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## Case Study: Retailing\*

### The Retail Industry

The retail sector is being confronted with unprecedented changes. Originating from social and economic trends and a broader set of technologies, unconventional approaches, flexibility, collaboration and rapid learning strategies are becoming more and more important for retailers worldwide (Deloitte 2014, pp. 9-11). Even if retailing is one of the world's largest industries (Zentes/Morschett/Schramm-Klein 2011, p. 1), the sector faces intense competition, slow growth in major developed markets, volatile input prices and excess retail capacity in many developed markets (Deloitte 2014, p. 31).

#### *Wave of Internationalisation*

While retailing has traditionally been a very local business and internationalisation has lagged significantly behind the manufacturing sector, the last two decades have seen remarkable change. A wave of internationalisation has resulted in a high level of expansion of the largest retailers (Swoboda/Foscht/Pennemann 2009). The top ten retailers operated, on average, in 16.3 countries, in 2012 and one third of their combined retail revenue originated from foreign activities (Deloitte 2014, pp. 20-30). According to Deloitte (see Table 2.3), fashion retailers had the highest international performance followed by hardlines and leisure goods. Food retailers scored last.

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\* Sources used for this case study include the companies' web sites, various annual and company reports, investor-relations presentations as well as sources explicitly cited.

Level of Globalisation by Retail Sector in 2012

	Retail Revenue from Foreign Operations	Average Countries	Single-Country Operators
Top 250	24.3%	10.0	36.8%
Fashion Goods	29.8%	22.2	23.8%
Hardlines & Leisure Goods	26.6%	13.1	26.9%
Fast-moving Consumer Goods	23.3%	5.1	44.5%
Diversified	22.6%	10.3	36.8%

Source: Deloitte 2014, p. 24.

Table 2.3

## Forces for Global Integration and Forces for Local Responsiveness

Over the last few decades, strong forces for global integration have been influencing the retail industry. These forces can be categorised in different ways, but can generally be divided into: buyer behaviour, costs, regulatory, competition and technology (Gillespie 2011, pp. 50-51).

- In different retail sectors, consumer needs have become more homogeneous around the world. This has been driven partly by cultural convergence. Increased travel and communication tools lead to a comparison of people's lifestyles and their standards of living with others. Cross-national TV series and music channels have been encouraging the notion of a global consumer (De Mooij 2003, p. 183). Moreover, the growing middle-class and disappearing income differences across countries support the *homogenisation of consumer behaviour*.
- Given that retailing is an increasingly complex business with high costs for infrastructure (stores, warehouses, IT-systems, etc.), economies of scale play a major role. An integration of activities – in particular of procurement activities – is necessary to gain *economies of scale* in procurement and to gain negotiation power over the supplier (Zentes/Morschett/Schramm-Klein 2011, pp. 321-332).
- In the past, a number of multilateral *trade agreements* have accelerated global integration. Within the EU, free trade allows retailers to transport goods from central warehouses to their stores in different countries without custom duties and other obstacles.
- Furthermore, since many retailers have started to internationalise, more and more often, different retailers are confronted with *global competition*.

Converging  
Consumer  
Needs

Costs

Trade  
Liberalisation

Global  
Competitors

### ICT Technologies

### Heterogeneous Demand

**Figure 2.4**

### Convergence and Divergence

Whether in home improvement retailing, in food retailing, in consumer electronics, more and more often the same companies meet as competitors in different foreign markets. To play such “global chess” effectively, a certain level of coordination is necessary.

- New ICT technologies facilitate a free flow of goods and information, thus changing the retailing landscape. Information is available within seconds and enhances pricing transparency, as well as minimising cultural distance and homogenised consumer markets. Particularly store-based retailers are faced with the threat that ever more consumers will shop online in the near future, regardless of national boundaries. These *cross-border Internet sales* and delivery networks will displace more and more notorious structures (Wrigley 2010, p. 4; Deloitte 2011, pp. 3-4).

On the other hand, localisation is one of the effective ways for store-based retailers to compete with e-commerce multinationals. While a trend towards convergence can be observed, consumer demand is still heterogeneous. The differences are enormous, especially concerning the new markets for retailers, like Eastern Europe, China or even India. Consequently, expenditure on clothing, electronics, appliances, etc., also differs widely. In addition, consumer tastes differ for *cultural reasons*. Whether, for instance, preferences converge concerning interior design, which influences furniture retailers and home improvement stores more and more, consumers around the world still differ.

**Forces for Global Integration and Local Responsiveness in Different Retail Sectors**

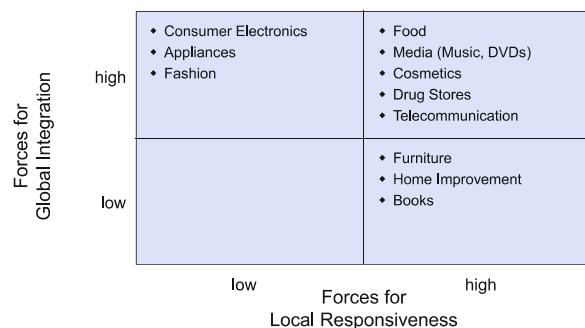


Figure 2.4 represents an attempt to categorise different retail sectors by the different I/R-forces. For example, in consumer electronics, consumer demand is rather similar worldwide and the standardisation of products and existence of only a few suppliers worldwide lead predominantly to the need for

global integration. On the other hand, the supply of many product categories in home improvement is still rather local, as are consumer tastes. With "transnational" requirements, food retailing is experiencing enormous cost pressure and the emergence of global competitors, leading to the need for global integration. At the same time, disparate consumer income and consumer tastes, as well as remaining trade barriers (including the relevance of freshness, which hinders long logistics chains), lead to the necessity to adapt activities to the local markets. Similarly, when considering into drug stores and cosmetics, suppliers are more and more often the same, but consumer behaviour regarding cosmetics still differs greatly. For example, while tanning creams are sold in Western countries, whitening creams are sold in cosmetic stores in Asia. The existence of different skin types, hair colours, etc., in the human population globally, requires simultaneously high global integration and local responsiveness.

### Strategic Orientation of Retail Companies

The complex and varied environmental drivers described above, influence industries, especially the retail sector, and affect strategies of global integration and local responsiveness in a variety of ways (Rugman/Collinson 2012, p. 318). Apart from the primary use to map industries, the I/R-framework indicates what strategy a firm is able to pursue in an international surrounding (Westney/Zaheer 2010, p. 348). Some chains like *Walmart* and *Best Buy* have perfected the single-minded strategy of standardisation implemented in store formats, merchandise mix, operating and marketing processes. Others, like *Kingfisher* react more flexibly to serve consumer differences (Guan 2010, p. 2).

As an example of a generally global orientation, *Hollister*, a subsidiary of *Abercrombie & Fitch*, can be used. Founded in 2000, it is designed to attract teenagers aged between 14 and 18 years. Built on a fictional background, the story of *Hollister* claims that J.M. Hollister founded the company in 1922 to bring the "Southern California Lifestyle" to the world. This vision is evident in the assortment as well as in the store layout and becomes the core of the retailer. Starting with the first store in Columbus, Ohio, the retailer operates today in many different countries with more than 580 stores worldwide. In addition to the bricks and mortar locations, the first online shop in the USA was launched in 2003. Today there are more than 60 stores across the UK, Germany, Italy, Spain and other locations within Europe.

*Hollister* pursues a *globally centralised strategy* worldwide. All strategic processes like procurement, marketing activities and human resources are centred and managed by the headquarters in New Albany, Ohio. Both exterior and interior store layout remind the consumer of a surf atmosphere, looking

*Global  
Orientation*

like beach huts or consisting of a series of video monitors which reflect the scene of *Huntington Beach*. The interior is dimly light with spotlights, scented with the company's fragrance and equipped with a lounge area. In total, the corporate policy establishes the design, furniture, fixtures, music as well as the look of the sales associates and the merchandise presentation. Everything is carefully planned and coordinated by the company to create a consistent and unique shopping experience reflecting the *Hollister* lifestyle and conveying the principal elements as well as the personality of the brand. Apart from all that, an official manual describes the look of the employees, called store models, and instructs them which items can be worn together, and how to style them. Officially, customers should be addressed in English and the presented assortment is specified by the headquarters and changes every two months.

The two distribution centers located in New Albany, Ohio, manage the receipt, storage, sorting, packing and distribution of merchandise for the North American stores and Asian direct-to-consumer customers. *Hollister* also uses a *third-party distribution center* in the Netherlands to manage the receipt, storage, sorting, packing and distribution of merchandise delivered to stores and direct-to-consumer customers in Europe and a third-party distribution center in Hong Kong for the stores in Asia.

The global orientation enables *Hollister* to open new stores efficiently, but in addition, the strategy guarantees cost savings regarding store furniture and maximises the usage and productivity of selling space.

#### *Transnational Orientation*

As an example of a transnational orientation, *7-Eleven*, the world's largest operator, franchisor and licensor of *convenience stores*, is useful. Established in 1927 in Dallas, Texas, the company was rescued from bankruptcy in 1980 and became a subsidiary of the Japanese company *Seven & I Holding* in 2005. Today *7-Eleven* has almost 50,000 stores across the globe with the same branding and is located in more than 16 countries worldwide. Known as a convenience store where customers can buy snacks, drinks and other everyday products on the go, almost all *7-Eleven* stores are operated by franchisees. The company combines centralised processes with respect to local advantages. With regard to the product strategy, the company focuses on drinks and ready-to-eat food, but also caters for local tastes. Customers in Hong Kong can buy fresh pasta snacks or even pay their phone bills. In Taiwan they can pay traffic tickets, pump up bicycle tires and send or receive packages. The product-mix of *7-Eleven* is based on consumer analysis which the company uses in plans for products and services. The marketing team consequently searches and selects products and services which satisfy the demands of different target groups and are in line with new trends and markets changes.

One of the benefits of the transnational strategy is the (only) marginal adaptation of the format – the retailer can open stores with and without gasoline, urban walkup stores or stores in strip center – another is the “retail information system”, which allows the retailer to follow on trends more quickly than competitors. The typical store is located in office areas, open 24 hours and comprises a sales area of about 100 square meters with a wide variety of goods. The stores are categorised into three types: First, *corporate stores* which are owned and managed by the company. 7-Eleven invests in retailing equipment, store decoration and inventory. Second, within the *franchise stores*, 7-Eleven is responsible for investment in retailing equipment, store decoration and inventory. Third, the *sub-area licence store* where 7-Eleven provides only assistance and support (Ngaochay/Walsh 2011, p. 148). Data collected by the company responds to consumer needs in a timely manner, improves the line of products and develops new products accordingly, strengthens procurement power and sales forecasting, and devises targeted marketing strategies. The information system also enables store owners to learn the characteristics of the business districts in which they operate, place accurate orders and minimise inventory.

In addition, 7-Eleven has a centralised logistics management, serving a high number of stores which are systematically opened within a certain area to enhance distribution efficiency, greater familiarity with customers and effective sales promotion. The distribution system is based on an item-by-item and temperature-separated, combined distribution center for each area.

The key to 7-Eleven's successful model is to enact a centralised business strategy to leverage the company's buying power, marketing strategy and operative processes through an adaption to local needs based on an information system which shows changes as soon as they occur.

With total revenue of 42 billion EUR and more than 14,800 stores in different countries, the *REWE Group* is the second largest food-retailer in Germany and serves as an example of a multinational strategy. Established in 1927 and registered as a cooperative, the company nowadays operates with a variety of sales lines within their two core businesses divided into trading and travel & tourism. Due to increasing market expansion, the centralised structure with a concentration of processes in the headquarters, became more and more obsolete. In 2007, the *REWE Group* reorganised its structure to a more decentralised one. More regional autonomy, flexibility, agility and an orientation towards customers were central aspects of the *restructuring process*. Management steering roles were moved from central corporate departments to strategic business units. All decisions pertaining sales, sales-line purchasing, marketing, expansion, controlling human resources or accounting are made by those responsible for operative results. *Strategic business units* are National Full Range Stores, National Discount Stores, International Full-

### *Multinational Orientation*

Range Stores, International Discount Stores, National Specialist Stores, Travel Sales, Package Tourism and Component Tourism. Central functions for competitive success are decentralised and centred in these units.

With different store brands in twelve countries, REWE serves more than 70 million customers per week. In Germany, the company maintains several formats like *REWE*, *toom getränkemarkt*, *nahkauf*, *TEMMA* and *PENNY*. Austria is served by the full-range stores named *Billa* (supermarket), *Merkur* (superstore), *ADEG* (supermarket), *BIPA* (drug store) and the discount format *PENNY*. By contrast, in Bulgaria, the group concentrates on the supermarket *Billa* and the discount store *PENNY MARKET*. While the expansion to East Europe is dominated by the retail formats of *Billa* and *PENNY MARKET*, indicating a standardised expansion, Romania differs from this course and underlines the partly differentiated strategy. Since 2001, the retailer represents itself with two discount formats, *PENNY MARKET XXL* (sales area up to 2,500 square meters) named *XXL Mega Discounter* since 2013, and the above mentioned *PENNY MARKET* format.

Depending on retail units and countries, the assortment differs partly within the organisation. Additionally, the working clothes of employees and the store layout of the individual formats also vary across the different units.

At the same time, strategic purchases at the group level will be continued to enhance the position of the *REWE Group* on national and international procurement markets.

An example of using an international strategy is *Alnatura*, a German retailer of organic and ethical products. Established in 1984, the retailer nowadays maintains about 87 stores in more than 40 cities. Almost 2,150 employees work for the company and *Alnatura* achieved an annual turnover of 593 million EUR in 2012/2013.

Standing for an organic lifestyle, *Alnatura* offers a wide range of products in its supermarket format. Known for its private label "*Alnatura*", with around 1,100 products, the retailer also provides a wide range of local products from different and regional partners. A total of 6,000 articles are offered in an ordinary *Alnatura* supermarket. As mentioned above, the company focuses on highly collaborative strategy and works together with centralised distribution centres and local partners. The stores are supplied by regional wholesalers and regional manufacturers or farmers, e.g. organic bakeries. The store area is about 600-800 square meters and the layout reflects the ecological awareness of the company with natural stone tiles on the ground, natural colouring on the walls and wooden shelves.

In 2012, *Alnatura* started its *international expansion* and has been serving the Swiss market in cooperation with the local retailer *Migros* since then. In

### *International Orientation*

contrast to the German branding, the brand appearance is known as *Alnatura-Migros*, a co-branding of both retailers, which implies both centralised and decentralised aspects. The association is based on the strength of *Alnatura*, which implies the wide assortment and position of *Migros* in Switzerland. The assortment range contains, as in Germany, local products from local partners. Furthermore, there are imported brands like *Rapunzel* and organic products of *Migros*. The *Alnatura* concept was partly adapted to local conditions, but also contains elements of a standardised procurement policy. The strategy is similar to that in Germany, but the assortment comprises 5,000 articles instead of 6,000. The *Alnatura-Migros* cooperation has opened two additional stores and plans to open 20-30 new stores within the country in the nearest future. Looking at the branding, *Alnatura* has the standardised look of the brand in Germany and a co-branding with *Migros* in Switzerland.

Focusing on a special target group with homogenous consumption patterns, often called as *LOHAS* (*Lifestyle of Health and Sustainability*), *Alnatura* is not committed to serving specific local needs, nor any general requirements.

In Table 2.4, the findings described above are summarised. Depending on the orientation, every retailer has specific focuses and emphasises individual models of international market cultivation.

*Retailers and Their Strategic Orientation*

*Table 2.4*

	Hollister	7-Eleven	REWE Group	Alnatura
Brand	globally standardised	globally standardised	locally integrated	locally integrated
Marketing Strategy	globally standardised	between global standardisation and local integration	locally integrated	-
Store Layout	globally standardised	between global standardisation and local integration	locally integrated	globally standardised
Assortment	globally standardised	between global standardisation and local integration	locally integrated	between global standardisation and local integration
Distribution	Globally standardised	locally integrated	globally standardised with local Integration	between global standardisation and local integration

## Summary and Outlook

This Chapter has shown that retailing is becoming increasingly international, resulting from different external and internal influences. Depending on expansion activities and organisational structures, retailers have to choose

whether they follow a more global, local or combined strategy. Both the more integrated and more local approaches can bring success, depending on the sector and individual environments. As shown in the case studies, a strictly application of the theoretical model is often not feasible in practice, due to unpredictable individual factors and the complex environment. Thus, a dynamic development of the I/R-strategy on all relevant levels is necessary.

### Questions

1. Describe the main critics of the I/R-framework.
2. Compare *Louis Vuitton*'s strategy with *Fressnapf*'s strategy, regarding the I/R-framework. What are the main conflicts for retailers using a strict interpretation of the characterised orientations?
3. Evaluate the strategic I/R-orientation of different multinational consumer goods' producers. To what degree are activities different to retailers?

### Hints

1. See, e.g., Zentes, Morschett and Schramm-Klein 2011.
2. Examine the respective company websites: [www.lvmh.com](http://www.lvmh.com), and [www.fressnapf.com](http://www.fressnapf.com).
3. See, e.g., Cavusgil, Knight and Riesenberger 2014.

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