8% by the end of 2006 (Gfk/Gral Iteo 2007). Growth of the company's market share in the period 1997 2006 was impressive; the company more than doubled its market share in the short period between 1997 and 1999 (from 15.4% to 29.9%), and since then has steadily increased its domestic market share despite the aggressive entry of international retailers entrants into Slovenia, particularly in the past three years (2004 2007).

By the end of 2006, the company operated a total of 863 retail units in its domestic market (1,057 including franchise units), 222 retail units in international markets (252 including fran chise units), employed over 12,000 people and reached net sales of 1.63 bn EUR. Today, the company operates stores in various retail formats, e.g. shopping centres, large scale stores with emphasis on groceries (i.e. hypermarkets), supermarkets, small scale supermarkets (su perettes), discount and convenient stores, as well as e tailing operations in Slovenia. Further more, a significant share of its total retail space is used by specialty stores offering technical, textile and furniture programmes. It is worth noting that the company was the first retailer in Slovenia to offer fast moving consumer goods on the Internet, starting in April 1999. In addi tion to fully owned retail units, the company has been developing a franchising system (194 units in Slovenia and 30 units in Croatia in 2006).

In recent years, the company's efforts have been directed at achieving the highest level of sat isfaction for its stakeholders in all of its business operations. The management believes its retailing competitive advantages lie in a personalized approach, friendly and service oriented sales personnel, its merchandise mix, and the value offered to its customers, whereby the re tailer strives to improve the quality of life of the local population in all markets in which it operates. The future goals of the company are to maintain the position of a leading retailer in Slovenia, to become a major retail chain in the markets of South East Europe, and to reach a level of business excellence comparable to major retail operations in the European Union (EU). The most notable achievements in the first years of the new millennium included the strengthening of its merchandise mix, increased levels of customer satisfaction, growth of sales and market share, further improvements in business excellence (e.g. introduction of ISO 9001 quality standards), continuing development of long term relationships with domestic producers and international suppliers, and its concern for the environment. The company re ceived several marketing communications awards, beginning with "Advertiser of the year 2001" from the Slovenian Advertising Chamber, to the one of most recent awards for its ad vertising effectiveness (EFFIE). This recognition demonstrates Mercator's excellence in communications, which reflect the concerted effort on the part of the company to strengthen its corporate brand.

3.1.2. Market Opportunity Analysis of South East Europe and the Retailer's Key Competencies

In analyzing the company's initiation of retail internationalization, we first analyze characteristics of Mercator's international target market environment and the retailer's internal competencies at the turn of the millennium, when the internationalization process began with entry to the neighbouring markets in Croatia and in Bosnia and Herzegovina (B&H) in 2000, followed by entry to Serbia two years later. This approach is in line with the theoretical framework for the study (Figure A1), as the analyses pertaining to external environment and internal company characteristics and competencies represent are antecedents to the RI process.

While the specific reasoning for the retailer's international market selection is discussed in the subsequent section of this analysis, the company's choice of the South East Europe market needs to be examined from a historical perspective of the region. Croatia, B&H and Serbia, constituted, along with Slovenia, Montenegro and Macedonia, constituted the six federal units (republics) of the pre 1991 Yugoslavia, a multicultural and multiethnic state under communist rule. While these (now independent) countries evolved independently between the 13th and 20th centuries, they became constituent parts of the same state in the aftermath of World War 1 in 1918. For the larger part of the last century, they shared the same economic system and a similar level of exposure to international influences. Owing to the effects of ethnic wars in the Balkans immediately after the split up of pre 1991 Yugoslavia, Croatia, B&H and Serbia followed different patterns of political transition and economic development. All three markets were considered politically unstable in the early 2000s, a feature which affects the process of transition as well as their macroeconomic stability, and consequently leads to a high level of risk for international investors. Other common features of these markets at the time of Mercator's entry included relatively low purchasing power, coupled with growing economic stratification of these societies. While high growth of the GDP was evident in all markets at the time (particularly in Serbia), Croatia was clearly ranked as the most developed of the three. In the early 2000s, these markets were also beset with problems such as a high rate of inflation (e.g. Serbia) and a high level of unemployment (over 40% in B&H). In addition to a number of foreign aid packages some of these countries have been receiving since the end of the ethnic conflicts in the region in the mid 1900s, FDI will play a crucial role in the future economic development of these country markets. Table 1 provides data on the selected macroeconomic indicators for domestic (Slovenian) and the targeted international markets for the years 2001 and 2006.

Table 1: Selected Macroeconomic Indicators for Slovenia, Croatia, Bosnia and Herzegovina (B&H) and Serbia for the Years 2001 and 2006

	Slovenia		Croatia		B&H		Serbia	
	2001	2006	2001	2006	2001	2006	2001	2006
Population, total (m)	2.0	2.0	4.4	4.4	3.8	3.9	7.5	7.4
GDP (current USD) (m)	19,772	37,303	19,857	42,925	5,653	12,255	11,759	31,989
GDP growth (annual %)	3	5	4	5	4	6	5	6
GNI per capita, Atlas method (current USD)	10,400	18,660	4,390	9,310	1,580	3,230	1,460	4,030
GNI per capita, PPP (current international D)	17,830	23,970	9,660	13,850	4,940	6,780	6,330	9,320
Inflation, GDP deflator (annual %)	9	2	4	3	4	6	88	16

Source: World Bank (2008).

Despite its drawbacks, Serbia was believed to offer the highest future potential for Mercator, mainly due to its market size and the forecast growth of purchasing power. This has recently been confirmed by the Eurostat report on the development of the Western Balkans, which in dicates that the turnover index in retail trade varied substantially among the individual coun tries in the region based on year to year growth rates in retailing (Behrens 2005). The report also reveals that, unlike other countries in the Western Balkans, Serbia (along with Montene gro at the time of the analysis) was the only country exhibiting a continuous double digit growth in retail trade. On the other hand, an analysis by A.T. Kearney, a consulting company that measures retail market attractiveness using the Global Retail Development Index (GRDI), did not rank Serbia and Montenegro among its top 30 countries for retail investment (A.T. Kearney 2005). The company's GRDI is developed based on four major indicators: country risk, market opportunity, market saturation, and time pressure. In the same year, however, other retailing markets in the Balkans (Slovenia, Croatia, B&H, and Macedonia) were ranked as the most promising for retail investment.

Several commonalities of the three markets have been mentioned so far. However, companies operating in this part of the world should also be aware of differences, which pertain primar ily to cultural idiosyncrasies within and across these markets, as well as ethnic sensitivity of the local population. For instance, there are three distinct ethnic entities present in B&H alone. Findings of an empirical study of consumer behaviour in the former Yugoslav markets revealed a low presence of consumer ethnocentrism, which varies by country/region and seems most apparent in Croatia, particularly in some demographic segments (Vida/Dmitrović 2001). However, Slovenian products enjoy an overall positive image relative to those of do mestic origin. Consumer awareness and familiarity with Slovenian brands is still relatively high, particularly in some product categories, yet it is diminishing among the younger popula tion (with no experience in the pre 1991 common state). Another study confirmed that despite low purchasing power, a surprisingly high presence of cross border shopping was found, par ticularly in Croatia and Serbia, which are geographically closer to more developed and attrac tive international markets as compared to B&H, Macedonia, and Montenegro (Dmi trović/Vida 2007). Cross border shopping activities, mainly in consumer goods such as food, household items, apparel and footwear, were primarily driven by economic, quality and image factors. These trends appear promising for international entrants.

With the exception of Croatia, competition in the retailing industry was relatively weak at the time of Mercator's international entry, highly fragmented, and concentrated in large cities. While in Croatia, the level of competition has been intensifying: five major retailers held 46% of the retail market share in 2006 compared to 20% in 2001. The major retail competitor has been the local supermarket chain Konzum (its retail market share rose from 10% in the early 2000s to 22.5% in 2006), followed by two other local retailers, i.e. Getro and KTC (with 8.0% and 6.7% market shares, respectively) and a few international entrants, of which retail ers Billa (Austria) and Kaufland/Lidl (Germany) reached market shares of 7.7% and 6.2%, respectively, by 2006 (Gfk/Gral Iteo 2007). The competition in B&H and in Serbia (except in capital cities) has been weaker, predominantly due to the fragile social and economic status of the population. In Sarajevo, the capital of B&H, were two retailers operating in hypermarket retail formats at the time of Mercator's entry, i.e. retailers Visa and VF Commerce. Another competitor, a discount store operator Interex (Intermarche, France), which targets primarily price sensitive segments of consumers, currently maintains the largest share of the market (i.e. 5.6% in 2006). Overall market concentration [2] in retailing remains low in B&H. Similarly, a highly fragmented retail market with low market concentration [3] characterizes the market of Serbia. At the time of Mercator's entry in 2002, two local retailers, i.e. C Market and Pekabeta (with respective market shares of 15% and 8% in 2002) were the strongest competi tors. Indeed, the ethnic war and the economic embargo [4] imposed on Serbia by the interna tional community delayed its economic transition as well as the entry of international suppli ers and investors to the Serbian market.

In addition to opportunities and threats stemming from the external business environment of South East Europe, Mercator's key internal capabilities that facilitated its initiation of RI need to be examined. The most significant strengths relate to the retailer's clear vision, objectives and strategy. Acknowledging its status as a "novice" in international retailing in the early 2000s, the management set lucid strategic objectives regarding the company's position in South East Europe, and decided to continue its RI incrementally, step by step. Mercator's strong position in its domestic market of Slovenia enabled the company to commit financial and other resources necessary for efficient initiation and maintenance of its international in volvement. Mercator was also able to capitalize on its knowledge of the selected international markets, as well as on historical business and cultural ties with the region, which together formed a critical competitive advantage over other international entrants.

At the time of its international entry, the company's management appeared competent in and familiar with idiosyncratic business conditions in the region (e.g. poor distribution infrastruc ture and underdeveloped financial systems), and was prepared to make appropriate adjust ments in the way that business was conducted across the border. On the other hand, as a new entrant in these markets, the company had a low negotiating power with local suppliers. These factors, along with poor access to local channels of distribution, prevented the company from achieving the economies of scale necessary to increase the overall effectiveness of its international involvement in the initial years of its international expansion.

3.1.3. International Entry: Market Selection and Entry Modes

Based on the dynamic model of internationalization (Figure A1), once the decision has been made to initiate the RI process, a retailer should first identify the market(s) to enter and select appropriate method(s) of entry. Clearly, these decisions stem from the retailer's internal capa bilities, which ought to be matched with well conceived analysis of the external environment. Subsequently, these decisions will affect the extent to which a company's retailing mix and other operational considerations will be adapted to characteristics of international markets.

In analyzing Mercator's motivation behind its initiation of international retail involvement, both push and pull factors (Sternquist 2007; Swoboda/Foscht/Cliquet 2008) seem to have played a role. The former included limited growth opportunities in a competitive, saturated and small domestic market, as well as legal constraints on additional increase of market share in Slovenia. On the other hand, pull factors behind Mercator's international expansion lay in opportunities for faster growth abroad as a result of the under developed retail structure in South East Europe. In addition, the management's confidence that, relative to other international entrants, Mercator possessed a unique set of advantages due to Slovenia's historical business and cultural ties with the region, seem to have "pulled" the company to cross borders. At the same time, however, the company had no prior "hands on" experience in international retailing.

In line with the aforementioned facilitating factors and the evolutionary approach to RI in the theoretical model (see Figure A1), including the concept of psychic distance (Evans/Tread gold/Mavondo 2000; Johanson/Vahlne 1990), Mercator chose to enter culturally close (yet socio economically somewhat unstable) international markets. Based on the interviews with executive management, three major reasons impacted the decision to select the three former Yugoslav markets. The first reason was geographical closeness of these markets, which was deemed important due to logistical issues. The second reason was the familiarity of local con sumers with Slovenian brands, including the Mercator corporate brand. The third reason re lated to the undeveloped retail structure in the region and the growth potentials. Three former Yugoslav markets met these criteria: Croatia, B&H and Serbia. The remaining regions in the area seemed less attractive due to the higher level of perceived risk, logistical problems and, as in the case of the republic of Macedonia, a strong presence of international (i.e. Greek) re tailers. Indeed, this finding is consistent with the literature emphasizing the role of “distance” (i.e. cultural, business, institutional) in international business in recent years. The crux of this concept lies in the assumption that differences between the home and international country markets increase the cost of entry, decrease operation benefits and hinder the company in ef fectively transferring its capabilities to international markets (Tihanyi/Griffith/Russel 2005; Vida/Obadia/Prime 2008).

The conceptual framework used in this study, which is based on behavioural models of inter nationalization, suggests that entry mode decisions are a function of the firm’s experiential knowledge of the markets and resource commitment to international business development, so that the firm will employ incrementally more committed modes of entry as managerial ex perience and knowledge increase in the process (Johanson/Vahlne 1990). This is consistent with classic views in the field of entry behaviour, arranging entry modes from low control and risk modes (e.g. licensing, in store concessions or franchising) to high control and risk modes (e.g. partly or wholly owned direct investments in new or existing retail facilities). While the model acknowledges exceptions, it maintains that a retailer may need to follow the evolution ary path at least initially, when management experience in international retailing is still weak (Vida/Fairhurst 1998).

In the case of Mercator, the retailer has clearly leapfrogged stages of entry modes in that, de spite its status as a “novice” in international retailing, the company entered its international markets predominantly with internal expansion (Dawson 1994) through Greenfield invest ments, e.g. by building new shopping centres. With the exception of the recent acquisition of an independent retail chain in Croatia, take overs were a far less common entry mode for the retailer. Evidently, Mercator selected organic growth as its prevailing entry mode due to lack of appropriate takeover targets in these markets. For example, Croatia used to have several strong retailers in pre 1991 Yugoslavia, yet in the early 2000s, these companies were bur dened by debt, making them unattractive acquisition targets. As a result, international retailers considering entry into South East Europe are left with no choice but to select a high con trol/risk strategy of organic growth. It is interesting to compare the entry mode to these transi tional markets (e.g. the former Yugoslav markets) with the entry mode to mature retail mar kets (e.g. the European Union). Due to highly prohibitive legislation regarding building new stores in Germany and the UK, Wal Mart, the world’s largest retailer, was able to enter these markets solely through take overs or acquisitions (Fernie/Arnold 2002).

3.1.4. Market Development and Retail Marketing Activities in South East Europe

The theoretical model guiding this case study analysis postulates that, following the general positioning with regards to internationalization and the two critical strategic decisions, i.e. country market and entry modes selection, a retailer needs to pay attention to market development and retailing management considerations in its new markets. A particularly careful adaptation of retailing strategies and market development activities is needed to enhance the probability of a retailer's international success. In order to analyze Mercator's market development activities in South East Europe, various elements of the company's retailing mix strategies in its international markets are compared and contrasted with the strategies utilized domestically. In the section that follows, we briefly analyze adaptation of four aspects of Mercator's international retailing operations: a) merchandise assortment and suppliers, b) location, physical store environment and store atmospherics, c) pricing strategies and d) marketing communications, including corporate image.

Merchandise Assortment and Suppliers. Mercator's international hypermarkets carry the same ratio of food vs. non food items as in Slovenia, i.e. 60 vs. 40%, respectively. However, the company selects its suppliers based on their country of origin. While, in the domestic market, the retailer favours domestic suppliers by offering up to 75% of Slovenian goods in its merchandise mix, in the international markets, both local and Slovenian suppliers are favoured over suppliers of other origin. The retailer's goal is to achieve the following ratio of Slovenian (domestic) vs. local vs. international suppliers: 40:40:20. Yet, due to difficulties in finding suitable local suppliers, it will take the company some time to reach this target ratio. Regardless of the market in which it operates, the retailer strives to offer quality products at competitive prices, and therefore selects only quality suppliers that are known and appreciated by local customers. Moreover, the company places a strong emphasis on building long term relationships with its suppliers. Its efforts towards establishing strong relationships include recent attempts to adopt the principles of category management and build sophisticated information systems for electronic data interchange. According to the management, development of the retailer's private label (food and non food) products also aims to strengthen the relationships with its suppliers. Nevertheless, given its relatively small market shares in Croatia, B&H and Serbia (i.e. approximately 4.1, 2.0 and 8.0%, respectively, in 2006), the retailer still holds low negotiating power with local suppliers. At the present time, the retailer is in the process of establishing a more efficient logistics support system and implementing a uniform purchasing system across all its markets.

Location, Physical Environment and Store Atmospherics. In its domestic and international markets, the retailer builds its shopping centres close to major cities. Retail site decisions are made based on the retail format used. While hypermarket and supermarkets are prevalent in

Mercator's three international markets, the company also uses other diversified formats, such as specialty store operations. Other important factors in site selection include accessibility to local transport facilities, convenience and to visibility. In the light of the under developed re tail structure in the chosen international markets, Mercator has generally been able to obtain retail locations consistent with the above criteria, as well as with its positioning strategy. However, when selecting a location for its first shopping centre in Belgrade (Serbia), it took Mercator three years and over 80 approvals to finally obtain it. This shows that despite the under developed retail structure in selected foreign markets, the site selection process is any thing but an easy task. With respect to the physical appearance and atmospherics, there is no difference between Mercator's shopping centres and retail outlets in the domestic and interna tional markets. Along with other elements of the retail marketing mix, the layout in its inter national stores is aimed at building a distinct corporate image.

Pricing Strategies. In general, the company implements the same pricing strategies and tactics in its Slovenian as in its international markets. The primary pricing strategy involves every day low prices (EDLP), which is adopted specifically for best selling items in the store. This enables the retailer to offer established brands at attractive prices and target price sensitive consumers. The retailer maintains the same level of prices on these items for a period of at least six months. In an attempt to attract different market segments, the company also uses other pricing strategies and tactics. For example, the company offers a limited number of products at lower prices in the specified period, usually limited to eight days. This is not only an effective sales promotion tool appealing to the most price sensitive buyers, but is also an example of a high/low pricing strategy. In addition, other pricing tactics such as odd, multi ple line and line pricing are also used.

Marketing Communications and Corporate Image. In communicating with the diverse groups of stakeholders in international markets, the company uses a similar approach to that used domestically. Mercator is known for its innovative use of various communication tools, which are closely integrated with its overall business strategy and market positioning. It is undoubt edly worth mentioning the retailer's offer of the so called "national small baskets of goods". For instance, a "Croatian" or "Bosnian" small basket of goods includes fifty best selling items produced by local manufacturers at the guaranteed lowest price for the package. If a customer finds these items cheaper at competitors' stores, the company promises to refund the price difference. The selection of merchandise included in the "national small baskets" changes every season, based on local consumers' preferences. This tactic represents an effective tool for retail differentiation, communication with its target segments, and strengthening business relationships with local suppliers. Apparently, this tactic has been so successful that it was imitated by local competitors.

Mercator was the first retailer in its international markets to offer a free loyalty card based on advantage (profit) points. Moreover, the retailer seems to pay considerable attention to its public relations activities, an example of which includes charity donations (e.g. equipment for three maternity hospitals). These efforts reflect the retailer’s concern for and involvement in its local communities. While various factors inherent in creating a strong retail brand have been analyzed so far, an additional one remains to be pointed out. The retailer appears to be aware of the crucial role of all its employees, in particularly the salespeople, in building Mercator’s image. The company policy is to employ local management and staff, and to build a strong organizational culture and know how in its international markets. However, the retailer also faces problems due to the lack of skilled employees available in its new markets.

3.1.5. Performance Appraisal in International Markets

An important outcome activity of the RI process relates to the performance evaluation of international involvement (Figure A1). While a variety of methods for such an appraisal exist, our appraisal of Mercator’s performance in its international market is based on three criteria: a) the scope of international involvement with financial effectiveness, b) effectiveness of target positioning and c) the impact of the retailer on the economic and social environments in new markets. Firstly, the retailer is currently present in three regional markets of South East Europe and operates a total of 222 company owned stores in various retail formats [5]. By the end of 2006, the company had gained 4.1% of the market share in Croatia and, with its 166 retail outlets (30 of which are franchise operations), became the fifth largest retailer in this market. In B&H, where the retailer operates 23 retail outlets, Mercator’s estimated market share remained steady at around 2% between 2003 and 2006. As the result of a recent strategic alliance with a Serbian retailer M Rodić, Mercator achieved an approximately 8% market share in Serbia by the end of 2006 (Gfk/Gral Iteo 2007). In the four years since its entry, the retailer has opened 63 retail outlets [6] in Serbia. Overall, net sales in international markets represented 21.6% of the total net sales in 2006, with 12.7% in Croatia, 6.2% in Serbia and 2.7% in B&H (Mercator 2007).

When evaluating Mercator’s financial effectiveness, it should be noted that the company operates under the umbrella of Business System Mercator. The group ended its first years of operation in international markets with a loss due to investments [7] made in Croatia by predominant use of debt financing. Conversely, financial returns of the RI process and the method of entry into international markets should also be considered; entry modes such as takeovers or acquisitions could accelerate initial growth of the market share much faster than the organic growth mode, which was largely used by Mercator in its initial internationalization thrust. Secondly, regarding the company’s target positioning, it can be deduced that the retailer strives to position itself as a recognizable, high quality retailer exhibiting a concern for local communities in which it operates. While limited publicly available information exists on actual consumer perceptions and the image Mercator currently enjoys in its international markets, indirect indicators are available. Based on the retailer's recent measurements of customer satisfaction in Croatia and B&H, the company appears to be effective in building a strong retail brand and a positive image in these international markets. On the other hand, considering the high growth in international and domestic competition in all of Mercator's international markets, the retailer needs to expand its existing market research efforts to include assessments of its target positioning in new markets. Finally, the retailer's impact on the economic and social environment should be evaluated. The retailer's strategy of developing strong relationships with local suppliers and its policy of hiring local management and staff should undoubtedly contribute to economic development and lead to enhancement of the social structure of these societies. Moreover, by applying its targeted ratio of domestic (Slovenian) vs. local vs. international suppliers, the company's international expansion has also had a positive effect on the economy of Slovenia. By virtue of maintaining at least 40% of its merchandise mix with products of Slovenian origin, the retailer facilitates Slovenian manufacturers' entry and exports to these international markets.

4. Case Study Conclusions

Using a case study methodology, the aim of this research was to examine internal motivations and external facilitators of the RI process by the largest Slovenian retailer Mercator, whereby international entry and market development strategies are analyzed in Croatia, B&H and Serbia. As is evident from the results of the analyses presented, the company underwent a period of massive restructuring and reorganization once the process of privatization of the previously state owned enterprise was completed. New business conditions in the domestic market, coupled with capable, ambitious management and innovative marketing approaches allowed the retailer to gain the position of domestic market leader quite rapidly. Limited by the size of the domestic market, Mercator identified opportunities for growth in the less mature retail markets of South East Europe in the late 1990s. In its market seeking FDI, the retailer initiated activities aimed at realizing psychic as well as physical market proximity (Eckert/Rossneissl 2005), and capitalized on historical ties with the region, i.e., pre 1991 Yugoslavia. The findings of our treatise on the RI process of a single retailer in Slovenia are consistent with previous broad analyses of the emerging multinational companies in CEE. For instance, Jaklič/Svetličič (2002) contend in their study that geographical allocation decisions related to outward FDI of CEE multinationals tend to be a function of the three aforementioned factors (i.e. geographic proximity, cultural proximity and historical ties) as much as of companies' size and age (i.e. experience), ambitious planning, and a thorough understanding of how to create of sustainable competitive advantages in international markets. A summary of key issues in the retailer's international expansion in the period between 2000 and 2006 is provided in Figure 1.

Figure 1: Summary of Key Issues in the Retailer's International Expansion

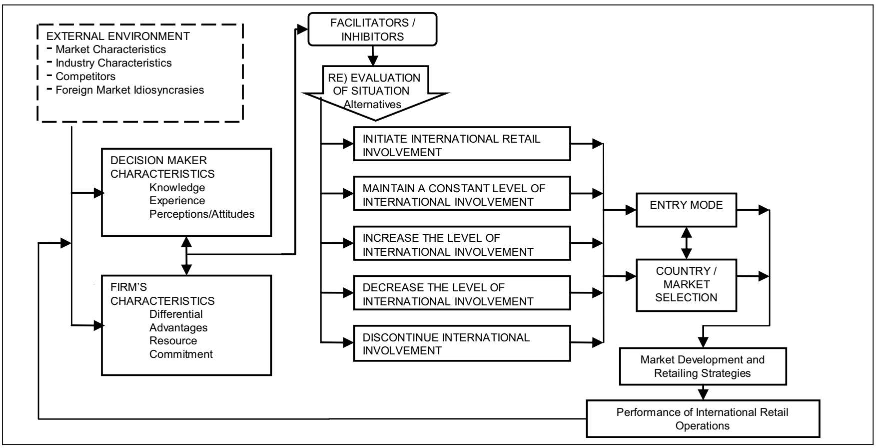
International Involvement	Mercator's Internationalization in the Period 2000-2006
Major RI motives	Limited domestic growth opportunities, underdeveloped retail structure in the neighbouring markets
Strategic objectives	To become a major, well-recognized and well-respected retail chain in the South East European markets
Entry modes	Organic growth (predominantly at the beginning); strategic alliances (later)
Number of international markets	Three
Timing of initiation of RI involvement	Croatia: December, 2000 B&H: December, 2000 Serbia: December, 2002
Total number of international retail outlets	222 company-owned retail outlets and 30 franchise operations (Croatia: 166; B&H: 23; Serbia: 63)
Retail formats	Shopping centres; hypermarkets; supermarkets and specialty stores
Estimated market share (by the end of 2006)	Croatia: 4.1% B&H: 2% Serbia: 8%

Having undertaken pro active steps towards internationalization, Mercator first clearly formu lated its strategic objectives in the new markets, i.e. "to become a major, well recognized and well respected retail chain in the markets of former Yugoslavia", and initiated its international expansion by opening its first shopping centres in Croatia and B&H in 2000, followed by Serbia in 2002. Mercator's entry mode decisions did not follow the evolutionary path of internationali zation (from low to high control/risk modes) as suggested by the theoretical model used in this study (Vida/Fairhurst 1998), in spite of the fact that the company had no prior experience in in ternational retailing. Decisions for internal expansion, i.e. organic growth, in international mar kets were functions of a) systematic planning of its RI process, including careful consideration of the business environment in new markets (Forsgren 2002) and environmental conditions, i.e. no appropriate acquisition targets were available.

At the present time, the retailer derives 21.6% of its total net sales in its three international mar kets and operates a total of 222 company owned retail outlets and an additional 30 franchise op erations in Croatia (Mercator 2007). Continuing its diversified retail format approach in the home market, the retailer uses various retail formats in the new markets, ranging from shopping centres to smaller supermarkets and specialty stores located in major cities. As for its retailing mix strat egy in international markets, it can be established that a limited adaptation strategy is utilized, particularly with respect to merchandise assortment, the use of suppliers, and cross culturally sensitive marketing communication approaches. Its pricing strategy, consistent with the retailer's activities in the domestic market, entails EDLP price strategy and other approaches, such as the innovative use of "national small baskets of goods" to promote favourably priced merchandise from local suppliers. The crux of Mercator's positioning strategy in both its domestic and interna tional markets relates to efforts to communicate the distinctiveness of its corporate brand and high end retailing practices aimed at enhancing the quality of life in all communities in which it operates. In doing so, the retailer seems to have been able to embed itself into the broader social network (Bianchi/Ostado 2006). The present treatise of the retailer's internationalization process and its international performance using selected criteria lead to the following conclusions: in spite of its relatively short international presence (less than seven years) and still somewhat limited international involvement (three regional markets), the company's international retail expansion seems promising. With respect to factors facilitating and/or inhibiting its RI processes, it appears that the cultural and physical proximity of the South East European markets have, to some extent, compensated for the relatively high levels of business and political risk that the retailer needed to embrace in this region, particularly at the time of its initial entry in the early 2000s. Hence, it can be concluded that the low psychic distance of international markets coupled with the company's commitment to international expansion and knowledge of the market conditions enabled the company to garner at least some advantages of being one of the early international entrants in these retail markets (Nakata/Sivakumar 2002). Given its present position in the international markets selected, however, the retailer is yet to achieve the economies of scale necessary to build sustainable competitive advantages. Cost optimization in the field of logistics, distribution chan nels and purchasing systems derived from economies of scale will probably play a key role in the company's future success. It is our contention that the retailer will need to proceed with its inter nationalization process with caution as there are no guarantees that its domestic success can be replicated abroad in this dynamic industry in the long run.

Appendix

Figure A1: Theoretical Model for the Study



Source: Adapted from Vida/Fairhurst (1998).

Notes

[1] Ten largest stockholders owned 68.48% of the company (i.e. the Business System Merca tor) as of December 31, 2006 (Mercator 2007)

[2] Five largest retailers held 17% market share in 2006 in B & H (Gfk/Gral Iteo 2007).

[3] Five largest retailers held 22% market share in 2006 in Serbia (Gfk/Gral Iteo, 2007).

[4] The economic embargo did not end until 2001 when the Milosevic regime fell.

[5] A net retailing surface of 163,905 m^2 in international markets.

[6] A net retailing surface of over 66,000 m^2.

[7] Including the restructuring of an independent retail chain it acquired in Croatia and the opening of a new shopping centre.

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Potentials of RFID Application in Retailing: A Conjoint-based Preference Analysis

Thomas Foscht, Herbert Kotzab, Cesar Maloles III and Christoph Schröder

Abstract

The willingness of retailers to adopt RFID systems, as well as finding optimal RFID applica tions has yet not been investigated. This paper examines the issues associated with the RFID adoption based on the results of a conjoint analysis. The conjoint measurement looked at the trade off decisions among different possible set ups of RFID applications in retailing compa nies. Considerable willingness to adopt, but low diffusion and a structure of preferences with respect to RFID features was shown throughout the examined retailing companies. Further more, differences were shown among different types of retailers in their preferences for RFID system features and clusters were implied.

Keywords

RFID, Technology, Adoption, Conjoint Analysis

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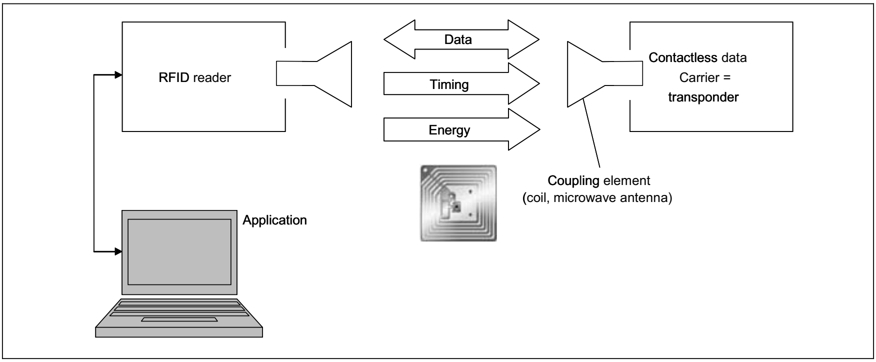
1. Introduction

In today's competitive retailing environment, promptness, reliability and flexibility play a decisive role in achieving economic success. To a large extent, the ability to have these characteristics is a result of copious information being available. In order to handle the challenge of this resulting demand for information (Flyzik 2006), computer assisted systems are used to manage the flow of information effectively and efficiently. In business processes, the predominant form of exchanging information is still the means triggered by individuals. Thus, the results tend to be inaccurate, incomplete, and at times, lack currency. The implications are that the quality of the operations scheduling database used may have a negative effect on the firm's economic success; conversely, it also has great potential to improve financials.

Radio Frequency Identification (RFID) is a transponder technology and can be defined as a microelectronic circuit and can be used in the form of smart labels for an automated, radio frequency based identification of objects (Finkenzeller 2002). Typical RFID systems consists of an antenna, a transceiver for reading radio frequency, a processing device to transfer information and a transponder which status can either be active or passive, depending on where they take the energy for their use from (see Figure 1) (Jansen/Mannel 2003; RFID Support Center 2008).

Figure 1: RFID Tag and RFID Components



Source: Adapted from N.A. (2008a); Finkenzeller (2002, p. 9).

While active transponders get the energy needed for information transmission and storage from a battery, passive transponders receive the needed energy from an electromagnetic field that is sent from the RFID reader (Kotzab/Bjerre 2005). Within the area of logistics and retailing, RFID can be used for the identification and allocation of goods, objects and individuals (LogicaCMG 2005).

Although RFID is a heavily discussed issue at many academic and practitioner conferences, limited knowledge on the diffusion of the technology among retailing companies exists. Aside from the anecdotal evidence of Wal Mart's efforts and the oft presented example of the Metro Future store (Kotzab/Bjerre 2005), it would be interesting to gain more insight on optimal RFID application for retailing companies.

The purpose of this paper is to get a better understanding of the diffusion process in retailing and especially of the diffusion process of RFID applications. In particular, barriers of RFID implementation as well as preferences regarding RFID of different retailers are investigated. Based on those results, the retailers were assigned to clusters, and commonalities and differ ences are discussed.

2. Conceptual Framework and Constructs

2.1. RFID and its Potential for Retailing Companies

Over the past few years, great progress has been made in further development of RFID (Garfinkel/Rosenberg 2006). Consisting of one reader and a data logger attached to the object to be identified, RFID opened up enormous potential for use (Backhouse/Ward/van Kranen burg 2006). Currently, the logistics process is supported primarily by identification technol ogy based on electromagnetic waves. The improved transparency of processes, the minimiza tion of error sources, the time saving potential, and the rise in the level of automation and reliability by the decentralized data management system at the transponder are the essential improvements in RFID (McFarlane/Sheffi 2003).

In 2003, Ashcroft (2003) presented Wal Mart's plans to implement RFID with about 100 vendors in order to improve Wal Mart's replenishment processes. On May 1, 2004, Wal Mart and eight manufacturers (Gillette, Hewlett Packard, Johnson & Johnson, Kimberley Clark, Kraft Foods, Nestle Purina Pet Care Company, Procter & Gamble and Unilever) started a pi lot project at selected super centres and one regional distribution centre in the Dallas Fort Worth metropolis. Today, Wal Mart uses the RFID technology in over 1,100 locations for tracking merchandise (Wal Mart 2008).

It seems that RFID might have the same impact for Wal Mart logistics as the UPC codes had for the company in the early 70's. Other RFID application pioneers are the German Metro Group who utilizes the technology throughout the total process chain. This allows Metro to retrace the path of a product from its manufacturer to its position in a shelf in a Metro outlet (Metro 2008). In 2004, Metro installed the Metro Group RFID Innovation Centre in order to test this key technology in practice. The group has already committed many of its suppliers to use RFID for pallets and cardboard boxes in order to synchronize transportation processes.

Another retailer, Carrefour, launched its RFID initiative in 2006 (N.A. 2008b). The RFID technology has been used first in all hypermarkets to ensure merchandise protection. Later on, RFID has been tested for other logistical purposes which resulted in major cost reductions and service improvements Calais (2007).

One disadvantage of RFID so far has been that the costs of the tags that were higher than the traditional EAN.UCC bar code labels. That might be one reason that explains the implementa tion reluctance (e.g. Collins 2004; Lingle 2006; Pater/Seidl 2007). Another issue refers to a lack of standardization, which made GS1 (former EAN International) and GS1 US (formerly Unifom Code Council, Inc.) form the EPCglobal initiative in order to create a global standard for the use of RFID (Hook 2003). The so called Electronic Product Codes (EPCs) may be seen as RFID based advanced UPC barcodes with the benefit of being able to identify articles uniquely at the item level (Hook 2003; N.A. 2008b). The above mentioned Metro Group RFID Innovation Centre is a host of the European EPC Competence Centre and one of the few EPCglobal hardware accreditations sites around the world (Collins 2006).

Although the applications of this new technology have numerous advantages, some signifi cant disadvantages are still inherent for now (Hadfield 2006). The problems consist primarily in the protection of data privacy and a potential technological "lock in" situation provoked by substantial investments in non standardized systems (Del Nibletto 2004). Furthermore, the enormous potential for use of the technology has not yet yield a positive return on investment so far in all areas of application due to the relatively high transponder costs (Margulius 2004).

The power of such this technology can be illustrated by following quote: "Using this EPC, members of the supply chain can thus identify and locate information about the manufacturer, product class, and instance of a particular product. Depending on the type of tag, EPCs can be used to uniquely identify up to 268 m unique manufacturers, each with 16 m types of prod ucts. Each unique product can include up to 68 bn individual items, meaning the format can be used to identify hundreds of trillions of unique items" (Verisign 2005). Based on these considerations, this study of RFID usage among retailers is focused on the following three propositions:

1. There is a structure of preferences specific to retailing companies with respect to RFID systems and based on the perception of technology benefits and ease of use.
2. There are differences in the preferences of individual retailing companies for RFID system features determined by the retailer's specific line of business and the assortment offered.
3. The respondents can be categorised in clusters according to their RFID preferences.

2.2. Development of RFID Application Areas

The RFID technology offers a wide variety of applications. Ngai et al. (2008) gave an over view of the RFID applications in general as well as the published research during the last few years. His article showed an increasing number of articles published per year with a large number of them focusing on retailing, logistics and supply chain management. Andres (2006) indicated that RFID technology is being used in the leisure industry (e.g. ski pass), in library systems, for baggage handling at airports, in the automotive production to prevent production errors, in the pharmaceutical and health industry (e.g. patent protection or medication), for animal identification and tracing, and for access control, among others. In a supply chain set ting, Andres (2006) showed RFID usage in container management, product traceability, pro duction control, material flow control, tracking and tracing, temperature control and goods entry and goods issue handling.

The diffusion of RFID applications could be either seen from a supplier perspective or from a customer perspective (Lee/Fiedler/Smith 2008). Whereas in the past, the focus was more on the diffusion in the area of inbound logistics and therefore, seen from a supplier perspective, it seems that there is a shift to operations and outbound logistics which includes a more cus tomer oriented perspective.

3. Methodology

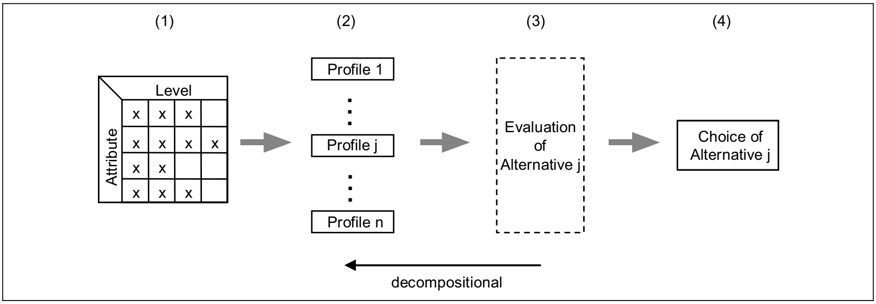
3.1. The Methodological Concept of Conjoint Analysis Applied for Preference Analysis of RFID Application Areas

In order to study managers' perceptions toward the relative importance devoted to the RFID application features outlined in Figure 3, the authors opted to do a conjoint analysis. In the field of marketing research, conjoint analysis and related techniques of experimental choice analysis represent widely used methodologies for measuring and analyzing consumer prefer ences (see Green/Srinivasan 1978; Carroll/Green 1995; Wittink/Cattin 1989; Wittink/Vriens/ Burhenne 1994 who documented the widespread diffusion of conjoint analysis in marketing practice). The majority of these studies focus on new product evaluation, competitive and/or product positioning analysis as well as market segmentation. However, applications in the business to business field (as intended here) were very rare.

Conjoint analysis was used as stable results are also achieved with a small sample and the trade off character of measurement (see for details Wittink/Vriens/Burhenne 1994; Hague/ Morgan 2004). The choice based conjoint analysis requires special care in selection of fea tures. As Smith/Fletcher (2004) pointed out, statistically valid results can be obtained with the help of conjoint analysis; however these are worthless if they are not relevant in practice to the subject matter.

Conjoint measurement represents, in contrast to multi attribute models, a decompositional technique for deriving part worth estimates associated with selected aspects or attributes of a choice alternative on the basis of overall preference statements of respondents. The conjoint analysis' task therefore is to "decompose" the holistic information about respondents' reac tions (e.g. statements or choices) to a set of stimuli into the relative importance of each level of each factor (or attributes) according to a pre specified utility model. For subsequent analy sis these part worth estimates can serve as a basis for predicting the choice probabilities of various combinations of attribute levels.

Figure 2: The Conceptual Framework of Conjoint Analysis



Source: Reutterer/Kotzab (2000).

Figure 2 provides a brief outline of the steps involved in a conjoint study. First, the analyst is required to specify a set of (salient) attributes of the stimuli under study as well as the number of specific level values for each of the attributes (step 1). A possible combination of such at tribute levels is frequently referred to as a "profile" (Green 1974). According to the exempli fied attribute level combinations as depicted in Figure 2, a complete factorial design would comprise 3 x 4 x 2 x 3=72 different profiles. To obtain individual level part worth estimates, respondents are required to evaluate these profiles. For this purpose, conventional data gather ing procedures utilize well known techniques such as (metric) rating techniques, ordinal rank ing of profiles, pair comparisons or choice of the most preferred profile ("choice based" con joint analysis) out of the corresponding set of stimulus profiles (e.g. Green 1974; Green/ Srinivasan 1978; Wittink/Cattin 1989). However, especially if there is a large number of at tributes and levels, even for the most involved respondent the task is often characterized as excessively demanding, time consuming, boring, and frustrating (Malhotra 1986). Therefore, it is usually advisable to use some "suitably" reduced sub sample of the complete or full set of all possible profiles for the conjoint experiment. First of all, such a reduction of stimulus space can be simply achieved by limiting of the number of attributes and/or levels. The reduc tion can be done by primarily focusing on a few dimensions that correspond with central as pects of how subjects perceive the stimuli type under investigation and/or the managerial ob jectives of the study.

3.2. Development of Optimal Sets of Preferred RFID Application Areas

In order to be able to determine implications relevant to practice, it is necessary to determine features affecting preference. Pre tests are a possible solution to avoiding wrong decisions in the choice of features. In the survey, experts were questioned in order to compare their responses with more than 50 arguments mentioned as characteristics, advantage or disadvantage argu ments found in the literature on existing RFID features. The respondents were furthermore questioned on the importance of single features relevant for retailing companies and were given the opportunity to indicate features known from the respondent's own experience. All in all, six experts were questioned about RFID systems from the software supplier side; on the customer side, the authors asked the retailers' employees who were responsible for implementing RFID.

The data was condensed in a factor analysis and discussed once again with three experts. The latter process was intended to ensure that the number of arguments obtained for conjoint analysis, which are also central to the preferences, would still be manageable. As a result, four features emerged as being important for analysis of the preferences by retailers with respect to an RFID system. Following the heuristic to use a similar number of attributes and attribute levels as frequently recommended in the relevant literature (Steenkamp/Wittink 1994), the authors chose three to four levels for each attribute (see Figure 3).

These features are subject to the requirements of relevance to the choice decision of the peo ple surveyed, the software supplier's (or manufacturer's) potential ability to exert influence, and the independence of these properties from one another. The distinctiveness of the features must be in a compensatory connection.

Figure 3: Attributes and Attribute Levels for the Conjoint Analytical Research Design

RFID-Application Feature	**Attribute-Level in the Research Design:** $x_1, \ldots, x_4$	
(1) Primary use	"after sales service"	(1)
	"stock management"	(2)
	"tracking"	(3)
	"safeguarding of products"	(4)
(2) System architecture	"stand-alone"	(1)
	"integration"	(2)
	"ERP"	(3)
(3) Recording level	"item"	(1)
	"cardboard box "	(2)
	"pallet"	(3)
(4) Technology use	"open loop"	(1)
	"closed loop"	(2)
	"hybrid"	(3)

The feature “Primary use” offers the terms “After sales services”, “Stock management/control”, as well as “Tracking” and “Safeguarding of goods”. Basic use of the RFID system is anchored here. The features were further explained in the questionnaire. For example, identification radio frequency in after sales service offers a means of assigning sale and or production data directly to the product so that proof with a sales receipt is no longer necessary if there is a claim under a guarantee. Safeguarding of goods relates to classic theft protection as is already used at various points of sale. A transponder used for stock control is generally used in store management to show exact stock levels in real time. Follow up on the product (Tracking) makes sense where huge importance is attached to the logistics at the point of creation of value.

The feature “System architecture” contains the terms “Stand alone”, “Integration”, and “ERP” (Enterprise Resource Planning). This question relates to the link between the RFID system and existing identification systems, e.g. bar code and existing middleware (integration and/or ERP) or a new, autonomous stand alone system.

The “Recording level” feature relates to the depth of integration of radio frequency identifica tion. RFID transponders can be attached either to an individual item, a cardboard box or a pallet for identification.

The “Technology Use” feature provides a means of configuring a closed system (Closed loop) within an enterprise with reuse of the transponders for the pre certain task. Furthermore, it is possible to use an open system (Open loop) with RFID chips on the packages which pass once through the value added chain of the product and cannot be used after this cycle. Thirdly, a hybrid solution can be implemented. The respondents were asked to rank a total of 16 stimuli resulting from the combination of features.

3.3. Data Collection and Sample

The investigation was carried out between July and November 2006 decision makers of seven buying groups were surveyed directly. The individuals questioned at the respective companies were managing directors, high ranking supply chain and marketing employees, and technology related managers on the one hand, as well as ordinary members of staff familiar with RFID on the other hand. An average of ten employees was surveyed per company. Questionnaires were sent out both by mail and by e mail. Furthermore, replies could be submitted through the Inter net to provide maximum possible convenience for the respondents. The preferences or attitudes toward the willingness to adopt and the barriers to RFID were measured in seven large German retailing companies, namely REWE, EDEKA, Ariston Nord West Ring, EURONICS, Büror ing, Hagebau, and Westfleisch, which are characterized as follows:

REWE is one of the leading companies in retailing and tourism in Germany, and throughout Europe. Since it was established in 1927, REWE has grown to become an international firm which also operates subsidiaries. REWE is the second largest food retailer in Germany and the whole group ranks 10th worldwide, with revenue of some 42 bn EUR in 2005.

The EDEKA group leads the German food retail market. EDEKA's core competence is the supermarket business run by independent retailing partners and its own subsidiaries, and which is improving further following the integration of SPAR, a supermarket chain. EDEKA achieved worldwide revenue of some 38 bn EUR in 2005 and ranks 12th.

With revenue of .8 bn EUR, Ariston Nord West Ring (Anwr) is a smaller retailing buying group. The collaboration of purchasing and marketing units Anwr Schuh GmbH and Sport 2000 Deutschland GmbH is part of Anwr, with approximately 1,300 members in Germany and 500 in Austria.

EURONICS Deutschland eG, organized as a cooperative, began its business activities in 2004. Some 2,100 medium sized and owner managed special trading concerns for consumer electronics are members of this buying group, which is ranked second biggest in the con sumer electronics market in Germany, with 3.15 bn EUR in revenue.

With full preservation of entrepreneurial liberty, Büroring eG is an association of approxi mately 370 independent office specialist dealers. Everyone can, but does not have to make use of the offers distributed by the head office. Strengthening the economic advantages of its members is one of Büroring's main objectives.

The Hagebau group includes "do it yourself" retailing or wholesaling specialized in building material in its core business. At present, it consists of approximately 250 medium sized DIY retailers in Germany and 40 in foreign countries, with more than 1,000 locations and revenue of approximately 3.6 bn EUR.

Westfleisch eG was founded in October 1928 and belongs to the top group of meat traders in Germany. This company is one of the three leading meat enterprises in Germany.

4. Results and Discussion

4.1. Descriptive Results Concerning Retailing Groups

Only one of the companies surveyed (Westfleisch) was using RFID at the time of this study. However, the relevance of the fields of application introduced was verified by all firms, which confirms the choice of these features for the conjoint analysis. With the exception of Büroring and Anwr, the interest in RFID appears to be enormous. A fairly positive picture is also emerging in terms of the potential consequences of this technology.

In the descriptive part, those surveyed were asked about the barriers that, in their view, have prevented RFID from making a breakthrough (see Table 1). For all the respondents, a barrier to the adoption of RFID was the high costs, which were often difficult to calculate. Further more, they indicated that the technological standards had not yet been fully settled and there was some fear of a possible flood of data being created through RFID which could be a poten tial barrier to using it. At the individual level also, the firms emphasize that the high cost of the technology (5.21) were a barrier to its implementation, followed by the lack of techno logical standards (4.23) and the risk of a flood of data (4.06).

Table 1: Barriers to Adoption (Mean Values)

	Too high Costs	Flood of Data	Competences not defined for Changeover	Lack of Transparency by Supplier	Lack of User Know-How	Lack of Reference Projects Practices	Lack of Technological Standards
Average over all companies	5.21	4.06	2,92	2,61	2.85	2.78	4.23
REWE	5.86	4.04	3.12	2.89	3.23	2.17	5.96
EDEKA	5.74	1.94	3.09	2.63	2.42	4.31	3.26
Anwr	5.71	5.36	1.22	1.04	1.31	1.43	3.89
EURONICS	4.12	5.48	2.89	4.12	3.68	2.29	4.41
Büroring	5.89	5.42	2.08	1.32	3.89	2.33	1.07
Hagebau	4.89	5.12	5.76	5.12	4.06	5.68	5.12
Westfleisch	4.26	1.08	2.33	1.12	1.38	1.22	5.89

Note: 1 totally disagree; 6 totally agree.

4.2. Test of Propositions

With regard to proposition 1, Table 2 shows the preferences as calculated by the conjoint analysis. It is clear from this that the feature of primary use is the most important one throughout all groups. Recording level is followed by system architecture and the use of tech nology. There is no feature that seems to be unimportant.

This result is not surprising in view of the pre test, where relevant features were examined. Other features such as the frequency of an RFID system were not questioned because, in this study, the target group of the survey was decision makers who take or influence investment decisions. Technical features like transponder manufacture or energy supply usually play a subordinate role for this group of people.

At the individual level (see Tables 2 and 3 with regard to proposition 2), the features of primary use were often seen as the most important dimension. This is the case for Anwr, EURONICS, Büroring, and Westfleisch. But the second most important dimension differs in among these four buying groups. EDEKA saw the system architecture as the most important decision, REWE, the recording level, and Hagebau attributed equal importance to primary use and re cording level. At this level, there is no clear link between preferences and specific line of busi ness, although some clustering tendencies are discernible (for example when comparing EURONIC and Büroring or also Rewe and Westfleisch). The opinion expressed by West fleisch is worthy of special attention as this is the only group already using RFID. The striking factor here is that Westfleisch attributed comparatively large importance to all three dimensions:

primary use, recording level und technology use. This differed with the opinions of the other buying groups, which tend to consider only two dimensions as being important.

Table 2: Structure of Preferences (Relative Importance and Utility)

	Primary Use		System Architecture		Recording Level		Technology Use		Descriptions
Average over all companies	*Importance*:	35.24	*Importance*:	19.35	*Importance*:	26.68	*Importance*:	18.75	Constant: 8.39
	Utility:		*Utility*:		*Utility*:		*Utility*:		Pearson's R
	After sales service	.82	Stand-alone	-.14	Item	.52	Open loop	-.40	.77 (.000)
	Stock management	1.07	Integration	.45	Cardboard box	.74	Closed loop	.43	Kendall's tau
	Tracking	-.14	ERP	-.31	Pallet	-1.26	Hybrid	-.03	.53 (.002)
	Safeguarding	.11							
REWE	*Importance*:	29.82	*Importance*:	7.02	*Importance*:	33.33	*Importance*:	29.82	Constant 8.42
	Utility:		*Utility*:		*Utility*:		*Utility*:		Pearson's R
	After sales service	-1.75	Stand-alone	-.33	Item	.83	Open loop	-1.17	.65 (.003)
	Stock management	.00	Integration	.67	Cardboard box	1.96	Closed loop	2.71	Kendall's tau
	Tracking	2.50	ERP	-.33			Hybrid	-1.54	.52 (.003)
	Safeguarding	-.75			Pallet	-2.79			
EDEKA	*Importance*:	15.63	*Importance*:	49.22	*Importance*:	24.22	*Importance*:	10.94	Constant 7.58
	Utility:		*Utility*:		*Utility*:		*Utility*:		Pearson's R
	After sales service	.50	Stand-alone	-3.04	Item	-1.83	Open loop	.67	.90 (.000)
	Stock management	1.00	Integration	4.83	Cardboard box	2.04	Closed loop	.42	Kendall's tau
	Tracking	0.00	ERP	-1.79			Hybrid	-1.08	.76 (.000)
	Safeguarding	-1.50			Pallet	-.21			
Anwr	*Importance*:	50.91	*Importance*:	10.91	*Importance*:	29.09	*Importance*:	9.09	Constant 7.50
	Utility:		*Utility*:		*Utility*:		*Utility*:		Pearson's R
	After sales service	2.25	Stand-alone	-.50	Item	2.33	Open loop	.67	.75 (.000)
	Stock management	-1.25	Integration	1.00	Cardboard box	-1.67	Closed loop	-.08	Kendall's tau
	Tracking	-4.00	ERP	-.50			Hybrid	-.58	.54 (.002)
	Safeguarding	3.00			Pallet	-.67			
EURONICS	*Importance*:	41.67	*Importance*:	15.28	*Importance*:	20.83	*Importance*:	22.22	Constant 8.75
	Utility:		*Utility*:		*Utility*:		*Utility*:		Pearson's R
	After sales service	4.00	Stand-alone	-1.46	Item	-.50	Open loop	-.67	.79 (.000)
	Stock management	-3.50	Integration	.17	Cardboard box	2.13	Closed loop	2.33	Kendall's tau
	Tracking	1.25	ERP	1.29			Hybrid	-1.67	.66 (.000)
	Safeguarding	-1.75			Pallet	-1.63			
Büroring	*Importance*:	39.74	*Importance*:	19.87	*Importance*:	17.95	*Importance*:	22.44	Constant 10.08
	Utility:		*Utility*:		*Utility*:		*Utility*:		Pearson's R
	After sales service	-4.50	Stand-alone	1.38	Item	-2.00	Open loop	-1.83	.90 (.000)
	Stock management	1.25	Integration	-2.50	Cardboard box	.50	Closed loop	-.71	Kendall's tau
	Tracking	3.25	ERP	1.13	Pallet	1.50	Hybrid	2.54	.75 (.000)
	Safeguarding	.00							
Hagebau	*Importance*:	33.04	*Importance*:	23.48	*Importance*:	33.04	*Importance*:	10.43	Constant 8.54
	Utility:		*Utility*:		*Utility*:		*Utility*:		Pearson's R
	After sales service	1.50	Stand-alone	2.21	Item	1.67	Open loop	-.67	.71 (.001)
	Stock management	-2.25	Integration	-1.17	Cardboard box	1.42	Closed loop	.83	Kendall's tau
	Tracking	-1.75	ERP	-1.04			Hybrid	-.17	.56 (.001)
	Safeguarding	2.50			Pallet	-3.08			
Westfleisch	*Importance*:	35.86	*Importance*:	9.66	*Importance*:	28.28	*Importance*:	26.21	Constant 7.63
	Utility:		*Utility*:		*Utility*:		*Utility*:		Pearson's R
	After sales service	3.75	Stand-alone	.79	Item	3.17	Open loop	.17	.83 (.000)
	Stock management	-2.75	Integration	.17	Cardboard box	-1.21	Closed loop	-2.46	Kendall's tau
	Tracking	-.25	ERP	-.96			Hybrid	2.29	.70 (.000)
	Safeguarding	-.75			Pallet	-1.96			

Note: The sum of the relative importance for each retailing group is equal to 100%.

Looking at the utility structure (see Table 3), we can see that common preferences were at the level of cardboard box and integration at REWE, as at EDEKA, but both preferred different primary and technology uses. In contrast, the Westfleisch food buying group, whose main activity is wholesaling, had its preference for after sales service. These were the only three food firms.

Table 3: Utility Structure

	Primary Use		System Architecture		Recording Level		Technology Use	
REWE	Tracking	(2.50)	Integration	(.67)	Cardboard box	(1.96)	Closed loop	(2.71)
EDEKA	Stock management	(1.00)	Integration	(4.83)	Cardboard box	(2.04)	Open loop	(.67)
Anwr	Goods safeguard	(3.00)	Integration	(1.00)	Item	(2.30)	Open loop	(.67)
EURONICS	After sales service	(4.00)	Integration	(.17)	Cardboard box	(2.13)	Closed loop	(2.33)
Büroring	Tracking	(3.25)	Stand-alone	(1.38)	Pallet	(1.50)	Hybrid	(2.54)
Hagebau	Goods safeguard	(2.50)	Stand-alone	(2.21)	Item	(1.67)	Closed loop	(.83)
Westfleisch	After sales service	(3.75)	Stand-alone	(.79)	Item	(3.17)	Hybrid	(2.29)

Similar to Westfleisch, EURONICS was also looking for after sales services but also pre ferred cardboard box and recording; Westfleisch favoured product level identification. No significant unusual features stood out in categorization of after sales service.

Group specific differences became clear in the area of software architecture, as well as in re cording. Hagebau and Anwr saw the main use of RFID in safeguarding of goods at product level. Büroring, on the other hand, had different preferences, expressing relatively little inter est in the technology, as did Anwr.

A product recording and, for the most part, a stand alone solution were preferred for shoes (Anwr), meat wholesaling (Westfleisch), and building materials (Hagebau) retailers, while food retailers preferred a solution integrated into existing systems and identification at cardboard box level. The investigation shows that the specific recording level was dependent for the most part on the value of the product to be identified. The relative price of an RFID tag played a special role, so efficient individual identification of the products only makes sense for retailers in higher price segments, such as at Hagebau, Ariston Nord West Ring, and Westfleisch. For the mass of products offered by food retailers, for example, the examined retailing companies felt that iden tification is more attractive at cardboard box level. This proposition also confirmed the opinion of Büroring, which sought pallet identification for small items in office supplies packed mainly in large quantities.

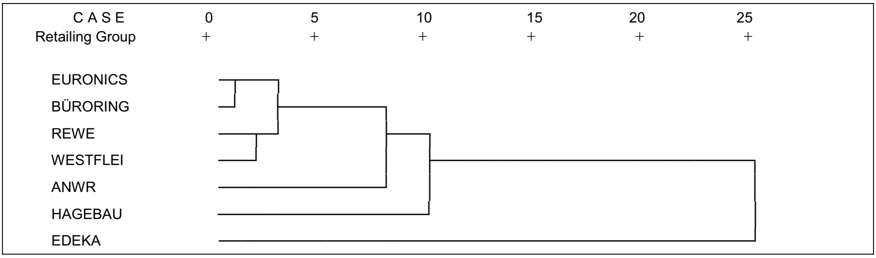
All in all, this study cannot indicate individual preferences by the different buying groups, although there is some hint of clustering tendencies. In connection with the third proposition, the study deployed a single linkage cluster analysis, but due to the small sample as well as the limited features questioned, no common results were found. Some tendencies are obvious, however, when considering the allocation overview (see Table 4) as well as the dendrogram shown in Figure 4.

Table 4: Allocation Overview

Step	Fusioned Cluster		Coefficient	First Appearance of Cluster		Next Step
	Cluster 1	Cluster 2		Cluster 1	Cluster 2	
1	4	7	33.136	0	0	3
2	1	3	81.986	0	0	3
3	1	4	136.763	2	1	4
4	1	5	345.099	3	0	5
5	1	6	429.805	4	0	6
6	1	2	1,043.708	5	0	0

By regarding the allocation overview and, in particular, the coefficient, two clusters were considered due to the fact that there is a large jump towards becoming a heterogeneous group between step three and step four. If there are only short distances between the steps, the lower gains the diversity of the group (Hague/Morgan 2004). Due to the desire for a homogenous group, the solution to the clustering problem will be where a large leap is evident in the coefficient column. As a further means of examining these steps graphically, a dendrogram was created (see Figure 4).

Figure 4: Clustering Results (Dendrogram)



In the dendrogram presented above, the relative distances between the buying groups are illustrated. Thus, a sequence of aggregation is shown. EURONICS and Büroring are the most similar allied groups with respect to RFID and are clustered first to the smallest fusion value, followed by REWE and Westfleisch. On the next level, EURONICS, Büroring, REWE and Westfleisch compose a cluster. The next buying groups that belong to a cluster are Anwr and Hagebau. It is evident that EDEKA has no fusion with any buying group. For EDEKA, the software architecture of an RFID system is the essential feature. The sooner the fusion between two buying groups happens, the more compact the cluster is, and vice versa. If we consider the relative importance once more (see Table 2), two groups are identified: use oriented and architecture oriented. As pointed out, EURONICS, Büroring, Hagebau, Anwr and Westfleisch belong to those firms that consider primary use as the most important preference determining feature, although the recording level is the most important feature for REWE, and partly for Hagebau (where the features primary use and technology use are viewed as having exactly the same relative importance). Nevertheless, REWE considered the features primary use, recording level and technology use to be almost equally important, a similar conclusion reached by Westfleisch. EDEKA is the only group belonging to the architecture oriented group.

4.3. Discussion

In conclusion, the empirical study shows that there are different general preferences by retailers with regard to RFID systems. While all four perception dimensions can be considered as being preference forming in an overall assessment, there are differences at the individual level for each retailer. In practical terms, this indicates that the technology must, of course, be tailored to a firm's individual needs. Nevertheless, the study was able to identify certain tendencies. This is an argument in favour of further analysis being at least sector specific.

With regard to the basic propositions, specific preferences with respect to RFID systems were established. In principle, RFID is the most flexible and functional Auto ID application. Nev ertheless, it will still have to undergo many improvements within the next few years. All those involved in its development should make a joint effort to present new avenues of discussion and work to dispel the doubts about RFID expressed in the questionnaires.

Furthermore, compatible interfaces will have to be established among the retailers to ensure efficient use of RFID and thus make it more attractive to the "low cost segment" for individual product identification. With regard to potential use of RFID in a retailing company, analysis of all value added potential is required within the different clusters, as perhaps indicated by the empirical analysis. In consequence, there will also be working examples which will not draw any benefit from RFID. The technology has enormous potential in areas with high product vari ety and inefficient processes. We should not overestimate the hype around RFID for retailers, but we also should not disregard its potential. Since radio frequency identification is one of many technologies that can make business processes more efficient, RFID is a small piece in the large jigsaw known as ubiquitous computing or Auto ID.

Still, at least a clear cost benefit analysis which shows all of the group's chances and risks specific to RFID must be done (Evans 2005). Consumer awareness of RFID could be more heightened by means of broader self commitments and involvement, by customization of the legislation applying to current developments, as well as, by purposeful clarificatory actions through mass media.

The assertion that RFID has reached a critical level over innumerable application areas in the past, such that this technology is invariably considered to be trend setting in spite of the unre solved problems, also cannot be confirmed in practice for retailing companies on the basis of the study. It is also clear that retailing companies draw different levels of benefit from the features of RFID systems depending on their line of business. The same is found with respect to the goods or assortments on sale, which is why no general statement can be made relating to all buying groups. The authors suspect there may be a "move to the right" in the adoption curve, triggered by resistance from the market and the users, as frequently occurs with technological innovations.

The future spread of RFID will depend primarily on the extent to which uniform international standards can be established for the technology and whether the costs of RFID can be made more transparent (Claburn/Hulme 2004). In order to achieve these aims, the supplier side will have to implement communication measures. This is essential in order to achieve interopera bility, which plays an important role in retailing companies, and to establish RFID standards at a technical and reasoned level as well so that there is exactly the same understanding for everyone involved (Geng/Sirkka 2005).

5. Consequences

The study provides insight into the use of RFID in retailing companies and the investigation conducted to determine willingness to adopt RFID. Furthermore, the study was aimed at es tablishing preferences by retailing groups and giving initial insight into creating a structure for an RFID system.

5.1. Managerial Implications

The distribution and the market share of RFID systems within retailing and wholesaling re mains below general expectations (Ramsaran 2005). Identification of goods with the aid of radio waves is only used actively by one of the seven retailing companies surveyed. Progress in distribution will thus be dependent on large enterprises acting as a driving force and on their influence in further development of RFID. The success and regulating factors of a tech nology like RFID can thus only be understood and improved if analysis of the innovative sys tem does not come to a halt when it reaches the market, but is pursued by "Early Adopters". Furthermore, this empirical study shows that the preferences of retailing companies with re spect to RFID are deterministic specific to different retailing sectors. Nevertheless, there are differences in retailing companies within the same line of business so individual consideration or analysis is required.

5.2. Limitations and Avenues for Further Research

The present study is an initial basic investigation of an RFID application area that has barely been investigated to date. Generally speaking, high values for the relative importance of the features do not necessarily dictate certain preferences. It is certainly possible that single fea tures are over emphasized because only four features were studied. In addition, some aspects may have been disregarded because some respondents classified a feature as not relevant. There is no way of entirely avoiding these limitations, despite the expert surveys conducted.

One reason why the empirical study for retailing companies' general preferences were non selective with respect to RFID systems could be that only selected retailing companies were examined. Moreover, the retailers surveyed consisted primarily of buying groups instead of single corporations. This could have influenced the response of the buyers to be more cautious because of the semi autonomous nature of buying groups. Additionally, the small sample size of companies surveyed and the fact that they were all German retailers may make the gener alizations less acceptable.

Furthermore, it is important to remember that when interpreting the results, the basic popula tion reacts to the individual features in different ways. For IT managers, the feature "software architecture" may be more significant than, for example, "field of application". In addition, the preference for an RFID system may be dependent on such factors as suppliers, service, and the like. Consequently, a system that does not have priority in the survey could well be come relevant due to the situational factors mentioned.

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Retailing in France: Overview and Key Trends / What's up?

Gérard Cliquet, Karine Picot Coupey, Guy Basset and Rozenn Perrigot

Abstract
The French retail sector is presented through its main companies as far as the food sub sector is concerned and through some of its most typical markets for the non food sector. The food retail sector is dominated by six large retail firms which are managed through various types of owner ship arrangements. Department stores and variety stores on the one hand and clothing and cos metic retail markets are detailed as non food retail activities. Then new trends in shopping be haviour, technologies (Internet and mobile phones) and regulation (the Raffarin Act on big store location and other laws on retail pricing) are described in order to show what challenges French retailers will face in the near future. Finally, Porter's model, with the five strategic forces, and the stakeholder theory are mobilized to explain what could happen if regulation changes, as will probably be the case very soon.

Keywords
Clothing Stores, Cosmetics Stores, Department Store, E Commerce, Hard Discount, Hyper market, Porter's Model, Stakeholder Theory, Supermarket, Variety Store

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1. Introduction

The present article gives an overview of the French retailing market. This market is important for several reasons:

- France is one of the biggest markets in Europe and located right in the centre of Western Europe.
- French retailers have been very innovative in the past (department stores in the 19th century and hypermarkets in the 20th century), as are the USA (discount stores, variety stores, self service stores, supermarkets, shopping centres), and Germany (hard discount stores).
- French retailers are among the most dynamic in the world (Carrefour is the second largest world retail company after Wal Mart) and among the most involved in international markets.
- French retailers have a great influence on many other retail markets in the world, and spe cifically in southern Europe, South America, Africa, and the Far East.

But the situation could change in the near future if French retailers cannot overcome some of the biggest stakes they will have to face. That is the reason why this paper offers insights into the main trends that are currently influencing the French retailing sector and analyses the im pacts of these trends. At least three main stakes should be considered today by French retailers stemming from the necessary evolution of retail formats due to changes in consumer behaviour and in technology and of regulation in French retail markets:

- Stake 1: new trends in consumer shopping behaviour with more mobile and more demanding consumers with new needs and desires
- Stake 2: new technologies with Internet, mobile phones and other future innovations
- Stake 3: new regulation in a country where opening a new store and pricing products by re tailers are subject to strict regulations which lead today to increased inflation and reduced consumer buying power.

These environmental pressures are included in Porter's model (1980, 2008), which will be used along with the stakeholder theory (Freeman 1994; Freeman/Wicks/Parmar 2004) to better un derstand what could happen in the French retail markets in the near future and will be explained after having described both food and non food retail sectors in France.

2. Retailing in France: The Main Firms in the Main Sectors

As in many countries, the retail sector is divided into many sub sectors where the situation is very contrasted. The pretension here is not to present every sub sector, but to give information and try to predict the evolution of some key industry players in the food sector (actually the predominant food retailers: super and hypermarkets, and hard discounters) and in the non food retail sector. In the latter, some specific retail sub sectors will be targeted: department stores, clothing and cosmetics stores because they are by and large very typical of the French market.

2.1. Main Retailers in Food

In France, the modernization of the food retail sector appeared at the end of the fifties, and in a stronger way with the opening of the first hypermarket at the beginning of the sixties. The number of hypermarkets is increasing so far, as shown in Table 1, but their market share in the food sector is decreasing (see Table 2).

Table 1: Number of Retail Outlets by Type 2001 2007 in France

Type of outlets	2001	2002	2003	2004	2005	2006	2007
Hypermarkets	1,173	1,217	1,264	1,321	1,372	1,435	1,526
Supermarkets	5,809	5,787	5,616	5,621	5,573	5,525	5,501
Grocery discount stores	2,695	2,918	3,207	3,447	3,741	4,074	4,223

Source: Panorama Trade Dimensions (2005, 2008).

Table 2: The French Grocery Retail Sector: Market Share by Retail Format

	2001 (%)	2006 (%)
Hypermarkets	32.0	30.4
Supermarkets	30.7	27.1
Grocery discount stores	7.2	12.5
Convenience stores	5.4	4.9
Specialist food retailers	15.8	13.8
Outdoor markets	6.7	6.5
Mail-order, e-commerce	.2	.3
Other	2.0	4.5

Source: INSEE (2006).

Actually the increasing number of hypermarkets is not due to new openings, but to transforma tions of supermarkets into hypermarkets by enlarging the sales area beyond 2,500 m², which is the official definition of a hypermarket. Supermarket format is declining both in numbers of stores and in market share, which represents a major challenge for the biggest French retail com panies. German hard discounters entered the French retail market in 1988 even though Carrefour group had opened a discount food chain named *Ed* in 1978, but only operating in the Paris area (Cliquet 1992). This grocery format continues to grow, with more store openings and increased market share, even though the *Raffarin* law, passed in 1996, had hindered its development (Cliquet 2000). According to experts, hard discount retail firms should continue to expand, and account for almost 20% of food expenses in France in less than 10 years (Colla 2003).

Six large international French companies dominate the French market (Table 3) and some are among the biggest in the world (Cliquet 2006). Two are public companies: *Carrefour* and *Ca sino*. Three are retailers' associations: *ITM Intermarché*, *E. Leclerc* and *System U.* One is pri vate and family owned: *Auchan*. *ITM Intermarché* mixes franchising within the association of retailers because the association is managed by the historical members, whereas new members sign contracts which are very close to franchising ones. This difference in ownership systems, which can be also found in other countries, like Germany, is a key point to understanding this market. Company owned arrangements are managed through a top down power system, whereas a retailer association has a bottom up system, and franchising something in between as a hybrid system (Brickley/Dark 1987; Bradach/Eccles 1989; Mitronen/Möller 2003). In such a situation, the way prices are defined and the retail fascias and brands are managed can be very different from one retailer to another according to the ownership system. And hence regulation can favour some retailers, while disfavouring others.

But this domination should be moderated by two convergent evolutions. The first evolution deals with the decline of super and hypermarkets, which still constitute the retail formats on which these groups are based. The second concerns competition with the German hard dis counters *Lidl* and *Aldi* within the French market. Coping with the first unfavourable evolution imposes a need to change the conventional super and hypermarket concepts. Fighting against the hard discounters forces French retailers either to open their own hard discount chains (*Car refour* with *Ed, ITM* with *Netto*, *Casino* with *Leader Price*), or to offer very low priced products in their outlets and hence to come back to their basic historical format.

Table 3: The 5 Leading Food Retailers in France Ranked by Sales 2006

Retail Companies	2006 Sales (bn EUR)	Profits (bn EUR)	Stores	Employees	Foreign Sales (%)
Carrefour	97.0	2.3	12,547	456,300	52
Auchan	43.6	.9	2,520	174,600	47
ITM Entreprises	39.3	-	4,000	112,000	10
E. Leclerc	36.6	.6	574	85,000	5
Casino	28.0	.7	9,200	130,800	22
Système U	19.4	-	876	58,000	0

Source: Costil (2008).

Carrefour

Three families, Badin, Fournier and Defforey, created *Carrefour* in 1959 in Annecy (France). They opened the first hypermarket in 1963 in Sainte Geneviève des Bois in the southern suburb of Paris (Lhermie 2003). After several acquisitions (Montlaur, Euromarché, etc.), they merged with *Promodes* in 1999, becoming the second largest retailer in the world after the American giant *Wal Mart* (Sordet/Wantz 2005). They run supermarkets (*Champion, Carrefour Market, Carrefour Express*, etc.), hypermarkets (*Carrefour*), discount stores (*Ed* in France, *Dia* in Spain and *Minipreço* in Brasil), convenience stores (*Shopi*, *Marché Plus, Proxi 8 à Huit* and *Sherpa*), cash and carry (*PromoCash* in France, *Docks Market* in Italy), with a total of more than 12,500 outlets globally employing more than 450,000 people worldwide. However the group will need to reduce its high level of debt, and its CEO, Daniel Bernard, was recently fired for this reason and replaced by José Luis Duran. One of the main challenges the new CEO will face could be related to the decline of both supermarket and hypermarket concepts in the context of very tough competition with German hard discounters. *Carrefour* has very strong positions in Southern Europe, South America and Asia. Because of insufficient profitability, too limited market share or purely financial opportunities, Carrefour has recently sold its stores in Chile, Mexico, Japan, South Korea, Czech Republic, Switzerland, and Portugal. The Carrefour group focuses on specific countries rather than multiplying its investments and is reinforcing its position in China, Brazil and Turkey. Emerging countries, such as Russia and India, also seem attractive to the group.

ITM Entreprises

ITM entreprises, also called “Le groupe des mousquetaires”, was created by Jean Pierre Le Roch who decided to leave the *Leclerc* Group (see below) in 1969 further to a disagreement with Edouard Leclerc on how to manage the group (Secher 1995). It is an association of independent retailers. They progressively diversified their activities by opening new chains in rural areas, food discount and the non food sector. They also expanded geographically in Europe (Spain, Portugal, Belgium, Poland, Bosnia and Serbia). They run more than 4,000 stores, with 112,000 people, through several fascias: *Intermarché* (supermarkets and some hypermarkets), *Ecomarché* (small supermarkets in rural areas), *Netto* (food discount), *Relais des Mousquetaires* (small grocery stores in rural areas), *Restaumarché* (restaurants), *Véti* (clothing), *Roady* (car spare parts), *Bricomarché* (DIY and gardening in cities). *Le groupe des mousquetaires* achieves integrative growth based on backward integration within the supply chain. They took ownership of or control more than 50 production plants in various sectors: meat (*SVA*), butcher (*Monique Rannou*), seafood products (*Armement Furic*), biscuits (*Filet Bleu*), seafood cans (*Capitaine Cook*), etc.

Auchan

Auchan was founded in 1961 by Gérard Mulliez, son of the founder of the textile group *Phildar*, and is presently managed by his nephew Vianney Mulliez. The name of the group derives from the location of the first store in the outskirts of Roubaix “*Les hauts champs*” (Gobin 2006). *Auchan* is a family owned company. Hence it is not listed and, as a consequence, does not arouse covetousness of competitors or investors. The main owner of *Auchan* is the Mulliez family; the employees of the group own 13.5% of the capital (Gobin 2006). Today, it has less than 400 hypermarkets (*Auchan* in France, *Alcampo* in Spain and *RT Mart* in China) and more than 2000 supermarkets (*Atac, Simply market, Easy Marché* in France, *Sabeco* in Spain, *Pao de Açura* in Portugal, *Cityper* in Italy). The Auchan family also controls several large specialist retail companies in the sport sector (*Décathlon* soon *Oxylane*), DIY (*Leroy Merlin*), clothing (*Kiabi*). This group is also diversified in the mail order sector (*Les 3 Suisses*), services (*Banque Accord, Voyage Auchan*), and fast food chain (*Flunch*). Foreign sales account for half of *Auchan’s* turnover. Investments are focused on top priority countries in Western Europe (Spain, Italy and Portugal), Central Europe (Poland, Hungary, Romania and Russia), and East Asia

(China, Taiwan). It is worth noting that, like most French retailers, Auchan divested from the USA after unsuccessful development.

E. Leclerc

Founder of the *E. Leclerc* group, Edouard Leclerc opened his first store in Landerneau (Brittany) in 1949. His success is based on the sale of a few ranges of basic products at a wholesale price. He succeeded in persuading independent retailers to open stores with an *E. Leclerc* fascia in return for which they had to respect a policy of low pricing and limited margins, but also limit ing the number of stores a member can own (a maximum of two), and the obligation to give personnel a share of profits. The first genuine supermarket opened in 1962 in Brest and the first hypermarket in Landerneau. In 1969, the structure of the E. Leclerc group was settled with crea tion of the *Association des Centres Leclerc* in charge of the aspects of retail policy, the GALEC ("*Groupement d'Achat des Centres Leclerc*" = purchasing group of the Leclerc centres) and the regional purchasing agency (*Scarmor, Scapnor, Socomaine*, etc.). Created in 2000, the common central purchasing agency called *Lucie* with System U soon collapsed. Six years later, Leclerc created a new common central purchasing agency, Coopernic, which regrouped 4 European independent retailers (*Colyrut* in Belgium, *Conrad* in Italy, *Coop* in Switzerland and *Rewe* in Germany). Meanwhile, in 2004, the brand and the banner *E. Leclerc* were sold by the Leclerc family to the GALEC. Today, *E. Leclerc* aggregates more than 500 stores, mainly hypermarkets. A few dozen stores are in Poland and Portugal, and a few units in Spain and Slovenia. The re tailer association system seems to be a hindrance to international expansion of the group be cause it needs to re organize the same system abroad which can take too much time compared to what can be done through an integrated or a franchised arrangement.

Casino

Casino is one of the oldest grocery retail groups in France. In 1898, Geoffroy Guichard used the *Casino* fascia for a retail outlet because the sales area was previously casino. From 1901, he created the first retail brand *Casino* for his 50 outlets, and 30 years later *Casino* has more than 1,500 stores with 2/3 company owned and 1/3 (non business format) franchised. During the 50s and 60s, *Casino* became one of the leaders in grocery retailing. In 1992, *Casino* merged with *Rallye*, founded by Jean Cam and managed by Jean Charles Naouri, the current CEO of the company. Today, Casino has 9,200 stores: 300 hypermarkets (*Géant Casino*), 2,500 supermar kets (*Super Casino, Franprix…*), more than 1,000 hard discount stores (*Leader Price*), 5,000 convenience stores (*Petit Casino, Vival, Spar…*), and 250 fast food restaurants (*Cafeteria Ca sino*). In France, *Casino* currently pursues a cost leadership strategy with its hard discount for mats (*Géant Discount, Casino Discount*) and switches supermarkets into hard discount stores. International activity accounts for 22% of the turnover, most of the time through financial par ticipation in retail companies located in South America (Argentina, Colombia, Venezuela, Uru guay, Brazil), in Asia (Thailand, Vietnam), and in The Netherlands.

System U

System U is a cooperative grouping of independent retailers. Today it is the most dynamic group in the food retailing sector in France, benefiting from its finer image in the minds of supermar ket customers. Founded in 1894, it had aggregated 130 cooperative firms and 10,000 independ ent retailers in 50 years. During the 1960s, cooperative firms began to merge and they formed a national federation. In the 1970s, Super U stores developed. System U is finally created in 1983 with only 15 regional cooperative firms and 900 stores, from convenience stores to hypermar kets. Today, System U was 850 stores, 80% of which are supermarkets, 15% convenience stores Marché U, and 5% hypermarkets Hyper U. No international presence, but the best growth rate of the grocery sector in France (1.6% increase in market share since 2001).

2.2. Main Retailers in Non-Food: A Focus on Department Stores, Fashion and Beauty Retail Sectors

As exhaustiveness is impossible, an eclectic approach is taken. The analysis focuses on de partment stores on the one hand, and on the clothing and beauty retail sectors on the other hand as French retail history and image are often associated with those industries.

Department Stores

Despite the fact that the first department store was created in Paris, this retail format is clearly moving towards a real decline in France, as shown in Table 4.

Table 4: Number of Department Stores in France (2001 2007)

	2001	2002	2003	2004	2005	2006	2007
Number of department stores	140	121	117	112	105	103	104

Source: Panorama Trade Dimensions (2005, 2008).

The oldest department store in France, and probably in the world according to (French and American) historians (Marseille 1997) and the French writer Emile Zola (1883), *Au Bon Marché*, opened in 1852, is still present in Paris as the flagship store of LVMH luxury group. *La Samaritaine* closed in 2005 for security reasons. *Le BHV, Les Galeries Lafayette* and *Au Printemps* have undertaken major reconfiguration plans. After a period of restructuring that led to the closure of the least profitable stores, department stores are pursuing their reposition ing strategy: *Le BHV* is developing a new concept (*BHV Deco*), *Les Galeries Lafayette* are developing their private labels and rationalizing their supply chain, while *Le Printemps is* up grading its positioning towards the luxury segment, as Figure 1 illustrates. Overall, traditional department stores continue to be under the greatest pressure.

Figure 1: Au Printemps: A Repositioning Strategy for "Un grand Magasin de Luxe"

Au Printemps is a department store located in Paris (Boulevard Haussmann) with other loca tions in the suburbs and in cities outside Paris, even though many of them should have closed their doors because of a lack of profitability. This company has begun a major reconfiguration with the aim of significantly improving its sales volume and its medium term profitability. This *grand magasin* (department store) is developing an up scale luxury oriented positioning. Its target groups of consumers are French consumers making pleasure purchases and foreign tourists with high buying power. This repositioning is based on changes in assortment and marketing strategy. *Au Printemps* aims at offering customers a distinctive merchandise range by lowering the share of medium brands in favour of prestigious international brands, as well as selective industrial and designer high end brands. Stores are refurbished to create prestig ious retail stores that communicate an image consistent with the positioning, while product prices see an 11% increase accordingly. In addition, a new corporate visual identity based on silver and ruby red, perceived as sophisticate colours, has been developed.

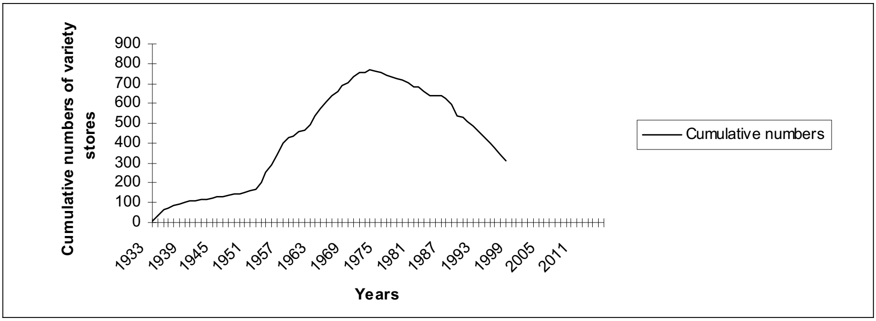
Source: Lepercq (2008).

The French department stores actually began their decline in the 30s during the "great depres sion" and then tried to overcome this bad period by opening discount stores called in French "*magasins à prix uniques*". But a regulation signed by the minister of commerce, Pierre Laval, under the pressure of shopkeepers obliged stores to change strategy and to switch the name to "*magasins populaires*", the strategy which was very close to variety stores, like Woolworth in the United States and some European countries. This format had known a real success till the mid 80s and then began to decline under the pressure of hypermarkets, as shown in Figure 2 (Cliquet 2000). Many chains were created in the 30s by department store companies. Today, only one fascia is still alive: *Monoprix* which belong to *Les Galeries Lafayette*. The format has been changed into a "city marché" format, which seems to be well accepted by city centre con sumers (see below). However the number of *Monoprix* stores is declining every year. This com pany owns a real treasure through the ownership of large sales surfaces in very well located sites, most of them right in the middle of the city centre and many chains, like H&M, covet these sites.

Fashion Clothing Retailers

Variety might be a well adapted word to qualify the clothing retail sector in France today. Lead ing players cover the whole range of distribution formats: according to benefits sought or type of shopping occasion, shoppers in France patronize large specialist formats such as *La Halle!, Kiabi, C&A*, and so on, smaller specialists in terms of store size, even though some *H&M* and *Zara* stores are quite big (*Etam, Camaïeu, Célio, Armand Thierry, H&M, Zara*, etc.), as well as hypermarkets (*Carrefour* with its private label Tex, etc.), department stores (*Les Galeries La fayette*, *Au Printemps*, etc.), variety stores (*Monoprix*), or mail order companies (*La Redoute, Les Trois Suisses*, etc.).

Figure 2: The Evolution of Variety Stores in France (1933 2000)



Source: Adapted from Cliquet (2000).

This list highlights a key trend in the structure of clothing distribution channels: multiple retail groups have gained market share to the detriment of independent retailers and account now for 70% of clothing sales in France (Institut Français de la Mode 2006a). More precisely, small specialist retailers and variety stores dominate with a value market share of 38.2%, in constant progression, as illustrated in Table 5. Side by side with the development of chains, French cloth ing retailing is undergoing a strategic change in its economic structure: contrary to the food sec tor, which is strongly concentrated, the clothing retail sector in France has remained fragmented up to now and no player accounts today for more than 5% market share (Fashionmag 2008). But it is witnessing the start of a concentration process with the emergence of corporate groups such as *Eram* or *Vivarte*. The development of groups with sound financial grounding is fa voured by the flat economic context of the French fashion market. Opening new stores is the central way to sustain growth in a sluggish market (Fashionmag 2008): intensive territorial cov erage and location on high streets are thus essential strategic issues in France. The French cloth ing sector comprises no less than 400 specialist retail chains for a total turn over of nearly 22.1 bn EUR (Institut Français de la Mode 2006b). This context makes it tough to depict all impor tant players. An overview is given in Table 6, which ranks the top 10 specialist clothing retailers in France.

Table 5: The French Clothing Retail Sector: Market Share by Retail Format (2000 2005)

	2000 (%)	2002 (%)	2004 (%)	2005 (%)
Specialty chains and variety stores	34	36	37	38.2
Independent retailers	24	23	21	18.7
Hyper- and supermarket stores	16	16	15	15.3
Mail-order companies	8	8	9	8.7
Sports stores	5	5	6	8.2
Department stores	6	6	7	5.4
Others	7	6	5	5.5

Source: European Commission Study (2007).

Table 6: 2006 Leading Specialist Clothing Retail Companies in France

Retail Banner (Group)	2006 Turn-over (m EUR)	2006 Turn-over Growth (%)	Number of Stores (2006)	Market Positioning and Offer
La Halle! (Vivarte)	823	5.0	450	Discounted, ladies', men's and children's wear
Kiabi (Mulliez)	692	9.2	135	Low market, ladies', men's and children's wear
H & M France	640	14.1	88	Low market, ladies' and children's wear
Etam	556	3.3	461	Medium market ladies' wear
Zara	556	4.9	100	Low to medium market, ladies', men's and children's wear
Camaïeu	552	15.9	557	Low to medium market ladies' wear
C&A France	550	7.2	100	Low to medium market, ladies', men's and children's wear
Célio	470	13.0	317	Medium market, menswear
Armand Thierry	443	16.6	275	Medium market, menswear
Pimkie (Mulliez)	268	-.7	267	Medium market, ladies' wear

Source: Costil (2007); La Halle (2007).

If French specialist retail companies maintain their leadership positions in the men's and children's wear markets, their competitive positions are jeopardized in the women's wear segment by successful entries of established European apparel retailers aiming at the fashionable lower end of the market (*Zara, H&M, Mango*). Those foreign retailers have the expertise to rapidly build brand and concept awareness among customers; French clothing marketing is now very much influenced by fast moving fashion characteristics. They also have the management depth and supply chain management efficiencies that are often beyond that of many French retailers. As competition increases, French retailers who fail to differentiate themselves from theses international players will find it harder to develop (Euromonitor 2007). French retailers attempt to resist this trend either by adopting fast moving models while effectively promoting their brand image (*Pimkie, Camaïeu, Lollipops*) or by offering high end concepts (*Zapa, Gérard Darel*) and innovate designer label (*Zadig & Voltaire*).

Beauty Retailers

The French health and beauty market is dominated by three players, two French (at the beginning), *Marionnaud, Sephora,* and one Dutch, *Nocibé,* which was sold to a British investment fund, Charterhouse Capital Partners, at the end of 2005 and which accounted for 65.4% of the market share of this sector in 2006 (Caussil 2008). Table 7 highlights their main characteristics. The rest of the market is shared by more than 25 retailers, including the French franchise group *Passion Beauty* (190 stores), the French cooperative group *Beauty Success* (188 stores) and the German retailer *Douglas* (176).

Table 7: Leading Specialist Health and Beauty Retail Companies in France

Retail Banner (Group)	2006 Turnover (m EUR)	2006 Turnover Growth (%)	Number of Stores (2006)	Market Share (2007)
Marionnaud (AS Watson)	859	1.2	561	27.0
Sephora (LVMH)	771	10.0	203	22.0
Nocibé	520	11.6	388	16.4

Source: Costil (2007); Yves Rocher (2008).

The leader, *Marionnaud*, has been facing difficulties since 2001 due to store cannibalization and financial embezzlements, and hence has been bought by a Chinese company. The challenger, *Sephora*, which belongs to the LVMH group, took advantage of these difficulties and gained 3 points of market share over *Marionnaud* between 2005 and 2007. *Nocibé* can also be consid ered as a challenger: it ranks 3rd in terms of turnover, but 2nd in terms of stores; with a 7.5 in crease in market share in 2006, this chain has confirmed its dynamism (Leboucher 2006). Over all, these small specialist retail chains face increasing competition from other distribution for mats. Large retailers are extending their non food sales to beauty: *Carrefour* and *System U* ac tively develop their private labels (Precepta 2007), which are currently becoming a key point of their strategy through premium price store brands (Kumar/Steenkamp 2007). Direct selling (dominated by *Yves Rocher*), drugstores and chemists are steadily increasing their market share. In addition, growth in the French beauty and health sector is being boosted by new entrants: *Natura Bresil, Luch, Beauty Monop'* are developing innovative concepts that correspond to new lifestyle trends. As a reaction, leading players are trying to achieve differentiation. *Marionnaud* is reinforcing its differentiation on prices. *Séphora* is committing to differentiate on assortment, composed of private labels and exclusive high end brands while *Nocibé* is trying to differentiate itself on the basis of its beauty services. As a conclusion, the French beauty and health sector is witnessing intensive competition and it is going to be interesting to observe who is going to win the battle for the leadership in the coming years. A strategy key point will now be described. It concerns the degree of internationalization of French retail groups. This point is considered im portant. Actually, when looking at retail firms, many of them are only local or regional, or pos sibly national. And, in a global economy, becoming international is a real stake, otherwise there is a high risk of seeing the domestic market invaded by foreign retail formats that can succeed simply because they are new.

2.3. Internationalization Trends

Internationalization appears to be a rather unavoidable strategic option for French retailers, whatever sub sector is concerned. In terms of incoming fascias, there is a huge contrast between the food and non food sectors due to legal reasons: while the food sector remains largely domi nated by local actors, much of the new competition in the non food sector is coming from abroad.

2.3.1. Internationalization Trends in the Food Sector: French Grocery Retailers go abroad

Many French food retailers now have activities in foreign markets. Indeed, the domestic market appears more and more saturated, whereas other markets seem, at the same time, to offer many opportunities. These foreign markets can be geographically and culturally close, such as the European countries; or on the contrary, they can be emerging markets offering large opportuni ties even if they are very different in terms of culture and legal environment and also distant from France. On the one hand the *Carrefour* group, for instance, has 602 hypermarkets in Europe, including 154 in Spain, 56 in Belgium, and 56 in Italy (Carrefour 2006). The *Casino* group has 357 supermarkets operating under the brand name *Super de Boer* in the Netherlands (Casino 2006). And the *Auchan* group has 48 *Al Campo* hypermarkets and 123 *Sabeco* and *Simply Market* supermarkets in Spain (Auchan 2008). On the other hand, *Carrefour* has 143 hypermarkets in Brazil and 90 in China, with an impressive growth rate in this latter country (Carrefour 2006). *Casino* has 84 hypermarkets under the brand name *Extra* and more than 200 supermarkets (165 under the brand name *Pão de Açúcar* and 62 under the brand name *Sendas*) in Brazil (Casino 2006).

In order to enter these foreign markets, the food retailers can use different entry modes. *Carre four* often opens company owned stores in foreign countries. *Auchan* entered the Chinese mar ket using two different entry modes: they opened 20 *Auchan* hypermarkets, and also signed an agreement with a local partner. The former one concerns 86 hypermarkets under the brand name *RTMart* (Auchan 2008). Other retailers enter foreign markets through franchising as well. *Carrefour* has 107 hard discount stores that are franchised out of a total of 320 hard discount stores in Portugal (Carrefour 2006). The choice of a specific entry mode depends on the retail ing company itself and the country targeted. A retailer can therefore use different entry modes depending on the market. Moreover, depending on the market targeted, food retailers have to adapt their offering to the local markets. This adaptation concerns the products first of all. For instance, the food assortment in China is different from that in France. It also concerns the price. The pricing policy varies depending on the economic situation of the foreign country. And fi nally, the adaptation can be observed in terms of store format. For instance, *Carrefour* opened 18 mini hypermarkets in Spain, in 2006 (Carrefour 2006). As a conclusion, most of the French food retailers now have many stores in foreign markets, in Europe, but also in emerging markets such as China and Brazil. The entry modes and the level of adaptation vary according to the country targeted and the strategy of the retailer. Nevertheless, French retailers must not at the same time forget their domestic market, which could attract foreign companies in the future. The French market attracted the German retailers *Aldi* and *Lidl*, specialized in the hard discount segment in the late 80s, but now other foreign chains such as *Colryut* are expanding their activi ties in the French market. And, more could arrive if the French legal environment becomes more attractive to them (see below in this article).The present international strategies of French retail companies follow a financial consolidation and a site rationalization logic after a period of intense growth in foreign markets during the 90s (Costil 2003; Mons 2006). This local rein forcement leads to withdrawal from some markets, where becoming a major actor does not seem possible in the near future, and also to mergers and acquisitions if this appears profitable in the short term. *Carrefour* is typical of this strategic evolution, as can be seen in Table 8. It was present in 24 countries in 2003, and then it reduced its positions and focuses on 17 foreign markets in 2006. On the other hand, it is strengthening greatly its position in China and in the main markets in South America and Eastern Europe.

Table 8: A Focus on the International Dimension of the *Carrefour* Group

Countries	Entry Year	Number of Employees	Hyper-markets	Super-markets	Hard Discount Stores	TOTAL
France	1963	140,514	192	615	811	3,879
Spain	1973	70,134	148	82	1,961	3,042
Italy	1993	26,551	55	247	0	1,533
Belgium	2000	18,131	56	79	0	561
Greece & Cyprus	1991	14,675	25	164	295	790
Portugal	1992	6,155	10	0	320	437
Poland	1997	17,265	42	83	0	125
Romania	2001	4,462	7	0	0	7
Switzerland	2001	2,294	9	0	0	12
Turkey	1993	9,227	13	91	393	539
Total Europe		**168,874**	**365**	**746**	**2,969**	**7,046**
Brazil	1975	47,254	143	0	214	401
Argentina	1982	20,066	30	118	325	522
Colombia	1998	6,454	31	0	0	31
Total South America		**73,774**	**204**	**118**	**539**	**954**
China	1995	40,742	90	0	255	345
Taiwan	1989	11,474	47	0	0	47
Thailand	1996	6,826	24	0	0	24
Indonesia	1998	9,869	29	0	0	29
Malaysia	1994	3,538	10	0	0	10
Singapore	1997	662	2	0	0	2
Total Asia		**73,113**	**202**	**0**	**255**	**457**

Source: Carrefour (2006).

2.3.2. Internationalization Trends in the Non Food Sector: French Clothing and Beauty Retail Sectors

French department stores seem to have faced considerable difficulties in achieving success in international expansion of their commercial activities. *Les Galeries Lafayette* plan to open a store in Dubaï in 2008 with a partner who had already opened stores in Lebanon for the two other fascias of the *Galeries Lafayette* group. With this project, *Les Galeries Lafayette* seems to be boosting their international strategy again. They currently operate only one store in Ber lin, after closure of the store in New York in 1994. As far as the French clothing retail indus try is concerned, the increase in the international scope of activities is a key structural change in recent years. On the one hand, France has witnessed an influx of large international retail ers: *Zara* (Spain) opened its first store in 1989, followed by *Gap* (USA) in 1993, then by *Mango* (Spain) in 1994, and finally by *H&M* (Sweden) in 1998. With the exception of *Gap*, these new entrants successfully adapted to French customers and are now implementing ag gressive expansion plans. Thus, foreign retailers accounted for 16% of the number of special ist retail chains in France in 2005 (Leroy 2006a), and this trend should grow with the recent arrival of American (*Juicy Couture, Tommy Hilfiger*), British (*New Look*) and Japanese spe cialists (*Uniqlo*). As a result, the battle for market share has become much harder. As foreign players found opportunities and market growth in France, domestic clothing specialists inves tigated overseas markets to escape slowing sales growth in their local market. On the other hand, French clothing specialists are intensifying their international strategies. In 2005, French clothing specialist retailers achieved 7 bn EUR of foreign sales in 2005 (Bianchi 2007) and nearly half of them operated international networks, of considerable size for some leading players, as tracked by Table 9.

Table 9: International Positions of French Clothing Specialist Retailers (2007)

French Clothing Specialist Retailer	Stores in Foreign Countries (Total Stores)	Countries
Etam	2,768 (3433)	35
Morgan	451 (583)	57
Kookai	385 (515)	30
Pimkie	380 (656)	20
Vuitton	343 (?)	60
Naf-Naf	275 (420)	55
Okaïdi	247 (267)	55
Celio	241 (572)	5
Promod	236 (400)	49
Hermes	223 (257)	30

Source: Bianchi (2007); websites of retail companies.

The sector reached a new milestone in 2005: according to the *Conseil national des succursali stes de l'habillement* (the national federation of clothing branch retailers), French clothing specialists operate 51% of their stores outside the domestic market. In other words, they now have more stores abroad than in France. As the French market becomes saturated, expansion projects are mainly developed abroad, confirming a growing tendency since the 2000s (Lepercq 2002). In addition to this search for sales growth, three main reasons explain this strategic choice (Picot Coupey 2006). Firstly, international development is a means of in creasing margin based on economies of scales on clothing sales volume. This sensitivity to sales volume is critical for those developing a backward integration strategy. Secondly, oper ating stores in different countries allows retailers to share risks between countries: the cloth ing sector is strongly influenced by fashion trends irrational by nature; the indifference of customers to a collection in one country might be offset by its success in another market. Thirdly, international footprint is acknowledged as a required dimension of a clothing retail brand: top management teams attempt to develop true international brand images, for example *Pimkie* (Leroy 2006b). The French health and beauty retail sector is also characterized by in going and outgoing internationalization trends. Contrary to the clothing sector, the French retail sector is concentrated and there is only one important foreign beauty retailer in France, the German company *Douglas*. *Douglas* began its expansion in the French beauty retail sector in 1990. It used acquisition as an entry and expansion mode: the last acquisition was in 2005 when *Douglas* bought the franchise group *Elytis* (150 stores). This operation allowed *Douglas* to become a significant player in the French beauty retail market. French beauty specialists also develop international strategy. If *Nocibé,* while belonging to a British investment fund, remains a purely domestic player, *Marionnaud* and *Séphora* have strong international posi tions, as illustrated in Table 10.

Table 10: International Positions of French Beauty Specialist Retailers (2007)

French Beauty Specialist Retailer	Stores in Foreign Countries (Total stores)	Countries
Marionnaud	665 (1,231)	13
Séphora	550 (750)	21
Nocibé	0 (360)	0

Source: Websites of retail companies.

Sephora is following the development initiated in 1998 in the USA and is developing its net work in China. Based on its international presence, *Sephora* sources best sellers products from all over the world, limiting the risk of failure with a product. *Marionnaud* initiated its international development in 2000 in Switzerland with the acquisition of a local beauty chain. Other acquisitions followed in the 2000s in Italy, Portugal and Spain. Franchising was adopted for operations in Russia and Israel in 2004. In 2005, the Chinese *AS Watson* group bought *Marionnaud* with the objective of developing the retail network in international mar kets. Through this operation, internationalization also concerns the supply side of the chain: by joining the *AS Watson* group, Marionnaud gained access to the supply structure of the group developed with its other drugstores and beauty chains.

Having described the current situation of French retailers, both in key domestic retail markets and in the international retail market, it is time now to develop some new trends which deal with consumer behaviour, as well as new technologies and legal concerns, which could lead French retailers to change their strategies dramatically for the coming years.

3. New Environment and New Strategies

The drivers of retail evolutions include new consumption trends, new technologies and new regulations. After having described these drivers within the French retail context, the impacts of such trends on retailing development are analysed using Porter's model (1980) and a stake holders' perspective (Freeman 1994).

3.1. New Consumption Trends

Retailers in France face challenges that require defining of innovative strategies as new trends in French consumer behaviour emerge, including perceived decrease in consumer spending power, the search for compromises in consumption patterns, and the management of time pressure. In addition, changing demographics open new opportunities for some retail sub sectors.

A Customer Preoccupied by his Buying Power

Retailer companies are currently evolving in France in a context characterised by the spending power question (Petit 2008) and are facing shifting customer buying behaviour. According to TNS (2007), the French are becoming increasingly worried about rising living costs and dete riorating spending power, and are concerned about structural reform plans, including unem ployment, education, health and pension systems. Most customers feel anxious about their living standards, which have been hit by rising food and fuel pricing, as well as an increased willingness to buy; consequently, French customers are becoming more sensitive to prices and progressively changing their buying behaviour to balance price and quality (Yvernault 2008). If the hypermarket format still dominates the French food shopping environment with a market share of 52%, hard discounters are succeeding in attracting more and more clients, with a growth rate of +4.2% in 2007 as against .6% in 2006 (TNS 2008). This growth of the hard discount format was mainly fuel by *Lidl*: it had been responsive to the specific needs of French customers by restructuring its branding approach with the introduction of national brands, such as *Coca Cola* or *Danone,* to its assortment even although such a branding strat egy contradicts the standard policy of this German retailer. As a consequence of these evolu tions in buyer power, rivalry among hypermarket groups in France is intensifying and in creased competition is impacting on:

- the general strategy of retail groups with the development of multi format strategies to fit to every customers' expectation. *Carrefour* develops *Ed* while *Casino* group strongly fo cuses on discount formats with a plan to double the number of its hard discount stores, *Leader Price,* in the next 5 years, as well as convenience formats (*Vival, Petit Casino, Spar and Franprix*),
- the retail marketing mix of hypermarkets. Retail groups use a mix of communication ac tivities to build price image in customers' minds: in January 2008, Carrefour launched a campaign aimed at reminding customers of all the initiatives it has taken to defend their spending power, while E. Leclerc pursues its campaign "combat contre la vie chère" ("fight against expensive life") (Leclerc 2008). In addition, hypermarket groups try to per suade French customers to select their banner by developing private labels (Yvernault 2008).

A Customer who Manages Compromises and Develops Fragmented Attitudes

French customers are looking for compromises in their consumption behaviour and make trade offs in their choices and expenses (Bolle 2008). French consumers prefer to cut down their food budget to make pleasure purchases in the field of leisure or fashion. French consumers have spent more in 2007 in the apparel and footwear industry, with +3% in volume and +6% in value

(Lestrat 2008), and specialized chains are trying to benefit from this opportunity by opening new stores (Briand 2008). Moreover, this search for compromises also concerns the products themselves: while looking for food products that are ready or easy to cook, most of the French also look for well balanced products as they have been sensitive to the information campaign from the "plan national nutrition santé" (i.e. Nutrition and health national plan) (Bolle 2008). French customers are also becoming more sensitive to sustainable development questions and attempting to combine the satisfaction of their consumption needs with preservation of the environment. As a response to these new expectations, retail banners such as *ITM Intermarché*, *Carrefour* or *E. Leclerc* have orchestrated communication campaigns focused on sustainable development issues (Lavorata/Cuzacq/Morin Delerm 2007) and are in the process of redefining assortment profiles and merchandise plans to integrate these new issues.

More globally, these changes in French consumers' attitudes and these new consumption patterns lead to the development of retail concepts and to a wider variety of innovative formats. As the polarization of buying behaviour accentuates, such polarization is reflected in retail positioning with the development of hard discount or premium formats, as illustrated by the fresh foods hard discounter *Grand Frais* (Merlaud 2005) and the organic supermarket *Naturéo* (Botta 2008) in the grocery sector, or by the up market fashion retailer *Ekyog* in the apparel industry (Allain 2007).

A Customer Pressed for Time

According to TNS (2007), French consumers are pressed for time: they shop less frequently and patronize fewer shops than before. Consequently, competition among retail companies is toughening and the key challenge seems to be to enhance and build customer loyalty by redesigning appropriate types of scheme. Analysts of the French retail sector assume that the attention of retail managers in France has to focus more on customer relationship management, as is practised by English retailers, such as *Tesco* (Oziel 2008; Contival 2008).

As a consequence of this decrease in time devoted to food shopping, more and more customers value proximity. Such evolution in consumer behaviour implies changes in shopping behaviour: as far as everyday purchases are concerned, traffic patterns have shifted away in recent years from suburban hypermarkets to convenience stores. Actually, the hypermarket format is becoming slightly out of phase with trends favouring time saving and proximity, whereas the convenience store format, with a limited sales area and a narrow assortment, enables the consumer to shop quickly.

Overall, in the context of theses various strands of changes taking place in French consumption, continual adjustment of the retail offer is essential if a retail company is to remain competitive. This need for improved competitive position might be illustrated by the successful repositioning strategy of *Monoprix*, which is described in Figure 3.

Figure 3: The New Positioning Strategy of *Monoprix* to Meet Urban Customers' Expectations or the Illustration of the Retailing Wheel

Confronted in the 1990s with the price competition of hypermarkets, *Monoprix* had to revital ize the banner's growth dramatically. The questions were: how to attract urban shoppers and fit in with today's increasingly personalized shopper lifestyles and needs? How to achieve strength and success of positioning? Like the development process associated with the wheel of retailing (McNair 1958) and despite critics (Hollander 1960), *Monoprix* moved up market. Monoprix devised its concept to offer a good service / quality ratio built around a new signa ture "*On fait quoi pour vous aujourd'hui?" (What do we do for you today?).* The strategic choice was to base positioning on a product range bringing "extra value" to the customer and on services that make life easier. A unique "city marché" concept was established, thanks to the development of private label products (*Monoprix Gourmet, Monoprix Bio, Monoprix Vert)*. Confronted with sluggish business in 2005, the retailing wheel turned again and *Mono prix* moved up market once more. Since 2006, success has been based on a clear and effective top up urban market positioning. Firstly, the merchandise assortment was redefined with a wide and deep product range: demanding urban customers can find high quality and contem porary food and non food products. Secondly, private label brands, as well as packaging, were updated by the young independent designer Frederic Brasse, whose creativity developed an understated and sophisticated logo. Thirdly, store atmosphere was improved accordingly: as music is an important component of atmospherics, a radio station, *Radio Monop'*, was created to adjust music and programmes to customers' mood. Finally, the renewed banner, with dy namic expansion due to the opening of new stores based on the new concepts *Monop', Beauty Monop'* and *Daily monop'*. *Daily monop'* is a new concept of city centre, super convenience store with sales area of less than 300 m², mainly food products, and extended opening hours. Monoprix reported strong sales growth in 2007, with a 3.8% increase, and seems to benefit from competitively differentiated positioning…albeit a 6.1% increase in prices since 2004.

Sources: Debouté (2007); Tanguy (2007); Garnier (2008); Rally (2006, 2007).

New Demographic Trends

The demographic structure of the country is of course a key consideration in the development of retailing as the retail offer has to be adjusted to the needs of each generation. There are basically two main demographic trends in France. On the one hand, the national birth rate has seen an upswing since the 1990s and, with a fertility rate of 2.0, France was the most fertile country in Europe in 2007 (Pla 2008). On the other hand, this mini baby boom that France has been ex periencing since 2000 does not prevent ageing of the population. As in most European countries, the number of French senior citizens (i.e. population over 60 years of age) has been increasing rapidly for two years now. For retailers, such trends provide new challenges and opportunities. The nursery market is booming as older and wealthier parents, as well as relatives, are willing to spend money on the babies: category killers (*Aubert, Bébé 9, Autour de Bébé),* as well as spe cialty stores (*DPAM bébé, Jacadi*), have defined new strategies to tap the growing demand. The elderly segment is fuelling the optical market growth rate. Over and above such sub sector situations, retailers have more generally to take account of specific expectations from the shop ping experience of each group of people, from juniors to seniors (TNS Secodip 2004).

3.2. New Technologies

Two main issues may be discussed here: on the one hand, the online shopping question with the issue of multi channel strategy, and on the other hand, the consequences of the introduction of new technologies in stores.

3.2.1. The Development of Multi Channel Strategies

Multi channel retailing enables customers to shop conveniently in various ways, including stores, catalogues, websites, kiosks, and even PDAs that can access the web (Berman/Thelen 2004). All these channels offer specific advantages. For instance, the web enables a 24 hour and 7 day ordering capability from home, the store offers the possibility to see, feel, try out, and test the products, and the catalogue can be transmitted easily and shared among customers (Ber man/Thelen 2004). When efficiently launched, the multi channel strategy enables the customers to obtain information about a product thanks to one channel, buy it at another channel, and pick it up at a third one. More and more French retailers, whatever the sector of activities, use a multi channel strategy. Indeed, it offers them many advantages, including targeting more cus tomers than with only one channel, benefiting from added revenues, and increasing the market share. Growth of the multi channel strategy, and more specifically the use of the Internet in complement to the stores, is due to the fact that more and more French people have a high speed connection to Internet at their home (41%) and shop on the web (48%), according to Picard (2008). French people buy various products on the web. According to Picard (2008), 31% of French consumers have already bought cultural products on the web, 27% travel and leisure products, and 16% domestic appliances, TV, hifi, video. For the customers, purchasing on the web is a means of pleasing by themselves because of the large choice, the convenient and quick aspects, and the possibility of comparison of prices and products features (Picard 2008).
As a result, not only the operators of generalist chains have adopted a multi channel strategy, but also those of specialized chains. On the one hand, groups such as *Carrefour* evolve clearly in a multi channel environment. Additionally to their hypermarkets, they have two websites: *Ooshop* for food products and *Boostore* for electronics products, cameras, TVs, etc. According to the top management of *Carrefour*, these two channels, stores and websites, are complemen tary. It is considered that customers often visit the websites before going to the hypermarkets, and *vice et versa*. They have just decided to change the names of these two websites in order to

reinforce their brand image, by calling them *Carrefour.fr* (Lecompte 2008). The group *Cora* has also a commercial website *Houra*, in addition to its hypermarkets. One the other hand, special ized retailers in the apparel sector (group *Beaumanoir*), the flower segment (*Rapid Flore*), sec ond hand goods (*Troc de l'Ile*, now called *Troc.com* even for the stores), chocolates (*De Neu ville*), wool (*Phildar*), cosmetics (*Marionnaud*), etc., have adopted a multi channel strategy. For instance, Roland Beaumanoir, chairman of the *Cache Cache*, *Bonobo*, *Patrice Bréal* and *Scot tage* chains in the apparel sector, is clearly announcing his new strategy based on the use of several channels. He wants to benefit from the synergies between the web and the outlets under one of his brands (about a thousand in the French territory). He explains that he wants to create traffic on the website, and this traffic will have an effect on the stores: that of increasing brand notoriety and brand loyalty (De Saint Seine 2007).

Multi channel strategy, of course, provides the companies with many synergies and advantages. Nevertheless, it must be mentioned that launching and managing several channels are not easy tasks and raise many questions. These questions concern cross selling opportunities, assortment and its uniformity and differences across channels, price consistency across channels, consistent image, the role of each channel, etc. (Berman/Thelen 2004). In the particular context of fran chising chains, conflicts can emerge as well because of the multi channel strategy chosen by the franchisor. Indeed, some franchisees can consider that the franchisor website constitutes a threat, as unfair competition. More generally speaking, the true stake of multi channel strategies con cerns the ability of retail companies to offer the best products at the best price on the right chan nel, and to gain productivity in order to offer these products at the lowest cost for the company at the same time.

In conclusion, even if many French retailers have implemented a multi channel strategy, not all of them really efficiently exploit the simultaneous presence of these channels, and their com plementarity. E retailing will soon become mass market and the e buyer will become a cus tomer like any other (Picard 2008). Retailers will then have to manage their multi channel strat egy well and rapidly.

3.2.2. The Development of New Technologies

Although considered historically to be less innovative, French retailers are now launching and implementing many new technologies in their stores. Indeed, new technologies, such as interac tive terminals, intelligent machines, biometric payment, mobile phone, etc., are expanding in the generalist chains, such as *Carrefour*, *Auchan*, etc., but also in the specialized chains, such as *La Fnac*. The reason behind the implementation of such new technologies within the stores is to improve the purchasing experience of the customers by transforming a commonplace shopping moment into an unforgettable experience (Cailloce 2008a, 2008b). Now, the price is not only the main criteria used by the customers when choosing which stores to shop at, but the notion of entertainment is also taken into consideration by them. The retailers therefore want to provide their customers with more services, more information about the products themselves and com plementary products, more freedom within the stores, etc. They want to satisfy the customers in order for them to become and remain loyal to the brand.

These new technologies can be classified into two main categories: use of the mobile phone, which mainly involves the customer himself, and the various other technologies that are linked to the store equipment. On the one hand, the mobile phone is the inescapable element of the related retailing of the future (Cailloce 2008c). Many French retailers already use the mobile phone as an interface between their brand and their customers. In fact, the mobile phone can be used firstly as a means of informing customers, and to facilitate this communication *Carrefour*, *Auchan* and, to a certain extent, also *E. Leclerc* have recently become MVNOs (Mobile Virtual Network Operator). For instance, if the customer approaches the packaging of the product with his mobile phone, the RFID chip integrated into the product will directly forward the customer to a website on his mobile phone screen that will provide a lot of information about the products, their features, the services associated with these products, etc. The customer can also take a picture of the 2D tag, composed of white and black small squares, that is on the packaging with his mobile phone and will be transferred to a website offering information, promotions, etc. *Go Sport* uses the mobile phone and, more specifically, text messages in its relational marketing for announcing the promotions. *Carrefour*, *Leroy Merlin*, *Fnac* use it to inform their customers about the availability of products they have left at the after sales service (Cailloce 2008c). Sec ondly, the mobile phone can be used as a means of maintaining a relationship with the custom ers, and above all with loyal customers. *Monoprix* uses the mobile phone to manage the loyalty program for Parisian customers (Cailloce 2008c). Thirdly, the mobile phone can be used as a means of payment. This system, called near field contact, is currently being tested in Caen and Strasbourg, where six banks and four mobile phone companies are participating in this pilot study that involves a thousand customers and two hundreds shopkeepers (Cailloce 2008c).

On the other hand, other new technologies, apart from the mobile phone, deal with the intelli gent equipment within stores, such as interactive terminals, weighing scales, trolleys, interactive screens, self checkout points, etc. The main objectives of the retailers are then to attract custom ers to come to the store, surprise them, and offer the maximum number of services and relevant information to them (Cailloce 2008d). Recent examples include a video assistance service that put the customer in contact with an expert who is not in the store, a fitting cabin in which the customer can send his friends a picture of the new clothes he is trying on with the mobile phone. The friend's comments are displayed directly on the screen in the cabin, an intelligent weighing scale that is able to identify the fruits and the vegetables, etc. Another example deals with the intelligent trolley: the customer enters his shopping list on the Internet, registers at the store entrance with his loyalty card, and then products are automatically scanned before being put in the trolley and deleted from the shopping list. The bill is continuously updated and the customer has only to pay at the till. *La Fnac* is also testing a new technology in its Parisian store, *Fnac Digitale*. A numeric price label for the TV is displayed directly on the corresponding TV screen. The price and some information about each TV are displayed on the TV screen. It can be up dated very quickly and it fits in perfectly with the notion of high technology. *La Fnac* plans to equip 120 stores within the next eighteen months (Cailloce 2008e).

Two main issues can be mentioned concerning the expansion of such technologies in French retail stores. One the one hand, the cost associated with these new technologies is relatively high. For instance, a RFID chip costs .12 EUR (Cailloce 2008c). Will all the retailers be able to invest in such innovative equipment without increasing the retail selling prices of their products? Or will only some chains do it? And, in this case, will this be a way for them to differentiate their brand name from those of their competitors. Are French retailers ready to recruit people to man age such an amount of information and technology? *Tesco*, for instance, has employed three hundreds persons to handle and value product and customer information (Cailloce 2008b). On the other hand, are all customers really ready to accept and use these new technologies? Of course, young people accept the changes because they have grown up in an environment full of new technologies. But what about the other customer segments? Another aspect linked to accep tance of these new technologies concerns privacy. What about biometric payment or the intru sion feature of receiving too many informative and advertising messages from the retailers?

In summary, this is the beginning of new technology emergence within the French retail sector. Many retailers are testing these new technologies in some of their stores. It will be interesting therefore to follow the diffusion of these innovations within the French retail stores and observe customers' reactions.

3.3. New Regulations

Regulation in the retail sector is a key point to better understanding the French economic situa tion at consumer level generally speaking. This regulation has been concerned with two main topics for the last four decades: the location (and enlargement) of new stores on the one hand, and the relationships between retailers and suppliers on the other hand.

At the beginning of the 70s, facing shopkeepers' discontent because of the development of large retail stores, a law, the Royer Act (December 27, 1973), was passed in the French parliament whereby any new store over 1,000 m² (or any enlargement beyond 1,000 m²) in communes with less than 40,000 inhabitants, and over 1,500 m² in communes greater than 40,000 inhabitants, had to obtain a permit from a specific committee of urban planning: there was one committee per "*département*" (France has 100 "*départements*") called "*Commission Départementale d'Urbanisme Commerciale*" (CDUC). These committees were the sources of corruption when local politicians required large retailers to give money to build swimming pools, roads or roundabouts or to their political party. Famous trials have lasted for several years, some of them involving CEOs of large retail firms. A new law, the Sapin Act, passed in 1993, has reduced the number of members in these committees with non secret votes. After a new shopkeepers' movement, a new law, the Raffarin Act, was passed in 1996 to protect small shops against large retailers and hard discounters coming from Germany (i.e. *Aldi* and *Lidl*). The threshold was then 300 m² for a predominantly food store, which is very small even compared to hard discount store sales surface (about 700 m²). The first consequence is a stop in super , hypermarket and hard discount store locations, as shown in Figure 4. The second consequence of this law has just been shown by the last market study of Asterop LocalEnseignes in local market shares of pre dominantly food retailers in France. In 60% of local markets (defined by Astérop), one retailer has a leadership position; in 27%, there are two retailers who share the main part of the local market; and in only 13%, there is "normal" competition. *Carrefour* and *E. Leclerc* possess more than 50% of leadership positions in local markets (41% only for Carrefour and 11% for *E. Le clerc*) [1]. But this law does not fit with the free trade principles of the Treaty of Rome signed in 1957 and hence, on July 2005, the European Commission sent a formal notice, confirmed in December 2006, requiring the French government to modify the Raffarin Act. Another regula tion is presently being discussed by the French authorities.

As far as supplier retailer relationships are concerned, the power balance has changed since the 60s, i.e. since the development of super and hypermarkets, favouring retailers more than manu facturers. Since the end of the 50s, the French government has regulated sale refusal, unjustified discriminatory practices, and below cost legislation (Colla 2006). The threshold of below cost is hard to compute, given the number of possible discounts to be taken into consideration. Be cause of many trials and interventions by the DGCCRF (Direction of Competition and Con sumption) of the French ministry of Commerce, the French government has opted for simple rules in their implementation to avoid difficulties in interpreting the law. In 1996 another law, the Galland Act, was passed in the French Parliament and had defined this threshold of below cost as the invoice price considering only the discounts written on this invoice and called "*mar ges avant*" (= displayed margins). All other margins are called "*marges arrière*" (undisplayed margins). The main consequences of the Galland Act were a dramatic decrease in competition in the French retail market and hence, an increase in prices (about 30% for CPG or Consumer Packaged Goods). A new law, the Dutreil Act, passed in 2005 gave permission to retailers to lower the legal threshold of below cost, but with very relative success. A very recent law, the Chatel Act, passed in January 2008 and called the "triple net", authorizes retailers to take every discount into account ("*marges avant*" and "*marges arrière*") in defining the threshold of be low cost. It is probably too early to draw conclusions from this new law, but a very recent re port (Hagelsteen 2008) published in February 2008 at the Ministry of Economy recommends suppressing any non justified discriminatory practice and will be the basis of new laws on mod ernization of the economy that will be passed this coming summer.

How will SMEs be able to resist large retailers? How will urban planning be taken into account when sustainable development seems to be a key question? Nobody knows. The only specific and urgent problem to be solved as quickly as possible now is inflation, as criticised in the French press in March 2008 (Brafman 2008a, 2008b). Inflation is not only due to bad regulation, but also to price increases for raw material, especially from agriculture, but not only because of the emergence of big countries like Brazil, Russia, India and China with a high level of new needs for them.

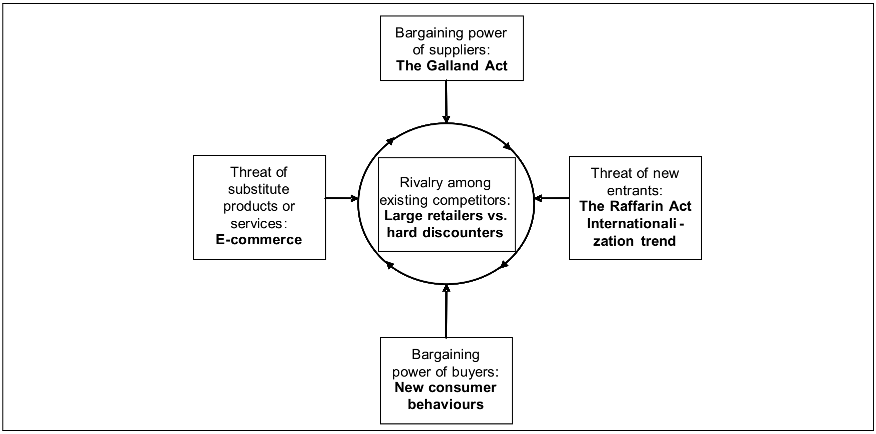
3.4. A Porter's Model Analysis and a Stakeholder's View

Environmental changes concern not only demand (consumers), supply, and competition, but also the possible arrival of new comers and the development of e commerce. Hence, Porter's model can help in understanding the present situation of French retail firms. Porter has re cently published an article (2008) describing "the five (following) forces that shape industry competition" stemming from his famous book (1980):

rivalry among existing competitors,
bargaining power of buyers,
bargaining power of suppliers,
threat of substitute products or services,
threat of new entrants.

Figure 4 displays this model with the forces adapted to the French retail market. From Por ter's adapted model in Figure 4, several conclusions can be drawn. Given various regulations (see above) in the French retail market, there is almost no threat of new entrants in each local market, which leads to restricted local competition, and limited bargaining power with suppli ers: the first consequence which is beginning to worry the French government at present is inflation (Brafman 2008b), which is coming back as in many other countries, but in higher proportion because of the regulation. At the same time now consumption behaviour and the development of e commerce constitute real threats for French retailers. But the protection stemming from the law seems to hinder them in boosting innovation both in store format and in consumer services, especially in companies organized through retailers' associations (*E. Leclerc*, *Système U*) and/or franchising (*Intermarché*). This protection could be modified in the near future because it is contrary to European Commission and Rome Treaty principles. If that happens, foreign retailers could enter the French retail market with large formats and French retailers could obtain better bargaining terms in negotiations with suppliers. This could lower the inflation rate on the one hand and give some incentive to French retailers to develop new retail formats or new services to consumers on the other hand.

Figure 4: The Five Forces That Shape Retail Industry Competition



Source: Adapted from Porter (1980, 2008).

The stakeholder theory (Freeman 1994) could also be mobilized to better understand some of the main issues of any change in the regulation, at the same time considering changes related to new consumption trends and technologies. Some of these new consumption trends are de rived from a conception of sustainable development, which means, as far as retail activities are concerned, more organic products in stores, less waste from product usage, and more ap propriate design for retail format (in other terms, no big boxes any more). And a growing number of lobbies are pushing towards such objectives. Retailers have already taken this evo lution into consideration through, for instance, the development of fair trading, as they have at the same time to improve their human resource management, known as one of the worst in the country, if they want to be more attractive to skilled personnel and to consumers, and if they want to increase the level of services: it seems to be more productive in the long run to base policies on value creation rather than on value capture (Freeman/Martin/Parmar 2007). Actu ally knowing more about future reforms on the French retail market is needed to go further.

4. Conclusion

France is a strong actor in the global retail market and its companies seem to be very powerful. However changes appear necessary in order to benefit from new shopping behaviour trends and new technologies. Moreover, some very unfavourable regulations to decrease the level of inflation will be soon reformed. But predictions of the potential impact on employment by price competition, stemming from legal reforms is rather pessimistic: 6.3% of employment since 2005 (N.A. 2008) in a country that is just beginning to cut social costs to decrease the unemployment rate.

As far as French retailers are concerned, are there new areas for development in the domestic market? Abroad? What kind of restructuring process of the retail sector will stem from re forms? One of the consequences could be opening of the French retail market to foreign com panies in the food retail sector. This could boost ideas within the companies and the market as well! Has France a unique way of retailing?

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The Austrian Retail Market: A Profile

Nicolas A. Hoffmann and Peter Schnedlitz

Abstract
Including historical developments and an industry analysis coupled with a depiction of recent trends, a good part of this paper is dedicated to a general, descriptive overview of the Austrian retail market. Furthermore, a detailed look at grocery retailing and highlights of four other ma jor retail industries are presented. Marked by high levels of concentration in certain sectors, as well as ongoing consolidation from smaller to increasingly bigger store formats, Austrian retail ing features several distinct characteristics. The evolution of shopping centres, internet retailing, the idiosyncratic legal framework, and an increase in international activities particularly in East ern Europe serve as examples.

Keywords
Austria, Retailing, Retail Market, Market Overview, Industry Analysis

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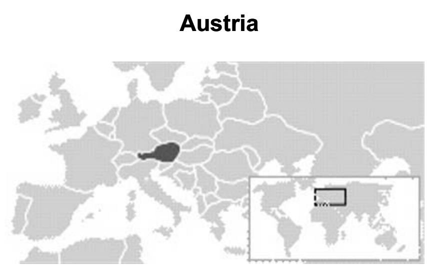
1. Introduction

Austria, a small and fairly mature market at the heart of Europe, boasts a unique development and various distinct features. Commencing with a brief look at the nation's retail related history, an overview of the Austrian retail market is provided. Food retailing is elaborated on in greater detail, with highlights from four other selected retail industries, as well as an overview of internet retailing complementing the snapshot. Finally, a brief industry and trend analysis concludes this paper.

Figure 1: Austria Key Facts (2007)



Capital:	Vienna
Political System:	Federal Republic
Area:	83,870 km^2
Inhabitants:	8.3 m
Official Language:	German
Official Currency:	Euro (EUR)
Date of EU entry:	January 1, 1995
GDP/Capita:	32,800 EUR
Inflation Rate:	2.2%
Unemployment Rate[1]:	4.4%
Population Growth Rate:	.4%

Note: [1] According to the definition of the International Labour Organization (ILO).
Source: Statistics Austria (2007a, 2007b, 2008a, 2008b, 2008c).

2. History

Around the turn of the 19th century, a heavy wave of urbanization changed the playing field of the European retail landscape. Influenced in part by the incorporation of various suburbs into the city of Vienna, the population grew from 600,000 to more than 1,600,000 between 1869 and 1904 (Bauer/Hallier 1999). New challenges for the supply of goods as well as the choice in product assortment soon became visible, and continue to influence modern trade up to the present day (Schnedlitz 2003).

In 1862, Julius Meinl I, a name that went on to dominate Austria's food retail scene for over 100 years and more, opened his first shop in the centre of Vienna, at first focusing only on the sale of coffee (Lehrbaumer 2000). In 1911, around the time when Frank W. Woolworth commissioned New York's famous Woolworth Building, the country's first department store was presented in Vienna's main shopping street, Mariahilfer Strasse, under the name "Mariahilfer Zentralpalast" (later changed to "Stafa") (Schnedlitz 2003).

World War I, which had started with the powerful monarchy Austria Hungary, ended with the small Austrian Republic. With the aim of creating a solid domestic trade structure, 20 established Austrian retailers, such as Meinl, Palmers, and Kastner and Öhler, met to discuss the creation of a community of interest, which eventually became reality in 1923 as the "Verband österreichischer Detailfirmen," today's Trade Association (Handelsverband 2003). The econ omy started to get on its feet again, the retail market saw the emergence of German speaking mail order trade, for example, but all too suddenly the world economic crisis hit in 1929. Bankruptcies and unemployment shaped everyday life, and paved the way to Adolf Hitler's rise to power in Germany. On March 12, 1938, Austria was annexed into Greater Germany, bringing with it disastrous effects for Austrian trade. The "Reichskristallnacht" ("Crystal Night" or "Night of the Broken Glass"), cynically named after the many windows that were smashed that night in November 1938, left many windows of Jewish shops broken (Schnedlitz 2003). A law protecting the German retail industry, the ban on the sale of foreign fruit and the prohibition of new foundations of retail cooperatives had already served as alarming signs, pointing towards what was yet to come.

The period following the end of World War II was tough on the retail industry, like most other industries, of course, but marked the beginning of the development of retail to reach its current state. In the following list, exemplary milestones in the development of Austria's retail market can be found (Bauer/Hallier 1999; Dichtl/Lingenfelder 1998; Lehrbaumer 2000):

1947: Julius Meinl III, then head of the retail chain mentioned previously, returned from England and fostered the expansion of the approximately 300 stores the group owned by the end of 1945.

1953: Karl Wlaschek opened his first retail store, marking the foundation of what was going to become the BML Group, one of the country's dominating retailers in fast moving con sumer goods until its sale in 1996.

1955: Spar, another dominant player in the food retail industry, entered the market.

1959: Quelle, one of the largest German mail order companies, commenced its operations in Austria.

1967: The discount store Aldi (founded in Germany in 1962) acquired the Austrian Hofer chain and continued to do business under that name.

1972: Herbert Koch founded kika, one of today's market leaders in furniture retail.

1976: Karlheinz Essl initiated bauMax, the present market leader in the DIY industry.

1976: The Shopping City Süd, then Europe's biggest shopping centre, opened its doors to the public.

1995: Konsum, the market leader in grocery retailing, filed for bankruptcy, with most of its branches being sold to Spar, and some to REWE Group Austria.

1996: Karl Wlaschek's BML Group was acquired by REWE Group Austria.

1999: A large part of the Julius Meinl chain was also taken over by REWE Group Austria.

Similar to most developed countries around the globe, one of the biggest changes in Austria's retail landscape over the past decades is one of the things that McNair (1931) had proposed in his article “Trends in Large scale Retailing”: a process of consolidation from smaller to in creasingly bigger store formats, coupled with a concentration of power through mergers and acquisitions (Schnedlitz 2006; Zentes/Morschett/Schramm Klein 2007).

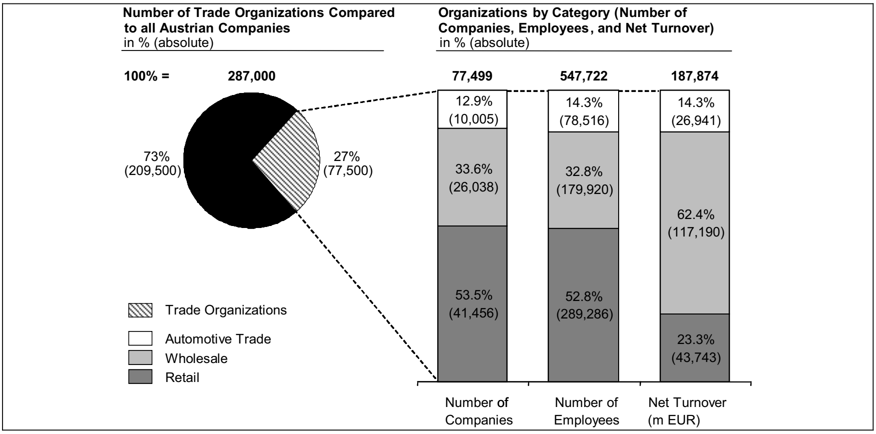
3. The Austrian Retail Market

3.1. General Overview

To illustrate the relative importance of retailing, a short overview of overall Austrian trade will be given. A few items of statistical data will be presented in this chapter, covering the number of trade organizations, their size, employment data, the development of turnover, and the expansion of shopping centres, among other things.

The approximately 77,500 firms engaging in Austrian trade generated roughly 188 bn EUR in net revenue in 2006, thereby forming the country’s biggest business sector, taking turnover as a measure. Making up around 27% of all organizations [1] and 33% of all these companies’ turnover, the sector is also the nation’s second largest employer with around 550,000 employ ees in 2006 (KMU Forschung Austria 2007a).

Figure 2: Number of Trade Organizations, Employees, and Net Turnover by Category (2006)



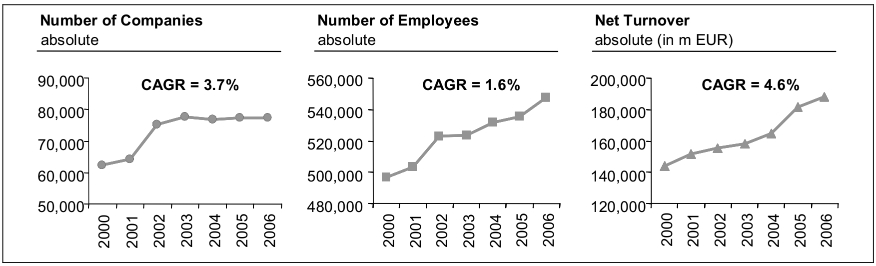
Note: Companies listed in sections C-K of the ÖNACE 2008, the statistical classification of economic activities.
Source: KMU Forschung Austria (2007a), WKO (2007a).

Following the common national categorization, this important part of Austria’s economy can be classified into retailing (making up around 54% of all trade organizations), wholesale (rep resenting 34%), and automotive trade (comprising roughly 13%). Between 1995 and 2006, all three areas experienced solid growth. The number of wholesale firms engaging in trade activi ties grew an average of 2.7% each year, followed by automotive retail with 2.0%, and regular retail activities with .8%.

As far as the number of employees in retail firms is concerned, the approximately 550,000 workers (supplemented by another 60,000 to 70,000 self employed people) are distributed among retail with roughly 53%, wholesale with 33%, and automotive trade with 14%. With retailing being characterized by slightly more small firms than wholesalers, the opposite is true for organizations engaging in automotive trade. The differences are not big, however, and consequently none of these three categories departs far from the average: overall, in 2007 around 88% of all retailers can be considered very small, boasting only 1 to 9 employees. The rest is further distributed among 11% of retailers employing between 10 and 49 people, 1% between 50 and 249, and only a mere .2% of firms giving work to more than 250 people (KMU Forschung Austria 2007a).

Figure 3 gives a good overview of the recent development in three key areas. Between 2000 and 2006, the number of trade organizations grew by an average of 3.7% a year, an increase that is for the most part caused by the high number of start ups between 2001 and 2002. Fol lowing this spike of over 11,000 new companies setting up shop, the number has remained stagnant in the years thereafter. Naturally, the development of employment followed suit with the high number of new foundations, but stopped short of slipping into stagnation. Particu larly between 2003 and 2006, employment experienced a slow, but steady growth. Finally, net turnover has seen the strongest increase in the period observed with an annual average of 4.6%, growing from around 144 bn EUR in 2000 to 188 bn EUR in 2006, fuelled, especially in recent years following 2004, by a strong wholesale business.

Figure 3: Number of Trade Organizations, Employees, and Net Turnover (2000 2006)

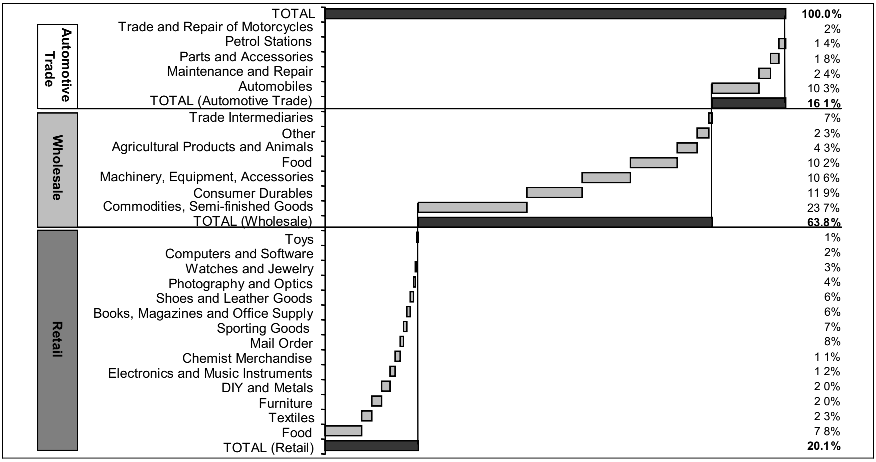


Source: KMU Forschung Austria (2007a), WKO (2007a).

When looking at the more detailed sub categories illustrated in the overview of Figure 4, it can be seen that retailing makes up roughly 20% of Austrian trade activities. Returning to the focus of this paper, a selection of various key parameters of the retail market will be discussed (see Table 1). In 2006, the approximately 41,500 retailers cited previously operated some

53,500 stores, with textile (6,100 shops), food (6,000 shops), DIY (3,700 shops), furniture (2,850 shops) and chemist merchandise (2,820 shops) making up roughly 40% of all points of sale. Compared to the previous year, the total number remained almost unchanged, as around 800 independent retailers were replaced by a similar amount of new chain stores (excluding new stores opened under a franchise agreement). This trend towards a concentration of power in the Austrian retailing landscape set in decades ago and is still characterized by a steady in crease in organized branches. Between 2002 and 2006, the number of chain stores grew by an average of 2.3% a year, lifting the number of chain operated retail outlets from roughly 16,500 in 2002 to 18,100 in 2006 out of a similar total of around 53,500 in both years. The highest convergence of influence can be witnessed in the trade of chemist merchandise, with around 82% of all stores belonging to a chain, followed by food retailing with 57%, photog raphy and optics with 53%, shoes and leather goods with 50%, and textiles with 41%. In con trast, sub categories like computer and software retailing (10%) as well as electronics (11%) are mainly controlled by independent owners.

Figure 4: Net Turnover by Sub Category (2006)



Note: Please note that the percentages diverge slightly from those in Figure 2, due to a lack of up-to-date information at this level of detail. This calculation has thus been based on older estimates.
Source: WKO (2007a).

The consolidation from smaller to bigger store formats that McNair (1931) had envisioned almost 80 years ago went hand in hand with the concentration of power. Increasing by around 820,000 m^2 between 2002 and 2006, roughly 16,000,000 m^2 of sales floor covered Austria's soil in 2006. While in 2002 the sales area of chain stores made up 51.1% of total floor space, by 2006 this figure had risen to 54.4%. Broken down to the different sub categories of classic retail, the average Austrian store boasts a size of 300 m^2, with a clear upward trend. Not sur prisingly, DIY outlets with an average 1,280 m^2, furniture retailers with 870 m^2, and grocery retailers with 480 m^2 make up the upper extreme, while trade in photography and optics (100 m^2), computers and software (80 m^2), and watches and jewellery (60 m^2) amount for the lower extreme.

Table 1: Number of Stores, Store Size, and Percentage Chain Operated (2006)

Industry	Number of Stores	Average Store Size (m^2)	Percentage Chain-Operated
Books, magazines and office supply	1,690	220	39%
Chemist merchandise	2,820	210	82%
Computers and software	1,220	80	10%
Electronics	1,930	220	11%
Food	6,000	480	57%
Furniture	2,850	870	22%
DIY[1]	3,700	1,280	30%
Photography and optics	1,490	100	53%
Shoes and leather goods	1,850	230	50%
Sporting goods	1,840	400	18%
Textiles	6,100	260	41%
Toys	400	220	22%
Watches and jewellery	1,700	60	25%

Note: [1] Excluding metal retailing.
Source: KMU Forschung Austria (2007a).

Table 2: Number of Stores Housed in Shopping Centres, Retail Parks, and Outlets (2006)

	Shopping Centres	Retail Parks	Factory Outlet Centres	Other Retailers	TOTAL
Number of stores	5,290	790	200	47,220	53,500
Percentage	9.9%	1.5%	.4%	88.3%	100.0%

Source: KMU Forschung Austria (2007a).

The last area that will be covered briefly is the development of shopping centres [2], retail parks [3], and factory outlets. While only 84 such centres existed in 1995, this number rose to around 170 in 2006, comprising 121 shopping centres (including one airport shopping centre), 47 retail parks and 2 factory outlets. Altogether, these 170 retail agglomerations accommo dated roughly 6,380 individual stores, corresponding to around 12% of Austria's total number of classic retailers, 14% of total floor space, and 16% of total turnover. The Austrian retail market has experienced a clear, continuing trend towards the creation of further shopping cen tres, with statistics serving as evidence (Teller/Reutterer/Schnedlitz 2006). In the 5 year pe riod preceding 2006, the number of stores in shopping centres, retail parks and outlets in creased by an average of 6.2% a year, while the number of other retailers (i.e. those in shop ping streets or other spread out locations in the country's cities or countryside) declined by around .6% annually. Particularly in the centre of bigger cities, space for new branches with increasingly bigger store formats is scarce and costly, with shopping centres often located in the cities' suburbs, serving as a way out.

3.2. Grocery Retailing

The following section attempts to provide a more detailed view of the food retailing market and its players, leaving aside wholesale activities, but including the grocers' non food range.

Table 3: The Biggest Players in Austrian Food Retailing

Retail Organizations	Hypermarket Brands	Supermarket Brands	Independent Retailers	Discounter Brands	Number of Stores[1]	Market Share[2]
REWE Group Austria	Merkur	Billa	Sutterlüty	Penny	1,388	30.0%
Spar	Interspar, Eurospar, Maximarkt	Eurospar, Spar	Spar		1,421	27.7%
Hofer				Hofer	410	19.7%
Adeg	Magnet	Adeg Aktiv, Adeg	Adeg Aktiv, Adeg		693	5.5%
ZEV Markant	Tabor, Pro-Kaufland, Welas	Nah & Frisch, Unimarkt	Nah & Frisch		966	5.3%
Zielpunkt		Zielpunkt		Plus	365	4.5%
Lidl				Lidl	168	3.2%

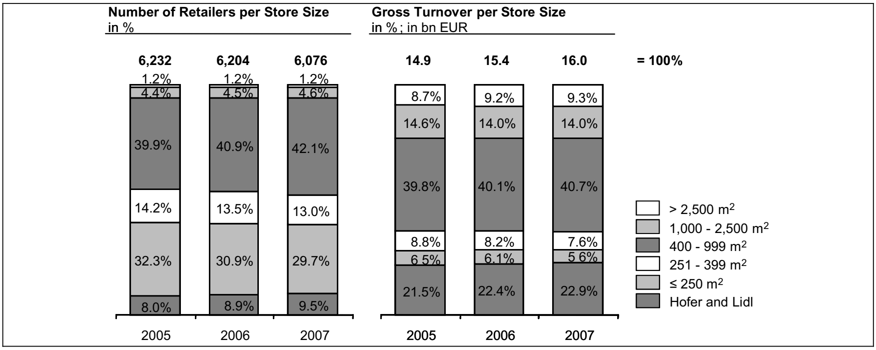
Note: [1] April 2008. [2] 2007; Figures for Hofer and Lidl estimated.
Source: Nielsen (2008).

The development towards an ever higher concentration of market power is particularly apparent in the Austrian food retail market. In 2007, the two market leaders REWE Group Austria (30%) and Spar (27.7%) together held around 58% of the market, which extends to over ¾ of Austria's gross grocery retailing turnover of 16 bn EUR (excluding specialty food retailers like butchers, bakeries, etc.) when adding the third biggest competitor, the discount chain Hofer (with an estimated share of 19.7%). Including numbers 4 to 6 on the market (Adeg [4], ZEV Markant, and Zielpunkt), this figure rises to almost 93% (Nielsen 2008).

Figure 5 gives a good picture of the development of the number of retailers and gross turnover in recent years, segmented into five store size categories, as well as a separate group for the two discount chains Hofer and Lidl [5].

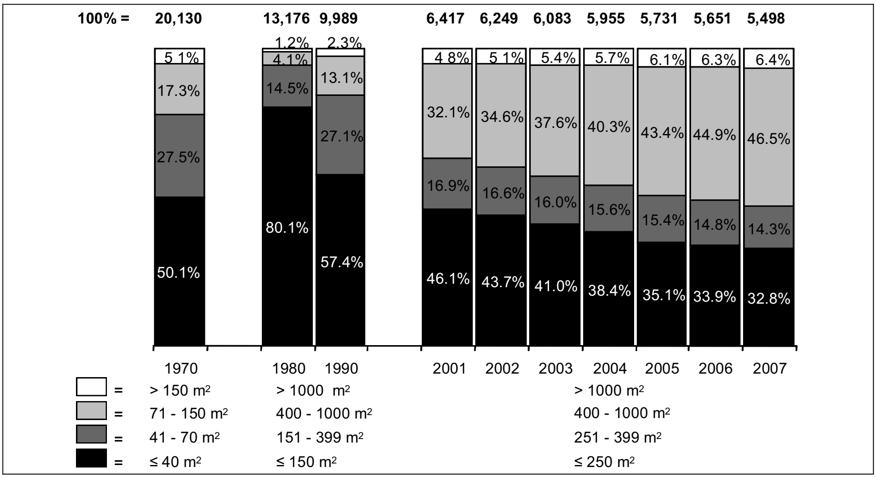
Together with the discount store category, the number of shops between 400 and 999 m^2 (i.e. the classic supermarkets) has experienced the strongest growth in recent years, with smaller stores, particularly those below 250 m^2 in size, ceasing operations. In 2005, for example, the Austrian Federal Economic Chamber reports 132 stores below 400 m^2 as having closed down. Still, several of the remaining small, local retailers manage to compete successfully with the intruding big players through close proximity to small catchment areas, as well as individual service and assortment of goods (e.g. by providing catering or home delivery services, snack bars or niche products) (WKO 2007b).

Figure 5: Number of Retailers and Gross Turnover per Store Size (2005 2007)



Note: Including the two discount chains Hofer and Lidl (data estimated and separately listed). Special food retailers (e.g. butchers, bakeries, etc.) and wholesalers are not included. Turnover contains 20% value-added tax.
Source: Nielsen (2008).

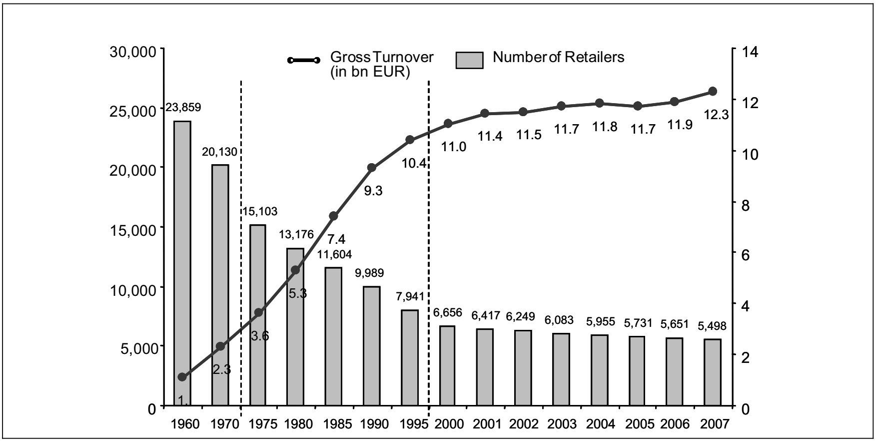
Figure 6: Number of Retailers per Store Size (1970 2007)



Note: Figure does not include the two discount chains Hofer and Lidl due to a lack of data. Special food retailers (e.g. butchers, bakeries, etc.) and wholesalers are also not included.
Source: Nielsen (2008).

Figure 6 complements this evaluation by providing a long term view with differing categori zations starting in 1970 (excluding Hofer and Lidl). The finer classification of 1970 discloses that around half of all food retailers in the country used to welcome customers on less than 40 m^2, and indeed, roughly 95% of all stores were sized below 150 m^2. The latter number dropped to 80% in 1980 and around 57% another ten years later. Since then, the number of stores below 250 m^2 (the smallest category captured since 2000) decreased further to slightly below 33% in 2007. Meanwhile, the classic supermarkets sized between 400 and 999 m^2 (a size not separately registered in 1970), grew from around 4% in 1980 to roughly 47% in 2007, and stores bigger than 1,000 m^2 from 1.2% to 6.4% of total retail outlets (i.e. shops commonly defined as hypermarkets in Austria; following Nielsen's (2008) terminology, one can further distinguish between small hypermarkets from 1,000 m^2 to 2499 m^2 and big hypermarkets above 2,500 m^2 in size). Turnover has naturally seen a similar development. Growing from 14.9 bn EUR in 2005 to 16 bn EUR in 2007, the discount stores Hofer and Lidl in particular were able to increase their share in this expanding market (see Figure 5). While in 2005 their share in total turnover was still 21.5%, it had risen to 22.9% in 2007 (with approximately 19.7% attributed to Hofer and 3.2% to Lidl). Other than these two hard discounters, only the category of stores between 400 and 999 m^2 and hypermarkets above 2,500 m^2 in size were able to increase their market share in the same period.

Figure 7: Number of Food Retailers and Gross Turnover (1960 2007)



Note: Figure does not include the two discount chains Hofer and Lidl due to a lack of data. Special food retailers (e.g. butchers, bakeries, etc.) and wholesalers are also not included. Turnover contains 20% value-added tax.
Source: Nielsen (2007, 2008).

This long term development towards fewer stores with bigger turnover is presented in Figure 7, depicting this trend from 1960 to 2007. While there were almost 24,000 retailers with slightly more than 1 bn EUR in turnover in 1960, this figure changed to around 13,000 with more than 5 bn EUR in 1980, and roughly 6,500 with 11 bn EUR in revenues in 2000 (ex cluding Hofer and Lidl). In the 40 year period between 1960 and 2000, the number of retailers has thus decreased by an average of 3.2% each year, with turnover growing by 5.9% a year.

Finally, as they are forming the country's biggest and most influential retailers, an overview of the three largest players in Austria's food retail market will be presented.

REWE Group Austria

The history of the REWE Group Austria extends back to formation of the BML Group by the entrepreneur Karl Wlaschek in 1953. Originally created as a discount perfumery, the concept was extended to grocery retailing in 1960 under the name of Billa, introducing the then revo lutionary idea of self service. In 1969, the Merkur brand was established and the first hyper market with 1,000 m^2 in size introduced to the Austrian consumers. In 1980, engaging in the retail of chemist merchandise, Bipa was added to the group of companies and in 1983, the discount chain Mondo (nowadays called Penny) founded. Expansion plans were fostered with the acquisition of 200 outlets from the bankrupt Konsum chain in 1995, and 160 points of sale from the Julius Meinl chain in 1996. That same year, the BML Group became part of the German REWE Group and continued its operations as the REWE Group Austria. Since then, the company took part in the start of an airline with its subsidiary LTU Billa Lufttransport Unternehmen GmbH, established the ITS Billa Reisen, Jahn Reisen, Dertour, and Meiers Weltreisen travel agencies, and bought a stake in the West Austrian retailer Sutterlüty. As far as international activities are concerned, purchase of the Italian Standa chain in 1990 marked the most important international engagement, followed by further expansion in Eastern Europe with outlets in Bulgaria, Croatia, the Czech Republic, Romania, Russia, Slovakia, and the Ukraine. Clearly, the REWE Group Austria serves as a bridgehead to the East for its Ger man parent company, particularly through the spread of stores under the Billa name (a brand still not used in Germany). The group's total turnover amounted to around 9.6 bn EUR in 2007 (generated by 59,528 employees and 2,770 outlets), with 5.6 stemming from its Austrian business (33,887 employees, 1,929 outlets), 2.1 from the Italian acquisition (7,842 employees, 415 outlets), and 2 bn EUR from its activities in Eastern Europe (17,799 employees, 426 out lets), the company's biggest growth driver by far.

Spar

Based on the idea of voluntary association propagated by the first Spar organization in the Netherlands in 1932, the Austrian Spar was created in 1954 by Hans F. Reisch, aiming to es tablish cooperation between his wholesale firm Andreas Hofer KG (which is not related to the Hofer discount chain) and around 100 small, independent retailers in the fields of purchasing, organization, technology and marketing. In the years thereafter, further independent wholesal ers were created all over the country, and by 1959, Spar had gained nationwide presence. In 1970, these wholesale companies joined to form a single firm, the Spar Österreichischen Warenhandels AG, and like all other Spar organizations in 33 countries worldwide, the com pany does business based on the same idea with the same name and logo, but acts completely independently and without any corporate links. In 1972, Hervis was taken over, and despite its original role as a purely fashion retailer, it was modified to a sporting goods/sportive fashion retailer during the 1980s. Headquartered in Switzerland, the ASPIAG (Austria Spar International AG) was created in 1990, steering the development of five independent Spar organizations in Croatia, the Czech Republic, Hungary, North Eastern Italy, and Slovenia. Five years later, a good part of the outlets of the bankrupt Konsum chain was taken over, with the latest organizational change marked by the foundation of SES (Spar European Shopping Centres) in 2007, grouping the company’s shopping centre and real estate activities in a separate organization. Excluding 2 bn EUR in revenue by Spar European Shopping Centres, Spar accounted for a turnover of around 8.6 bn EUR in 2007 (generated by 62,569 employees and 2,439 outlets). Thereof, Hervis represents .4 bn EUR (2,310 employees, 124 outlets), leaving 3.7 generated by Eastern European operations (27,383 employees, 841 outlets), and 4.5 bn EUR by Spar’s Austrian grocery business (32,876 employees, 1,474 outlets).

Hofer

Dating back to its foundation by Helmut Hofer in 1962, the true beginning of the development towards the hard discounter threatening the other large, traditional food retailers in the marketplace today was marked by the sale of the chain to the German ALDI Group (founded by the parents of the brothers Karl and Theo Albrecht in 1913) in 1968. Since then, the concentration on roughly 850 products supplemented by 20 30 special promotional items that change twice a week, basic store design and standardized product presentation, a focus on store brands supplemented by selected branded articles only in certain product categories, as well as rigorous thinking in terms of cost throughout the whole company symbolize the cornerstones of Hofer. In addition to its activities in food retailing, Hofer Reisen has been introduced, becoming Austria’s third largest travel agent in 2003 according to the company’s declaration. Furthermore, Austria was used as the base for market entry into Switzerland and Slovenia in 2005. By the end of 2007, Hofer operated roughly 420 outlets all over Austria, and is organized in seven independent firms, each led by its own CEO and operating around 60 points of sale in geographically divided regions. Hofer is well known as being very secretive with data, and hence, no official information on turnover or the number of employees, for example, is available. Using the so called cash slip method (based on collection of thousands of invoices from customers leaving the Hofer branches), Nielsen (2007) estimates the company’s turnover at around 3 bn EUR in 2007, generated by roughly 6,500 employees (Wirtschaftsblatt 2007).

3.3. Highlights from Other Industries

This chapter will briefly touch on the highlights of four other industries in retailing. Since it is impossible to map out the extensive complexity of each sector in the scope of this paper, textile and furniture retailing, as well as DIY, have been selected based on their relevance in terms of turnover (see Table 4). Finally, following the more detailed look at food retailing, a summary of the market for chemist merchandise will be given to complete the overview of the market for fast moving consumer goods:

Table 4: Net Turnover by Industry (2004 2006)

Industry	2004 (bn EUR)	2005 (bn EUR)	2006 (bn EUR)	CAGR
Food	12.44	12.56	12.73	1.2%
Textiles	3.78	3.77	3.75	-.4%
Furniture	3.28	3.28	3.34	.9%
DIY and Metals	3.05	3.12	3.20	2.4%
Electronics and Musical Instruments	1.93	1.93	1.98	1.2%
Chemist Merchandise	1.70	1.68	1.73	.8%
Mail Order	1.31	1.28	1.25	-2.5%
Sporting Goods	1.07	1.09	1.10	1.2%
Books, Magazines and Office Supply	1.07	1.06	1.03	-1.9%
Shoes and Leather Goods	.95	1.00	1.01	3.2%
Photography and Optics	.67	.67	.69	1.2%
Watches and Jewellery	.41	.43	.44	3.0%
Computers and Software	.39	.39	.40	1.2%
Toys	.21	.21	.21	.5%

Note: Excluding automotive trade.
Source: WKO (2007a).

Textiles

With around 3.75 bn EUR in revenues in 2006, retail in textiles is Austria's second largest retail industry. This strength is particularly visible in shopping centres, where on average, a quarter of total floor space can be attributed to textile retailers. In the five biggest shopping centres by turnover, this figure even rises to 34% of retail space (Horizont 2006). The biggest players in the industry are H&M in first place, followed by C&A, Peek & Cloppenburg (mak ing up one spot in 2007), Vögele, and KiK, making up roughly 35% of the market in 2005 (TextilWirtschaft 2005, Horizont 2007). As far as growth is concerned, particularly small, high priced chains and discounters have seen the strongest development in recent years. For discounters, however, most of the high increase in turnover can be explained by an expansion of floor space (Horizont 2007). Furthermore, retailers of sporting goods are increasingly in truding on the turf of regular textile retailers, generating around 14% of its turnover in that area in 2005 (following an increase from a share of roughly 8% in 1998) (TextilWirtschaft 2005).

Furniture

In 2006, classic specialty retailers were responsible for 80% of all sales, with only 9% left to carpenters, 5% to DIY stores, 3% to mail order trade, and 3% attributed to other forms of re tail. Characterized by a particularly high market concentration, more than half of the 3.34 bn EUR in revenue was earned by the two similarly strong market leaders Leiner/kika Group and the XXXLutz Group, Europe's second largest furniture retailer. Including Ikea, the number 3 on the market (and number 1 in Europe), these three companies are serving roughly 70% of the market (RegioPlan 2008). Interio and the Dänisches Bettenlager are the remaining names that complete the market's Top 5 (Wolkerstorfer 2005). Interestingly, the two market leaders follow different strategies. While the Leiner/kika Group operates the similarly positioned full range Leiner and kika chains, the XXXLutz Group accounts for a more diversified portfolio, competing with its flagship, the full range XXXLutz brand, the discounter Möbelix, as well as the younger and more modern discounter Mömax. Furthermore, next to other minor acquisi tions, the full range Hiendl, Mann Mobilia, and Neubert chains were acquired between 2000 and 2007 to advance growth in the German market. Regarding internationalization plans, the Leiner/kika Group is oriented towards Eastern Europe (with operations in Croatia, the Czech Republic, Hungary, Slovakia), while particularly in full range furniture retailing, the XXXLutz Group focuses more on Austria's northern neighbour Germany. Regarding discount operations, the XXXLutz Group turned away from Germany in 2007, deciding to sell all dis count stores in order to concentrate on further expansion in Eastern Europe (Die Presse 2007).

DIY

With Praktiker (a subsidiary of the German Metro Group) having left the Austrian market at the end of 2006, nine companies are basically sharing this oversaturated market today, where one DIY store for every 11,000 inhabitants truly represents one of the highest densities world wide (a3 bau 2006). bauMax, the market leader, and its four biggest followers, Obi, hage bau/Öbau, Lagerhaus, and Hornbach, capture a total of 89% of the market (a3 Bau 2007), with Bauhaus, Hellweg, Bauprofi Quester, and ToolPark sharing the rest. Among these, bau Max is often named as a noteworthy Austrian success story. Founded in 1976, the company developed to become market leader, boasting 130 outlets (with around half spread out over seven Eastern European countries), 8,285 employees, and a turnover of 1.25 bn EUR in 2007. Within Austria, growth has mostly been generated through an extension of the range of goods, encompassing such areas as garden supplies, the biggest growth driver, or furniture and home accessories, and even extending to the offer of DIY courses, for example. Also, fuelled by re spective television shows, individualized decoration of homes has seen a minor trend and is partly reflected in the recent rise in turnover. The expansion of points of sale, however, is also clearly focusing on Eastern Europe in this retail sector (a3 Bau 2006, Regal 2008).

Chemist Merchandise

Finally, trade in chemist merchandise completes the snapshot of the Austrian market for fast moving consumer goods. Nielsen (2008) offers a good overview of the development in this sector, focusing on the three dominant chains Bipa, dm drogerie markt, and the discounter Schlecker. Between 1990 and 2007, turnover kept growing continuously from 498 to 1,501 m EUR. Setting off at 651 in 1990, the number of points of sale reached 2,058 in 2003, followed by a slight slump to 2,040 in 2007. Compared to the total volume of Austria's market for fast moving consumer goods, chemist merchandise made up 8.5%, with the remaining 91.5% at tributed to grocery retail.

3.4. Internet Retailing

Within the 1 year period from mid 2006 to mid 2007, KMU Forschung Austria (2007b) re ports around 1.8 m Austrians (with a male/female ratio of roughly 60% to 40%) as having used the internet to purchase goods online [6]. Making up around 22% of the country's 8.3 m inhabitants and 58% of the 4.8 m people with internet access, retailing via the internet is growing steadily.

Table 5: Number and Net Turnover of Domestic Online Retailers (2007, estimated)

	Mail Order Retailers	Pure Internet Retailers	Regular Retailers Selling via the Internet
Number of Retailers	150	500	2,500
Net Turnover (in m EUR)	278	94	243

Source: KMU Forschung Austria (2007b).

Overall, internet shoppers spent an average of 800 EUR during these 12 months, generating a total turnover of 1.46 bn EUR. Out of that total, 770 m EUR was spent in foreign internet stores, 77 with manufacturers and wholesalers selling directly to the end user, and 57 by for eigners in Austrian internet shops. The remaining 615 m EUR in turnover were generated by Austrian consumers making their purchases in online shops operated by Austrian retailers. Focusing only on these domestic retailers, mail order trade [7] was responsible for the biggest share in total revenues, accounting for over 45%, followed by regular brick and mortar retail ers using the internet as an additional sales channel with around 40%. Purely online retailers contributed the remaining 15%. As far as the number of retailers is concerned, the 3,200 Aus trian online stores accounted for approximately 8% of the country's total of roughly 41,500 classic retail companies in 2006. When compared to the total of 53,500 retail outlets, this ratio drops to 6%.

KMU Forschung Austria (2007b) discloses that the biggest share of the 1.46 bn EUR in turn over mentioned before was spent on electronics (272 m EUR), followed by books and maga zines with 211, textiles with 177, computer hardware with 168, music (including downloads) with 138, and computer software (including downloads) with 86 m EUR. Interestingly, the form of payment preferred by Austrian consumers are bank transfers, and not credit card transactions. Forty six per cent of Austrians named bank transfers as their payment instrument of choice, followed by credit cards with 34%, cash payment to the postman upon delivery with 14%, and the online payment service Pay Pal with 4%.

4. Industry Analysis and Trends

Austria's retail market features some truly distinctive industry characteristics. Roughly leaning on Porter's model (1980, 2008) of industry analysis, the competitive landscape, the influence of buyers and suppliers, accessibility of the industry, as well as threats to the traditional retailers will be briefly covered.

Changes in the competitive landscape have significantly shifted the balance of power in the industry. Particularly evident in the grocery retail market (which saw a big wave of concentration in the 1990s with Konsum's sale to Spar and REWE Group Austria's purchase of the BML Group and Julius Meinl chain, and most recently awaits a change of ownership of the small players Adeg and Zielpunkt), producers of branded products have seen a continual drain of market power within the last decades. The concentration of power through mergers and acquisitions, coupled with a consolidation from smaller to bigger store formats was particularly beneficial to retailers. At the same time, retail companies increasingly foster the growth of their private label brands (Raeber 2001), and in fact, many producers of branded products who found themselves under pressure, agreed to produce private label brands for the retailers (Dölle 2001). In food retailing, managers countered that this trend was deemed a necessary strategic decision to tackle the increasing strength of discounters. Thus, while small local merchants continue to struggle to compete with large retailers, the continually increasing strength of discount stores remains one of the biggest issues for the large retailers.

Legally, the Austrian antitrust law ("KartG" or "Kartellgesetz") provides the framework for any market concentration and abuse of power, with the prohibition to sell below the acquisition price being a famous example. Introduced with the amendment of the antitrust law in 1999, §5 KartG is, just like the Robinson Patman Act in the USA or the Loi Galland, Loi Dutreil and Loi Chateil in France, for instance, a legal mechanism countering price discrimination. Entering into force in the beginning of 2000, it did, however, fail to give a definition for the acquisition price, leaving this issue for Austria's courts to decide.

Regarding the threat of new entrants, another Austrian law has significant impact on the competitive situation in the retailing of so called "day to day products." In 1997, politics reacted to the small retailers' demand for protection, and implemented what was termed "measures insuring the local supply of goods" in §77 of Austria's trade regulations ("GewO" or "Gewerbeordnung"). Partly out of fear that retailers would be vanishing from the inner cities and setting up shop in shopping centres in the suburbs, shortly thereafter, the shopping centre regulation ("EKZ VO" or "Einkaufszentren Verordnung") was added, governing the approval of new shopping centres, and naming criteria to decide when a threat to the local supply of goods to the public was taking place. In 1999, however, a ruling of the Constitutional Court of Austria rescinded the shopping centre regulation and declared §77 of the trade regulation in its current form unconstitutional. Consequently, §77 was revised, and the so called shopping centre list of articles regulation ("Einkaufszentren Warenliste Verordnung") was enacted, stating precisely which goods were considered "daily products," and retailing with these goods thus regulated under §77 of the trade regulation (Abdank 2004). Since 2000, the fol lowing legal framework is in place: §77 is applicable

to the approval of new retail outlets,
as well as shopping centres dedicated exclusively or predominantly to retail activities,
which are engaging mainly in retailing of consumer goods for daily or short term use,
and whose total sales space exceeds 800 m^2,
with the exception of all projects in inner cities and the centre of villages.

All retail outlets falling under this paragraph may only be approved if the local supply of goods (which is described as being the case if "significant disadvantages for the existing sup ply structure are created, and access to products for daily or short term use exacerbated for the public") is not endangered. Goods that can be considered for daily or short term use are, next to most (primarily basic) food products, certain articles found in drug stores, pet food, deter gents and cleaning supplies, newspapers and magazines, stationary, indoor plants and cut flowers, consumable photography supplies, electronic spare parts and accessories, as well as textiles which, judging by type and price, can be considered a consumable good. Combined with the high market concentration in such retail sectors as food retailing, these zoning laws certainly act as obstacles to the development of large scale retailing (Böheim 2002), but it seems fair to say that a slow, but continuous development towards more openness can be wit nessed in the Austrian retail market.

In Austrian retailing, just as it is the case in most other developed countries, internet retailing is, with a turnover of 1.46 bn EUR between mid 2006 and mid 2007 (KMU Forschung Aus tria 2007b), often cited as a threat to traditional brick and mortar retailers by substituting their offer through a different sales channel. Certain retailers decided to counter and engage in multi channel retailing, but the internet as a distribution channel naturally has both advantages (Heinemann 2008) and disadvantages (Schobesberger 2007; Wegener 2008). Furthermore, websites that assist consumers in price comparison continue to benefit internet retailing (Floh/Cech 2006), and help to increase the bargaining power of buyers. But may it be due to the use of new information channels for the customer, changes in the psychological motives that frame the observable consumer behaviour (Ziems/Krakau 2008), a more time pressed consumer, advances in technology, or demographic changes (Mei Pochtler/Odenstein 2008), differences to other European countries do not seem so very big. Just as in other developed countries, the Austrian consumer is increasingly becoming

older,
more mobile,

pleasure and experience oriented,
better educated and informed,
more stressed,
and is pursuing a lifestyle of health and sustainability (which has caused retailers like the REWE Group Austria, for example, to foster organic product assortments, and emphasize an ongoing optimization of logistics with regard to energy consumption and the use of green energy within the company).

5. Conclusion

Naturally, history shapes the development of the economy and consequently, the evolution of retailing in each country in the world in a different manner. Some areas, such as consumer behaviour, for instance, have experienced similar trends to those witnessed in other mature European countries. At the same time, Austria certainly boasts various distinct features in its retail environment, be it a high level of concentration of power in certain industries, a con solidation from smaller to increasingly bigger store formats (which in American terms, for example, might still be considered comparatively small), a unique development of shopping centres, or a distinctive legal framework. The market can best be described as moderately saturated in most areas, and fostered by the concentration of power, competition intensifies. Improvements and alterations to competitive strategies and a streamlining of the cost structure are certainly taking place, but still, many Austrian retailers have turned to foreign markets to achieve further sustained growth. Neighbouring Eastern and South Eastern countries tend to be the most popular targets, followed by other more distant countries in Eastern Europe. At the same time, internet retailing remains a hot topic, with several brick and mortar retailers experimenting with online shops, and quite generally, technology is certainly set to impact a broad range of retail related issues in Austria to a higher degree than it is today. Austria's re tail market might be small and fairly mature, but there is room for further development in this ever changing sector, and internationalization particularly in the East of Europe will continue to play a big role as a driver of growth.

Notes

[1] I.e. sections C K of the ÖNACE 2008, the Austrian version of NACE, a statistical classi fication of economic activities used throughout the European Union.

[2] Defined as a property, planned and managed by an institutional entity, that is occupied by a significant number of autonomous classic retailers, service providers, and restaurants or bars, and which fulfils the following minimum requirements: either at least 4,000 m^2 of rentable floor space with a minimum of 20 retailers or at least 4,000 m^2 of rentable floor space with a minimum of 10 retailers, if at least 2 major firms from different sectors are present to serve as customer magnets (AWS 2006).

[3] Defined as the geographical concentration of at least 5 major specialty retail chains (AWS 2006).

[4] The REWE Group Austria currently holds a 24.9% stake in Adeg and had announced plans to increase this share to 74%. Most recently, the European Union gave permission to this deal, which would increase the REWE Group Austria's market share to over 35% (Die Presse 2008).

[5] As these two discounters are neither publicly listed, nor accessible for data collection oth erwise, figures describing these retailers were estimated and specified separately. Other discount stores are included in the regular size categories.

[6] Internet Retail defined as classic retail companies according to section 52 of NACE, the European statistical classification of economic activities, selling material and immaterial retail goods to end users via the internet. Wholesale activities (B2B), manufacturers and wholesalers using the internet as a direct sales channel to end users (with an exception for revenue data), trade among consumers, as well as companies whose focus is not in retail (e.g. hotels, airlines, travel agencies, etc.) are not included in the data presented.

[7] Note: The traditional catalogue has not been replaced by the internet in most cases. Con sequently, the figure for turnover, based on orders via the World Wide Web, does not take into account which medium the customers used to choose their desired products.

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